Attaining Sustainable Growth Through Innovation Excellence

ASSOCIATION for FINANCIAL TECHNOLOGY
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Vice President
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Innovation Excellence

Agenda

- Introduction
- Innovation Point-of-View
- Insights and Recommendations
- Improvement Approaches
- Questions/Open Discussion
Hitachi, Ltd. – a global technology leader.
Hitachi, Ltd. ranks 38th on the 2012 FORTUNE Global 500®.

- Founded in 1910
- $96.2B FY12 Revenue
- 963 Companies
- 326,240 Employees

- Invested $3.7 Billion in R&D (2012)
- Strategic focus on Social Innovation Business
- More than 100 years of product and service innovation, engineering and quality

Hitachi delivers innovations that answer society’s challenges. With our talented team and proven experience in global markets, we can inspire the world.

Society Changes, Hitachi Transforms It.
Hitachi Social Innovation

Enable the development of safe, reliable societal and commercial infrastructure, powered by information technology

Product Diversity
- Information and Telecom Systems
- Power Systems
- Transportation
- Industrial Solutions
- Electronic Systems and Equipment
- Construction Machinery
- High Function Materials & Components
- Automotive Systems
- Digital Media and Consumer Products
- Financial Services
- Logistics and Other Services

Examples in Finance
- Hitachi Capital
  - Financial services
- Hitachi Devices
  - Finger vein technologies
- Hitachi Data Systems
  - Content platforms
  - Big data, BI and analytics
- Hitachi Consulting
  - Financial services consulting
  - Big data, BI and analytics
  - Application development
Companies Compete with Better Offerings

Innovation is central to balancing value disciplines
Market timing is a critical metric

Survey of 729 CEOs, Presidents and Chairmen across the globe were asked to identify their most critical challenges for the coming year (2013).

Authors: Charles Mitchell, Rebecca L. Ray, Ph.D., Bart van Ark, July 2013
What is Innovation?

Innovation is translation of ideas and inventions into profitable offerings for customers.

Innovation may include changes to…

– Business Model (Business structure or financial model)
– Operational Model – (Core processes and functions improvements)
– Products, Services, and Markets – (New offerings or applications)

…but should always be viewed from end-to-end
Innovation Challenges Summary

Typical root-cause challenges to effective innovation

1. **Market Timing**
   Innovations miss the market window (early or late)

2. **Portfolio Strategy**
   Unclear portfolio ambitions and/or lack of committed resources necessary to drive results

3. **Focus**
   Lack innovation directional boundaries necessary to translation from strategy to execution

4. **Organization**
   Decision structure, culture, and incentives don’t support innovation

5. **Innovation Process**
   Lack mechanisms to capture, evaluate, and transition ideas to offerings, execution models

6. **Performance Management**
   Lack adequate performance measures, visibility, and decision triggers to take action.

7. **Enabling Technologies**
   Inadequate integrated capabilities to support capturing, controlling, and acting on information.
Innovation Excellence
Themes that drive our solutions

- Companies are seeking to improve innovation capabilities now
- Market timing the critical KPI of innovation
- All innovation is not the same
- Point solutions fail to address the primary Innovation challenges
- Sustainable Innovation is attained through operational execution
We Often See a Strategy-to-Execution Gap

Hitachi Consulting – How Leading Companies Close the Gap

Critical Elements to Drive Innovation

1. **Strategic Alignment**
   - **Market Foresight**
     Reveal market opportunities and timing
   - **Portfolio Management**
     Position the company for desired growth

2. **Innovation Process**
   - **Processes and Performance Management**
     Structure and incentives to drive execution
   - **Project Roadmap**
     Selections to minimize investment waste

3. **Enterprise Capabilities**
   - **Technologies**
     Enable and enforce innovation discipline
   - **Extended Ecosystem**
     Share capabilities and risk

Product Execution

Do Things Right With the Right Resources

Corp Strategy
Right Direction

Close the Gap

Point of View
Strategic Alignment Makes Decisions Stick
Requires well-managed activities and good information

- Market Foresight
- Portfolio Management
- Organizational Alignment

Assign accountability to manage activities and capture good information to make decisions

Key mechanisms to capture information to base decisions
Organizational and Cultural Aspects of Innovation

Attain organizational alignment

- Set directional boundaries
- Establish decision structure
- Align incentives with ambitions
- Right roles AND skills

<table>
<thead>
<tr>
<th>Strategic Ambition</th>
<th>Core</th>
<th>Adjacent</th>
<th>Transformational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory Implication</td>
<td>Same Product Cheaper and Faster</td>
<td>Better Product or Combine</td>
<td>Replace with a new Product</td>
</tr>
<tr>
<td>Strategy</td>
<td>Profit Bias</td>
<td>↔</td>
<td>Growth Bias</td>
</tr>
<tr>
<td>People &amp; Skills</td>
<td>Integrated with Core</td>
<td>↔</td>
<td>Separate from Core</td>
</tr>
<tr>
<td>Funding</td>
<td>Product P&amp;L Cash</td>
<td>↔</td>
<td>Separate funding</td>
</tr>
<tr>
<td>Pipeline Management</td>
<td>Project Review at Gates</td>
<td>↔</td>
<td>Non-linear Evaluation</td>
</tr>
<tr>
<td>Metrics</td>
<td>Economic and External</td>
<td>↔</td>
<td>Non-economic and Internal</td>
</tr>
<tr>
<td>Resource Allocation</td>
<td>70%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Total Returns</td>
<td>10%</td>
<td>20%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Adapted from: Silverstein, Samuel, DeCarlo, The Innovator’s Toolkit, 2009
Innovation Program Roles to Consider

Ensure the Right Participants Carry the Flag for Key Roles

Note: Each job varies with the **Type** of innovation (Business Model, Ops Model, Product/Service), the **Focus** of innovation (Core, Adjacent, Transformational), and the company innovation **Culture** (Drive versus enable)
Innovation Goals Change as the Lifecycle Matures

Coordinate multiple types of innovation to achieve results

- Create Better Offerings
- Sell More
- Cost Less
- Make Money!

Innovation is a recurring and synergistic process

Innovate beyond just the offering
Innovation Process Keeps the Team Aligned

Balancing key process controls minimizes waste without stifling innovation

- Innovation Process
- Organizational Alignment
- Performance Management

Innovation process, organization, and performance management are tightly coupled
Key Insights and Recommendations

Discovery oriented activities

- Market Foresight – Understand market
- Organization – Effective decision structures
- Ecosystem – Involve external partners and customers
- Portfolio Strategy – Establish ambitions
- Utilize Technologies - Enable process consistency

Discovery
Key Insights and Recommendations

Evaluation-oriented activities

- Organization - Involve the right roles
- Portfolio - Force trade-off decisions
- Business cases - Develop scorecards in advance
- Performance – Consistent metrics
- Ecosystem – Validate with customers early

Evaluation Scorecard

Evaluation Criteria and Voter Weighting

- Is it real?
- Is it worth doing?
- Can we win?

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Business Case</td>
<td>20%</td>
</tr>
<tr>
<td>Strategy Fit</td>
<td>30%</td>
</tr>
<tr>
<td>Leverage</td>
<td>20%</td>
</tr>
<tr>
<td>Commercial</td>
<td>20%</td>
</tr>
<tr>
<td>Technical</td>
<td>10%</td>
</tr>
</tbody>
</table>

1 - Weak
4 - Tenable
7 - Favorable
10 - Strong

SPECIFIC TARGETS FOR SCORING
Key Insights and Recommendations

Transition-oriented activities

- Organization – Manage transitions
- Project Planning – Prioritize resources
- Process – Plan launch and production activities early
Innovation Enabled by an Enterprise Platform

Manage innovation from end-to-end

- Cross-functional alignment
- Enterprise performance management
- External partner collaboration
- Customer and social insights

“Seams” among platform capabilities inhibit innovation effectiveness
Innovation Management Process

Innovation is an iterative and recurring process

**Discovery**
- Capture, Develop & Prioritize Ideas
- Screen
- Capture Ideas
- Initiate Proposals
- Manage Requirements

**Evaluation**
- Generate Product Proposals
- Compare
- Build Business Case
- Manage Concepts
- Manage Portfolio

**Execution & Transition**
- Optimize Investment Portfolio
- Fund
- Transfer Project Plans
- Iterative Analysis
- Manage Scenarios

**MARKET INSIGHTS**
- IDEA

**PRODUCTS**
- IDEA

Innovation Capabilities

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Innovation Strategy Project Example

**Focus Areas**

1. **Industry Foresight.** Understand trends, positioning, and set strategic performance targets
2. **Portfolio Strategy.** Set portfolio targets, evaluate opportunities, and establish a product roadmap
3. **Strategic Alignment.** Align on strategic process area touch-points, innovation organization design, and execution enabling IT platforms roadmap

**Approach**

- **Assess**
  - Establish Governance and Charter
  - Establish Focus
  - Develop improvement plans

- **Validate** (HCC Led)
  - Mobilize teams and operating rhythms
  - Execute innovation processes
  - Collect feedback and revise

- **Implement** (Customer)
  - Transition ownership
  - Automate and optimize
  - Evaluate performance

**Goal**

- Competitive Positioning
- Better Strategy
- Innovation Initiatives

**Process Scope**

- **Discovery**
  - Industry Foresight
    - Market Trends / Benchmarks
  - Portfolio Strategy
    - Portfolio Mix
    - Technology Roadmap
    - Innovation Focus
    - VoC / VoT Inputs
  - Strategic Alignment
    - Strategic Process Alignment
    - Organizational Design
    - IT Platform Roadmap

- **Evaluation**
  - Portfolio Mix
  - Technology Roadmap
  - Innovation Focus
  - VoC / VoT Inputs
  - Product / Service Roadmap

- **Transition**
  - Strategic Process Alignment
  - Organizational Design
  - IT Platform Roadmap
Innovation Process Improvement Project Example

**Solution Overview**

1. **Process Assessment.** Assess and align on innovation process scope to attain desired business results
2. **Process Focus.** Identify and prioritize innovation process gaps and decide among alternatives what improvements to pursue
3. **Improvement Plan.** Design, develop, and deploy streamlined process improvements to attain desired results

**Goal**

- Better Process Targets
- Organizational Execution

**Process Scope and Metrics**

**Discovery Processes**
- Scoping and Planning
- Developing Insights
- Identifying Opportunities

**Evaluation Processes**
- Setting Criteria
- Evaluation Processes
- Validating Candidates

**Execution Transition**
- Planning Execution
- Transitioning to Develop

**Approach**

**Phase 1**

- **Assess**
  - Establish Governance and Charter
  - Establish Focus
  - Develop improvement plans

- **Validate**
  - Mobilize teams and processes
  - Execute innovation processes
  - Collect feedback and revise

- **Implement**
  - Organization design and adoption
  - Technology Enablement
  - Performance Management

**Follow-on**
Innovation Excellence Solution Areas

Summary - How Leading Companies Address Key Challenges

Strategic Alignment
- Market foresight that reveals market opportunities and windows
- Portfolio strategies that position the company for desired growth

Innovation Process
- Project selections that minimize investment waste
- Processes, structure, metrics, and incentives that drive execution

Enterprise Capabilities
- Technology platforms to enable and enforce innovation discipline
- An explicit extended ecosystem to share capabilities and risk
Questions?

Hitachi Consulting
We make it happen. Better.

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See me or send me a note

Download our whitepaper on Innovation Excellence