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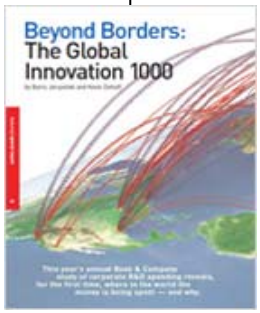
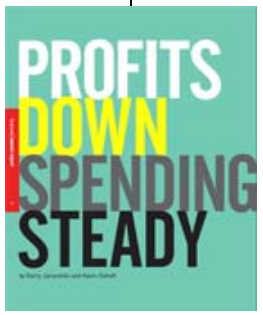
How the Top Innovators Keep Winning

The 2010 Global Innovation 1000

For the past six years, Booz & Company has examined innovation spending and its linkages to corporate performance

Progression of the Global Innovation 1000 Study

2005	2006	2007	2008	2009	2010
					
2005: Money Isn't Everything	**2006: Smart Spenders**	**2007: The Customer Connection**	**2008: Beyond Borders**	**2009: Profits Down, Spending Steady**	***2010: How Top Innovators Keep Winning***
In innovation, money doesn't buy results. Ultimately, the process is more important than the amount spent.	**"High-Leverage Innovators," companies that outperformed their industry peers on a variety of financial performance metrics while spending less on R&D.**	**Two keys to success: aligning innovation strategy with overall corporate strategy & getting customers involved in the innovation process.**	**The global footprint of R&D. Companies that conduct more than 60% of their R&D outside their home countries outperformed their peers**	**Despite a big drop in overall operating income, more than two thirds of the companies we looked at closely either maintained or increased their spending on innovation.**	**Which innovation capabilities the top performing companies prioritize and how they are able to consistently outperform.**

The award winning Innovation 1000 study continues to be a major source of global recognition for the firm

Media Coverage Highlights

- Covered by ABCNews and MSNBC television
- Featured on NPR radio in US and BBC Radio in UK
- Cited in over 170 publications across 27 countries
- Called "*The most comprehensive assessment of the relationship between R&D investment and corporate performance*" by ***The Economist***

Representative Publications

Furthering the Innovation Dialogue

2005
- Initiated study to better understand how organizations can maximize their return on innovation investment
- Found no statistical relationship between R&D spending and key measures corporate success

2006
- Confirmed lack of relationship between R&D after adding additional data (e.g., patent records) and analyzing using more complex methods
- Defined "High Leverage Innovators" who produced better results per R&D dollar than industry peers
- Awarded "2006 Special Achievement Award for Advancing Innovation" by Innovate Forum

2007
- Examined the connection between performance and the elements of innovation strategy, including customer focus and alignment of corporate and innovation strategies

2008
- Studied the correlation of a globalized R&D footprint to performance and identified characteristics of innovation networks that correlate with higher performance
- Awarded "Best of Visions" award from Product Development and Management Association
- Awarded Silver Award for Editorial Excellence: Original Research and National Bronze Award for Graphics Excellence by American Society of Business Publication Editors

2009
- Assessed impact of the Great Recession on worldwide R&D spending.

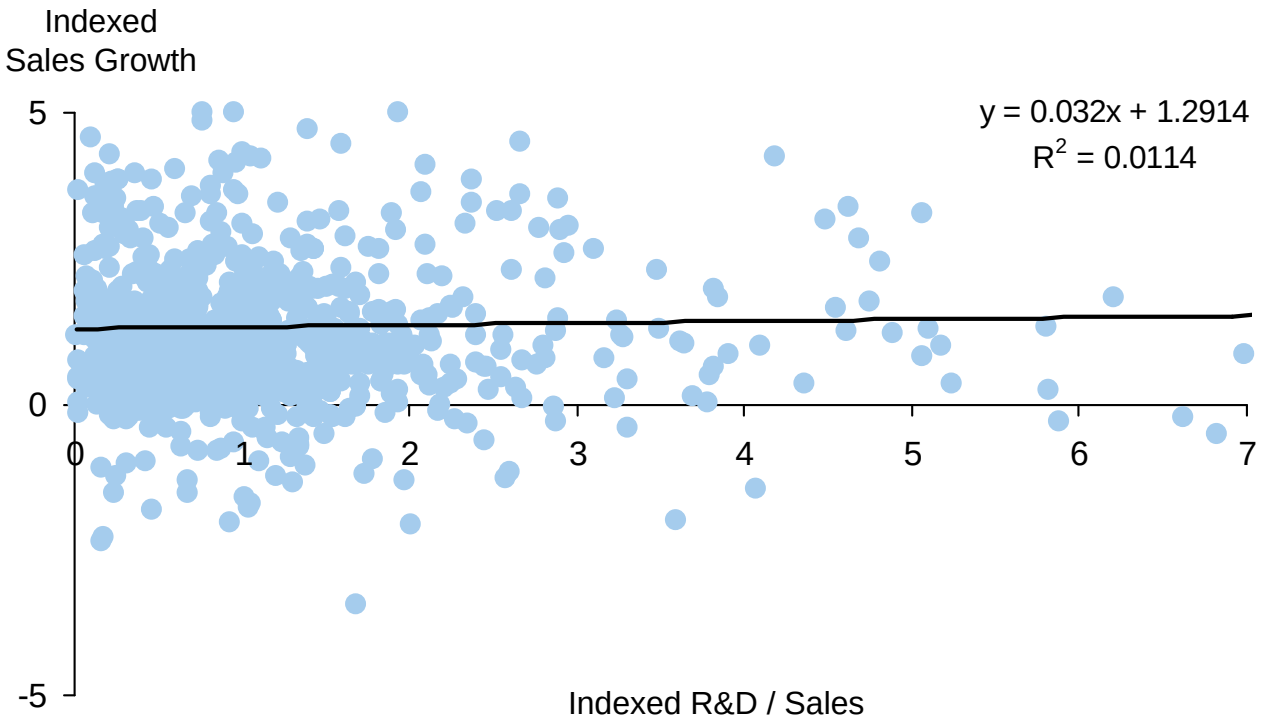
Year after year we've found that higher R&D spending doesn't ensure better performance

EXAMPLE ANALYSIS

The Performance Disconnect
Example analysis showing link between R&D and financial performance

~10,000 analyses found NO statistical relationship between R&D spend and:

- ***Sales growth***
- ***Gross profit growth***
- ***Operating profit growth***
- ***Operating Margin***
- ***Net profit growth***
- ***Net Margin***
- ***Market cap growth***
- ***Total shareholder return***

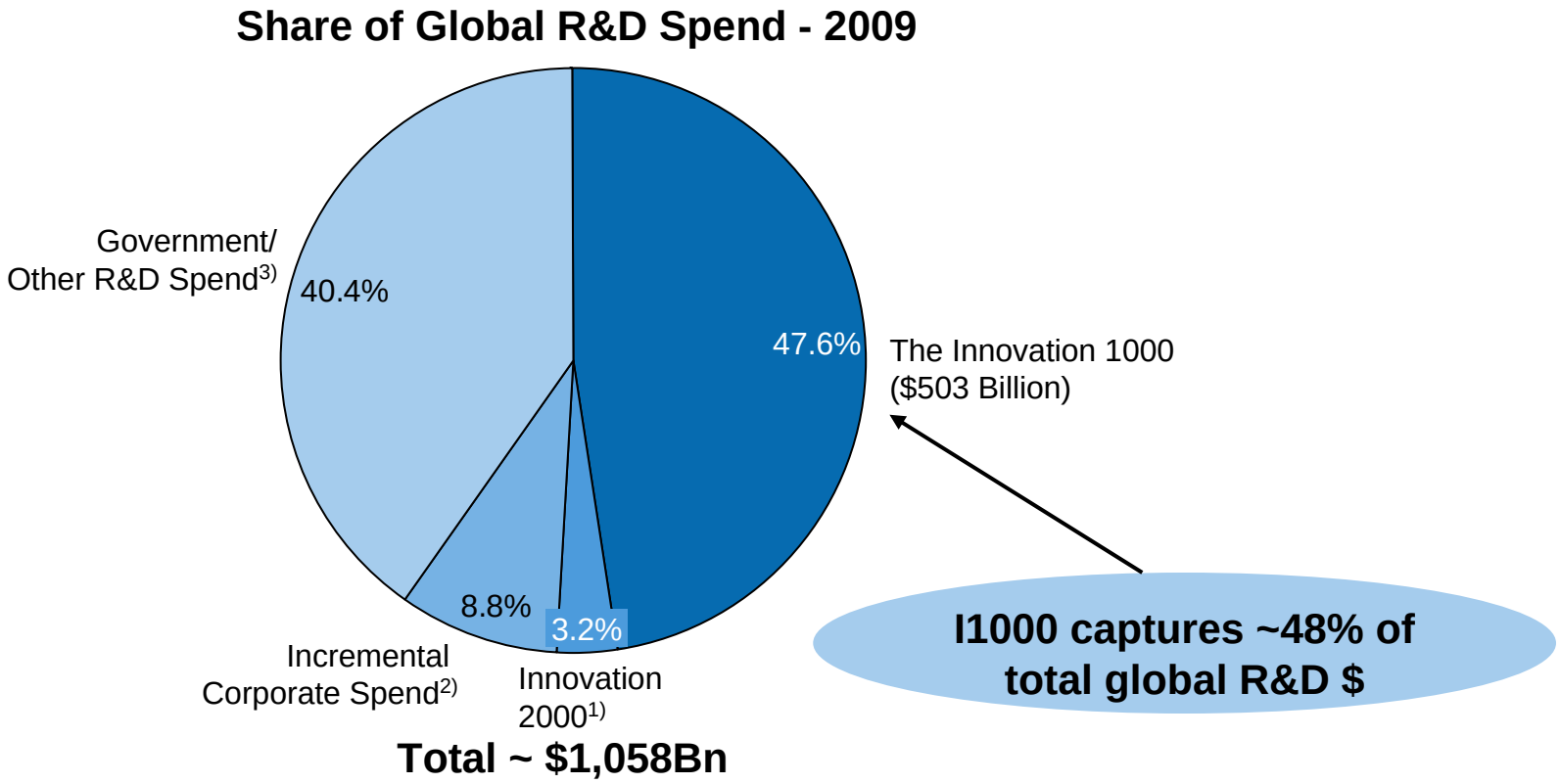


Source: Booz & Company Global Innovation 1000, 2006

The focus of this year's Innovation 1000 study is the relationship between strategy, capabilities and corporate performance

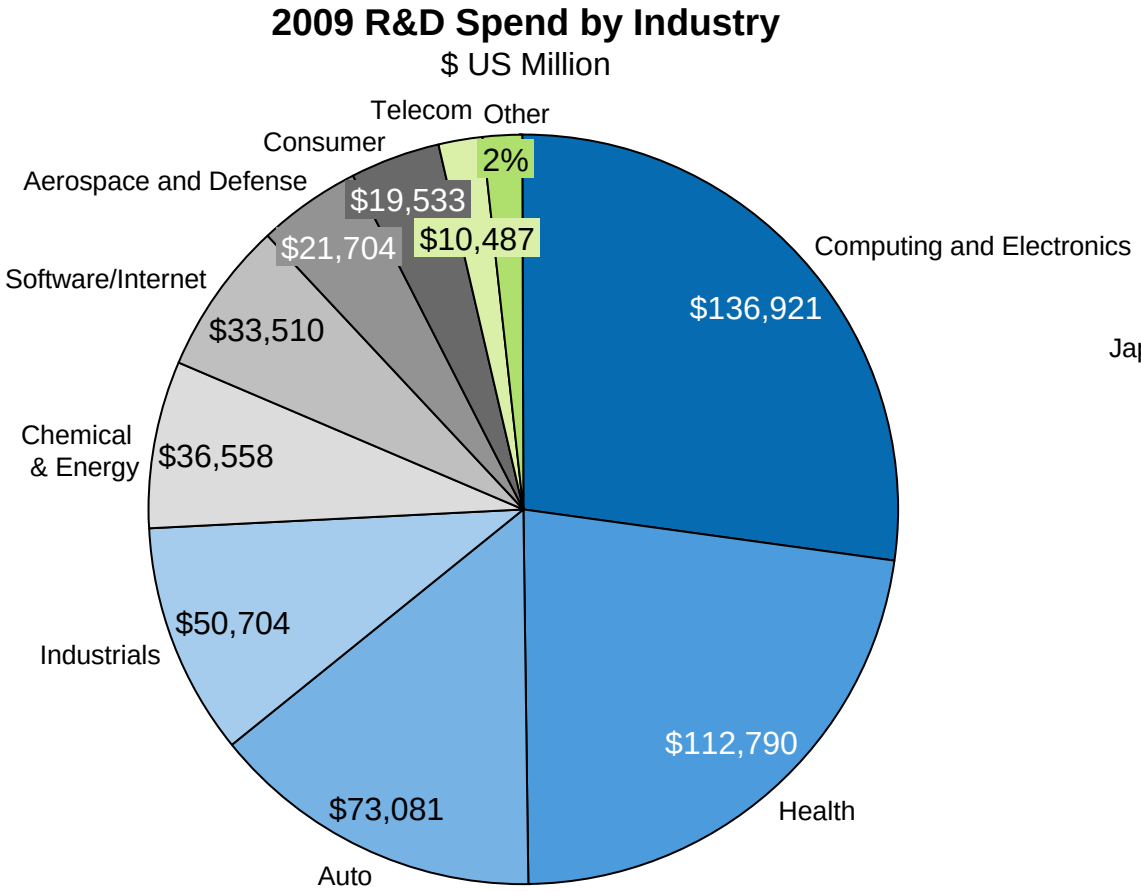
- Our 6th annual study of the world's 1000 largest corporate R&D spenders focuses on the links between strategy, innovation capabilities, and corporate performance
- The study profiles the distinct capabilities sets required to succeed at each of the three fundamental innovation strategies
- We show how "coherent" companies are able to consistently outperform their industry peers in terms of financial performance
- As in years past, we also profile the R&D spend of the world's 1000 largest R&D spenders

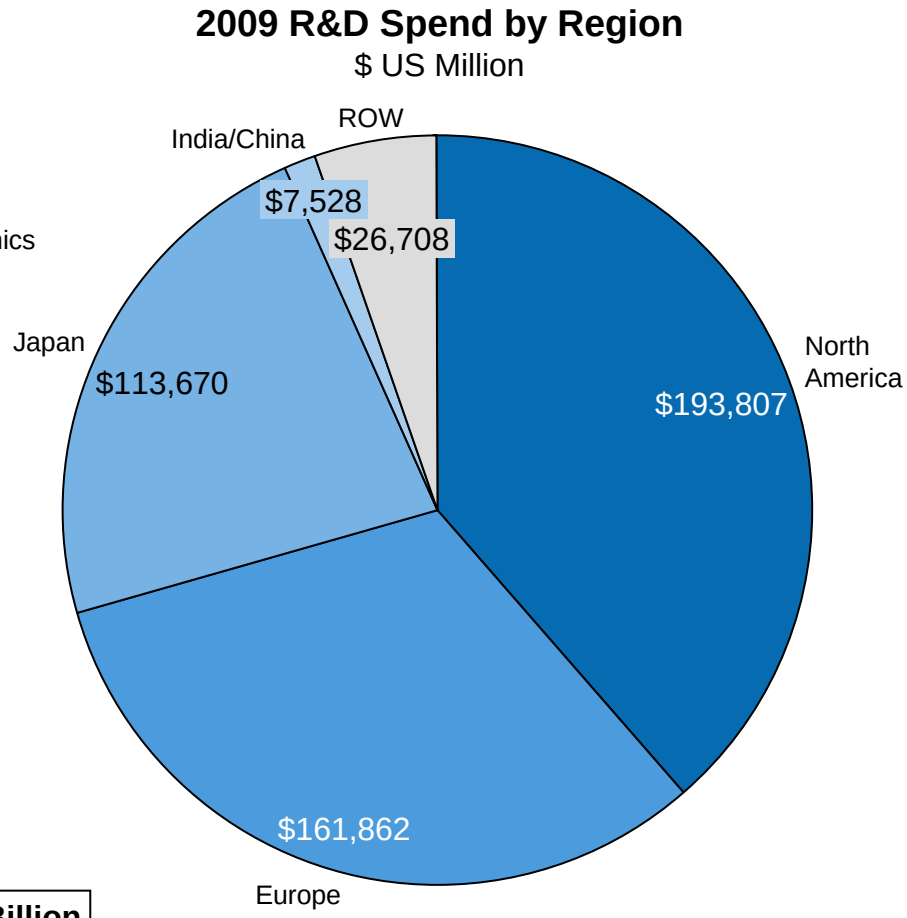
In 2009, global R&D spend held steady at ~$1 trillion -- the Innovation 1000 was nearly ½ the total



1) Innovation 2000 spend for Innovation 2009 companies ranked 1001–2000. Innovation 2000 spend declined slightly from 2008 global spend (2009 Innovation study)
2) Incremental corporate spend calculated using 1.1% growth rate. Growth calculated using companies ranked 1180–1238 for 2009 Innovation 1000 and 2010 Innovation 1000 (data available for 2009 Innovation 1000 study included companies ranked through 1238
3) Government/Other R&D spend calculated using Government spend in 2008 and 2009 Innovation 1000 studies
Source: Booz & Company analysis

Top 3 industries are Computing & Electronics, Health and Auto; while top regions are N. America, Europe and Japan

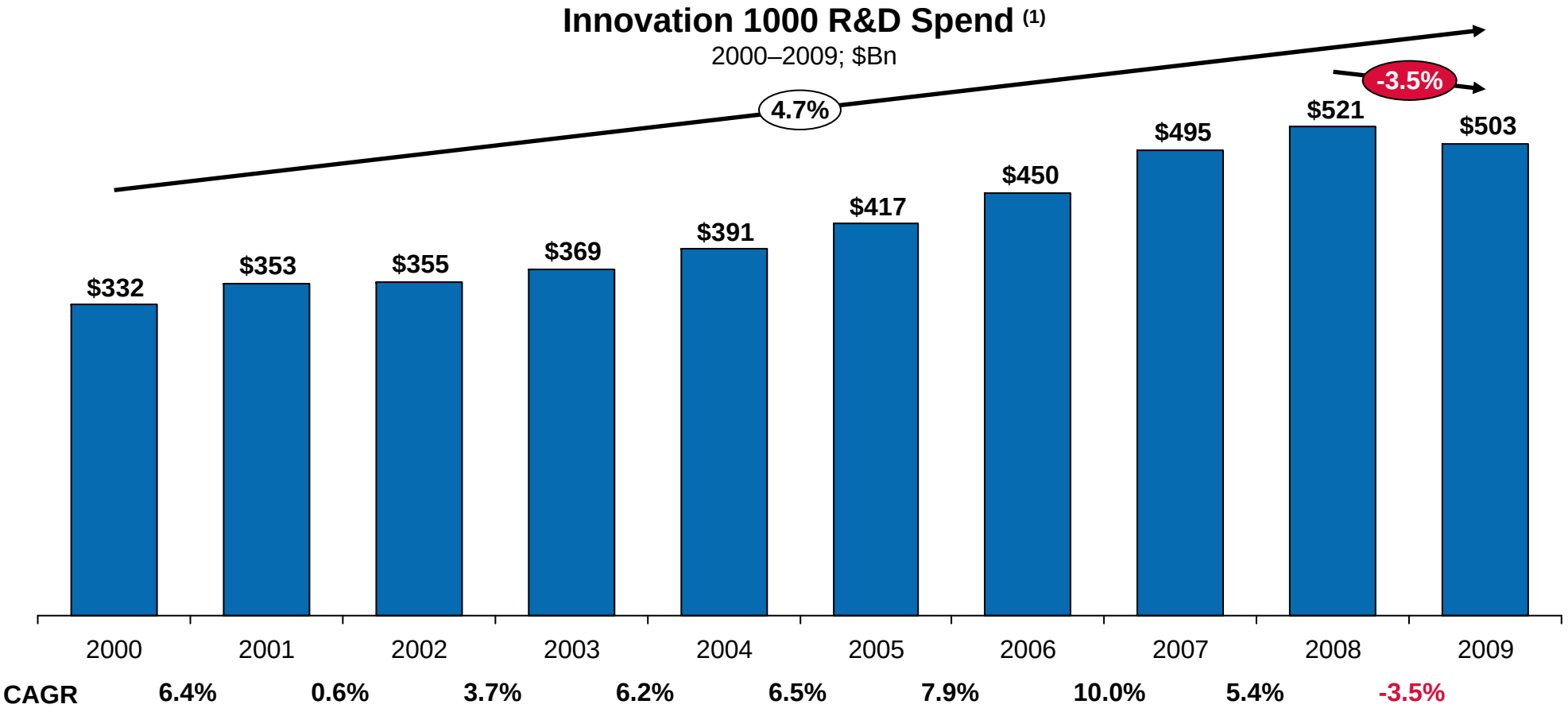




Total: $503.6 Billion

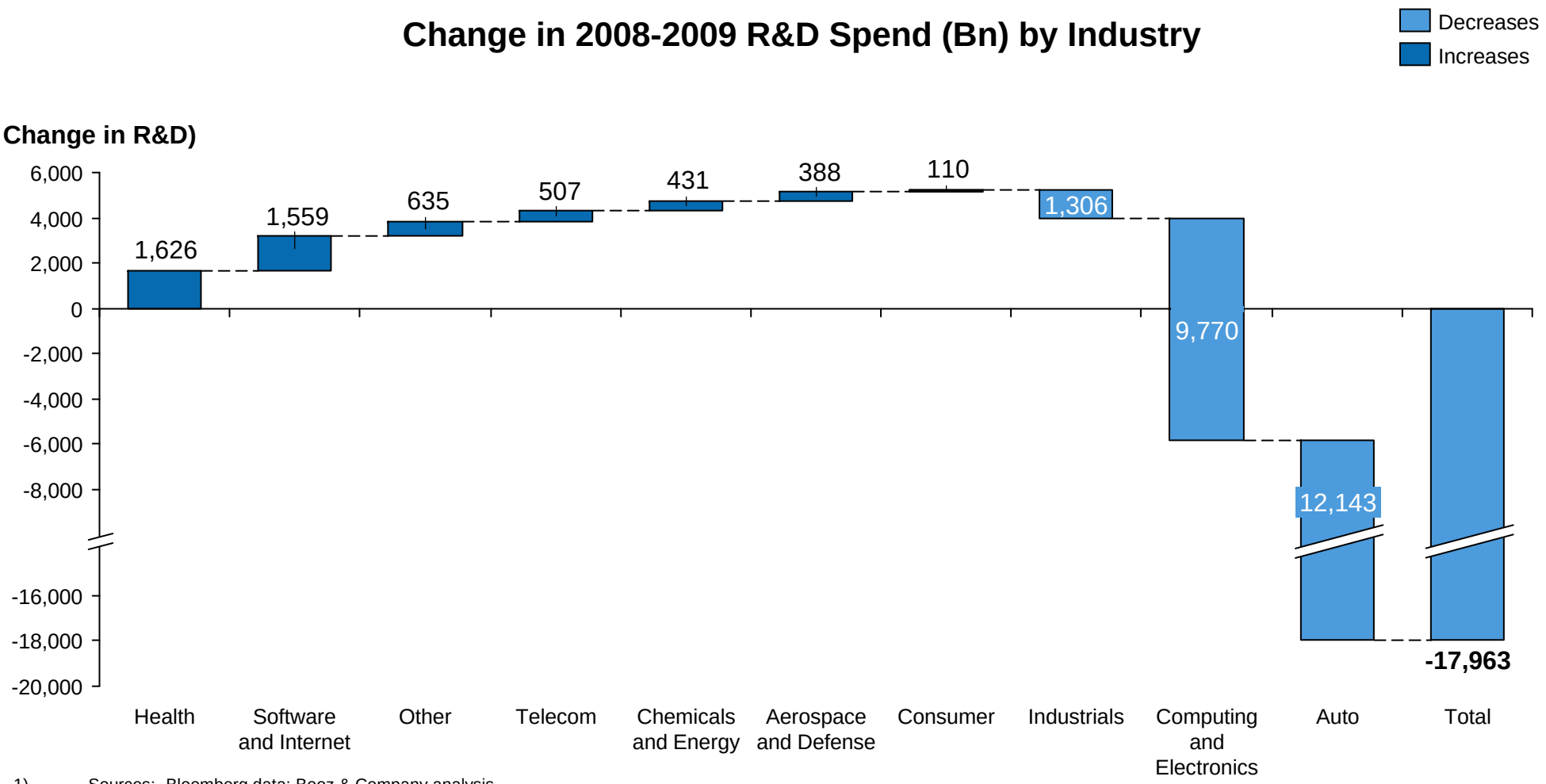
1) Sources: Bloomberg data; Booz & Company analysis

For the first time in the history of our study, R&D spend by the Innovation 1000 declined



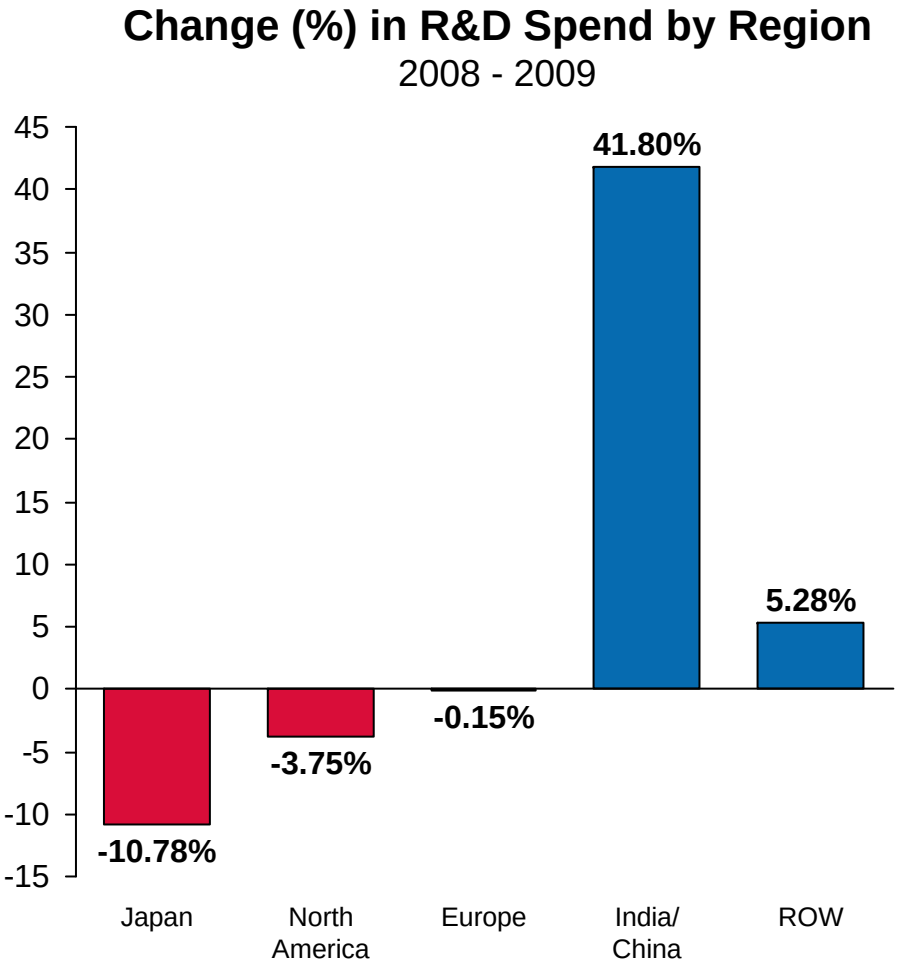
1) Innovation 2010 yearly R&D spend comparison for companies for which R&D spend available for both years
Sources: Bloomberg data; Booz & Company Innovation 1000 articles strategy + business; Booz & Company analysis

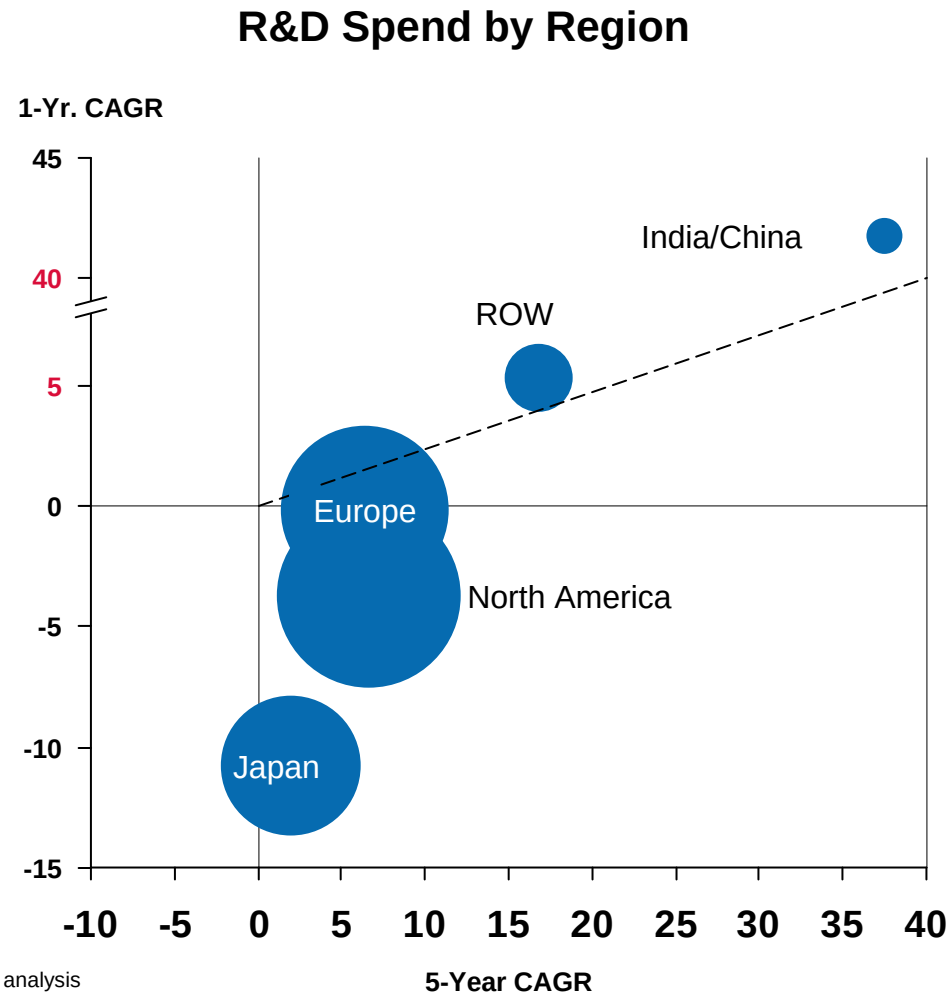
2/3rd's of the $18B spending decrease was in the auto industry



1) Sources: Bloomberg data; Booz & Company analysis

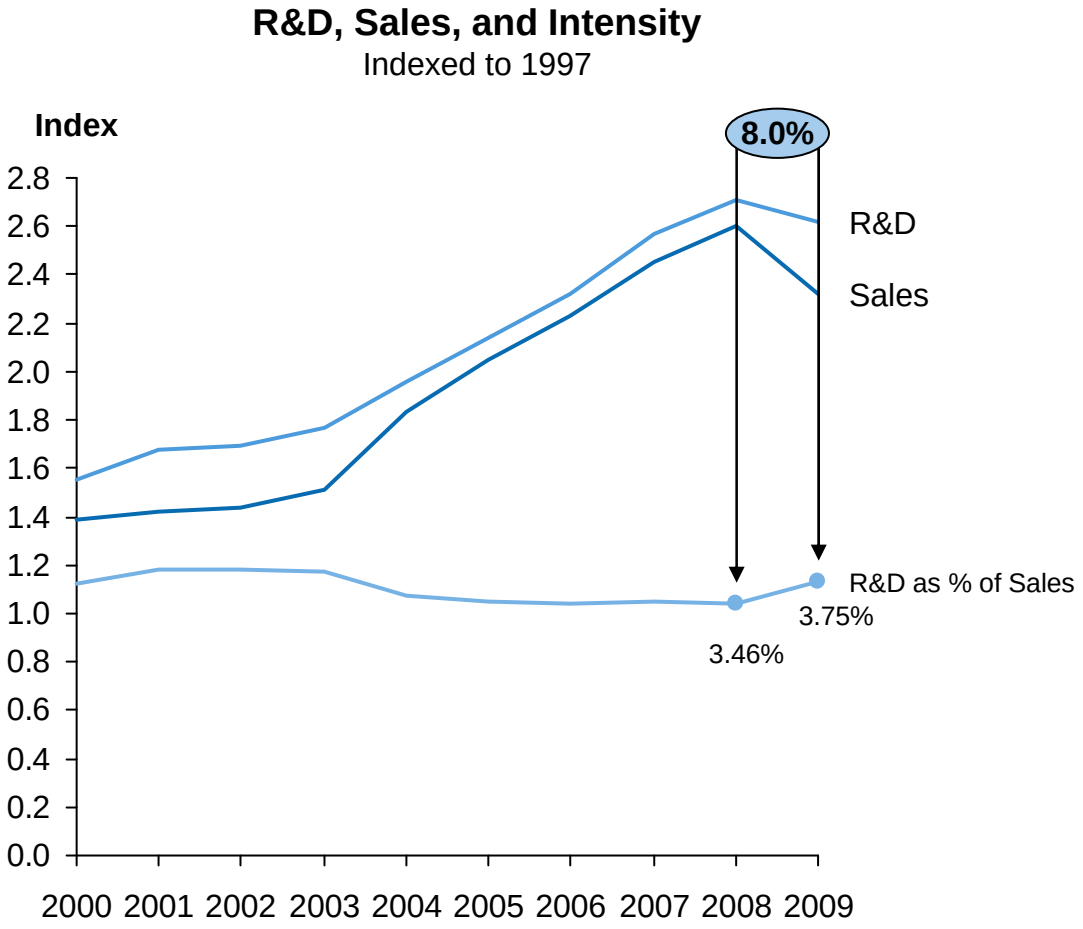
Companies HQ'd in the three largest regions all decreased R&D spend; while India/China based firms increased their spend

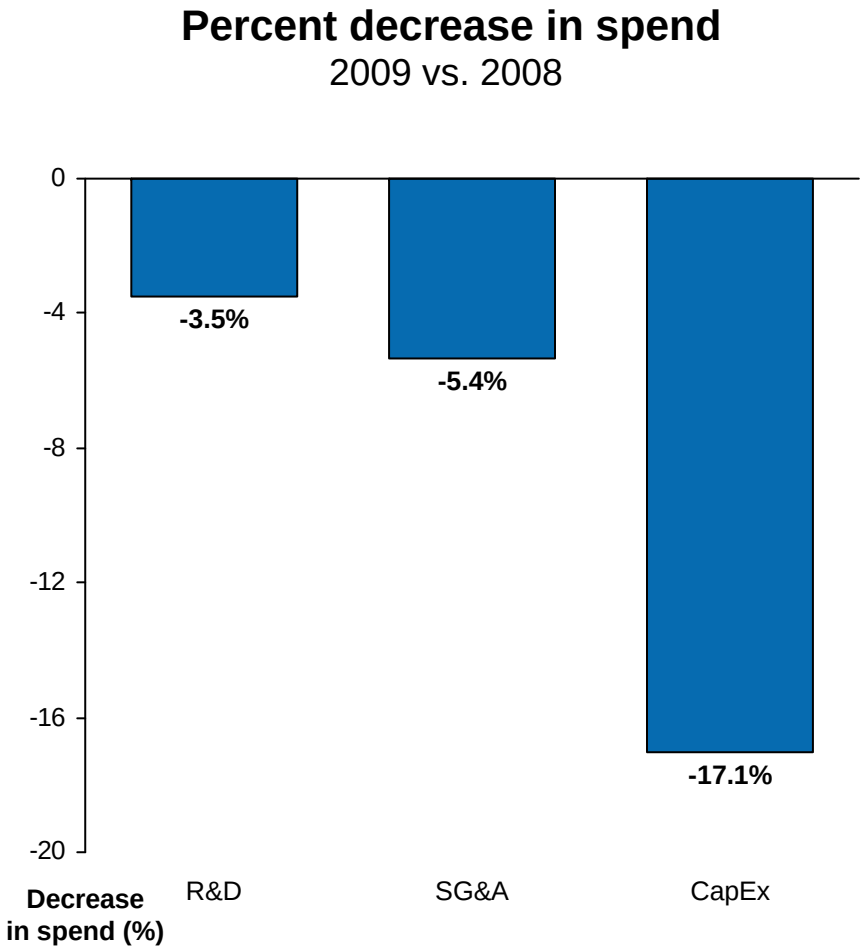




Sources: Bloomberg data; Booz & Company Innovation 1000 articles strategy + business; Booz & Company analysis

Despite the cuts, companies held their business model, slightly increasing R&D Intensity and cutting more deeply elsewhere





Sources: Bloomberg data; Booz & Company analysis

There were significant shifts in the ranks of the Top 20 spenders

2010 Rank	2009 Rank	Company	Geography	Industry	%ge R&D Spend Change 2008 to 2009	2009 R&D Expenditure	2009 Sales Revenue	Intensity 2009 R&D/Sales	Change in Intensity FY 2008 to 2009
1	3	Roche Holding AG	Europe	Health	11.63%	9,120	45,306	20.13%	3.82%
2	4	Microsoft Corp	North America	Software/Internet	10.36%	9,010	58,437	15.42%	14.11%
3	2	Nokia OYJ	Europe	Computing and Electronics	-0.99%	8,240	57,150	14.42%	22.51%
4	1	Toyota Motor Corp	Japan	Auto	-19.77%	7,822	204,363	3.83%	-13.09%
5	6	Pfizer Inc	North America	Health	-2.59%	7,739	50,009	15.48%	-5.93%
6	9	Novartis AG	Europe	Health	3.49%	7,469	44,267	16.87%	-3.07%
7	7	Johnson & Johnson	North America	Health	-7.80%	6,986	61,897	11.29%	-5.04%
8	10	Sanofi-Aventis SA	Europe	Health	0.17%	6,391	40,866	15.64%	-5.77%
9	11	GlaxoSmithKline PLC	Europe	Health	12.69%	6,187	44,422	13.93%	-3.26%
10	12	Samsung Electronics Co Ltd	ROW	Computing and Electronics	7.91%	6,002	109,541	5.48%	-5.83%
11	5	General Motors Co	North America	Auto	-25.00%	6,000	104,589	5.74%	6.83%
12	13	IBM	North America	Computing and Electronics	-8.16%	5,820	95,759	6.08%	-0.61%
13	14	Intel Corp	North America	Computing and Electronics	-1.21%	5,653	35,127	16.09%	5.71%
14	23	Merck & Co Inc	North America	Health	16.82%	5,613	27,428	20.47%	1.58%
15	17	Volkswagen AG	Europe	Auto	3.58%	5,359	146,677	3.65%	12.07%
16	15	Siemens AG	Europe	Industries	3.07%	5,285	103,866	5.09%	3.97%
17	19	Cisco Systems Inc	North America	Computing and Electronics	1.07%	5,208	36,117	14.42%	10.65%
18	20	Panasonic Corp	Japan	Computing and Electronics	-7.92%	5,143	79,994	6.43%	-3.60%
19	16	Honda Motor Co Ltd	Japan	Auto	-17.74%	4,996	92,516	5.40%	-4.01%
20	8	Ford Motor Co	North America	Auto	-32.88%	4,900	118,308	4.14%	-17.67%
				Total	**-3.67%**	**128,943**	**1,556,639**	**8.28%**	**3.61%**

R&D Spend % Change >10%

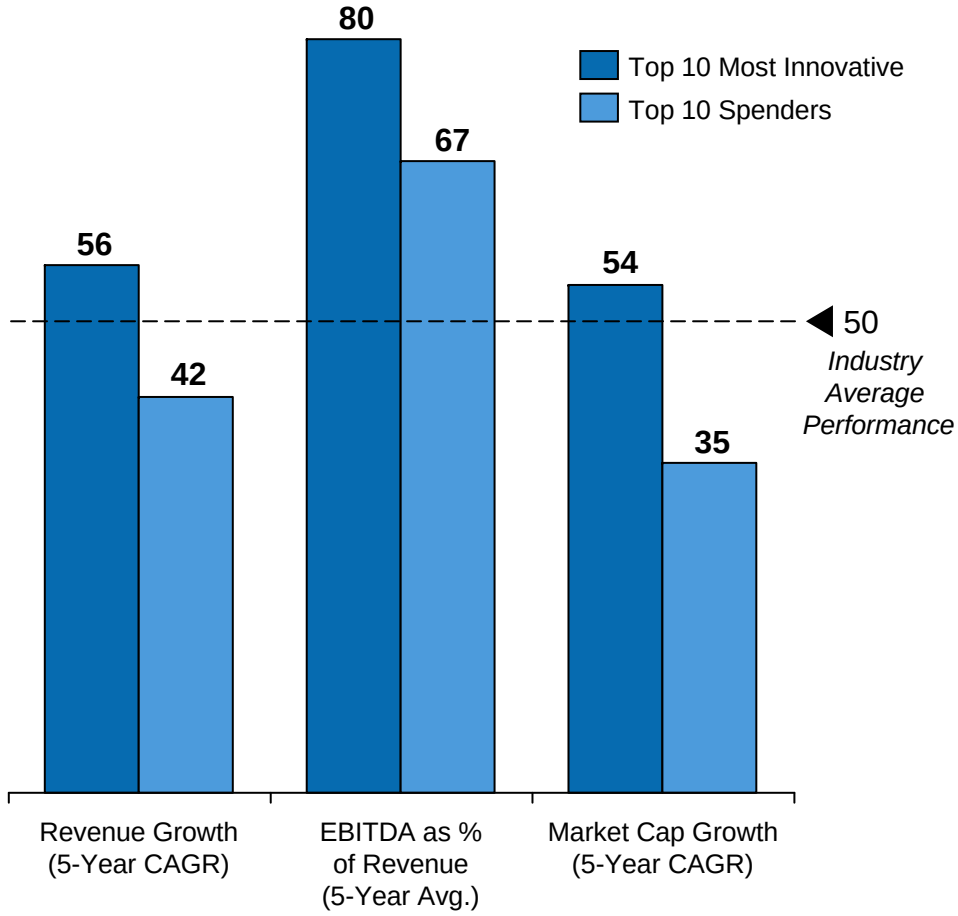
R&D Spend % Change < 0%

This year we also asked executives: "Who is the most innovative company?" - Apple, Google, and 3M came out on top

Top 10 Most Innovative Companies

	Company	2009 R&D Spend ($ US Million)	Innovation 1000 Rank	2009 Sales ($ US Million)	R&D Intensity
1	**Apple**	$1,333	81	$42,905	3.1%
2	**Google**	$,2843	44	$23,651	12.0%
3	**3M**	$1,293	84	$23,123	5.6%
4	**GE**	$3,300	35	$155,777	2.1%
5	**Toyota**	$7,822	4	$204,363	3.8%
6	**Microsoft**	$9,010	2	$58,437	15.4%
7	**P&G**	$2,044	58	$79,029	2.6%
8	**IBM**	$5,820	12	$95,759	6.1%
9	**Samsung**	$6,002	10	$109,541	5.5%
10	**Intel**	$5,653	13	$35,127	16.1%

Financial Performance of Most Innovative vs. Biggest Spenders



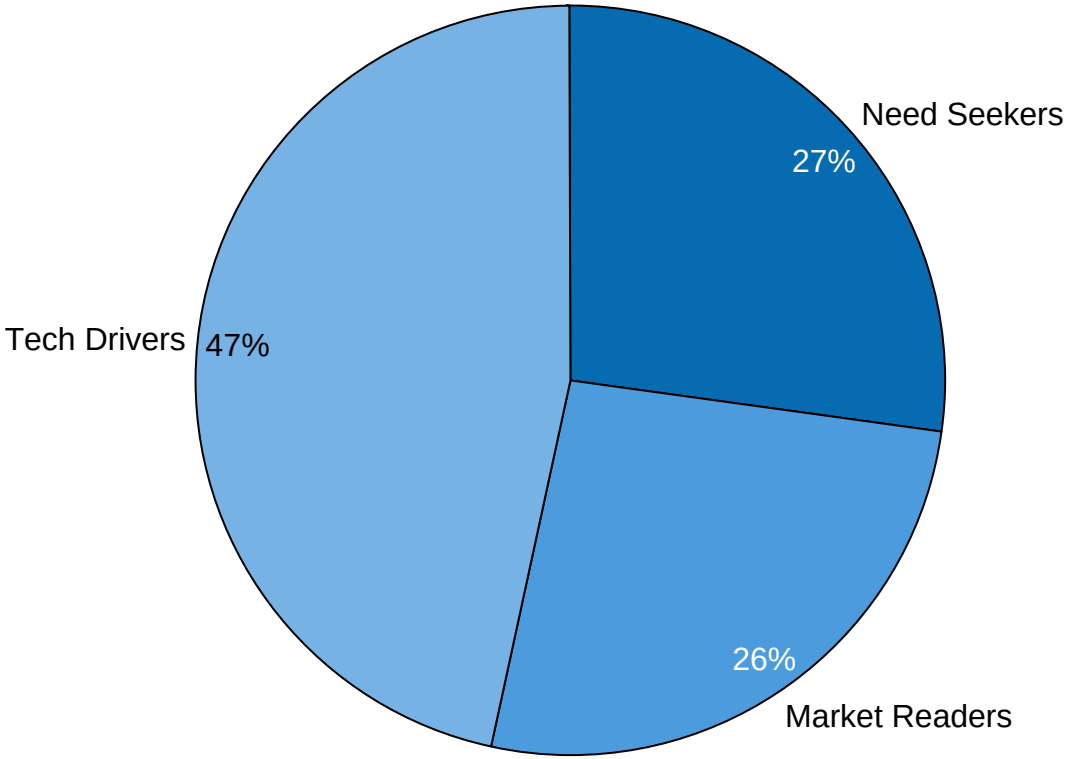
Sources: Bloomberg data; 2010 Booz & Company Innovation 1000 survey

In 2007 we defined three distinct innovation strategies which we further explored in this year's study

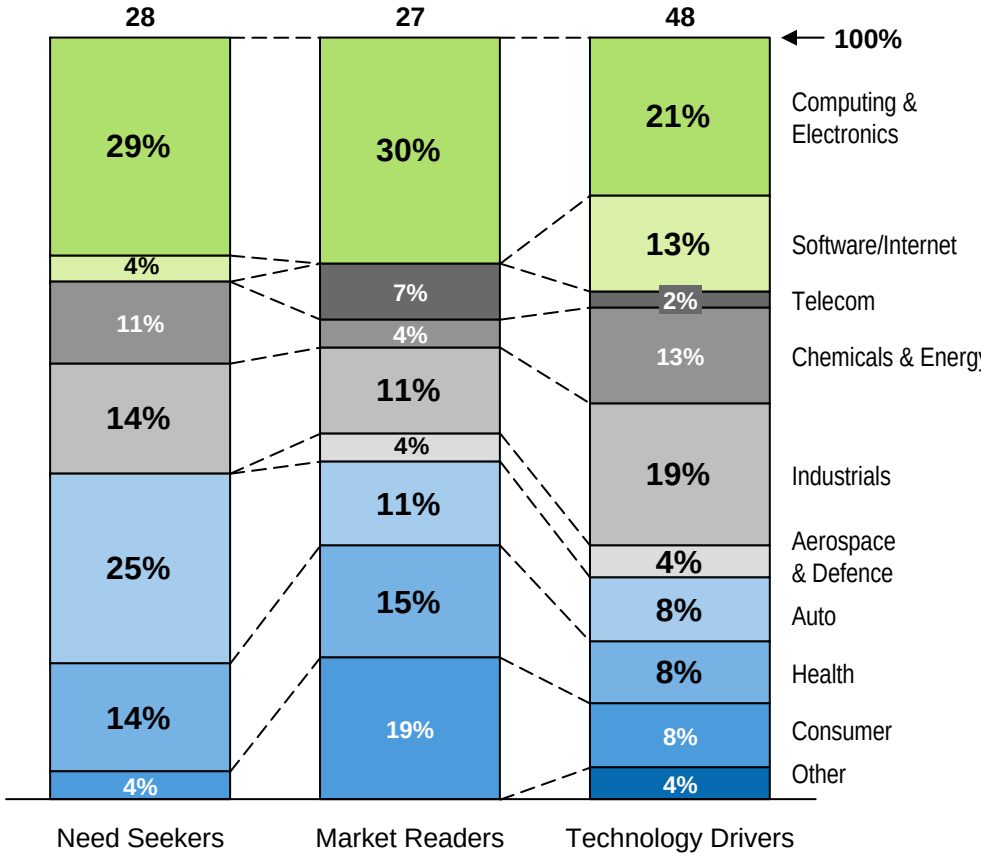
Three Innovation Strategies	Example Companies
Need Seekers – Consistently strive to be **first movers**; **Proactively engage customers** to determine needs and shape new innovations; Determine new innovations market back from market need identification	BLACK&DECKER, For better dentistry DENTSPLY INTERNATIONAL, Apple, xerox
Market Readers – Adopt a **2nd mover strategy**; Focus on driving value through incremental change; New innovations determined **market back,** although not as proactively as Need Seekers	Visteon, Parker, PLANTRONICS SOUND INNOVATION
Technology Drivers – **Drive innovation via technological achievement;** Leverage technology for both incremental and breakthrough change. The least proactive of the three strategies in directly contacting customers.	Google, SIEMENS, stryker, MASCO

There are no dominant strategies across or within sectors, but the Tech Driver strategy is followed by a plurality

Distribution of Strategy Type of the Innovation 1000
Percent of Companies in The Innovation 1000



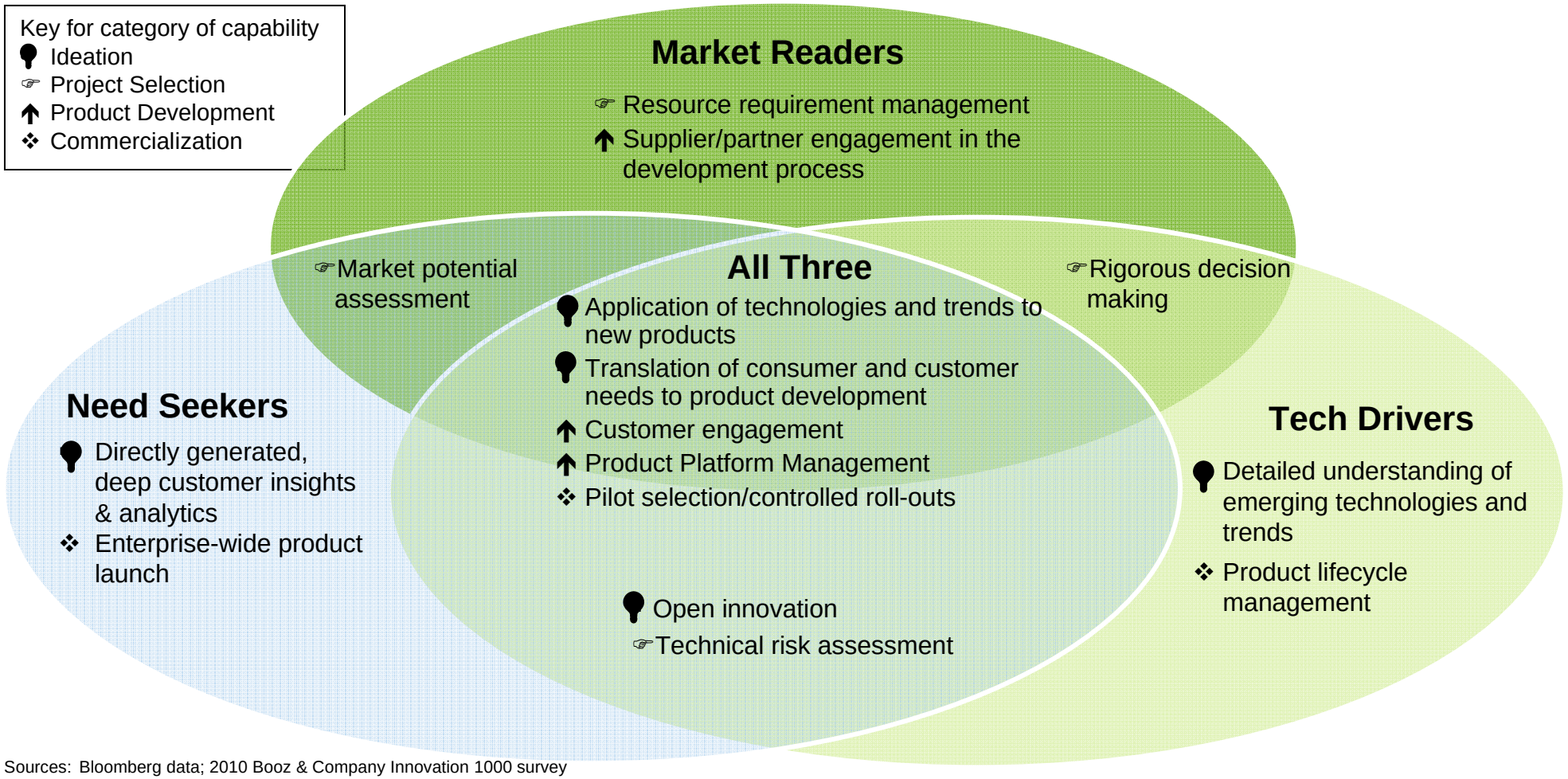
Distribution of Industries Across Strategy
2010 Innovation 1000 Survey



Sources: Bloomberg data; 2010 Booz & Company Innovation 1000 survey

Top 25% performers in each strategy focus on a priority set of capabilities that are key to succeeding at their strategy

Capability Sets Identified as Key by Top 25% Performers in Each Strategy

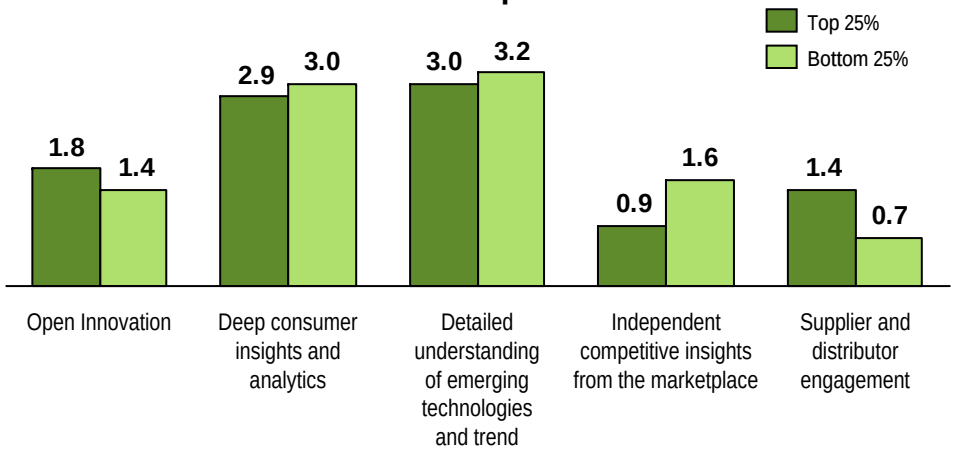


Sources: Bloomberg data; 2010 Booz & Company Innovation 1000 survey

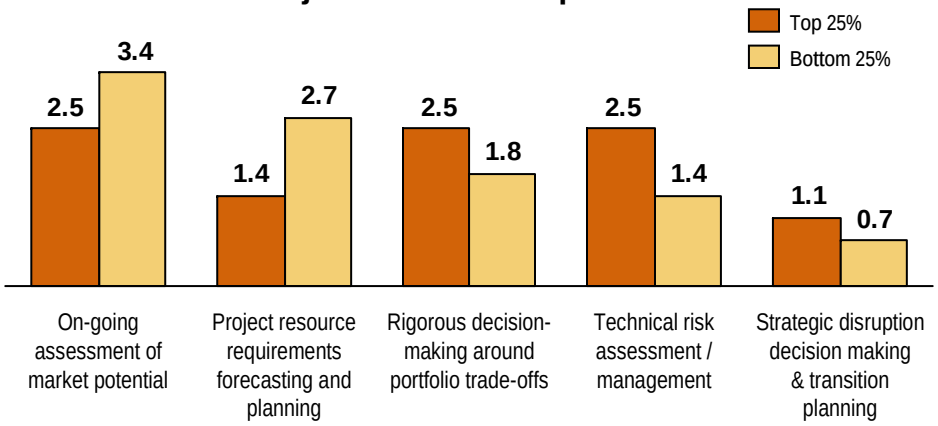
Top and bottom performers disagree on capability priorities across the innovation value chain

Relative Importance of Capabilities with the Innovation Value Chain

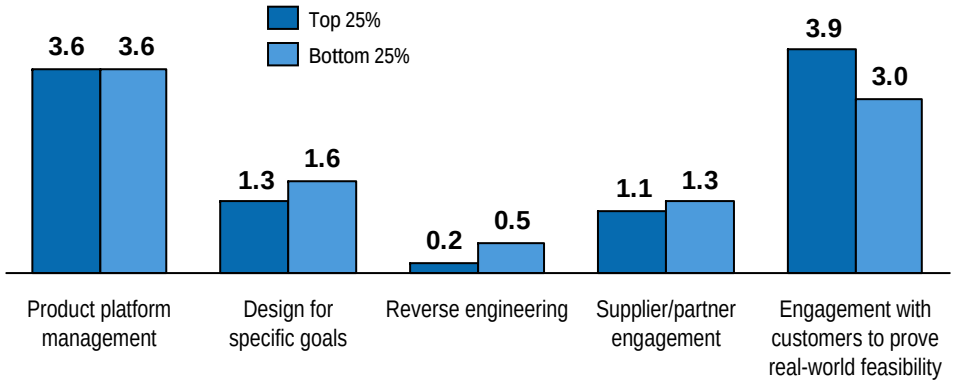
Ideation Capabilities



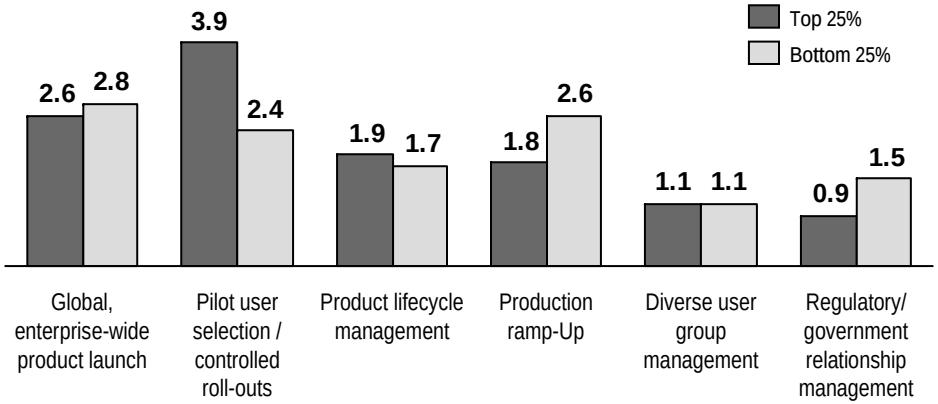
Project Selection Capabilities



Product Development Capabilities



Commercialization Capabilities



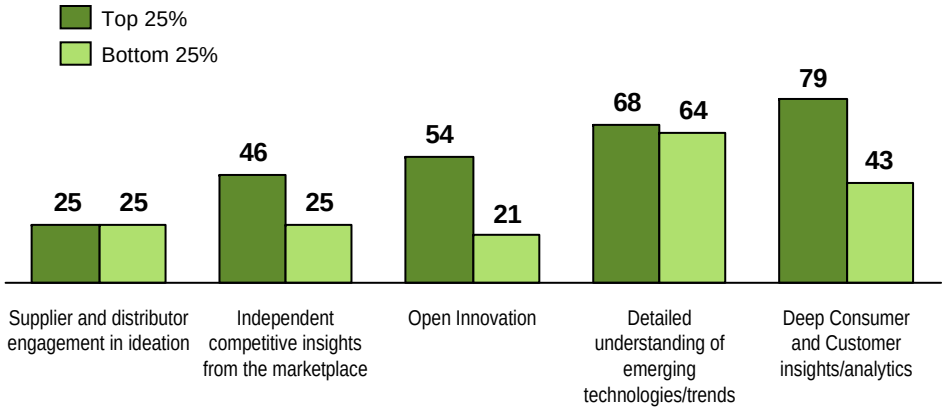
Note: Relative importance (1-5) compared within value chain elements
Source: Booz & Company 2010 Innovation 1000 survey, Booz & Company analysis

Execution across capabilities sets the top performers apart

Relative Execution of Capabilities with the Innovation Value Chain

Percent of Companies Rating Performance 4 or 5 (on scale of 1-5)

Ideation Capabilities



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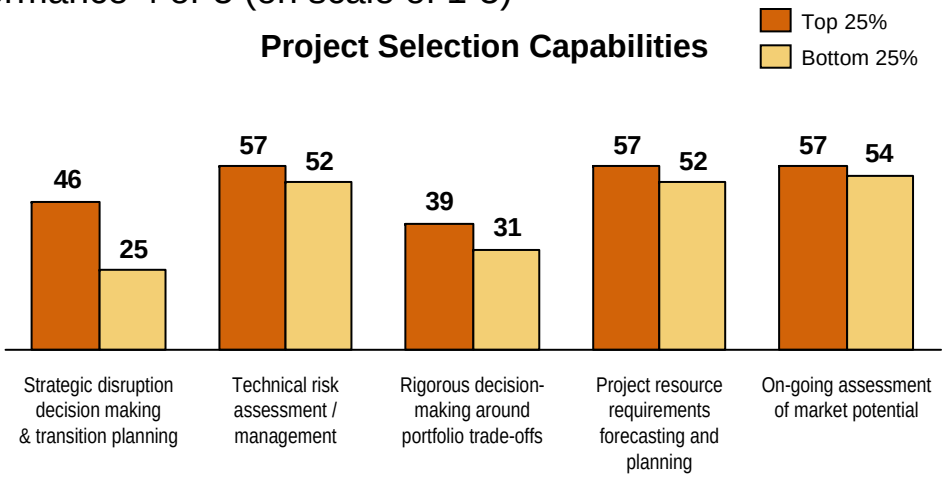

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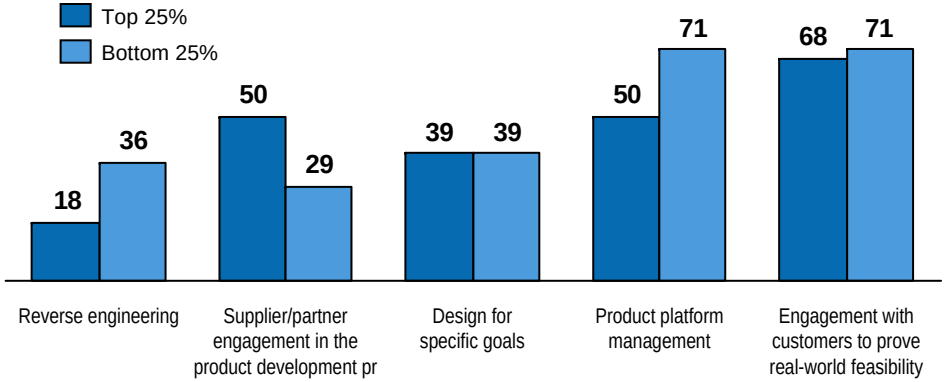
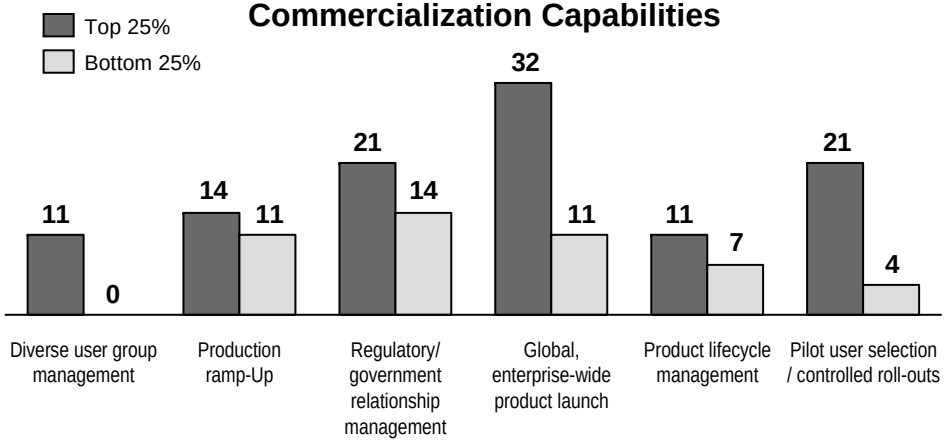


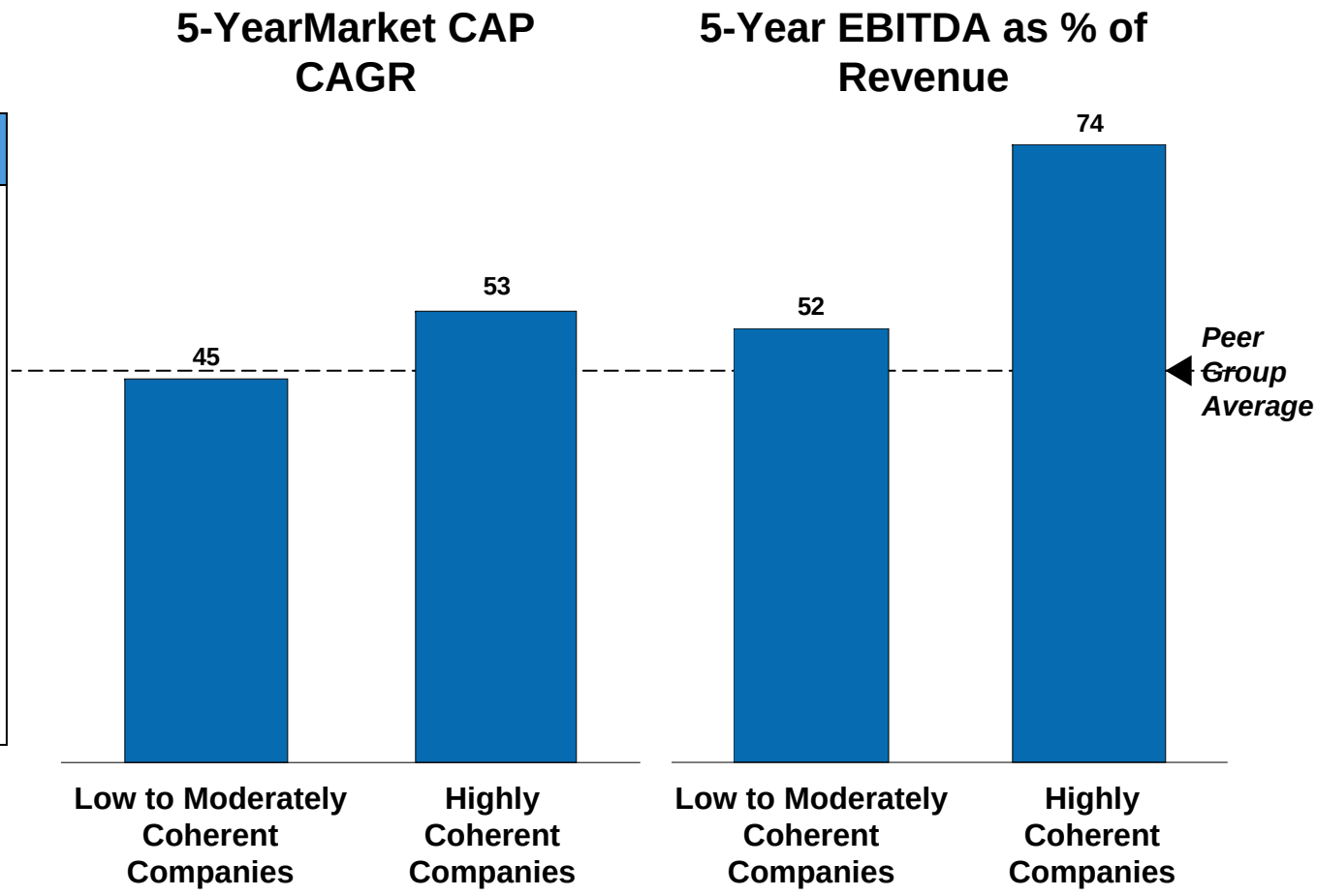
Commercialization Capabilities



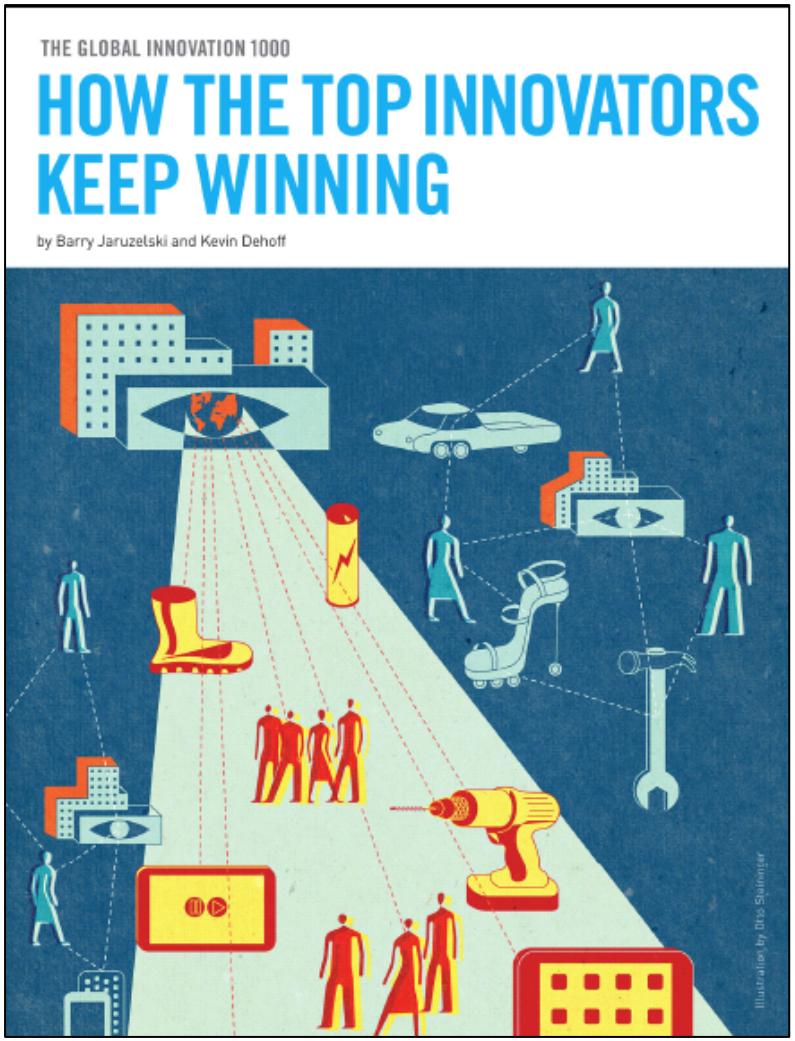
Companies that are "highly coherent" in their strategy & capabilities consistently outperform their peers

Coherent Companies

- Companies whose capability sets and strategies are tightly aligned are ***"coherent"***
- They ***focus*** on the set of capabilities that drive performance in the marketplace
- They excel at ***execution*** of those capabilities
- Their innovation strategy and capabilities are ***aligned*** with corporate strategy



Note: Industry-normalized scores reflect the average percentile against your peers



For the Complete Study and additional information on the Booz & Company Global Innovation 100 Study

Please Visit:

www.booz.com/innovation-1000

To assess your company's innovation strategy and the capabilities needed to succeed

Visit our Innovation Strategy Profiler:

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