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Overcoming Barriers to Scaling Innovations Globally

Global companies often struggle to scale innovations originating in regional business units to others around the world — confining high-potential ideas to their place of origin. This is a system problem that requires a system solution.

By Shari Parvarandeh, Bernard Kümmerli and David Duncan

Shari Parvarandeh is a Manager and Bernard Kümmerli and David Duncan are Senior Partners at Innosight.

"There's so much new product innovation happening in each of our regions, but I have to go knock heads together to get them to market each other's new product ideas, even though they clearly offer significant growth potential across the globe," a global retail bank CEO recently told us. The bank's three regional business units had developed several new products that were realizing commercial success locally. For example, the Americas had developed an app that allows customers to scan and deposit checks from anywhere using a smartphone camera; Europe, a mobile-only savings product for millennials; and Asia-Pacific, a robo-enabled investment advisory service. All three had global potential, but not one had left its home region.

Many leaders of global companies can relate to this situation, believing their geographic reach should be an advantage for innovation. Surely, they reason, new products that originate in one part of the business should be useable elsewhere, whether they emanate from a local geography or the corporate center. This should increase their return on innovation investment while creating a strategically and financially more attractive innovation pipeline. In practice, however, many companies struggle to achieve this. High-potential ideas born locally remain confined to their place of origin due to a number of internal barriers.

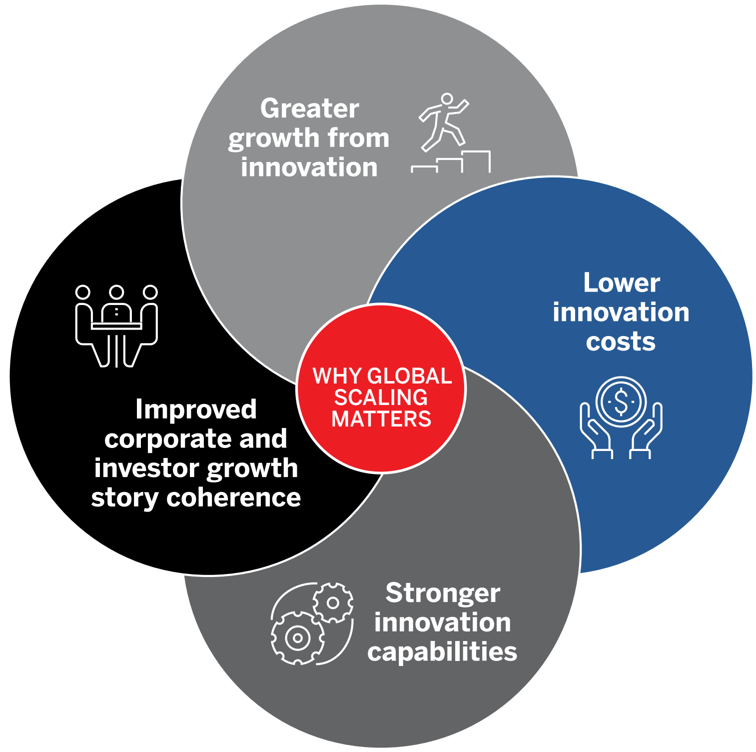
In this article, we describe the potential benefits derived from scaling innovations globally, three common barriers to accomplishing this, and approaches to overcome them. To illustrate these approaches, we draw on lessons from the Würth Group — a highly decentralized company with 400 autonomous business units in more than 80 countries all responsible for innovation. Effective global scaling is part of its impressive growth story: From humble beginnings as one man selling screws, it has over the last 50-plus years delivered near-constant, profitable, mostly organic, double-digit annual growth. It is now a diversified company with revenue of 14 billion euros ($15 billion) and businesses including assembly and fastening materials, automotive parts, building materials, power tools, chemicals and inventory management.[1]

WHY GLOBAL SCALING MATTERS

Global scaling enables companies to capture value from innovation in several ways, including:

Greater growth from innovation.
Companies with broad geographic presence and market access ought to be able to drive additional growth from new products by funneling them into their existing distribution channels. Consider the bank introduced above: It could offer the smartphone check-depositing app developed in the Americas to

customers around the world. Not doing so is a missed growth opportunity. Moreover, regions are more likely to realize greater growth by choosing to commercialize the most attractive new products from a large global pool — no matter where they originated from — as opposed to limiting themselves to their own smaller regional pipelines. Finally, where regions do choose to commercialize similar innovations, they can combine resources to build world-class assets and capabilities (which individual regional budgets might not be conducive to building) for taking them to market, increasing the likelihood of innovations becoming big, successful businesses. For example, the bank's robo-enabled investment advisory service might be more successful if its underlying technology and data assets were developed and leveraged on a global scale, as opposed to with only one region's resources.



Lower innovation costs. By scaling innovations to one another, regions lower the total volume — and therefore costs — of innovations that each must generate to satisfy its growth goals. Total costs are further reduced if duplicative regional spend on similar innovations is eliminated. For example, if each of the bank's three regional businesses set out to develop a mobile-only savings product for millennials, they would be better off sharing development costs versus simultaneously working alone. (Indeed, we often see regional business units unknowingly work to develop similar innovations in isolation from one another).

Stronger innovation capabilities. Companies with a truly global approach to innovation typically build stronger innovation capabilities. In the process of exporting specific new products, the bank would also export innovation best practices (for example, relating to customer-centric business model design and de-risking) and domain knowledge (for example, relating to particular customer groups or technologies), thus strengthening its capabilities across the globe. Moreover, it could further enhance its innovation capabilities by establishing centers of excellence in each region, focused on specific innovation types or opportunities. For example, the bank's business in the Americas might focus on innovating for small business customers; Asia-Pacific, on innovating in the savings and investment space; and Europe, on back-end process innovation to drive efficiency gains[2], with the regions then importing these various

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types of innovations from one another and customizing them for local customers and market conditions as needed.

Improved corporate and investor growth story coherence. Over multiple years, a lack of innovation global scaling means that regional businesses that might have started out the same, end up looking more and more different as a result of building different portfolios of products and supporting capabilities. This makes the corporation more complex and difficult to manage, making it harder for shareholders to understand the corporation's growth prospects and narrative. By scaling relevant innovations across their regional businesses, companies can mitigate these challenges.

Lindt & Sprüngli, the Swiss-born global chocolatier, demonstrates the advantages of global scaling. Before the leadership of Ernst Tanner, who was CEO from 1993 to 2016 and continues as Chairman, the company was a conglomerate of local entities. Since Tanner's arrival, Lindt has leveraged innovation capabilities in local centers of excellence, while coordinating from the corporate center to minimize duplication of effort and scale new products globally, driving profitable sales through its access to local markets. Products such as Excellence and Sensation Fruit developed in France, Hello bars developed in Germany and Lindor 60% truffles developed in Switzerland have been scaled to markets across the world. From 1993 to 2019, Lindt's share price grew at a compound annual rate of 14%.

The consumer goods giant Proctor & Gamble (P&G) constitutes another global scaling champion, having scaled countless innovations that originated in local markets. For example, several products developed and first launched in Mexico and Latin America — including Naturella low-cost sanitary pads, Vicks honey cough syrup and Downy single rinse fabric softener — have been scaled to markets around the world. Besides scaling across regional business units, P&G also succeeds by scaling innovations across product line business units. For example, bleach technology developed by the laundry business has been applied to beauty products such as Crest Whitestrips and Nice'n Easy Perfect 10 hair colorant. Similarly, advances to materials used in its diapers have traveled to lines ranging from Swiffer cleaning products to Olay face wipes.

OVERCOMING BARRIERS: A SYSTEM PROBLEM

Despite the appeal of these potential benefits, many companies still struggle to realize them. When leaders of these companies attempt to diagnose the root causes underlying this challenge, they typically discover that there is not just a single barrier but multiple, simultaneous ones. This is because enabling innovation, at its heart, is a system design challenge that requires a system solution. Three common barriers companies encounter are:

Illusion of local uniqueness. There are undoubtedly wide variations along many external dimensions (for example, local customer needs and market dynamics/infrastructures) and internal ones (for example, regional assets and capabilities) across the regions of a truly global company. This diversity can itself be a great source of innovative thinking and opportunities. However, in our experience, we've seen time and again that local leaders perceive their part of the business to be more unique, relative to the rest of the company, than it actually is. This sense that "our region is different," or that the mothership does not understand it, often prevents these leaders from even entertaining seriously the possibility that there are potentially attractive innovation imports from other parts of the world.

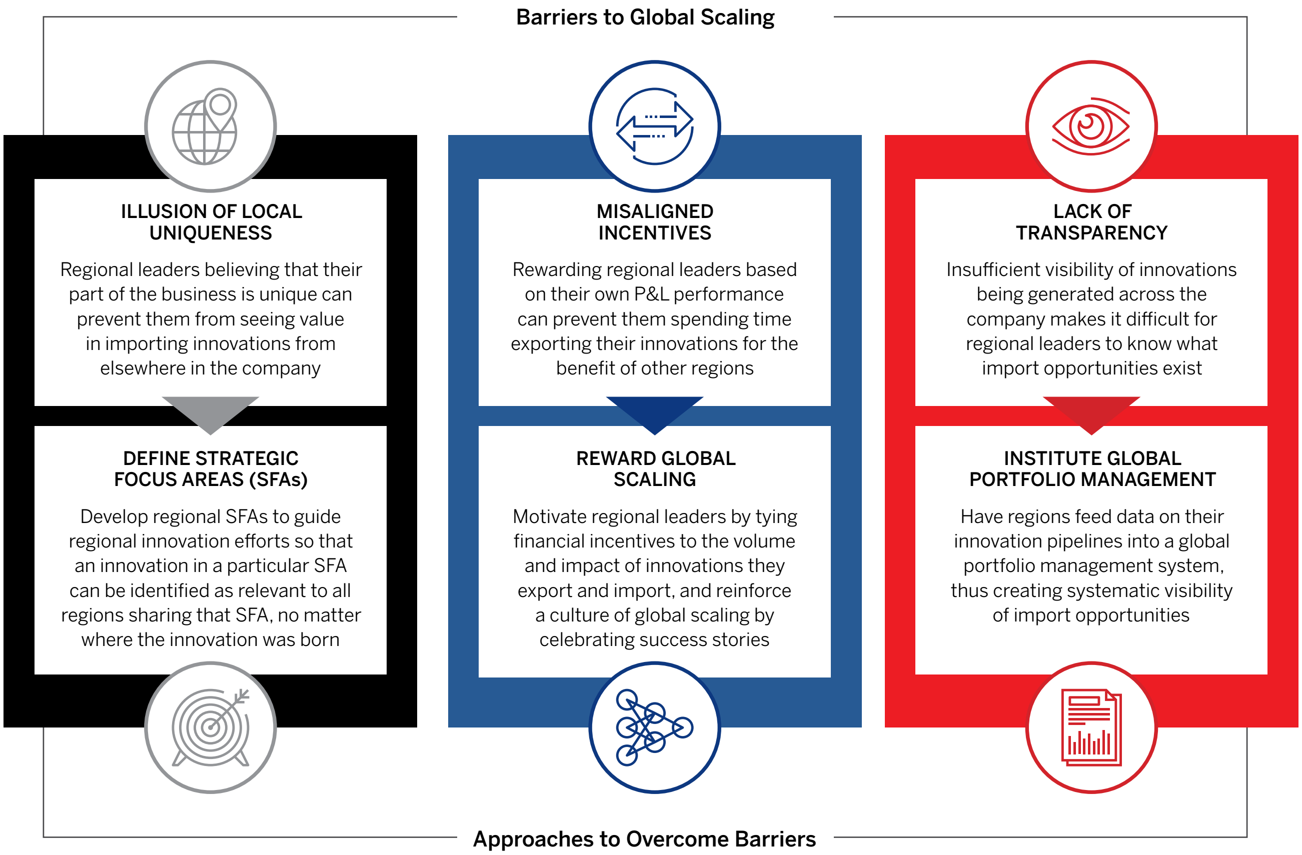
Misaligned incentives. Even if leaders recognize (or merely have an intuition) that there are valuable innovations being generated in other parts of the company, there are typically a variety of formal and cultural disincentives to sharing — in both directions. For example, regional leaders focused on their own profit and loss (P&L) performance may simply not have the time — or incentives driving how they spend it — to make the effort to proactively export their innovations for the benefit of other regions. Inversely, these same leaders might lack motivation for importing due to a "not invented here" mindset and desire to demonstrate their ability to innovate independently, without input from other regions.

Lack of transparency. Finally, even if leaders have both the openness to import innovations from other regions and the motivation to do so, they may simply lack sufficient visibility into what's happening in other parts of the world to know where to start. It's hard to import something you don't even know exists, and the larger the company, the more difficult it is to stay aware of all that's being generated across the globe. Discussions between executives across regions, no matter how frequent — and even the time-honored annual growth conference — are important but insufficient for creating full visibility across regional innovation pipelines.

Fortunately, none of these barriers are insurmountable. Three approaches for overcoming them result in a system solution to the challenge of global scaling.

1. **Define strategic focus areas to overcome the illusion-of-local-uniqueness barrier.**

Regions often have far greater strategic commonality and scope for importing innovations from other parts of the business than their leaders appreciate. To drive clarity here, each region should develop a set of clear strategic focus areas (SFAs) that define the large, profitable and growing customer groups,



customer needs and broad solution types that it wants to focus its innovation efforts on in accordance with local market conditions and business priorities. (For more on SFAs, see this short explanatory video.)

Indeed, the lack of a concise set of well-defined and high-potential focus areas to guide innovation efforts is a problem we commonly encounter in companies. Using a common framework to define SFAs globally means that regions can compare and identify commonalities in their SFAs — which then enables an innovation in a particular SFA to be determined as relevant to all regions sharing it, no matter what part of the business that innovation was born in. For example, if in the process of developing their SFAs each of the bank's three regional businesses developed one that focused on helping millennials bank on the go through mobile-only solutions, then the savings product developed by Europe could have been unambiguously identified as relevant for export to the Americas and Asia-Pacific.

One way in which focal areas for innovation based on deep customer understanding are identified at Würth is by all of its top corporate and business unit executives spending one to two weeks per year in the market directly serving and interacting with customers. By having each region define its focus areas using a common framework, and with the corporate center also developing a top-down perspective on broad focus areas that are likely to apply across the company, shared focus areas and areas of overlap across all regions and subsets of regions can be identified.

2. **Reward global scaling to overcome the misaligned-incentives barrier.**

Companies should simultaneously incentivize regions to both export and import innovation. Regional executives can be motivated to export through financial incentives, whereby, for example, their in-year cash bonuses are in part determined by the volume and impact of innovations exported to other regions, in addition to existing metrics such as in-year business unit growth. Simultaneously and inversely, executives can be incentivized to import by linking their in-year cash bonuses to the volume and impact of innovations imported from other regions. Instituting such incentives can have a significant positive impact on the propensity of regions to export and import, and helps create a culture of global scaling, which can be further reinforced by corporate executives publicly championing exporters and importers and celebrating global scaling success stories.

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Würth incentivizes regions to import from one another through aggressive growth targets that are unachievable through in-region innovation alone and therefore rely on importing from other regions. (Such targets are consistent with Chairman Reinhold Würth's no-excuses approach to growth and maxim that any company that doesn't realize at least 10% annual growth is "sick"). Exporters, on the other hand, are rewarded through cash injections for exporting innovations. These incentives enforce Würth's strong culture of growth and collaboration, in which discussions facilitating exchange of ideas between business unit leaders, through both group forums and bilateral interactions, never stop. Crucially, the targets, incentives and culture at Würth create a self-regulating global scaling system, in which no intervention from the corporate center is required to catalyze exporting and importing, since doing so is fully aligned with business unit incentives and therefore business as usual.

3. **Institute global portfolio management to overcome the lack-of-transparency barrier.**

Overcoming a lack of transparency requires a rigorous, centrally coordinated portfolio management system that profiles and tracks innovation in each region through the stages of the innovation process (i.e., from initial opportunity spotting through solution development, de-risking and piloting, and finally full-scale launch and growth). Having regions feed data on their innovation pipelines into the portfolio management system not only creates visibility that lets them identify opportunities to import from one another, but also reduces duplication of effort that would happen if regions unknowingly worked on similar opportunities simultaneously. Greater global pipeline visibility enabled through portfolio management also empowers importing regions to plan their budgets such that they can allocate resources to the most attractive opportunities for driving growth, no matter where they come from. Indeed, resource allocation can in its own right be a barrier to global scaling, since a region that has allocated all of its resources to innovations originating locally will struggle to allocate resources to realize unexpected growth opportunities originating in other regions.

At Würth, portfolio visibility is delivered through a monthly report covering the pipeline and performance of its 400 business units, which enables regional leaders to identify relevant, high-impact opportunities to import from other regions to meet their growth targets. It is this transparency that is foundational to Würth's culture of growth and collaboration.

CONCLUSION

Significant value is left on the table by companies that fall victim to often deeply rooted — but eminently addressable — barriers to global scaling. By approaching these as a system challenge that requires a system solution, companies can unlock the full potential of their global footprint and maximize enterprise value.

About the authors

Shari Parvarandeh is a Manager at Innosight in Europe. He has worked extensively with senior leaders of Global 500 companies across industries including financial services, automotive, consumer, industrials, and technology, to develop transformational growth and value creation strategies, innovation systems, and customer-centric digital business models.

sparvarandeh@innosight.com

Bernard Kümmerli is a Senior Partner at Innosight and leads its operations in Europe. He has worked with global clients to design strategies for enduring growth, build innovation capabilities, and put in place governance systems to enable transformation. He is an expert and author on the topic of innovation leadership, and regularly sits on global innovation councils together with top company leaders.

bkuemmerli@innosight.com

David Duncan is a Senior Partner at Innosight and leads the Financial Services and Innovation Capabilities practices. He is a trusted advisor to top leaders at many of the world's most iconic companies, helping them to navigate disruptive change, create sustainable growth, and transform their organizations to thrive for the long-term.

dduncan@innosight.com

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Endnotes

1. For more on Würth's impressive growth story, Bernd Venohr's 2006 German-language book, *Wachsen wie Würth: Das Geheimnis des Welterfolgs (Growing Like Würth: The Secrets of World Success)*, published by Campus Verlag GmbH, provides rich insight.
2. Note that while this article focuses on global scaling of new product innovation, many of the principles outlined are also applicable to other types of innovation, such as efficiency innovation.