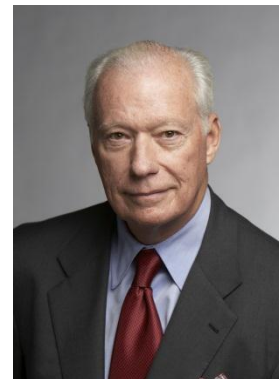


Lessons in Innovation Leadership: Jim Kilts

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We are proud to launch a new interview series titled *Lessons in Innovation Leadership*. This series will showcase experienced business leaders who have led, and learned, from significant innovation initiatives. These innovators from across industries will share the major, and often difficult, strategic choices they faced and discuss the long-lasting consequences that resulted for their organization's performance. The interviews will feature their experiences as well as summarize key lessons concerning what worked, what didn't work and why. We hope readers such as yourself will find parallels between the strategic issues and approaches expressed here and within your own organization to reshape your thinking around innovation, making it more effective for growth and organizational success.

We're pleased to begin the series with a candid conversation with Jim Kilts, the former CEO of Gillette and Nabisco. Through his long and distinguished career, Mr. Kilts has also held various senior executive positions at Philip Morris, Kraft and Oscar Mayer and is a founding partner with the private equity firm, Centerview Capital. Mr. Kilts is Chairman of the Board of Nielsen and Del Monte Foods, and serves as a member of the board of directors at MetLife, Pfizer and MeadWestvaco.



Mr. Jim Kilts

Q: How do you define innovation?

Jim Kilts (JK): I define it as “Total Innovation”. It is the process of generating both incremental and breakthrough ideas and transforming them into workable solutions that build value across the entire organization. It is not limited to a product or process but is all about the consumers, customers, channels, supply chains, and employees.

Q: What do you see as the benefit from this notion of total innovation as opposed to just breakthrough or within a product?

JK: At Gillette, we excelled at the breakthrough and big bang innovation particularly around our new razor systems, but we weren’t as good at the incremental innovations or what we call continuous improvement. We wanted to really make people think about innovation in multiple buckets; what tended to happen was that the breakthrough innovation was always somebody else’s job.

The notion of incremental innovation was all about improving your particular area, doing something better; whether it was within marketing – creating an improved version of a current product making it more exciting; or within operations – making a plant line 50% faster so we didn’t have to invest capital in it.

It was the notion of creating a *middle tier* of innovation that everybody could buy into – and continuous improvement is where every day, every week, every month and every year you should be getting better at what you are doing. Essentially, what we tried to do is get more people involved in the process and thinking around total innovation.

Q: Could you give us some examples from your experience where innovation has been particularly successful?

JK: One of my favorite examples was when we went to a power razor at Gillette.

When we were in the toothbrush business, we had power toothbrushes, which ran to about \$100 per unit, and we also had the hand-held manual toothbrushes at a much lower price point. It was interesting how we never had the battery-powered toothbrushes. When this little company came out with a battery-powered one called SpinBrush, the Gillette Braun rechargeable people said, “Well that is not mine, I don’t do batteries, only rechargeables,” and the Gillette Oral-B manual people said, “I don’t do power, I only do manual,” so we wound up with the gap because although two different divisions of the company worked on toothbrushes, neither took responsibility for the battery-operated devices, even though we were the biggest battery company in the world! As a result we were late to enter the battery-powered toothbrushes, and we finally did very well by becoming the number one battery toothbrush,

but that also made me think of the innovation areas we *were* able to do within our blades and razor business.

I asked our razor team, “You know I think everybody is doing power in the handles of many products and that is really something we should be able to do better than anyone else – we have the technology from Braun, we have the battery technology from Duracell - so why don’t we put a battery powered handle on the razor blades?” And what they told me was, “Well, we actually developed a prototype of that years ago but decided that’s not a good idea because where we have all the patent protection and innovation is at the head of the razor – the blades; but anybody can put a power handle on something so we don’t want the attention to be taken away from the head and make the handle as the differentiator.” And I said “Well, I can see why you would say that but isn’t somebody going to do it and shouldn’t we be the ones since we have a 70 to 75 percent share globally?”

At first they weren’t excited about it, so I took one of our best innovators, staffed her with a team and said “I know it’s a terrible idea but why don’t you take six months and figure out if we wanted to do it what is the best way to do it.” Within six months they came back and had fallen in love with the idea. They had ignored it before just because of that initial thinking and fear; it was almost the fear of innovating against ourselves such that we didn’t have as much competitive advantage.

What you have to realize is that by being first in and *coupling* it with your competencies that you would still have both – a combination of innovation and competitive advantage. What you want to do is innovate and sustain your competitive advantage while you innovate.

Q: Are there other instances you would highlight from your experiences?

JK: I want to tell you a story about our Red Razor. When Schick was coming out with their Quattro, a four-blade razor, what we had on the retail shelves was Mach3, which as the name suggests had three blades. At that point, we were working on Fusion, which was a better performing razor and actually had six blades. However, we were two years away from introducing our innovation while the Schick Quattro was coming in with one of the biggest product introductions backed by nearly \$80 million in marketing spend – they were on the offensive and we were two years away from our response.

When I first got to Gillette, I noticed we had a blue razor that had done reasonably well in South America and which was introduced with a promotion to improve the value proposition. At that time, I was also on the board of a department store company and because we talked about fashion a lot at the board meetings, I repeatedly came across the notion that red was going to be a “hot color” that year. So I suggested the idea of doing a Red Razor as a promotional item.

And I remember the division president and the head of his division's strategy looked at me and said "Jim, don't you understand? Red is the color of blood. It is a terrible idea! It would turn people off with all those subliminal images. We have looked at red – it is a bad idea." I thought about it and knew where they were coming from but asked that it be put into concept testing anyway because we had to do something in incremental innovation to fill the gap between the seven to ten years it takes to do a major innovation.

When we did the testing it so happened that people *liked* the idea of a Red Razor, especially if it had a concept around it making it exciting. We called it the Mach 3 Turbo Champion and used a red sports car as one of the promotional vehicles to draw people in. We then linked a promotion against it saying it was guaranteed to give you your best shave or your money back and that was our defense against the Quattro introduction – a simple red razor.

I will never forget the sleep I lost thinking about how I was going to go in front of the board and our investors and say that we were going to save the company against a major competitive threat by changing the handle from grey to red! It turned out that the Red Razor was a huge, *huge* success because what we did is we put together a marketing package around the new design that was very effective and it really did drive the defense.

Later, I saw the head of the executive committee of Schick at an industry event and he puts his finger in my face and says, "You killed us with that little Red Razor." That was one of the best compliments I ever had in business.

Q: That's a very interesting story and actually brings me to my next question – to what degree within innovation do you lead the consumer?

JK: You have to offer the consumer choices. Three key lessons that I have learned from my experiences are - one, it is a combination of a disciplined, analytic, fact-based structured process combined with left brain creativity that leads to innovative solutions and ladders up to enhanced shareholder value.

Secondly, innovative ways to understand and get *insights* on consumers – where they are today and where they're headed tomorrow - helps increase marketing and financial success odds for new products and services.

That's my Duracell story. There was a major weather alert in Florida, and the governor went on the air and said we are going to have a hurricane – go stock up on batteries, get water ready and generally be prepared. When our marketing person went to the store to buy his batteries, it turns out that the Duracell batteries were totally sold out and Eveready were sold down and all the private label were still there.

In an emergency, in a high trust situation where your life might depend on it, consumers bought Duracell first even though the price was somewhat premium. So we came up with the notion of *'Trusted Everywhere'* advertising based on that. And we used torture test advertising saying that it is the only battery trusted in certain devices and certain applications because that is all the manufacturer will recommend or put in their product because the batteries needed to be counted on in stressful situations.

That was really an incremental innovation but you could in fact argue that the campaign was a big bang innovation because it's still around and remains relevant for 10 years. It resulted in a significant share increase and operating profit margin and earnings improvement for the company and really super-charged the business.

I think the third lesson learned from these innovations is that senior management must champion innovation across and down the organization, and help mentor those employees who evidence they are willing to lean forward by thinking strategically and innovatively, while also executing their ideas wherever they work in the company and at any level. You have to be sufficiently involved in the innovation. So you throw down your own ideas – not that they are any better than anybody else's but you expect them to be evaluated in the context of an array of ideas and that they come back with the ideas that are the best ideas.

We had an Innovation Fair at Gillette where every department needed to display one of their best shots at innovation, whether it was the computer people, whether it was the R&D or Human Resources people, whether it was manufacturing or purchasing people, they all demonstrated at these innovation fairs some of their best ideas – even the legal department innovated.

And I remember that it became infectious. What happened was that we did it at headquarters and then all of the global regions thought this was a great idea, so we had regional innovation fairs recommend their winner to the HQ fair as a next generation evolution of it, and they came to HQ with their best innovations. Over 60% of our Gillette business was done outside the US. We had a huge global presence and there was significant interest across the globe in getting innovation into the market place at a local level as well as at an international level.

Q. Could you share with us an example where innovation did not turn out the way you hoped and your important takeaways from that instance?

JK: Stuffin' Burgers was an Oscar Mayer product that we had when I joined the division. It was actually a very good product. Unfortunately, it was in the frozen foods section - not in our core skill area of refrigerated meat-based foods - and it had a shelf life that was not consistent with the category. If you tasted it when it was made right off the manufacturing line it was good, but it deteriorated very rapidly afterwards. It was in test market for almost 18 months and no one came to grips with the issues. I think a lot of people knew it was deteriorating over time; we had a lot of consumer complaints and a lot of product that was rotting on the shelves but nobody wanted to say that the problem with the product was that it simply wasn't compatible with the frozen distribution systems that were out there. And that is why the whole notion of intellectual integrity is so important. We didn't have all the skills and expertise that were necessary to figure out what it took to be successful in that category.

Q. And the lesson would be?

JK: I would say focus on your core business. When you are in the No. 1 position always be the innovator, lead the category to find innovative close-in and further-out solutions to consumer needs; and if you vary from that you have to make sure that you have enough expertise that you really understand the new areas that you play in in a very significant way before you make major investments.

Q: Is there a difference in how you would innovate for a global organization vs. one where you are focused on one country and that one big market you are going after?

JK: I think it depends on the products and services offered. If your products and services are similar, I think you can innovate with global ideas. Gillette is probably the greatest example, where razor blades were very similar in what the benefits were across the world. In the food business however, what you have is a lot of different benefits and a lot of different tastes. Philadelphia Cream Cheese is a good example where in the U.S. it has a spreadable usage but by and large it was used in making cheesecakes; spreading was a secondary usage. Whereas in many international countries they didn't even do cheese cake, it was all spreadable and many times it was the substitute for butter and jam at breakfast – it was a whole different usage occasion. So innovation is different based on the particular category.

Q: For about 10 years or so, maybe even longer, this idea of having open innovation as opposed to innovation just taking place within your own company has been popular. So you could have JVs or partnerships, or licensing deals, perhaps even acquisitions. What is the perspective one should have on that?

JK: I just think you have *got* to be open – open innovation *is* innovation. You shouldn't define where innovation comes from, it should come from everywhere. Anyplace you can get it is good.

When I was in the food business, I used to look at every category to get innovative ideas about how they were basically lighting up consumers. How did they get people excited about something, whether it was introduction of a new benefit or enhancement of a current benefit? A golf club is a good example. Look at the evolution of golf club *drivers* - they have given me enough information that convinces me that I need this new piece of \$300 equipment every year or every other year!

Intellectual curiosity is absolutely critical and playful curiosity is important.

Q: How has your definition of innovation evolved over your career?

JK: When I first started, in the labs as a marketing person, I was very product oriented and my ideas were driven by thinking about my product. As I moved up in the organization and got more responsibility, I saw innovation opportunities across the value chain.

If I were talking to young people, I'd say, think broadly about innovation early and recognize where you can contribute. Thinking broadly about manufacturing when you are working in IT might not be the best idea, or realistically where you will be able to contribute. What you must do is recognize the place you are going to be able to make a contribution and where you can have the biggest impact and the things upon which you can innovate.