

## Press Release

# Companies spend slightly more on R&D

*Growth represents catch-up after recession-induced decline in 2009  
Apple most innovative company in the world, Facebook nr. 10  
Corporate culture key for successful innovation*

**Amsterdam, October 24, 2011 – With \$550 billion the thousand companies with the largest R&D budgets worldwide, spent 9.5% more on research and development last year than in 2009. Chinese and Indian companies realized the biggest rise in R&D expenditures with 38%, compared to a low 2% rise by Dutch companies. With a spike in revenue of 15% in 2010, the R&D intensity worldwide declined slightly from 3.8% in 2009 to 3.5%. For the second year in a row Apple is considered the most innovative company in the world, while investing only 2.7% of their sales in innovation. The survey also shows that the ten most innovative companies have outperformed the top ten biggest global R&D spenders over the past five years across three financial metrics: they realized 27% more revenue growth, 41% more EBITDA and 30% more market cap growth. "Corporate culture is essential for successful innovation, because the results can be measured," says Barry Jaruzelski, partner at Booz & Company. "Companies with cultures that support innovation strategies and business goals have superior financial performance."**

For the seventh time Booz & Company has conducted the Global Innovation 1000 Study among a thousand listed companies worldwide with the largest R&D expenditures. The study reveals that their annual increase in R&D spending resumed again in 2010 with 9.5% (\$550 billion), after a decline of 3.5% in 2009. While their revenues increased by 15%, the R&D budget as a percentage of revenue (R&D intensity) dropped slightly from 3.8% in 2009 to 3.5% in 2010. According to Barry Jaruzelski, partner at Booz & Company this rise in R&D expenditures is a natural balancing of the long term trend: "In 2009 most companies did not cut their innovation budgets nearly as deeply as their double digit decline in sales might have indicated. The rise in 2010 represents primarily a catch-up after the recession-induced reductions in 2009. "

### **Largest growth in R&D expenditures by Chinese and Indian companies**

The study also reveals that the expenditure growth of big corporate R&D spenders shows significant geographical differences. The major European (5.8%) and Japanese firms (1.8%) carefully scaled up their R&D investments in 2010, while American corporations spent considerable more in 2010 with an increase of 10.5%. Accounting for 2 percent of global R&D outlays in 2010, China and India

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headquartered companies upped R&D investments by more than 38%, identical to the 2009 growth pace.

### **Dutch companies spend below worldwide average**

The eleven companies headquartered in the Netherlands in the top one thousand spent €5.2 billion on innovation in 2010, over 2% more than in 2009. This increase is, however significantly lower than the average increase in R&D spending by other European companies (5.8%) and the average worldwide rise in R&D investments (3.5%). Revenues of these Dutch companies rose by 24% in 2010 which caused the 'R&D intensity' of Dutch companies to drop slightly from 1.6% in 2009 to 1.3% in 2010. For many years now, Dutch companies spend on average a much smaller percentage of their revenue on activities related to research and development than other companies worldwide.

### **Automotive boosts R&D spending with 8% after sharp decline in 2009**

Fully 68% of all companies that were tracked raised R&D spending in 2010. Three industries accounted for more than three-quarters (77%) by spending \$36.1 billion of the \$46.8 billion increase: computing and electronics, health and automotive. The computing and electronics sector remains the number one industry for expenditures and realized the biggest absolute increase accounting for 28% of the total. With revenues up 14.2%, the innovation outlays in this industry increased by 6%, or \$17 billion. The health sector is the second largest industry in innovation spending at 22 percent. The outlays in this sector increased by 9.1%, or \$10.4 billion, the highest increase among the top three industries in 2010 and in line with the overall R&D increase (9,3%) across all sectors. The automotive industry retained the third place with a 15% share of total spending, due to a spending boost of 8%, or \$ 8.8 billion in 2010. This is a significant change after cutting outlays by 14% in 2009. Revenues for the automotive sector were up 16.5 % last year.

### **R&D spending does not correlate with successful innovation**

For the second year in a row Roche Holding is top of the list in corporate R&D spending of \$ 9.6 billion on innovation of its \$45.7 billion in revenues which accounts for an intensity rate of 21%. Roche is followed by Pfizer (2), Novartis (3), Microsoft (4) and Merck (5). In an additional survey Booz & Company asked 600 innovation leaders to name the companies they considered most innovative worldwide. For the second year in a row Apple led the top ten, followed by Google and 3M. This year Facebook was also named one of the most innovative companies, entering the list at number 10. Apple spends only 2.7% of its revenues in R&D. Moreover, only three of the top ten big R&D spenders are also among the ten most innovative companies: Microsoft, Samsung and Toyota Motor. When it comes to innovation R&D spending does not correlate with a successful financial performance. Over the past five years the ten most innovative companies outperformed the top ten big spenders across three financial metrics and realized 27% more revenue growth, 41% more EBITDA and 30% more market cap growth.

### **Need Seekers are most innovative and most successful**

Since 2007, Booz & Company has defined three distinct innovation strategies. Firstly, the strategy of the so-called Need Seekers who strive to be first movers by proactively engaging customers to shape new innovations. Secondly, there is the strategy of Market Readers, who adopt a second mover strategy and emphasize

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incremental change. Finally, there are the so-called Technology Drivers who stress technology achievement and both incremental and breakthrough change. Remarkably, 73% of the Need Seekers indicated that the innovation strategy is aligned with business goals and supported by the corporate culture, compared to 27% of the Market Readers and 37% of the Tech Drivers. The innovation strategy of the Need Seekers has been more successful over the past five years than that of companies deploying the other two strategies: on average Need Seekers realized 6% more revenue growth and 7.8% more enterprise value than the Tech Drivers and 27% more revenue growth and 19.6% more enterprise value than Market Readers.

### **Corporate culture key for successful innovation**

Companies where the innovation strategy and corporate culture are aligned with the business goals have realized 33% more enterprise value and 17% higher profit growth than other companies. The study shows that companies can succeed with any of the three strategies. For example, Google is a Tech Driver and Samsung a Market Reader and both are winning in their markets: "However, corporate culture is essential because the results are measurable," says Jaruzelski."

### **Additional findings:**

- The thousand biggest corporate spenders take up about half of all investments in research and development around the world.
- For the first time in this study not one computing and electronics company is part of the top three companies with the highest R & D investments.
- The health sector, whose R&D expenditures are chiefly pharmaceutical firms, captured four of the five spots in spending among the Global Innovation 1000.
- The top 20 global spenders averaged 10% R&D growth, representing \$142 billion in R&D on sales of \$16 trillion, which is well above the global average rate of 9.4%.
- 20% of the companies surveyed indicated they have no real innovation strategy. The majority of the companies develop their innovation agenda at the top of the company, 8,6% within technical departments like R & D or product development and 12.6% within functional departments like Marketing and/or Sales.
- More than elsewhere companies headquartered in Silicon Valley indicate their innovation strategy is aligned with their business strategy: 54% to 14% of all companies surveyed. 46% of the companies in Silicon Valley indicate that their corporate culture supports their innovation strategy and that innovation and business goals are aligned, compared to 19% worldwide.

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### **Methodology:**

Booz & Company identified the 1,000 public companies around the world that spent the most on research and development in 2010 (companies for which public data on R&D spending was available). This is the same approach which has been used in the previous six years of the study. Booz & Company analyzed key financial metrics for each of the top 1,000 companies from 2002 through 2010 – including sales, gross profit, operating profit, net profit, R&D expenditure, and market capitalization. All foreign currency sales and R&D expenditure figures through 2010 were translated into U.S. dollars at 2010 daily average exchange rates. In addition, total shareholder return was gathered and adjusted for each company's corresponding local market.

Each company was coded into one of nine industry sectors (or “other”) and into one of five regional designations as determined by each company’s reported headquarters location. To enable meaningful comparisons across industries, Booz & Company indexed the R&D spending levels and financial performance metrics for each company against the industry group’s median values. A separate online survey of nearly 600 innovation leaders in companies around the world was conducted in order to explore the role of corporate culture as it relates to successful innovation and financial performance. Survey respondents were also asked a series of questions to help classify their companies into one of our three innovation strategy models: Need Seeker, “Market Reader” or “Technology Driver.”

The summary of the results can be found in the article *‘The Global Innovation 1000: Why Culture is Key’* and a brief strategy assessment tool to profile your innovations strategy and understand the capabilities you need to succeed

[www.booz.com/global/home/what we think/featured content/innovation 1000 2011](http://www.booz.com/global/home/what_we_think/featured_content/innovation_1000_2011)

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**About Booz & Company:**

Booz & Company is a leading global management consulting firm, helping the world’s top businesses, governments, and organizations. Founder Edwin Booz defined the profession when he established the first management consulting firm in 1914. Today, with more than 3,500 people in 61 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage. Booz & Company is ranked the number one management consultancy firm by clients in the Netherlands in the annual Incompany 100 Survey of 2011.

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