

Entrepreneurs have **sizzle** to sell

Give your researchers a **better shot** at innovation

Big companies make **better global partners**

Where does R&D belong in your organization?

2013 Innovation Edition

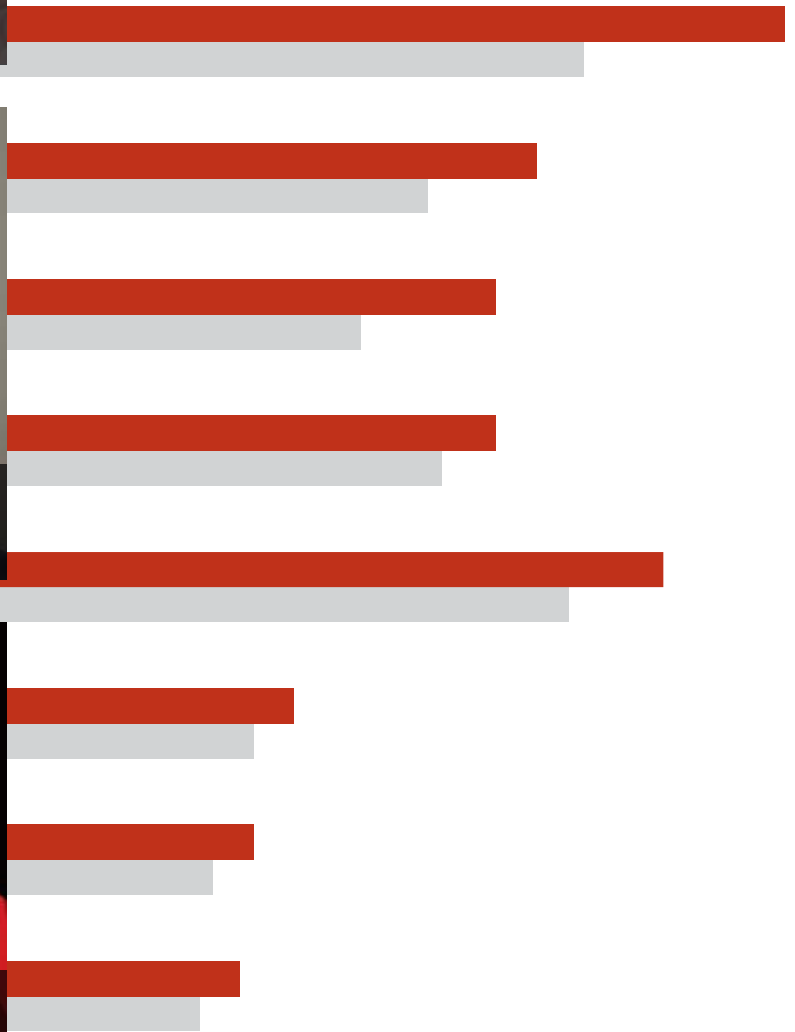
new ideas

brought to you by the CPAs, tax specialists, and consultants of **Plante Moran**



2013 saw major gains in
INNOVATION

■ 2013
■ 2012



4,225 share best practices.

Five organizations collaborated with Plante Moran on its 2013 Innovation Survey. They were the National Center for the Middle Market; The TEC Institute, Fisher College of Business at The Ohio State University; Detroit CBS Radio/Technology Report; World Industrial Reporter; and NewNorth Center for Design in Business.

All of the partners had current data or anecdotal evidence on innovation. The resulting collaboration meant that Plante Moran and its partners were able to see trends more clearly and dive more deeply into a wide range of individual success stories. Plante Moran's innovation team thanks its collaborators and the 4,225 survey respondents who added to its body of knowledge.

thank you.

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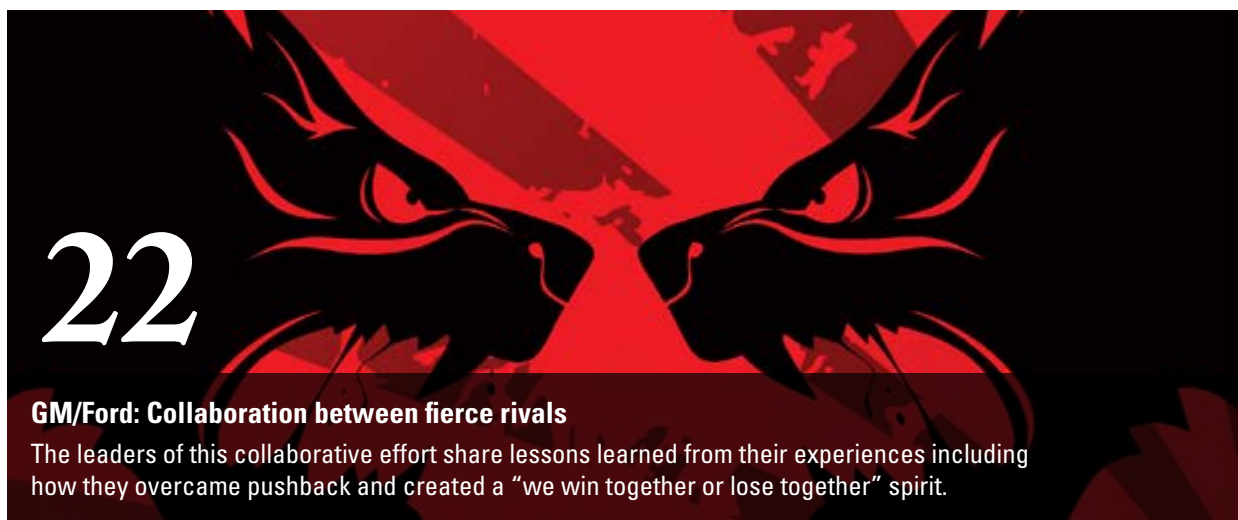


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Photo by Eric Ogden



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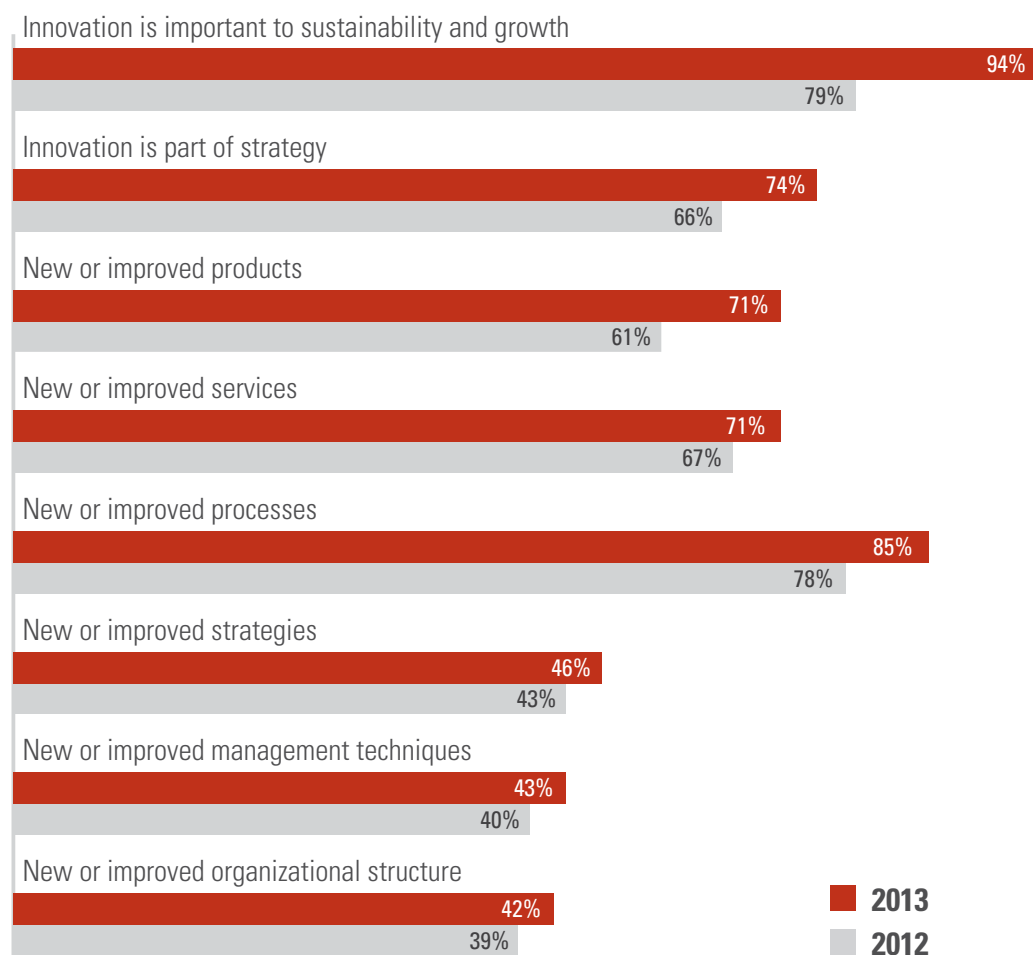
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2013 saw major gains in **INNOVATION**



Source: Plante Moran 2013 Innovation Survey

INNOVATION MANAGEMENT BECOMES **top priority**

Innovation is a priority for 94 out of 100 business leaders according to the Plante Moran 2013 Innovation Survey results. That is 15 points higher than last year and indicative of a trend that is validated by the U.S.'s responses to GE's global innovation survey taken earlier in the year.

There is also strong evidence that organizations are taking the necessary steps to create a richer environment for innovation. In past years we saw companies asking, "Where do we start?" Now we see them changing their management techniques, organizational strategies, and structures.

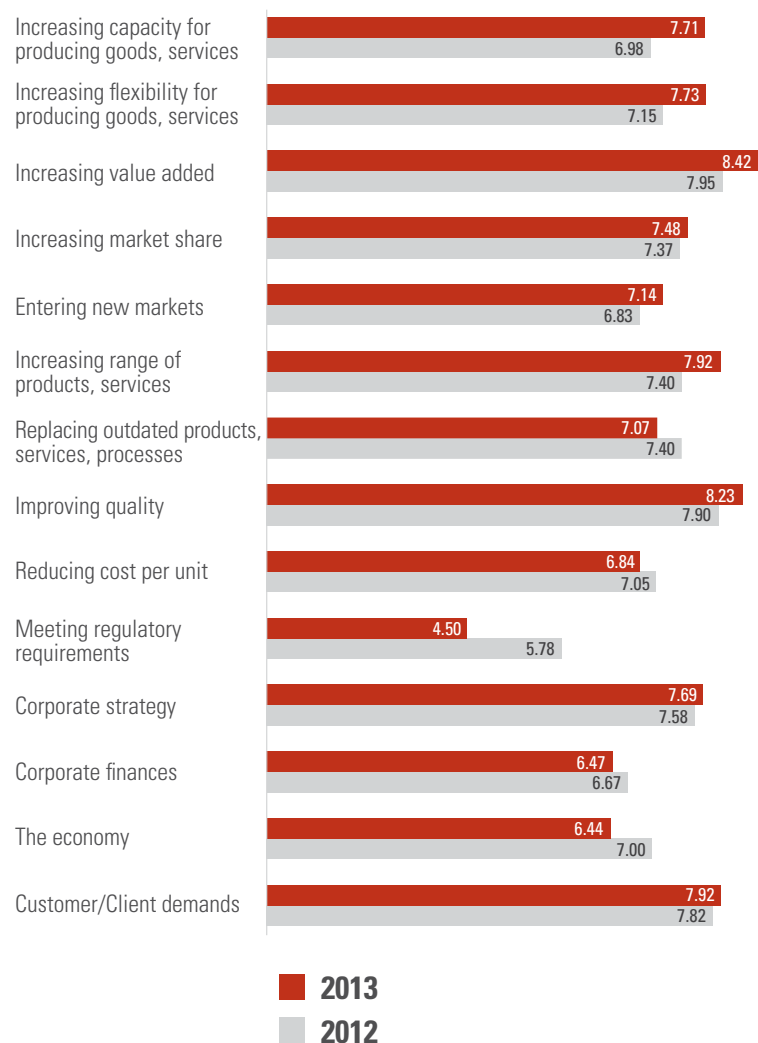
It takes significant effort to structure an organization for the constant pursuit of breakthrough innovations, but we see more companies taking that step. For instance, one of the survey respondents said he had decided to provide a separate lab for his new hires apart from his existing research and development office, so they could spend their full time doing "pure science" and work toward an industry game changer. (See "Talking strategy: Where does R&D belong in your organization?" on page 29.)

There was an 8% year-over-year increase in Plante Moran respondents who report innovation is part of their organizational strategy. This bodes well for the future because this models the practices of best-in-class innovators.

Confidence among middle market companies is growing based on improving performance and revenue growth as reported in the second quarter findings by the National Center for the Middle Market, and that is directly reflected in a year-over-year comparison of innovation drivers.

According to Plante Moran data, last year businesses were driven to innovate by the economy, corporate finances, regulatory requirements, and the need to replace old products. This year they are innovating to improve quality and increase flexibility and capacity. There was a dramatic drop off in the importance of meeting regulatory requirements. However, it is

COMPARISON OF INNOVATION DRIVERS 2013/2012 ON A SCALE OF 1 – 10



Source: Plante Moran 2013 Innovation Survey

2013 INNOVATION HIGHLIGHTS

- More organizations tie innovation to success
- Strategic planning for innovation lags behind recognition of innovation as essential to growth and sustainability
- Corporate culture is considered more of a constraint this year than last
- Three out of four respondents think collaboration, rather than going it alone, will speed their innovation
- Despite the information explosion, market intelligence is a major constraint for companies

predicted that some regulations, like food safety, will stimulate a future wave of innovation.

There is also a proactive spirit to the responses this year. Three out of four Plante Moran respondents said they could be more successful in their innovation efforts by collaborating rather than going it alone, with 56% open to sharing revenue or losses. Nine out of 10 U.S. responders to the GE global survey would collaborate, with 69% willing to share revenue or losses.

Companies are willing to embrace change and create a richer environment for innovation.

The strongest reason for collaboration among the Plante Moran respondents was to enter new markets. Entering new markets and access to technology were tied for first among U.S. respondents to the GE Global survey. (See “Big companies make better global partners,” page 26.)

Holding both groups back were concerns about IP confidentiality and trust issues. We address both of those in a case study on the collaboration between GM and Ford on 9- and 10-speed transmission. (See “GM/Ford: Collaboration between fierce rivals,” page 22.)

Of interest was the number of smaller respondents (those with less than \$10 million in revenue) that took time to complete the

REASONS TO COLLABORATE

	NCMM/Past	NCMM/Future	GE/Global	GE/US	Plante Moran Mean 1 to 10
To access new technology	31%	31%	79%	82%	7.70
To enter new markets	34%	44%	79%	82%	8.12
To improve existing products or services	29%	33%	75%	75%	8.05
To share costs	22%	29%	56%	60%	7.07
To speed time to market	14%	20%	72%	80%	7.66
To invent new products	12%	17%	70%	70%	7.25
To improve the profitability of an existing offer	19%	28%	69%	73%	7.45
To gain insights and market intelligence	25%	28%	69%	69%	7.73
To scale up	14%	19%	69%	64%	7.15
To benefit from the company's sales forces	12%	18%	58%	61%	6.75
To license patents and technology	8%	9%	54%	60%	5.86
To invent a new business model	10%	14%	54%	48%	6.32

Sources: National Center for the Middle Market Barometer, 2nd Q, 2013; 2013 GE Global Innovation Barometer; Plante Moran 2013 Innovation Survey

survey. The biggest difference between the small and larger companies was access to financial capital. This could spell opportunity for larger companies that can provide a steady cash flow for the small, nimble company that in turn could develop and get products to market more quickly. (See “Entrepreneurs have sizzle to sell,” page 10.)

Synergies might even exist between smaller companies who have ideas to sell and established companies like those in the Plante Moran survey that said they would buy good ideas to stay ahead of their competitors.

Despite many positives, the survey respondents saw growing constraints to innovation. While more companies are making changes to create policies and processes to enhance innovation, the top constraint was still organizational culture.

However, we did find that more than 60% of Plante Moran respondents said they give lower-level employees access to innovation resources and funding — a best practice documented in past surveys. Manufacturers trailed the non-manufacturers by 10 points and were more apt to involve external entities. (For a case study on how a New York City firm involved its entire staff in a search for new ideas, see www.worldindustrialreporter.com.)

Perceived economic risks and lack of market intelligence were other constraints that grew among Plante Moran respondents this year. With endless data at our fingertips it seems as if there is a hidden message. Could it be that they are unwilling to take real risks for the sake of innovation? (See “Big data guru: Innovator and teacher offers an ah-ha moment,” page 18.)

“Innovation isn’t check the box, it is a passion,” we hear often and we have to agree. Most of the successful innovators we talked to stressed spirit and a can-do attitude. Innovation is part of their DNA, and indications are that more and more organizations are dedicated to a philosophy of constant improvement. Only four out of the 125 respondents to the Plante Moran survey showed no signs of innovation.

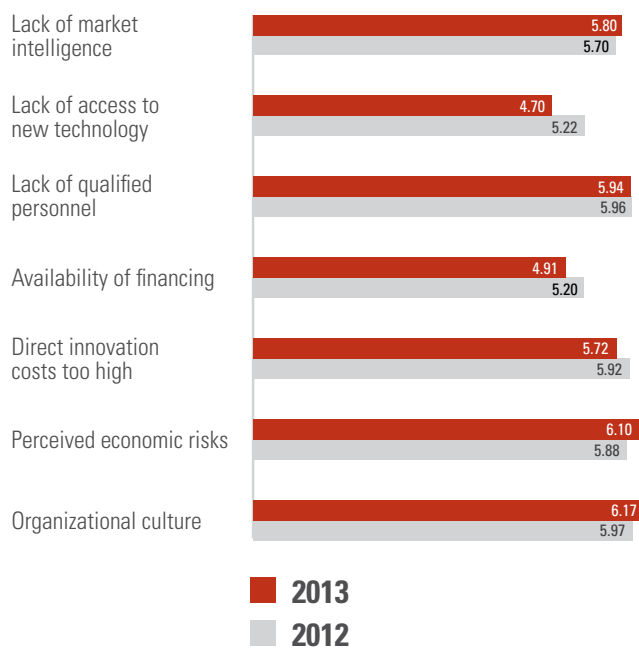
Therefore, we feel justified in saying — 2013 saw major gains in innovation.

This report was assembled by a number of analysts using data from:

- 125 respondents to the Plante Moran 2013 Innovation Survey
- 1,000 respondents to the National Center for the Middle Market Barometer, 2nd quarter
- 3,100 respondents to the 2013 GE Global Innovation Barometer

All respondents were from the C-Suite

CONSTRAINTS ON INNOVATION 2013/2012 ON A SCALE OF 1 – 10



Source: Plante Moran 2013 Innovation Survey

Collaboration was considered a possible jumpstarter for innovation among three out of four of the respondents to the innovation survey.

INNOVATION GROWS IN THE UNLIKELIEST OF PLACES *by Matt Roush*

The nationally known tech writer's nose wrinkled, as if he'd just smelled something nasty.

"Detroit?" he asked. "You write a tech blog in Detroit? Boy, that must be really tough."

Not wanting to give him any of my scoops, I sighed and allowed as how I got by.

Let me introduce myself. My name is Matt, and I'm addicted to covering innovation in the Rust Belt.

Because, you see, innovation is no respecter of location. Or pedigree. Or even education. In fact, frequently formal education seems to get in the way, convincing the learner of what simply can't be done.

**Innovation is no
respecter of location.
Or pedigree.
Or even education.**

Unlike what people think, the most prodigious innovator in Michigan history was not Henry Ford. He did make his mark with the assembly line, putting the world on wheels, and the Arsenal of Democracy.

But Michigan's top innovator was a guy you may never have heard of named Stanford Ovshinsky. He never got a college degree, but he had more than 400 patents over a 50-year run, and invented stuff we all use every day, like nickel-metal-hydride batteries, flexible thin-film solar energy panels, flat screen

liquid crystal displays, the rewritable CD and DVD disks, hydrogen fuel cells, and phase-change memory, the kind that's faster than Flash.

I see a lot of Stan Ovshinskys all over Michigan in my job as a science and tech writer for WWJ Newsradio 950. That makes sense, because Michigan has more engineers per capita than anyplace else on Earth, and neighboring states like Ohio, Illinois, and Minnesota aren't far behind.

Some of the innovation is tied to the auto industry but other industries adapt it. Case in point is rapidly growing Plex Systems Inc. Plex offers ERP software tailored to automotive manufacturing and is rapidly expanding into the highly regulated industries of life sciences and food processing.

There are also companies innovating in areas having absolutely nothing to do with automotive, like iDashboards, creating superior dashboard software that turns mountains of raw data into actionable business intelligence, and Rave Computer, which builds specialized, ruggedized computers for the U.S. military.

In the Lansing area, there's IDV Solutions, which turns raw business risk data into actionable maps and reports, and TechSmith, makers of Camtasia and other world-renowned image management software.

There are globally recognized centers of life science innovation in Ann Arbor, Kalamazoo, and Grand Rapids. And plenty of cool little tech companies in the woods of northern Michigan, companies headquartered there because

the owners like to live there. My personal fave at the moment is Gas Technologies, which has developed a patented single-step process for turning waste gas — the kind of raw, untreated natural gas many oil well sites simply burn off — into usable methanol and other valuable chemicals.

I'll bet there are similar companies working hard all over the country in places not renowned for innovation.

**Michigan has more
engineers per capita
than anyplace else on
Earth, and neighboring
states like Ohio, Illinois,
and Minnesota aren't
far behind.**

Innovation is like that. Like the dandelion in the middle of the parking lot, like the tree on the top floor of the abandoned building, innovation will grow in the unlikeliest of places.

Yes, sir, Mr. Famous Writer, sir. Even in Detroit.

I hate to close with a commercial, but I've cobbled together a living out of doing journalism on these kinds of companies — innovators that the world might not know anything about otherwise. It's called the Innovation Report, and you can read it at www.gltr.com.



*Matt Roush is the editor of *The WWJ Technology Report*, an e-publication of *WWJ Newsradio 950, Detroit*. He has a daily newsletter*

devoted to tech news around Michigan and is famous for his spring and fall Tech Tours when he travels the state visiting innovation start-ups. During his five-day Tech Tours he meets with seven or eight companies and talks with dozens of innovators each day.

Entrepreneurs have sizzle to sell



The following are excerpts from a conversation with Brian Langham, a Plante Moran partner accustomed to working with emerging enterprises. He often serves as a pro bono advisor to early stage digital and tech start-ups in incubators like Catapult Chicago; the 1871 incubator, housed in the Chicagoland Entrepreneurial Center; and Built in Chicago, the online community for Chicago start-ups, entrepreneurs, and innovators.

Q. We read all the time that companies like Apple and Google are buying digital companies that can bring them good ideas. And the noted research company Gartner predicted that by 2015, 50% of Tier 1 consumer goods manufacturers will invest in technology start-ups to maintain access to emerging B2C technology. Are incubators a good place to look for those start-ups?

A. I'm not sure most incubator companies are viable candidates for partnering or joint ventures with established companies such as Tier 1 consumer goods manufacturers, unless the established company is willing to get into the high stakes world of venture capital investing. You have to remember that most start-ups have cash flow burn rates that exceed their current sources of capital. They are in their infancy with two or three employees including the founders. That said, however, they are developing concepts and digital technology that could provide efficiencies in a number of industries.

There is nothing like the sizzle of a new idea to breathe life into an established company.

Q. You make it sound like it is all about money, but aren't there synergies that can benefit both the start-up and the established company?

A. Absolutely. There is nothing like the sizzle of a new idea to breathe life into an established company. It renews its vitality and swagger, and a start-up can provide that. But a partnership between an established company and a start-up can be a marriage of polar opposites. The start-up is probably

hungry for capital to complete the development of its new technology concepts and to start generating revenue, while the established partner has more structure/established processes as it relates to product development, testing, and rollout. In most cases, the established company may not be comfortable moving at the same pace a start-up does and vice versa.

An established company can open doors for the start-up, flaunt the relationship, and let the start-up bask in the attention.

Q. So if I'm the established company and I want or need the solutions the start-up can offer, what can I do? I'm probably not going to be able to change the way my company brings new ideas to market and the start-up may not be comfortable embracing the methods of my company.

A. True, but that doesn't mean you can't be an attractive partner. There are other ways you can be of value, besides providing a steady stream of cash for the start-up. You can open doors for the start-up, flaunt the relationship, and let the start-up bask in the attention you can bring to it. The attention is good for your company and especially good for the start-up. Make an effort to showcase the new emerging technology whenever you can. You can also provide wisdom and guidance to the founders of the start-up. After all, who understands the industry they are trying to break into better than you.

Q. While we're on the topic of entrepreneurs, can we ask you about a theme among our survey respondents? When they described the kind of people they wanted for

their innovation teams, they indicated that a perfect candidate would have start-up experience. What would you say about recruiting at an incubator?

A. The ability to adapt technology seemed to be a theme among the respondents to the Innovation Survey this year and that describes all of the 450 plus people with space at 1871 and Catapult Chicago incubators. There is also an atmosphere of unselfish collaboration among the people there. They seem to be the kind of cross-functional collaborators that organizations want for their innovation teams.

The challenge is for the established company to provide an environment that will support the innovative spirit in all employees.

The level of sharing among them is really quite exceptional, and I think it is generational. In my generation, we wouldn't be sharing ideas like this, but they are all for sharing their ideas. I would bet they would put the organization's priorities above their own ambition, which is something the decision makers in the survey said they wanted from an innovation team member.

The challenge is keeping the entrepreneurial spirit in a traditional setting. We see a lot of talk about corporate culture. Many of them fail to nurture innovation. If a culture isn't right, a fledgling entrepreneur is apt to lose his/her spirit. The challenge is for the established company to provide an environment that will support the innovative spirit in all employees.

Ecosystems: Access to the best of everything



In our 2012 Innovation Report, Pedro Guillen, managing partner of Kinetick Partners, a boutique innovation consulting firm with offices in Detroit, Mich., and Barcelona, Spain, introduced the concept of innovation ecosystems or innovation hubs where research institutions, start-ups, and commercial entities can codevelop new products, generate know-how, and design transformational business systems. Since then he has become a contributor to World Industrial Reporter, and he will join Michael Camp, founder of the Technology Entrepreneurship and Commercialization Institute at The Ohio State University, and Brian Langham, Plante Moran partner and pro bono advisor to early stage digital and tech start-ups, for a webinar on “Buying innovation is an option,” from 2 to 3 p.m. on Thursday, Dec. 12.

To register for the webinar go to: webinars.plantemoran.com.

To read his column in the 2012 Plante Moran Innovation Report, see: innovationreport.plantemoran.com.



Give your researchers a better shot at innovation



The following are excerpts from a conversation with the executive director for the Center for Entrepreneurship in the Fisher College of Business at The Ohio State University and founder and principal of the university's Technology Entrepreneurship and Commercialization Institute, Dr. Michael Camp. Prior to joining OSU, Camp was vice president of research for the Kauffman Foundation, the world's leading foundation in the advancement of entrepreneurship.

Q. Sometimes it is hard to separate the concepts of entrepreneurship and innovation, can you help us understand the differences?

A. Innovation is the application of new ideas based on discovery and research. Entrepreneurship means creating new firms and growing firms that capture the value inherent in those innovations by turning them into products, processes, and services that sell.

Years ago the Small Business Administration had us study the impact of support for innovation/research in a region. The results of the study made it very clear that innovation alone will not strengthen local economies. Local entrepreneurs are necessary to convert a region's innovation assets into long-term economic gain.

Q. Would it be pushing it to suggest that there could be a similar symbiotic relationship between universities and state-supported research facilities?

A. To maintain the competitive edge of their existing products and services or to exploit new market growth opportunities in a very competitive, global marketplace, corporations are increasingly collaborating with primary R&D institutions (universities and federal agencies) for access to new technological innovations.

For example, Merck, the pharmaceutical giant, is spending millions of dollars in its collaboration with the University of North Carolina, Chapel Hill, and the University of California, San Francisco, to develop and commercialize new drug discoveries in the fight against HIV and AIDS.

Likewise, many small and mid-size companies are also looking to maintain their competitive advantages by filling their new product pipelines by tapping into the rapidly growing portfolios of early-stage discoveries at research institutions.

Q. You recently sat on a National Science Foundation (NSF) review panel for industrial innovation and partnerships. We understand that the study proposals are confidential, but could you give us a general idea of what the NSF is doing? What kind of partnerships are they encouraging?

A. Your Plante Moran 2013 Innovation Survey and others like it confirm that companies see innovation as essential to their sustainability. The NSF is right there with them and has been for years. The foundation sees that national prosperity has become more dependent upon research and technology and it is working through a number of programs to translate existing research findings from institutions of higher education into commercial innovations.

In 2011, U.S. corporations and research universities invested more than \$400 billion in R&D and filed nearly 540,000 patents.

The opportunities for collaboration are significant. In 2011, U.S. corporations and research universities invested more than \$400 billion in R&D and filed nearly 540,000 patents. Public universities alone spent more than \$50 billion, some of which represented funding from NSF. Yet, despite this enormous investment and

the growing interest among companies to partner with research institutions it is not happening often enough.

The results of your 2013 Innovation Survey tell the story. Fewer than 30% of respondents indicated they had acquired new intellectual property (IP) as part of their collaborative strategy for innovation. Of those just 17% indicated that they had collaborated with government or public research institutions.

Q. Is that because companies don't know how to approach an institution or does the structure of the institutions make it hard to partner with them?

A. It could be a little bit of both, but the underutilization is frustrating to see. It is now clear that many valuable technologies collect dust in ivory towers. It is estimated that U.S. research universities own as much as one-fourth of all patents in biotechnology and nanotechnology, two of the hottest growth sectors in the last 20 years. Yet, 85% of all research institutions account for no more than 15% of cumulative commercialization revenue.

Q. So how can a business access information about possible innovation technologies that they can gain access to?

A. Like any collaboration, working with universities takes time to build the right connections. But the rewards can be significant. We've started the TEC Institute at The Ohio State University to help pair companies with the research or innovations they need. The institute has a proprietary protocol for identifying and qualifying early-stage discoveries at the world's leading universities. I guess you could think of it as matchmaking with emphasis on monetizing IP for the world's leading R&D institutions and providing first-mover advantages for corporations.

Buying innovation is an option

Thursday, Dec. 12, 2–3 p.m. EST

1 CPE anticipated, business management & organization, overview

The results of Plante Moran's 2013 Innovation Survey indicate that seven out of 10 organizations are convinced that they would be more successful with innovation if they collaborated.

The majority of survey participants had a history of collaborating with suppliers and customers, but some were branching out and looking at small entrepreneurial companies and universities to collaborate with on innovation.

Plante Moran and some of its partners in the survey have designed a webinar to help you explore the possibilities to further your innovation efforts.

At the conclusion of this webinar, participants will know:

- About research available from universities
- How new business incubators work
- What an ecosystem for innovation is and how it works

PRESENTERS

Brian Langham

A Plante Moran partner and pro bono advisor to early stage digital and tech start-ups in incubator projects like Catapult Chicago; 1871, housed in the Chicagoland Entrepreneurial Center; and Built in Chicago, the online community for Chicago startups, entrepreneurs, and innovators

Pedro Guillen

A contributor to the World Industrial Reporter, and managing partner of Kinetick Partners, a boutique innovation consulting firm with offices in Detroit, Mich., and Barcelona, Spain

Michael Camp

Founder of the Technology Entrepreneurship and Commercialization Institute at The Ohio State University, and former vice president of research for the Kauffman Foundation, the world's leading foundation in the advancement of entrepreneurship

MODERATOR

Matt Roush

Editor of The WWJ Technology Report from CBSDetroit.com

REGISTRATION

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KID ROCK

Innovative rocker uses \$20 tickets to change the concert industry

By Terry Olejnik | Practice leader with Plante Moran

This summer, reviewers repeatedly used innovative to describe Kid Rock's "Best Night Ever" tour. As the rocker/rapper made his way through 29 cities from Scranton, Pa., to Irvine, Calif., he offered tickets in all sections at an affordable \$20 and lowered prices on everything from parking to his signature Badass beer.

Famous for his rants against scalpers, he gave fans the option of paperless tickets, a proven method of getting face value tickets directly into the hands of fans. Plus Best Night Ever tickets were offered at Walmart with no extra fees, according to a deal worked out this summer between Ticketmaster and the retail giant.

When concert tickets are going for hundreds of dollars, why was Rock so focused on cutting prices?

"Everyone knows the economy is still hurting people across the country, but I didn't want that to be a reason why everyone couldn't get out and enjoy themselves on a summer night," Rock explained. To make it even more special for a select few, Rock's team randomly chose concertgoers with \$20 tickets to be upgraded to the first two rows.

Does this sound too good to be true? People close to Rock say it fits his persona. Legend has it that he often picks up the tab for a bar full of people. And the performer who is famous for stringing together expletives wooed







stodgy classical music patrons when he donated his talent for a concert with the cash strapped Detroit Symphony Orchestra. Proceeds topped \$1 million.

It was also helpful that LiveNation CEO Michael Rapino was on the same page as Rock and together they worked out a deal that is being watched carefully by other entertainers and promoters.

As part of the deal, Rock would forego the traditional guarantee that artists demand and instead he would split revenue from ticket sales, concessions, and merchandise with the promoter, LiveNation.

He also allotted 1,000 premium seats that LiveNation could sell through its Platinum Ticket system where prices shift in real time based on demand, which sometimes goes up into the \$100 – \$200 range.

According to some in the entertainment industry, premium ticket sales are crucial for a healthy bottom line. But to a greater degree, the success of Rock's business plan hinges on getting more people through the turnstiles. So far it seems to be working.



Poster artwork courtesy of Tour Design Creative

Three performances sold out and five were added at DTE Energy Music Theatre north of Detroit, according to Bryant Fillmore, spokesman for the venue. Although Fillmore won't confirm it, some suggest even more concerts could have been planned, but there wasn't room on Rock's calendar.

In Chicago where he played to 15,000 fans two years ago, he drew a sellout crowd of 28,000 to the First Midwest Bank Amphitheatre in Tinley Park this summer.

Rock also made a sponsorship deal with Jim Beam and together they offered one lucky fan the chance to run off and join the tour's entourage as Rock's personal bartender. According to a Chicago Now blogger, Jim Beam benefited from Rock's "rare authenticity that allows him to effortlessly blend with his fan base, not just appeal to them."

It could also be that Rock explained his business model to his fans, and they understood that the sponsorship enabled Rock to stick to his promise of \$20 tickets while continuing to put on an extravaganza.

He made it clear from day one that he wasn't sparing any expense on the Best Ever tour despite the cut-rate tickets. "We're going over the top as always. If this works we're going to play to packed houses of fans who appreciate what we're doing. If it doesn't," he paused, "it might be a long summer. But someone has to go out there and fight these high prices and change things up," he explained to CNN's Piers Morgan when he announced his \$20-ticket concept.

According to fans and concert reviews, he is keeping his promise.

"Whether he was working with good or mediocre material, Rock was putting on a spectacle," wrote a reviewer for the Cincinnati Enquirer.

"Took both my daughters (22 and 13) to your show. What a blast. They both say it was a show they'll never forget. Keep on rock'n and helping the average joe who can't afford to take his family with those high ticket prices. You're the man," blogged a grateful fan.

Rock is definitely bucking price trends. In the first six months of the year, the average ticket price for the top 100 tours in the United States

was \$70.91, according to the trade magazine Pollstar. That is up 14.1% over the same period last year and enough to push total concert revenue for the top 100 to a record \$1.24 billion despite a 6% decline in ticket sales.

LiveNation doesn't dispute these industry figures, but likes to point out that in the first six months of 2013, attendance at its concerts was up more than two million over the same period the year before — 21.4 million to 23.4 million.

What's the lesson learned from Rock's \$20 tour? The real lesson is the need to think in creative ways to meet the needs of artists and fans, according to Fielding Logan who oversees the careers of the Black Keys and Eric Church. "I don't know if you'll see others do this exactly — \$20 tickets and \$4 beer," he added, "but the lesson is about finding ways to bond with fans and extend careers."

Industry watchers agree that Rock's \$20 tour is a way for the 42 year old to ensure more years in the spotlight. He even acknowledges that from the stage when he talks to the "newbies," those who are there because the affordable tickets make it easier for them to see what all the hype is about.

Will others follow Rock's lead? Bon Jovi now has a \$19.95 ticket in his mix, and rumor has it that another "significant artist" is looking closely at Rock's business model.

Other artists can be assured that Rock has followed innovation best practices. He has listened to his customers/fans and he's changed his business model to allow him to provide affordable tickets that keep them coming back and bringing their friends and family, thereby enlarging and invigorating his fan base. Does it all work financially? Anecdotal evidence seems to say "yes."



Terry Olejnik is a practice leader with Plante Moran. Her clients appreciate her practical approach to solving complex problems and her deep technical expertise.

Terry advises executives, ensuring they receive timely industry trends and metrics along with on-target solutions to help meet their business and personal goals.

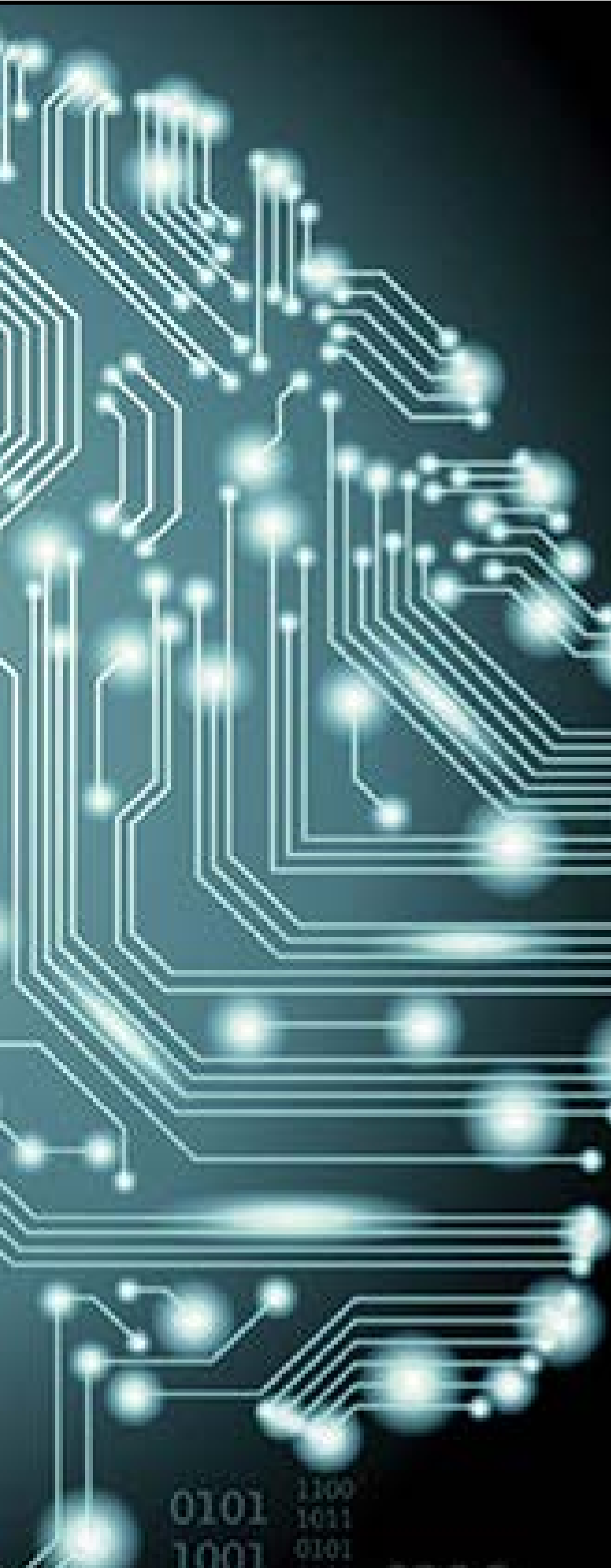
The lesson is about finding ways to bond with fans and extend careers.



BIG DATA GURU:

Innovator and teacher
offers an ah-ha moment

By Chris Jones | National practice leader for Plante Moran's service industry group



If you are trying to figure out how the big data movement can help your organization, you need to talk to Jim Anderson.

The college instructor turned successful business owner and often feted innovator/entrepreneur can quickly put the information explosion, artificial intelligence, and predictive analytics into perspective for you.

He knows his subject matter inside and out and can make it accessible and understandable like the former teacher he is. One could say he offers an ah-ha moment for everyone he engages.

His ability to be equal parts innovator and salesman has been very good for Urban Science, the business he founded in 1977.

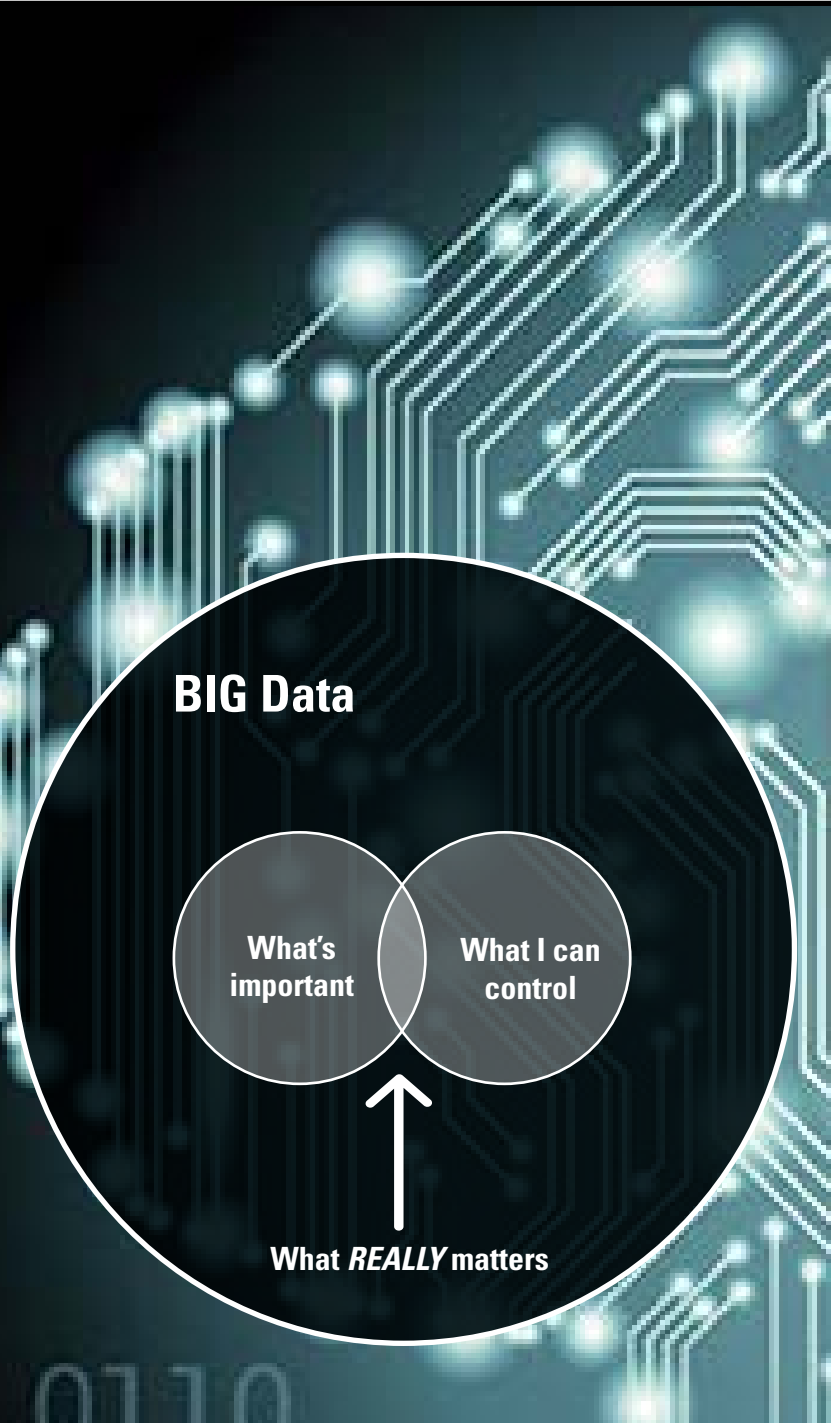
At the core of Anderson's business model is a can-do attitude. He likes to quote the late Henry Ford: "The man who thinks he can and the man who thinks he can't are both right. Which one are you?"

"We are the ones who say 'we can,'" Anderson answers, "and we've proven it."

Anderson avoids being smug, but he could be. His company, by applying the scientific method to data analysis, helps its clients sell more products, improve profitability, and increase customer loyalty. "In short, we guide business through science," Anderson explains. "We've been doing this since 1977 and today we have a team of more than 850 employees throughout 19 global offices."

This record of success has won Anderson and his company a long list of recognitions for entrepreneurship and innovation. For Anderson, innovation is about solving problems. Urban Science began when Anderson was teaching engineering at Wayne State University in Detroit, Mich. A student who heard his lecture on computer mapping and went to work at General Motors was asked to locate the company's dealerships with thousands of dots manually located on a map.

Having been introduced to computers, the student suggested to her bosses that they use software to do the job. They listened,



Where the circles representing the important data and the actions you can control intersect you have important issues that you can control.

but they couldn't find a company to write the necessary code. "Way too complex. Can't be done," they heard enough times that they dropped the idea. But the student didn't. She told Anderson about the problem and he developed software to solve the problem. Urban Science was born.

Anderson likes to point out that his company has grown organically year after year through wars, recessions, and ever-changing business demands.

But the process remains the same — isolating a problem and solving it. "Sometimes it seems like finding a needle in a haystack," he acknowledges, "but you can narrow it down."

"Draw a big circle that represents all the data," he directs, "and within that draw a circle around the important data and another circle around the data that represents actions you can control. Where the circles representing the important data and the actions you can control intersect you have important issues that you can control." That is where Urban Science goes to work, developing tools that enable its clients to identify solutions to solve their mission critical challenges.

Anderson wants to push further. He talks about analytics and even predictive analytics. The researchers at McKinsey & Company are on the same wavelength. They recently wrote: "The combination of big data and advanced analytics offers retail and consumer-facing companies countless opportunities across the value chain."

Eric Siegel, executive editor of the *Predictive Analytics Times*, pushes even further, suggesting prediction is the most actionable thing to be gained from data.

The difference between Anderson and others in the field is his ability to explain and build confidence among the unsophisticated so that they accept the enormous opportunities of predictive analytics. The teacher turned businessman matter-of-factly begins his explanation by walking his listeners through the scientific method they learned about in middle school.

The steps of the scientific method are:

- Ask a question
- Do background research
- Construct a hypothesis
- Test your hypothesis by doing an experiment
- Analyze your data and draw a conclusion
- Communicate your results

"It is important that you do a fair test, and in our case we use real-world evidence and make sure we validate our hypothesis,"

The steps of the scientific method are:

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- Analyze your data and draw a conclusion
- Communicate your results

says Anderson. In other words, his clients can be assured the results will make a difference in their businesses.

How does Urban Science decide which questions to ask? Like most innovators they ask their clients (See Plante Moran 2013 Innovation Survey Results, pages 5–8). “We have 500 people in the field listening to our clients. They come back with ideas,” Anderson explains. But then the man, who is all about process, concedes there can be a lot of tension as they decide which questions to pursue, which ones make business sense and offer economies of scale.

Who does Anderson hire to support the constant need for new solutions? Engineers and MBAs. He admits that the traditional engineering mindset doesn’t exactly fit the model employee he is looking for. He is looking for problem solvers and risk takers. To foster that kind of spirit in engineers, Anderson is funding the Engineering Ventures program for students at Wayne State University. Those in the program have an opportunity to hone their skills working on Urban Science projects in a “real-world entrepreneurial learning lab where budding entrepreneurs can gain practical experience,” Anderson says.

To date, Urban Science has concentrated on serving automobile manufacturers and car dealerships around the world. Will that change?

“We investigated going into other verticals. But we realized it was easier to grow by enlarging our automotive footprint globally. However, that will change in a few years. By 2017 we will probably reach \$400 million, and we’ll have to begin looking at verticals — telecom, health care, financial services/insurance.”

It would seem that Urban Science will find markets anxious for the kind of science-driven business insights and solutions the company’s team of engineers and analysts have been offering for more than 30 years. Anderson likes to call it the Power of 4 — expert people, intelligent data, innovative process, and proven technology — all working together to produce exponentially more effective solutions that create unparalleled results.



Chris Jones is the national practice leader for Plante Moran’s service industry group and is a leader on the firm’s innovation team. Known for his innovative ideas and solutions, Chris specializes in providing service and manufacturing organizations with business advisory, assurance, and corporate tax services. Chris has been serving commercial entities for nearly 20 years. Some of his recent special projects have included business succession matters as well as international expansion into Brazil, China, and India.



GM/Ford:

COLLAB



ORATION

between fierce rivals

By Chris Montague | National practice leader for Plante Moran's manufacturing and distribution practice



“If you’re working with others to develop a new product, how should you manage the process?” researchers from MIT Sloan School of Management asked rhetorically.

“Very carefully,” was their answer. And they insisted they weren’t being flippant.

Academics have been writing about the trend toward distributed product development or collaboration for the last 15 years or more, but they are still trying to succinctly define what it takes to make collaboration work.

Studying the recent agreement between Ford and General Motors to develop 9- and 10-speed transmissions can provide some insights.

It should be remembered that the two automakers had worked together 10 years ago on a 6-speed transmission, but that experience didn’t seem to make things any easier in planning for their new project. According to industry reports, finalizing the collaborative agreement was slowed by issues related to intellectual property (IP).

The agreement that was worked out assures both automakers that the best ideas are incorporated into products regardless of which organization contributed them, according to Jim Lanzon, GM’s vice president for global

transmission engineering and his company’s lead on the transmission project with Ford.

“IP issues are often stumbling blocks, but strong incentives like a common need can keep both parties at the table,” says Aravind Chandrasekaran of the Fisher School of Business at The Ohio State University, who is studying the architecture of multi-partner alliances in R&D projects for the National Center for the Middle Market.

In the case of Ford and GM it was the CO₂ deadline. Instead of doing parallel work, the automakers split the workload saving time and cost. The collaboration is expected to save hundreds of millions of dollars. Some industry pundits suggest the savings could even be in the billions since it will save the automakers the cost of licensing design and production rights from specialist transmission suppliers like ZF in Germany and Aisin in Japan.

The goal of the collaboration is to keep hardware identical in the Ford and GM transmissions. This will maximize parts commonality and give both companies economy of scale, according to Craig Renneker, Ford’s chief engineer, transmission and driveline component and pre-program engineering. “However, we will each use our own control software to ensure that each transmission is carefully matched to the individual brand-specific DNA of each company,” he clarifies.

Researchers point out that bringing together two corporate cultures can be hard, and Lanzon agrees. Processes at the two companies are different and deliverables are timed differently, even terminology in the two cultures needs decoding.

Lanzon says it is important to accept the cultural differences and select team members

SAY WHAT?



An external collaborator working on the Boeing 787 Dreamliner gave the following example of a communications glitch: “When we work on a product with Boeing, we find that we speak different languages. We have different words for the same thing and we have different ways of doing the same thing such as qualifying parts. Most of our procedures don’t even correspond cleanly to theirs. But we know that both our companies are good at what they do. Sorting this out is difficult.”

For the first time, Boeing involved 100 external collaborators in design and development of major subassemblies for its 787 Dreamliner from vertical

on both sides who can work through the issues. “It’s up to leadership to overcome the ‘not invented here’ syndrome and create a ‘we win together or lose together’ spirit,” he adds.

“It is also essential for each company to remain flexible. Frankly, we’re still working on items as they crop up,” Lanson admitted.

Lanson at GM and his counterpart Joe Bakaj at Ford point out that senior leadership has to be aligned and continually involved to assure the projects stay on track. How is their current project going?

“We are seeing the benefits of these two power-train powerhouses working together in both

“It is a great example of two fierce competitors coming together to accomplish a common goal and meet an urgent need.”

the products and efficiencies we anticipated,” the team leaders chorus. “It is a great example of two fierce competitors coming together to accomplish a common goal and meet an urgent need.”

Researchers like Chandrasekaran indicate that some collaborators use value chain integrators to help bridge cultural gaps, coordinating and negotiating across the supply chain interface to maintain the integrity of the product vision from concept to delivery. The challenge is to find people qualified to do the work. The integrator needs a range of experience in

manufacturing, design, and other support functions and it is hard to find that kind of person in this age of specialty. However there are some specialized training programs in integration like the one at MIT.

It is important to realize that collaboration isn’t just for the big companies like Ford and GM. Three out of four organizations that responded to the Plante Moran 2013 Innovation Survey have decided it is better to partner for new product development rather than go it alone.

Perhaps they will initiate a collaboration or they will be called in as a collaborator. The demand for managing innovation is strong, and organizations of all sizes are responding by collaborating on projects.

Even experienced researchers, however, are unsure about entering the new world of collaborative innovation.

Accustomed to working in carefully protected research labs, they are now being asked to find partners — orchestrate innovation with a whole new set of players.

It is a task for true pioneers. But it holds great promise.



Chris Montague is the national leader of Plante Moran’s manufacturing and distribution practice that serves more than 2,000 manufacturers in sectors including automotive, food processing, medical devices, metals, and plastics. He is a frequent speaker on emerging trends and issues facing manufacturers and distributors in today’s global economy.



We have different words for the same thing and we have different ways of doing the same thing...

stabilizers to fuselages. It is hard to know if miscommunication led to any of the much-publicized problems with the wide-body jet.

On the other hand, the disconnect among the collaborators on the Airbus A380 is documented. The project was delayed six months because engineers in Germany and Spain stuck with an earlier version of CAD software and their colleagues in France and the UK used an upgraded version. As a result, 530 km of cables, 100,000 wires, and 40,300 connectors got tangled.

Bloggers had a heyday with the debacle. Was the root cause the CAD modeling system or management oversight? The conclusion: it was both.

big

companies make
better
global partners

In general, **middle market firms** are better served by choosing larger companies to partner with.



ODED SHENKAR

Ford Motor Company Chair in Global Business Management at The Ohio State University's Fisher College of Business



LOU LONGO

Leader of Plante Moran's international business consulting services team

Our data, the data of our partners, and other researchers like the Economist Intelligence Unit point out that small and middle market companies are looking for cross-border alliances to enter international markets.

"If you're interested in growth, you have to have a global strategy," says Lou Longo, leader of Plante Moran's international business consulting services. "In mature markets like the United States and Europe, you are going to have to take market share from someone else to grow. Your opportunity for growth is far better in emerging and developing markets."

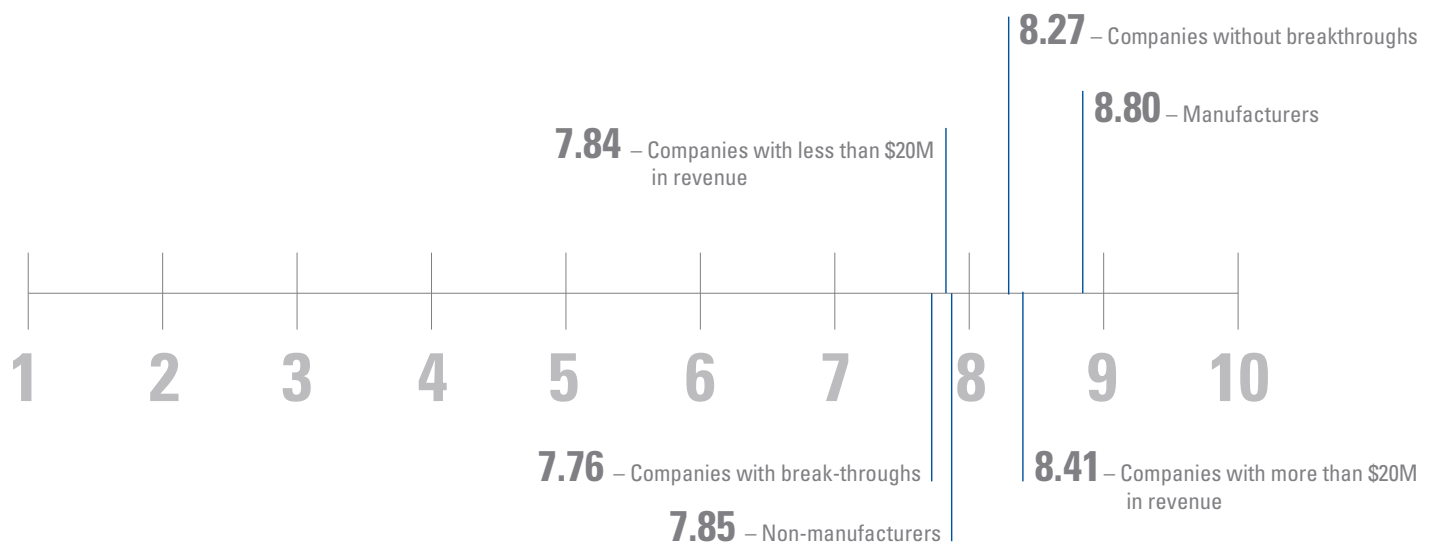
He points out that India and China with 40 percent of the world's population offer real opportunity for organic growth and it is important to get a foothold now, so that you have the capacity to respond to what is sure to be a rising demand.

Before you make a move, however, Longo suggests you explore your options. Instead of investing in bricks and mortar, explore vendor relationships, strategic alliances, or joint ventures. They are lower risk and can serve your purposes.

Statistics indicate, however, that roughly half of international joint ventures fail, according to Oded Shenkar, Ford Motor Company Chair in Global Business Management at The Ohio State's Fisher College of Business. Shenkar uses these statistics to caution middle market companies. If big corporations with expertise, experience, and infrastructure for managing alliances have a hard time making a success of alliances, the middle market companies with less bargaining power need to be cautious.

With this in mind Shenkar offers advice and he bases it on experiences in China. Which is right on for Longo

REASONS FOR COLLABORATION: ENTER NEW MARKETS | RANKED ON A SCALE OF 1 TO 10



Source: Plante Moran 2013 Innovation Survey

who says, “When people ask me where’s the next big market, I like to say the next big market after China is China.”

“Currently all the growth is along the coast in China, which represents only one quarter of the population. As the progress on the coast begins moving inland, a whole new consumer class will emerge that is even bigger than the one we’re witnessing now,” Longo points out.

So what should a middle market company look for in an alliance partner in China? First it is important to be aware of the distinctive challenges in China where the non-democratic political system is a major player in the economy, corruption is pervasive, and intellectual property rights violations are widespread.

According to Shenkar, in general, middle market firms are better served by choosing larger companies to partner with because they deliver more access and resources, particularly in emerging economies where connections to key government agencies can translate into favorable policies and incentives. These larger companies will also have better access to local markets and significant expertise in modifying goods and services for those markets.

In China, the large firms are often state owned; and state-owned enterprises bring access to bank financing, influence with customers also owned by or depending on the state, protection from some forms of competition, and favorable taxation policies.

On the minus side, the larger partner might collude with other state-owned enterprises and the middle market partner will have a tough time appealing to the authorities and seeking remedies.

There is also the question of sharing information. Many times the alliance doesn’t include a dedicated alliance office and the middle market company doesn’t even have a direct communication channel with the large partner.

A whole new consumer class will emerge in China that is even bigger than the one we’re witnessing now.



Corporations like Applied Materials, Frito-Lay, IBM, 3M, General Electric, Lockheed Martin, and General Motors have been looking at the challenges of sharing ideas over a global network.

Barriers like geography and language were the focus of a recent study commissioned by the National Center for the Middle Market and conducted by Aravind Chandrasekaran of The Ohio State University, Alison Davis-Blake of the University of Michigan, Edward Anderson of the University of Texas at Austin, and Geoffrey Parker of Tulane University.

THE IDEA IS GROWING

44% vs. **34%**

are thinking about entering new markets

thought about entering new markets in the past

Source: NCMM Middle Market Indicators, June 2013

The finding — language differences are harder to manage than geographic distance, but co-location can manage both. Although the study focused on development work, the idea that good communication is essential to a successful alliance could follow. In fact, the researchers show concern that the lack of understanding between development partners slows work and could result in abandoning projects or, if you want to extrapolate, a failing alliance.

Although the Economist Intelligence Unit reports that China is a top investment priority, Longo suggests organizations have a double focus.

“You can look at the CIVETS, Columbia, India, Vietnam, Egypt, Turkey, and South Africa, but you don’t want to lose sight of China,” warns Longo.

Although there are reasons to partner with bigger companies, it is important that middle market companies also keep in mind that small, innovative, adaptive, joint ventures usually have the most success. So they should guard against taking a “big” mindset.

In fact, the most successful joint ventures are between a large local partner and a small U. S. company as defined by the parameters of the Small Business Administration.

Flexible, adaptive, and innovative are the qualities that keep the small business a contender and will do the same for a middle market firm.

WEBINAR

Choosing the right partner for global expansion

Thursday, Oct. 3, 2-3 p.m. EDT

Middle-sized and small businesses are turning to strategic alliances and joint ventures to help them enter international markets, according to research by the National Center for the Middle Market (NCMM) and the Economist Intelligence Unit (EIU). Problem is that these business ventures often fail. Why do they fail?

Global business experts and experienced matchmakers from Plante Moran and The Ohio State University will discuss what leaders of small and mid-sized businesses should consider to ensure the success of their global partnerships.

You are invited to join the conversation and bring your experiences and questions.

The webinar will explore issues like:

- What are the challenges companies face when going abroad?
- How can they overcome those challenges?
- What are the characteristics of a good partner for global expansion?

Choosing a firm that is similar in size can be comforting but does it really contribute to the economies of scale, market power, and organizational image that can make a venture successful? This webinar will offer answers.

PRESENTERS

Lou Longo

Leader of Plante Moran’s international business consulting services team

Oded Shenkar

Ford Motor Company Chair in Global Business Management at Ohio State’s Fisher College of Business

REGISTRATION

This webinar is being facilitated by Association for Corporate Growth.

To register go to:

<https://www4.gotomeeting.com/register/811814767>

After the live presentation, the webinar will be archived at: <http://www.acg.org/global/webinars.aspx>

Talking strategy: Where does R&D belong in your organization?

Among large firms, there is a consensus that separating R&D and manufacturing is the **best way to maximize financial performance.**



JEFF MENGEL

Plante Moran's national practice leader for plastics and the food processing/packaging industries



KEN BOYER

Operations management expert at the Fisher School of Business, The Ohio State University

When and why should a middle market company separate its research and development efforts from its operations?

Among large firms, there is a consensus that separating R&D and manufacturing is the best way to maximize financial performance. This separation means that each group can maintain distinct reporting structures, metrics, and incentives for employees.

Research on small, entrepreneurial firms indicates just the opposite. For them structural separation is not necessary and may even be detrimental. Where does this leave the middle market?

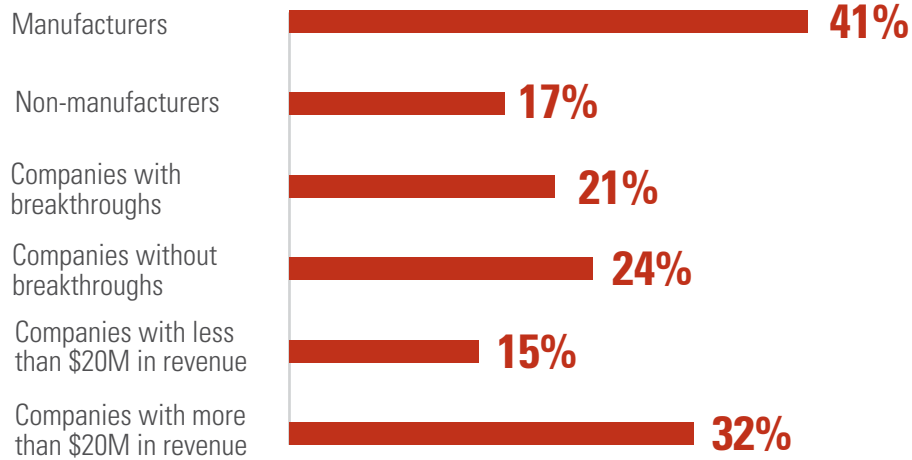
Research at The Ohio State University commissioned by the National Center for the Middle Market looked at this question of whether, how, and when middle market firms should make the transition.

In their summary, the authors write: "We believe that it is important for managers of middle market firms, as they grow, to understand that at some point they should begin to structurally separate manufacturing and R&D."

OUTSIDE EVENTS TRIGGERED SEPARATION

The results of their research indicate that middle market firms often need a trigger to make them realize that using the same teams for R&D and

DID YOUR ORGANIZATION ABANDON ANY INNOVATION ACTIVITIES?



Source: Plante Moran 2013 Innovation Survey

Outsourcing was an obvious trend among the respondents to the Plante Moran 2013 Innovation Survey.

manufacturing is hurting performance. Common triggers may be:

- Diversification into multiple product categories
- A notable decrease in performance
- An ownership change (often precipitated by a decrease in performance)

Based on case studies, the research team found that middle market firms with a narrow product focus can effectively use the same teams for R&D and manufacturing activities; in fact, they can find valuable synergies.

When firms expand their product categories, however, evidence indicates that using the same people for R&D and manufacturing starts to diminish performance.

Also when they grow into businesses that are not central to their operations, middle market firms are better off outsourcing both R&D and manufacturing.

Outsourcing was an obvious trend among the respondents to the Plante Moran 2013 Innovation Survey.

A representative of those buying innovation said: We hire services and look for companies or individuals that are at the top of their field or ahead of the rest in technology. We feel that we are ahead of our competitors and will hire answers to keep us there.

A representative of those offering manufacturing support said: To eliminate risks and the costs of

design, development, and marketing, we want to manufacture someone else's new products.

Taking his organization's architecture for innovation strategy in another direction, a survey respondent described how his organization has decided to separate research from development.

"We have a team led by an experienced Ph.D. that is separate from development. They use rapid prototyping and they are melding science and technology," he described.

"We separated them because time is so precious and we want them to be able to focus on research uninterrupted by development."

How does his organization measure the success of its investment in research? "We get weekly reports and the hours accompanying each new

bit of information. We're excited about the results," he reported, so excited, he continually had to be cautioned about going into the details.

Chief analyst for the data collected in the Plante Moran 2012 Innovation Survey, Jeff Mengel, a leader in the manufacturing practice group, found that the most successful innovators have a way of measuring their innovation activities.

One indication was that they abandoned projects more often than less successful innovators. In other words they had a system for evaluating their innovation strategy against performance.

Data from this year's survey indicates that middle market companies are either very pleased with the results of their innovation efforts or still working on a system to measure the results. Less than one out of four abandoned an innovation project last year.

WEBINAR

Talking strategy: Where does R&D belong in your organization?

Thursday, Oct. 10, 2-3 p.m.

1 CPE anticipated, business management & organization, overview

When and why should a middle market company separate its research and development efforts from its operations?

It is important for managers of middle market firms, as they grow, to understand that at some point they should begin to structurally separate manufacturing and R&D.

Firms with a narrow product focus can effectively use the same teams for R&D and manufacturing activities, but when they expand their product categories using

the same people for R&D and manufacturing starts to diminish performance.

There is also another option. Some organizations are specializing, opting to outsource R&D and provide the manufacturing or focus on R&D and outsource manufacturing.

Our experts and experienced advisors will help you look at these strategies from all angles so you can weigh the options.

At the conclusion of this session, participants will be able to:

- Discuss the factors to consider before segregating R&D from operations
- List the pros and cons of segregating R&D
- Relate examples of various approaches to positioning R&D in an organization

PRESENTERS

Ken Boyer

Operations management expert at the Fisher School of Business, The Ohio State University

Jeff Mengel

A leader on Plante Moran's manufacturing team and analyst on the firm's innovation team

MODERATOR

Chris Jones

Leader of Plante Moran's service industry team and analyst on the firm's innovation team

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NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital and located at The Ohio State University Fisher College of Business, The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research on the U.S. middle market economy. The center provides critical data analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. The center's website, which offers a range of tools and resources for middle market companies, can be visited at middlemarketcenter.org.



THE TEC INSTITUTE AT FISHER COLLEGE OF BUSINESS AT THE OHIO STATE UNIVERSITY

The TEC Institute at The Ohio State University has a long tradition of IP-based technology entrepreneurship and commercialization with more than 30 ventures formed and more than \$30M raised in the last six years. A vital component of The TEC Institute is The Langdale TEC Academy, established to train students in the science and practice of evaluating emerging technologies for commercial potential, formulating scalable business models, and raising investment capital.

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Can-do attitude is good for business, good for the country



“The man who thinks he can and the man who thinks he can’t are both right. Which one are you?” the late Henry Ford once challenged.

Without a doubt the innovators we’ve worked with to develop this report are among those who think they can. Their can-do attitudes drive them and we all benefit because our system of capitalism depends on them.

Dick Sarns was among the people we consulted. More than 50 years ago, he started a company to build the now world-renowned heart-lung machine used in cardiac surgery.

His current company builds exercise equipment for cardiac patients and he’s just hired additional researchers and set them apart from his existing research & development department so they can spend their full time on pure science.

Mr. Sarns’ enthusiasm for their findings is contagious, and although he knows he should be cautious with his secrets, he can’t help himself. He wants to tell you all about it.

He is the kind of innovator who makes us realize that innovation is about human spirit and the joy of uncovering new opportunities. Most of us aren’t going to be innovators on the level of Mr. Sarns, but we do have ideas and experiences to share.

It is rewarding to see more companies making innovation tools available throughout their organizations. This is a best practice that we’ve uncovered in our surveys, and it seems as if many employers are recognizing the invaluable resources they have. Tapping into your staff at all levels is good for business and reinforces the concept that constant improvement is part of everyone’s job.

We want to thank our collaborators on this project. It is richer because of their input.

We hope you find actionable insights.

Until next year,

Gordon Krater

Managing Partner | Plante & Moran, PLLC

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