

Priming the R&D Machine

A rigorous screening process for new inventions has turned German optics maker **Carl Zeiss** into one of Europe's most innovative companies.

WITH ITS SLEEPY TRAIN STATION AND rolling green hills, the hamlet of Oberkochen makes an unlikely epicenter for Germany's optical-engineering industry. It's also the site of one of the most remarkable mergers in history.

Like Germany itself, Carl Zeiss—a 160-year-old optics maker famed for its microscopes and camera lenses—was split into separate East and West German entities after World War II. The two companies reunified in 1991, and after years of being weighed down by its former Soviet Bloc half, Zeiss has emerged as one of the most innovative companies in Europe.

Its secret? A fanatical research and development method that funds only the most commercially viable projects. "Innovation is about more than invention," says CEO Dieter Kurz. "It is about creating something useful that gives the company an advantage." Having nearly gone broke in the mid-1990s, Zeiss now earns an astounding two-thirds of its revenue from products less than five years old. Last year the company's net profit nearly doubled to a record \$193 million, while sales climbed 4 percent to \$2.8 billion—about 10 percent of which was poured back into research. Here's how an innovation makes it through Zeiss's tortuous R&D gauntlet. — JENS MEYER

