

Innovation Management

Do you get the full potential out of your innovation?



Innovation challenges

Over the past few years, the pressure on the Swiss industry to innovate has intensified markedly. Companies perceive challenges from three main trends:

- More rapid innovation processes among competitors that force Swiss companies to react quicker.
- Greater internationalisation of research and development, triggered in some cases by relocating production abroad.
- A changed perception of innovation as more than just traditional product innovation.

In parallel, planned changes as part of the OECD Base Erosion and Profit Shifting initiative (BEPS) or in the course of the Swiss Corporate Tax Reform III require tax payers to implement a centralised IP management with the group entity owning the intellectual property in order to avoid tax disputes on the ground of missing substance. More frequent changes to the national and international regulatory and accounting environment, such as the Swiss Code of Obligations (SCoO) or the International Financial Reporting Standards (IFRS), add yet another dimension of challenges to innovation management.

The most successful companies drive forward innovation beyond traditional product and service innovation.

Responses to the innovation challenge

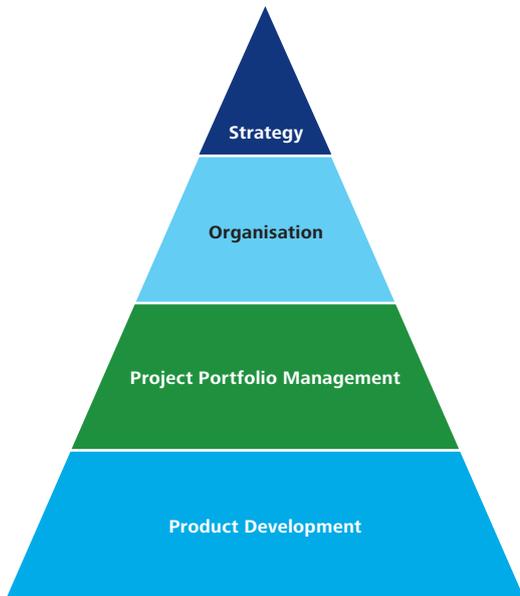
The pace of innovation is accelerating for the global manufacturing industry. To sustain the faster pace and remain competitive, companies need an efficient approach to manage innovation. Successful innovation management affects the entire company and involves four different aspects: strategy, organisation, project portfolio management and product development. (see chart 1)

The internationalisation of R&D has gathered pace as production is increasingly relocated and new growth markets are tapped. Organisational changes in the management of innovation are required to address new global setups. Of key importance are the management responsibilities, budget allocations as well as the necessary tax & transfer pricing compliance with an aligned and transparent stakeholder communication.

The most successful companies drive forward innovation beyond traditional product and service innovation. They innovate in different parts and dimensions of a company, including development cooperation, supplier network, greater customer involvement, new process innovation and business models.

Combining different types of innovation can produce disruptive trends that create entire new industries and change the rules of how products are manufactured. Additive manufacturing, also known as 3D printing, and internet of things (everyday connecting of products, machines and humans) are just two examples of disruptive trends and innovations that have the potential to change the entire landscape of the global economy.

Chart 1. Efficient management of innovation



- **Competitors:** What are competitors doing in order to differentiate themselves, and how are they doing it?
 - **Customers:** What are current and future market needs?
 - **Company capabilities:** Do we have the appropriate know-how to satisfy future market needs, while being competitive and differentiable?
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- **Roles and Responsibilities:** What should be the roles of headquarter and segments on a global and local level?
 - **Prioritisation framework:** How is the budget and people allocation being governed and applied?
 - **Tax:** Is your intellectual property (IP) structure aligned to future tax requirements?
 - **IP Management:** How do you make your IP available across your whole group?
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- **“Make or Buy” framework:** How are potential portfolio gaps being addressed?
 - **Innovation Return of Investment (ROI):** How are investments in R&D structured and monitored? How is R&D efficiency and effectiveness measured (KPIs)? Are risks being tracked?
 - **Product Lifecycle Management (PLM):** Is the product portfolio being managed from a holistic perspective?
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- **HR:** What incentive plans and people development schemes are in place?
 - **Supplier integration:** Are suppliers used as a source of innovation?
 - **Controlling:** Are “Design to cost” principles applied in product development?
 - **IT:** Is IT used as an “accelerator” to R&D (e.g. documentation)?
 - **Accounting & Financial reporting:** Does stakeholder communication reflect innovation strategy?

Questions you should ask yourself:

- How can we capitalise on disruptive new technologies such as 3D printing (Strategy, Business Model, operational setup)?
- Are our new innovative business models aligned with evolving tax, legal and regulatory and accounting environments?
- Do we have a clear IP management policy in place?
- How do we govern our innovation to maximise its effectiveness?

Chart 2. Example of an analysis for the opportunities (and threats) of Additive Manufacturing (3D Printing)

Product impact	high	Product evolution <ul style="list-style-type: none"> • Customisation to client requirements • Increased product functionality • Market responsiveness • Zero cost of increased complexity 	Business model evolution <ul style="list-style-type: none"> • Mass customisation • Manufacturing at point of use • Supply chain disintermediation • Customer empowerment
	low	Stability <ul style="list-style-type: none"> • Design and rapid prototyping • Production and custom tooling • Supplementary or “insurance” capability • Low rate production / no changeover 	Supply chain evolution <ul style="list-style-type: none"> • Manufacturing closer to point of use • Responsiveness and flexibility • Management of demand uncertainty • Reduction in required Inventory
		low	high

Strategy
What new market opportunities does 3D Printing offer (see example framework below)?

Marketplace
What potential new entrants does 3D Printing enable?

Organization
How are the 3D-print data files managed in respect of customs, VAT, IP rights and warranties/liabilities?

Project Portfolio Management
Do we understand where 3D printing impacts the portfolio of made and bought innovation overall?

IP licensing
How should IP applied by a foreign entity using 3D printing be compensated from a tax/transfer price perspective?

Accounting & Financial Reporting
Do the financial statements and related stakeholder communication tell the true innovation story? Are R&D investments appropriately communicated? Does the business model change effect important KPIs and is this addressed/communicated to stakeholders?

Our Innovation Transformation offering

While we can work with you on specific topics of the innovation challenge, the most powerful support typically results from an integrated approach from the strategy, operations, tax and compliance point of view:

1. Kick-Off

- Confirmation of project goals, resources and timelines
- Identification and assessment of relevant stakeholders

2. Current State Assessment

- Assessment of maturity of cross-national innovation management governance, organisation and operations (e.g. set-up, horizontal/vertical integration, tools, reporting, etc.)
- Identification of threats and opportunities from innovation challenge (e.g. products, supply chains, talent)
- Review of resilience of the IP management structure from a tax perspective
- Make use of distinctive Audit experience related to regulatory and economic environment

3. Future State Definition

- Understanding of design parameters for the innovation strategy based on the corporate strategy

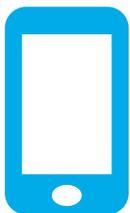
- Definition of Innovation vision
- Design of Innovation Target Operating Model / Structure
- Performance of gap analysis against current state
- Identification of requirements for transfer pricing compliance purposes
- Identification of possible tax benefits (e.g. IP Box)
- Telling the innovation story in the annual report and financial statements
- Pointing at the regulatory and accounting opportunities and business model triggered changes in financial statements and accounting processes

4. Transformation plan

- Definition of actions, grouped into work streams to support envisioned transformation
- Specification of resources, cultural and talent change needed for implementation
- Sequencing of actions to a roadmap with relevant milestones
- Mitigation of possible tax and transfer price implications
- Design aligned and transparent stakeholder communication and reporting strateg

5. Project Management Office (PMO)

- Set-up of PMO (e.g. governance, reporting tools, etc.)
- Running of PMO, including escalation management



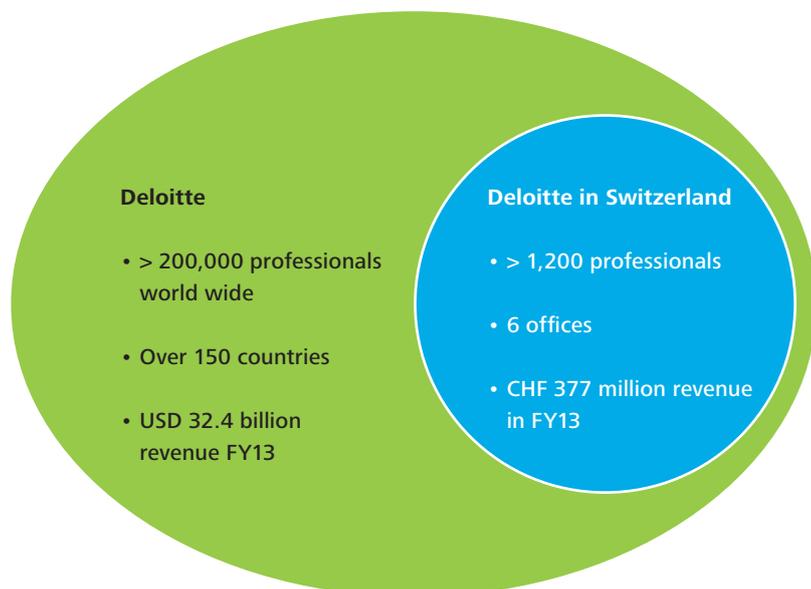
Case study

A Swiss telecommunications supplier had to efficiently allocate corporate resources between its core business, adjacent businesses and disruptive new innovation.

A team of Monitor Deloitte did elaborate a supporting strategy with a portfolio view on its R&D department. The analysis revealed that in the past the resources had been allocated to the core business, adjacent business and new innovation in the proportions 80%:15%:5% rather than the planned 50%:30%:20%. In addition even the successful implementation of all innovation projects would have only supported the maintenance of the current revenues rather than the envisaged growth.

The project enabled the re-allocation of the available corporate resources. In addition already ongoing, disruptive innovation projects could be prioritized and accelerated which led to a reduction of the clients dependence on its core business and thus set the path for the future.

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Deloitte is the fastest growing professional services firm in Switzerland.

¹ Source: Association of Management Consultants Switzerland, Market Study 2013

² Source: Kennedy Consulting Research & Advisory, Global Consulting Index 2013

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