Innovations in New Product Development and Marketing eBulletin
A Quarterly eBulletin from the people who bring you the Innovations in New Product Development and Marketing Executive MindXchanges
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# Executive Interview

*With Michael Botos*
*Vice President*
*Strategy and Innovation*
*Cardinal Health*

*Jon Doherty, Director of North American Sales for Technical Insights at Frost & Sullivan interviewed Michael Botos, Vice President of Strategy and Innovation at Cardinal Health, about the future of the company's innovation system.*

**1. How is Cardinal Health's innovation system impacted by challenging economic conditions? How does/should the Innovation team react to reductions in resources, etc. to still get the job done?**
We haven't slowed our innovation efforts one bit. We can't afford to...innovation is our lifeblood. We have to continually invest to foster innovation that will transform healthcare and improve patient safety. It is our mission and one of our core beliefs. Maintaining a culture of innovation in this economic environment relies on visionary leaders that can strike the right balance between short-term realities and longer-term vision. The way we achieve that balance at Cardinal Health is to follow an "opportunity-centric" staffing model for our innovation teams. By that, I mean we identify a customer problem or a new product opportunity that aligns with our longer-term strategy and then assign a team to the project. The team members come from the business unit(s) that has the most relevant expertise to that opportunity, or would own the resulting product concept once it was launched. These folks are expected to devote a significant portion of their time to the innovation project. This approach allows us to have quite a large team of folks capable of working on or leading an innovation project but still remain nimble and flexible in how those resources are assigned. This operating model for innovation has worked for us regardless of the economic conditions impacting the core business. We have not and will not change our focus on innovation -- innovation is our future.

**2. How does Cardinal Health approach open innovation (collaboration with external entities)? What are some of the successes and failures you have experienced?**
Given our size and position in the healthcare value chain, collaboration with our customers and potential business partners seems to happen naturally. I guess the latest buzzword is "open innovation", but we just consider it good business practice. We have some of the best R&D engineers, clinical scientists, and experienced executives in the industry. These folks generate breakthrough ideas and technology innovations. The professional relationships of our people create an open innovation ecosystem to help "stretch" and refine these ideas. And we listen to our customers, technologies companies, and inventors who come to us with ideas. If we face one challenge with open innovation, it is the ability to say 'no' to all these great ideas and technology innovations. We simply don't have the capacity to work on everything, so we prioritize based on our deep understanding of clinical workflows, customer unmet needs, and alignment with our strategy and capabilities to succeed. We practice open innovation and collaborate everyday to help our customers deliver safe, efficient, quality care to their patients.

**3. What are your Top 3 suggestions for (Small & Medium-Sized Enterprises) SMEs aspiring to implement an Innovation process/team/system?**
Regardless of company size and complexity, my experience suggests the innovation challenges are similar. Across the business of Cardinal Health, we have found the most critical aspect of successful innovation is maintaining strategic clarity and focus on the customer problems you have the competencies to solve. To achieve this clarity, the most important element of an innovation system is governance. My first suggestion is to define the criteria and people that will make decisions on where to allocate scarce financial and human capital resources. After consulting to and working inside a variety of corporations, my conclusion is that too much emphasis is placed on the innovation process. The truth is, any process can work – and there are many different varieties of innovation processes and tools to choose from. But the difference maker has always been governance and decision-making. Once governance and decision criteria are defined, my second suggestion would be to outline deliverable expectations for the innovation team members. What are the questions they should be prepared to answer in a project review? This will define the innovation process steps and work they need to complete. Finally, be careful not to assign the same people to every innovation project. This is another reason why innovation governance is so critical. You need to manage your innovation portfolio and process so that you ensure that your best people are working on the biggest projects, and that the same people do not end up working on every project.

**4. 73% of CEOs are dissatisfied with their firms' Return on Innovation. In your opinion, how is industry doing in closing the "Dissatisfaction with ROI gap?" Are they doing the right things? What should they be doing that they are not?**
If CEOs are dissatisfied, it is likely that one of two problems exist: either expectations have not been appropriately set, or the strategic focus has not been adequately defined. Let me tell a story to illustrate my point. When I

worked with Professor Gary Hamel at Strategos, he explained to me the philosophy of a venture capitalist. He called it, "acorns and oak trees". Just like you need thousands of acorns to get one oak tree, you need thousands of ideas to get one successful business innovation. At a typical VC, the arithmetic of innovation works something like this: review 20,000 business plans per year, select -500 for a first meeting (only 100 get a second meeting), and make – 20 investments. The VC expects only 1 of these 20 investments to succeed, so initial investment is small and increases over time as the risk and uncertainty around the business is reduced.

If the CEO or other senior leaders expect all 20 investments to pay off, then expectations are unrealistic or ideas are not "big" enough to generate substantial returns. Another important aspect of my story is the implicit strategic focus and decision criteria in the VC model. The initial screen or filter at a successful VC firm is VERY high...only 2.5% of business plans even get a first meeting. Venture capitalists recognize the time and focus it takes to bring an idea to market. So they only invest in a limited number of ideas that clearly address an unmet customer need in a large market where they have meaningful experience and/or capabilities to deliver. This strategic focus and rigorous selection process allows the VC to devote time and resources to a limited number of opportunities to minimize risk and increase the likelihood of success.