

# QUICK TAKE



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## Esselte's R&D Anticipates Customer Needs And Drives Global Innovation Synergies

This is the fourth document in the "Reinventing R&D For Global Competitiveness" series

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### EXECUTIVE SUMMARY

Rather than compete on cost alone in a commodity market, office product supplier Esselte decided to move into high-end market segments where innovative offerings still command a premium. To enable its new innovation-focused business model, Esselte transformed its global R&D culture and governance structure — so that it can anticipate customer needs across three continents, drive cross-regional innovation synergies, and rapidly respond to international market shifts.

### TARGET AUDIENCE

Chief information officer, chief technology officer, strategic planning executive

### ESSELTE'S SYNERGISTIC R&D GOVERNANCE BOOSTS GLOBAL MARKET RESPONSIVENESS

Rather than compete on cost alone in a commodity market, Esselte — a \$1 billion office product supplier which sells in the US, Europe, and Asia — decided to expand into new market segments and focus on proprietary products. In 2003, to speed up its global business model transformation, Esselte acquired Xyron, which boasts an international presence in the creative products market. Esselte turned Xyron's talented industrial design team — X Product Development (XPD) — into a companywide R&D function. In 2005, then-CEO Magnus Nicolin appointed Sean Fernandez as senior vice president and chief innovation officer, to hone Esselte's business model focus on innovation. In addition to his innovation management responsibilities, Fernandez also presides over two of Esselte's fastest-growing markets: Asia Pacific and Xyron. In a recent discussion with Forrester, Fernandez described how he instituted new governance structures, processes, tools, and metrics to make Esselte's global R&D culture more market-focused, collaborative, and adaptive.<sup>1</sup>

### Market-Focused R&D: To Anticipate Latent User Needs And Shape New Markets

Esselte's products — from office binders to handheld printers to cold-lamination machines — are sold through retailers like Wal-Mart, Target, and Staples. In the past, Esselte's R&D relied on its product managers to speculate about end users' needs. But such market insights tended to lead to incremental me-too innovations, not game-changing innovations to meet users' unspoken needs. Instead of just reacting to what its product managers say that end users want, Esselte's R&D decided to conduct user-centered market research itself through:

- **Deep observation of end users** . . . Esselte's ethnographers regularly study and interact with end users in their natural settings, observing, for example, how a mobile worker transacts business on the move, or how a CEO's administrative assistant files bulky documents. When observing how end users perform these tasks, Esselte's R&D look for issues that not only existing products couldn't solve but which users weren't even aware of. Armed with this insight, the R&D team starts the process of conceptualizing, prototyping, designing, and producing breakthrough offerings that meet users' unspoken needs — such as Esselte's new Leitz 180° Lever Arch File that can be opened 180 degrees — 50% more than in a traditional lever arch file, so users can now file more papers faster.<sup>2</sup>
- . . . **across all regional markets.** The one billion consumers in China have fundamentally different needs than the 60 million British users or the 300 million American buyers. To anticipate each market's unique customer needs, Esselte regionalized its R&D and innovation activities. For instance, researchers in Shanghai are responsible for “hearing” the “inner voice” of consumers within China as well as in adjacent Asian markets like Taiwan and Japan.

### Collaborative R&D: To Drive Profitable Innovations Through Global Partner Networks

To drive R&D's collaborative behavior, Fernandez instituted new governance structures and performance metrics that aimed at:

- **Cross-pollinating technical and market insights internally across regions.** Fernandez heads Esselte's Innovation Leadership Team (ILT), which includes R&D, supply chain, marketing, and regional presidents. This cross-unit team is tasked with “global knowledge reusability.” For instance, the group will connect the Asian, European, and US marketing teams with XPD's designers to quickly expand a locally applied concept across Asian, European and US markets.
- **Multiplying external innovation partnerships.** Esselte is building a global Innovation Network — seamlessly weaving internally- and externally-available invention and go-to-market services to meet global innovation demand.<sup>3</sup> For instance, it has encouraged XPD to allocate up to 50% of its invention resources to be available for other noncompeting firms and entities such as Motorola, Nissan, NASA, and Intel.<sup>4</sup> Similarly, Esselte is also financing inventive startups such as Ideastream, whose creative product lines complement and enhance Esselte's own brands, or PrintDreams, where Esselte licenses its technology to expand its own product offerings.

### Adaptive R&D: To Dynamically Reallocate Resources To Meet Most Profitable Demand

As a midsize firm that operates in a fast-moving sector, Esselte strives to marry operational flexibility with efficiency, placing careful innovation bets and continually optimizing its limited R&D resources. To achieve that dual goal, Esselte's ILT segments all its ongoing R&D projects into three zones: zone 1 (line extensions), zone 2 (incremental but patentable innovations), and zone 3 (disruptive innovations). In its monthly review meetings, the ILT steering committee relies on a rigorous portfolio management process to systematically:

- **Rank the commercial viability of R&D projects — based on market feedback.** Marketing execs size and continually reevaluate the market potential of zone 3 inventions that target unmet customer needs — identified by R&D's demographic and ethnographic studies. The market relevance of zone 1 and zone 2 inventions is ranked based on end users' early feedback to prototypes.
- **Reallocate resources to prioritize inventions that will yield higher profit.** Zone 1 and zone 2 prototypes with lowest customer scores are nixed first — freeing invention and transformation resources for the more lucrative zone 3 projects. And among the zone 3 projects, most resources are committed to those product ideas with the highest *global* market potential — because Esselte vies for cross-unit synergies — and least operationally challenging to bring to market.
- **Marshal external Innovation Network resources to speed high-value ideas' time-to-market.** If XPD — Esselte's internal R&D team — can't develop and market a promising new zone 2 or zone 3 product due to resource crunch or lack of expertise, ILT will put out a bid to external Innovation Network specialists like IDEO and Frog Design to ensure that it doesn't miss out on the window of opportunity.

## ENDNOTES

- <sup>1</sup> Esselte is joining other leading firms in transforming R&D culture to drive not just technical innovations, but also business model innovations that cannot be replicated by competitors. These firms run a flexible, market-focused, corporate R&D function anchored by partner-friendly processes that span corporate and geographic boundaries. See the March 20, 2006, Best Practices "[Transforming R&D Culture](#)."
- <sup>2</sup> Leitz 180° Lever Arch File is just one among several breakthrough innovations produced by Esselte's R&D team based on deep observation of end-users. Source: Esselte (<http://corporate.esselte.com/enNU/Innovations/default.html>).
- <sup>3</sup> Vertically integrated invention-to-innovation cycles are being deconstructed into a far more productive ecosystem of roles for firms, including the roles of Inventor, Transformer, Broker, and Financier. See the June 14, 2006, Trends "[Innovation Networks: Global Progress Report 2006](#)."
- <sup>4</sup> By letting its R&D team work on external projects, Esselte believes that its designers will stay abreast of the technologies and trends making an impact in a wide variety of manufacturing categories, not just the office products category. Source: Esselte ([http://corporate.esselte.com/enUS/AboutUs/Operating\\_Divisions.html?page=X\\_Product\\_Development\\_\\_XPD\\_](http://corporate.esselte.com/enUS/AboutUs/Operating_Divisions.html?page=X_Product_Development__XPD_)).