



IBM Business Consulting Services

Expanding the Innovation Horizon: The Global CEO Study 2006

Ginni Rometty
SVP, Enterprise Business Services, IBM

CEO Panel

- James "Jay" R. Bertelli, Chairman, President and CEO, Mercury Computer
- Ken Denman, Chairman, President and CEO, iPass
- Brian A. Gallagher, President and CEO, United Way of America
- Richard C. Kelly, Chairman of the Board, President and CEO, Xcel Energy
- Ronald A. Williams, CEO and President, Aetna Inc.



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Marc Chapman

Global Leader, Strategy and Change Services, IBM

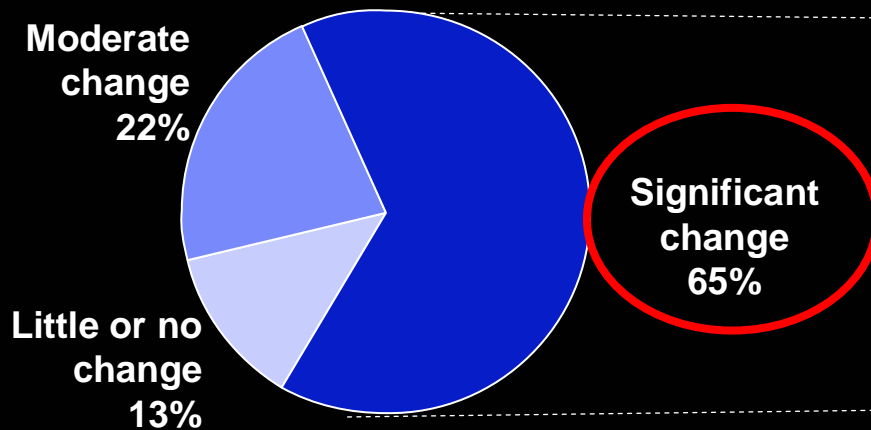
CEO Perspective

Myth: “Flat world” trends only affect a few firms

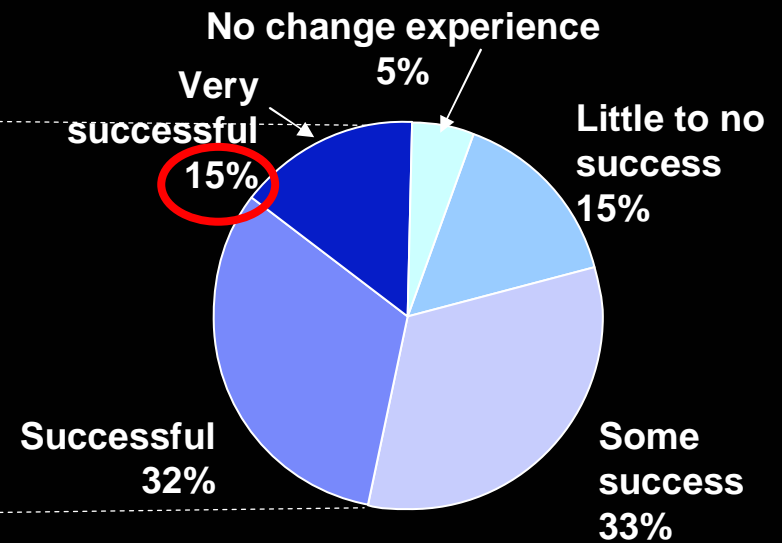
↳ CEOs plan imminent and radical change

Two-thirds of CEOs see significant change in next 2 years

Extent of Fundamental Change Needed Over the Next Two Years



Past Level of Success at Managing Fundamental Change



CEOs told us...

“Competitors are emerging from everywhere”

“The market imposes innovation.”

“Business Model change is dramatic ...40% sales now on the internet”

“Globalization, commoditization, higher cost structure, increasing specialization...”

“We must innovate to justify our existence.”

“no growth without changing ourselves and the industry itself.”

“Last year’s products are last year’s dollars.”

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Myth: Innovation is too critical and proprietary to involve outsiders

↳ Collaborative innovation is indispensable

Partners and customers edge out employees for ideas

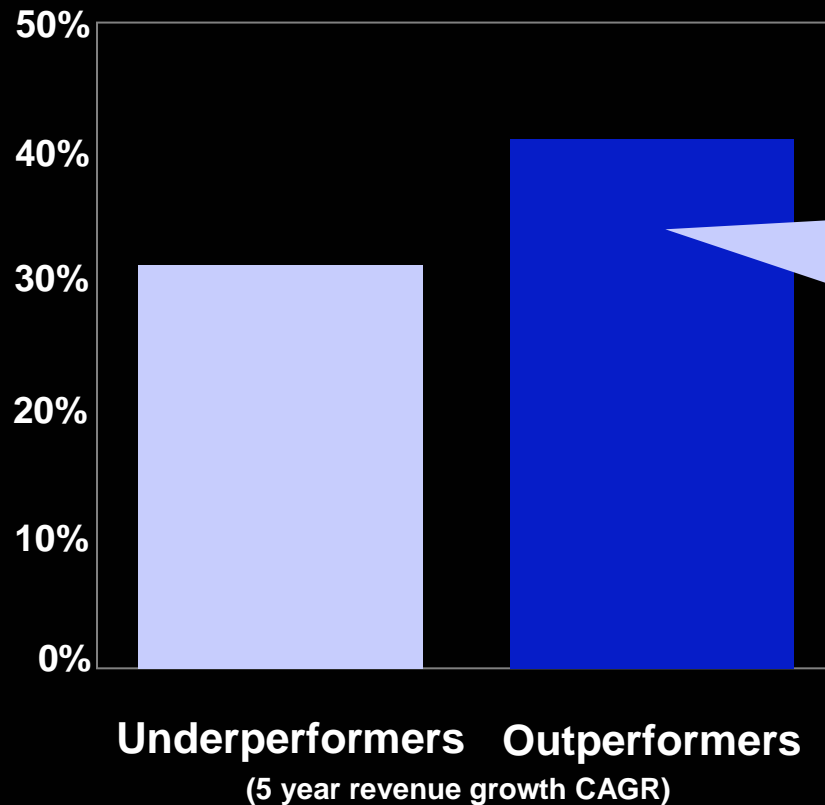
Sources of New Ideas and Innovation



“Today...more capability and innovation in the marketplace than we could try to create...”

Out-performers source 30% more ideas from outside

Quantity of New Ideas from External Sources

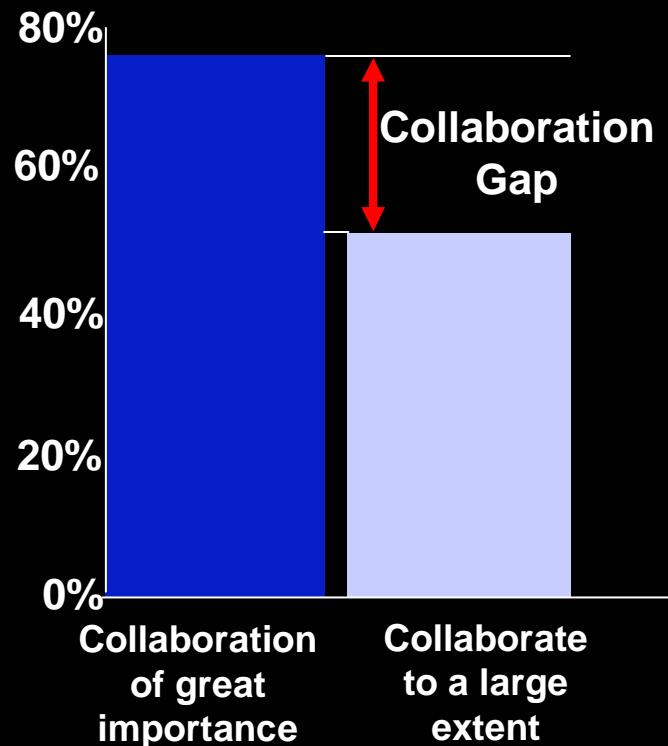


- *3 industries — Media & Entertainment, Telecommunications, and Chemicals/Petroleum — source >50% from outside*
- *9 industries source more than 40%*

“If you think you have all of the answers internally, you are wrong.”

Collaboration gap looms large in the mind of the CEO

Collaboration Importance versus Extent



“Without collaboration innovation would be impossible.”

“It would be counterproductive to do everything yourself.”

“Partner...extract maximum value and avoid reinventing the wheel.”

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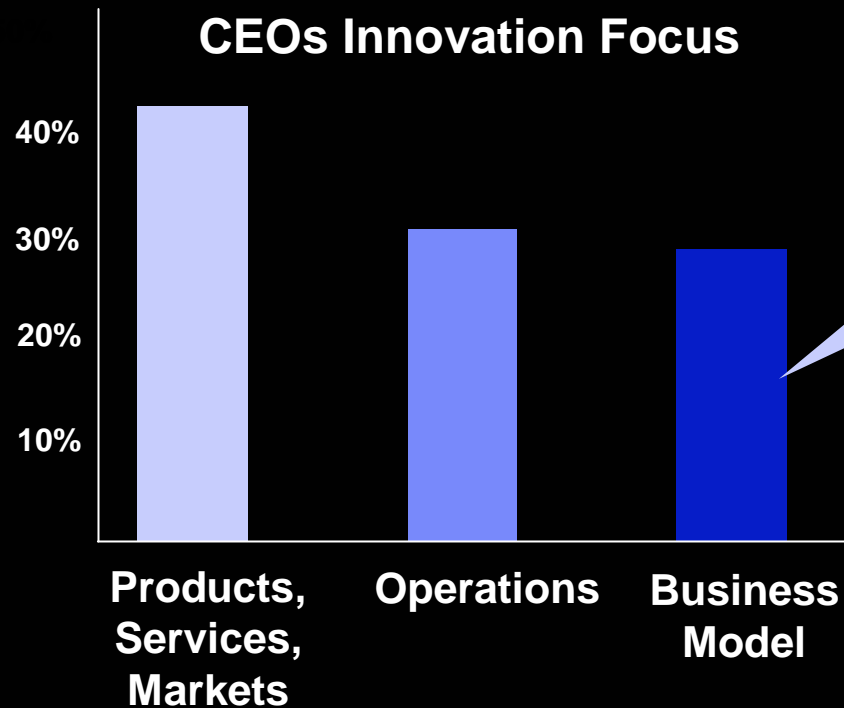
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Myth: Innovation means inventing new products and services

↳ Business model innovation matters

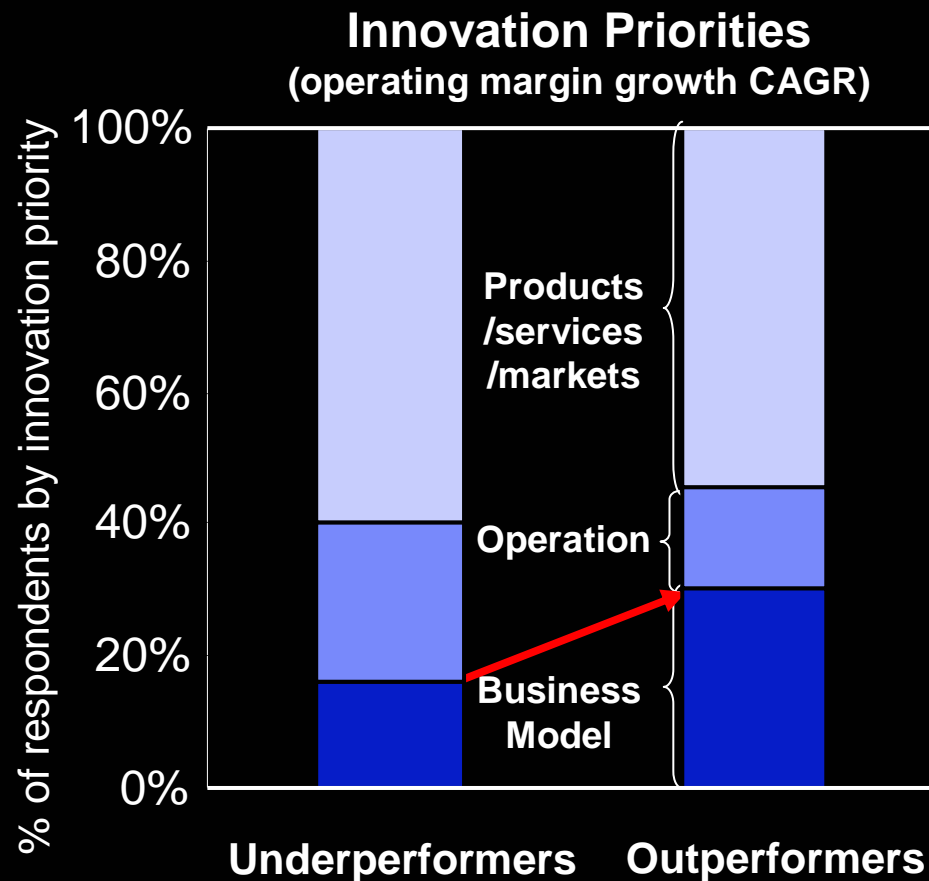
Business model innovation gains prominence



Organization Structure Changes (66%)
Building Strategic Partnerships (53%)

“We need to develop a business model based on strategic partnerships that creates value for our company...and for the industry...in this era of specialization”

Outperformers double their focus on the business model



“The business model we choose will determine the success or failure of our strategy.”

“Products and services can be copied, the business model is the differentiator.”

“Our greatest focus is on business model innovation, which is where the greatest benefits lie.”

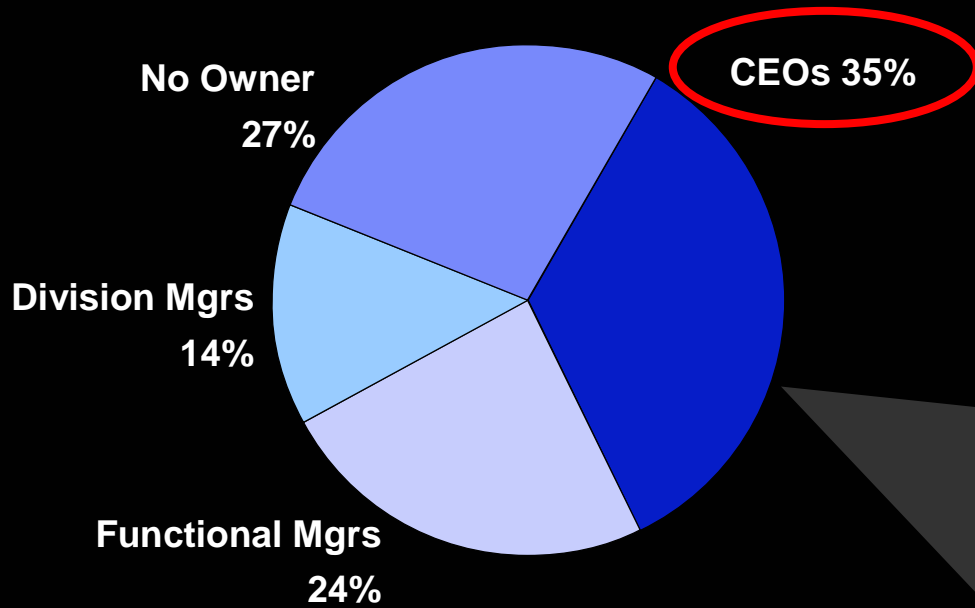
What stands in the way?

Obstacles to Innovation

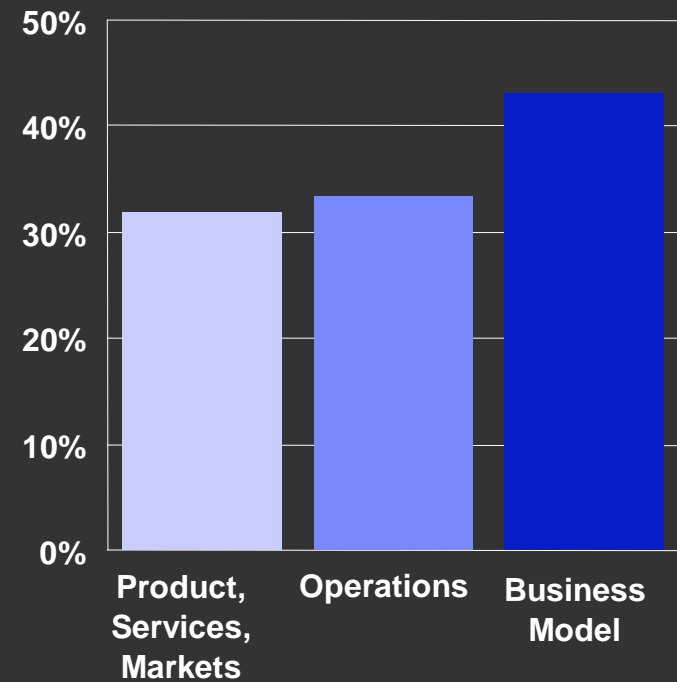


Who is responsible?

Responsibility for Innovation Leadership



CEOs Innovation Leadership



CEO Perspective predicts dramatic innovative change

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Key Definitions

- **Innovation**
 - ▬ Using new ideas or applying current thinking in fundamentally different ways that result in significant change

- **Business Model Innovation**
 - ▬ Significantly changing the structure and / or financial model of the business

- **Operations Innovation**
 - ▬ Improving the effectiveness and efficiency of core business processes and functions

- **Product/Services/Markets Innovation**
 - ▬ Creating new or significantly differentiated products, services or go-to-market activities