

what makes you 
special?™



MEDIA RELEASE

IBM Australia and the Melbourne Institute launch the 'Innovation Index of Australian Industry'

IBM-Melbourne Institute Innovation Index is the first inter-industry, multi-indicator study to measure the rate of innovative activity in Australia.

Sydney - 1 May 2007 – IBM Australia and the Melbourne Institute of Applied Economic and Social Research, University of Melbourne, today announced the launch of the IBM-Melbourne Institute *'Innovation Index of Australian Industry'*. This inaugural study uses rigorous analysis of key economic data to provide a measurable rating of Australia's innovation activity by industry since 1990.

The *'Innovation Index of Australian Industry'* was conceived by IBM Australia and prepared by researchers at the Melbourne Institute to fill a gap in current innovation research. It is the first study to reflect the complex nature of innovation via an inter-industry, multi-indicator analysis approach.

Although innovation is widely accepted as a key driver of economic growth and productivity, there has not been a published study to date in Australia that measures the many different aspects in which local industry innovates in their provision of products and services. The IBM-Melbourne Institute *'Innovation Index of Australian Industry'* is the first study to address the many contributors to industry innovation with the analysis of six key data groups, comprising of: research & development intensity; patent intensity; trade mark intensity; design intensity; organizational/ managerial transformation; and productivity.

The *'Innovation Index of Australian Industry'* is unique in that it captures innovation trends across thirteen categories of Australian industry – as defined by ANZSIC¹ - over a period of fifteen years since 1990. The Innovation Index tracks the evolving innovation performance of the Australian economy to provide business leaders, analysts and policy makers with a rigorous and insightful new measure to assess industry and national economic performance.

“This Innovation Index embodies IBM's commitment and investment to innovation and the prosperity of the Australian economy in a globally competitive market,” said Glen Boreham, CEO IBM Australia and New Zealand. “There is no doubt that Australia's industry leaders are embracing innovation to drive growth. However, according to the results of the Innovation Index there is the potential for much more to be done. Our hope with this Innovation Index is that by empowering local industry leaders with the necessary information we can, together, have a more informed debate and build Australia's global economic future on a path of successful and competitive innovation.”

¹ **ANZSIC:** Australian and New Zealand Standard Industrial Classification. This system is the official classification system used for Australian (and New Zealand) industry for data collection purposes, and is aligned with the international system of industry classification. The Innovation Index excludes nonmarket sector industries—such as government and defence, education, not-for-profit health services, as well as agriculture, forestry and fishing.



Professor John Freebairn, Director, Melbourne Institute, comments; “Innovation in the development of new and better products and services is critical for Australia’s sustained economic prosperity. This Innovation Index employs modern statistical techniques to provide a valuable and unique picture of the evolving innovation performance of the Australian economy. The Innovation Index provides industry analysts and policy makers with useful new insights on the important missing ingredient that drives economic growth”.

Key Observations:

The IBM-Melbourne Institute ‘*Innovation Index of Australian Industry*’ defines innovation as the introduction of new and improved ways of enhancing business productivity. The Innovation Index records this activity in relation to goods & services; technical operations; and organisational, managerial and marketing functions, encompassing activity that is both ‘new to the world’ and ‘new to the organisation’.

Some of the main observations to be drawn from the Innovation Index are:

- During the 15 year study period (1990 to 2005), allowing for changes in growth of the economy, the Innovation Index shows that Australia has increased innovation activity by 25.8 per cent, with particularly strong growth experiences since 1996. The overall increase in the rate of innovative activity since 1990 is 1.6 per cent per annum. Given the importance of innovation for economic prosperity and growth, this result suggests Australian industry has used innovation as part of its increased focus on growing and competing in a global marketplace.
- However, figures for the most recent study period (2005 relative to 2004) point to a small downturn in the rate of innovation in Australia by -2.6 per cent. During this period only two components of the Innovation Index - R&D intensity and trade mark intensity - reported increases in the rate of activity. Of particular interest during this period is a fall in organisational, managerial and marketing innovation which suggests some companies are overlooking the need to reorganise themselves in order to meet the demands of globalisation and its emerging market shifts.
- Despite this small fall in the Innovation Index in 2005, most Australian industries experienced innovation growth in the period from 2000 to 2004. Further to this, those industry sectors that invested strongly in R&D and ICT had the highest innovation and productivity Index ratings.
- After reaching its peak in 2002, the rate of patenting activity in Australian industry has experienced a downward trend to 2005. At the same time, however, the level of R&D intensity has been steadily increasing and has been the strongest growth of the Index from 1990 to 2005. This seems to be consistent with the Government’s introduction of the R&D Tax Concession Program to support industry in achieving innovation outcomes.



- From an industry perspective, the stand out performer over the entire fifteen year period was the **Wholesale Trade industry** (7.4 per cent per annum). With a 2005 Innovation Index score of 218.7 (1990=100), the Wholesale Trade industry score in 2005 was 30.8 points higher than the index score of the next highest industry. However, this score also masks the fact that the Innovation Index for Wholesale Trade actually fell in 2005 by -12.6 per cent compared to the 2004 score of 250.3.
- The other significant industry performers over the fifteen year period were the **Manufacturing** (3.8 per cent per annum) and **Finance and Insurance** (5.5 per cent per annum) industries, with Innovation Index rankings in 2005 of 161.2 and 187.9 respectively (1990=100).
- Despite high growth and record revenues, the **Mining Industry** has experienced a fall in the rate of innovative activity since 2001 – after an increase of approximately 80% from 1990 – 2001. Its performance in 2005 with an Innovation Index score of 138.8 suggests it is now only just above the average industry in terms of innovative activity. Much of this seems to be attributable to a dramatic decrease in patenting activity in the industry.
- For the first time in 2005, the **Health and Community Services** industry sector outperformed all others with a 23.8 per cent incremental increase on its 2004 score, and demonstrating an increased focus not just in R&D and trademarks, but also in organisational, managerial and marketing initiatives. Coupled with this, there has been an increased focus on the use of technology as an enabler of service delivery and efficiency gains. This well balanced innovation portfolio looks set to deliver greater client value in the years ahead.

David Byers, CEO of the Committee for Economic Development of Australia (CEDA), comments: “Innovation will be at the core of 21st-century economic development. It drives the competitiveness of firms and organisations in the global economy, and the quality of both private and public services. This Index shines the spotlight on Australia’s national ability to innovate. It shows us new ways to measure innovation – and thus to start nurturing and expanding our innovative capacity”.

The launch of the IBM-Melbourne Institute *'Innovation Index of Australian Industry'* has been scheduled to coincide with the 2007 'Australian Innovation Festival' – 26 April to 27 May- a national program of events established in 2002 to support and promote Australian innovation and entrepreneurship. The Festival highlights the best of Australian innovation with hundreds of events ranging from seminars, exhibitions and networking functions to competitions and workshops, in every state and territory. The aim of the Festival is to increase public awareness of the importance of sustaining a culture of innovation in Australia, and by doing so, build Australia’s reputation as a centre of innovation and entrepreneurship.

Peter Westfield, Chair, Australian Innovation Festival, comments “The IBM-Melbourne Institute *'Innovation Index of Australian Industry'* is a timely and significant contribution to better understanding innovation as the key driver for economic activity”.

what makes you 
special?[™]



The aim of IBM and the Melbourne Institute of Applied Economic and Social Research is to publish the *'Innovation Index of Australian Industry'* in order to allow innovation and economy watchers to reflect on changes over time and to compare industries.

IBM – Melbourne Institute Innovation Index

For more information about the IBM - Melbourne Institute Innovation Index of Australian Industry, and to download a full analysis of the results, visit <http://www.ibm.com/au/innovationindex/>

Melbourne Institute of Applied Economic and Social Research

The Melbourne Institute of Applied Economic and Social Research is a department of the Faculty of Economics and Commerce at the University of Melbourne. The Institute was formed in 1962 under the leadership of Professor Ronald Henderson and was the first economics research institute in an Australian university. Its objective is to be nationally and internationally renowned in academia, government, business and community groups as a major institute of applied economic and social research. For more information, see <http://www.melbourneinstitute.com/>

IBM Australia

For more information on IBM Australia, visit www.ibm.com/au

###

For more information contact:

Antonia Christie
Senior Account Director
Text 100
P: 02 9956 5733
E: antonia.christie@text100.com.au

Matt Mollett
IBM Communications Australia and New Zealand
P: 0413 420 394
E: mollett@au1.ibm.com

Pilar M. Martin
IBM Communications Asia Pacific
P: 0401 990 229
E: pilarm@au1.ibm.com