



Innovation is one of those buzzwords that will not go away. It can be easy to put innovation on the back burner when times are hard, or just when times are busy. The latest thinking makes innovation an everyday part of your business ...

What is it?

The “successful exploitation of new ideas” is **not just about products or services**. The processes that deliver products and services can often be a better source of competitive advantage: they are usually harder to copy. According to the DTI, and as a measure of how innovative UK businesses are, we spend 1.23% of our Gross Domestic Product on Research & Development. The EU average is 1.24%; the USA spends 2.1% and Finland 2.42% (2003, p.23).

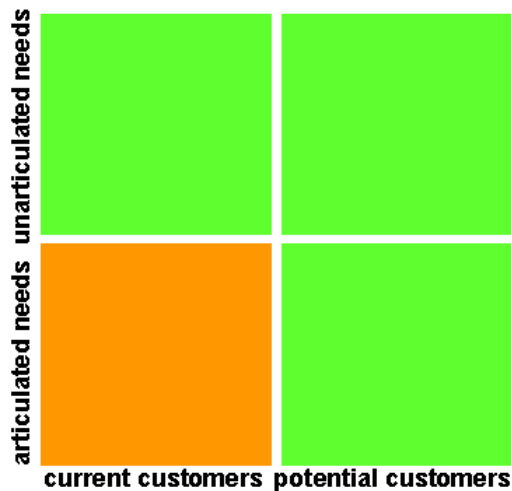
Why invest (more) in it?

There are a multitude of reasons for investing in innovation, and many specific drivers of innovation activity produce additional benefits on this list:

- **Consumers like innovation as it usually means better quality, cheaper products and a higher standard of living.** Two extremes here are ...
 - “*Cost Innovation*” can help businesses pre-empt deflation by reducing product costs (not least through process innovation) and widening access (eg developing nations)
 - “*New Luxury*” where innovation can add enough value to give a highly priced product disproportionately high volume sales (Sliverstein & Fiske, 2004).... this can mean market development, market share growth, and improved profits for the innovator.

- **Customers often expect to see innovation** from their best and hungriest suppliers. This can mean better relationships with trade channels. Hamel & Prahalad (1994) highlight the need to do more than meet the needs your customers talk about. They believe **successful businesses must think about people they don’t currently deal with but could**. This might require process innovation: learning about

new marketplaces, developing new routes to market, and changing conventional production practices.



They also advocate developing **foresight into what customers and non-customers would like but are not explicitly asking for**. Product innovation figures large here: probiotic yoghurt was an innovation that was on-trend. You may also choose to change the way your product is delivered: putting probiotic yoghurt in bottles enhanced its success as a dashboard breakfast ... but what if the milkman delivered one to your (car) door every morning?

- **Employees benefit from innovation**, it engages your colleagues (and *needs engaged people*) and offers them new and more interesting work opportunities (often with higher skill requirements and higher pay).
- **Investors like innovation; good innovation means improved financial performance and better returns**. Innovation can attract investment and deliver better investor relations.
- **The environment can often benefit from innovation** (and not just process innovation: mp3's – for example – are a more efficient way to transport and play music than CD's). Innovation can be an important part of Corporate Social Responsibility and can save you money from waste!
- Many businesses equally choose to innovate to **get ahead, or stay ahead of the competition**. A further critical reason to innovate is to **discourage new market entrants**.

As a result, innovation is a vital part of any business recipe for sustainable growth (please see our article on "the growth challenge").

How should we go about it?

A useful starting point in any innovation programme is to **understand your motivation** for doing it: it is likely to be a combination of the reasons above. At the very least you do not want to pay innovation lip service by using it to drive the business in one dimension only (eg looking good for customers).

Secondly, with your motivation clear, you should want to **set some targets that are appropriate to your business and are widely supported**. For

example: How many ideas do you want to have each year? Are you happy to only launch one great new concept each year? What revenue would you like each launched idea to have landed by the end of its first fiscal? When do you expect a positive cash flow? When do you expect to have recovered your investment? This stage demands a lot of talking: identifying champions, forming internal alliances, agreeing internal processes, discussing objectives, managing expectations and deconstructing perceptions of innovation ...

Your colleagues should be encouraged first to “forget”: adopting a fresh perspective on how the business adds value, suggesting big and extreme ideas (forgetting the constraints of how the business currently works). **Colleagues should also be encouraged later to “remember”:** what has / hasn't worked before that we can learn from and improve on (longer-serving and more experienced colleagues can be very valuable here).

A smart way to remember is to look at other peoples' successes and failures. According to Cobweb, **most innovations fail for one of two reasons:**

- 1) **Barren ground** – An innovation may already have been in the market in some form. There are opportunities to learn from other peoples' mistakes and to avoid infringing another's' copyright by researching / taking advice on what you see as your intellectual property.
- 2) **Poor fit for growing conditions** – An innovation might be genuinely original but there might not be sufficient demand to sustain your business. Researching the market can minimise risks here: explore the channels you could sell through, the substitute products you will compete with, and the end-users you need to win over.

Involve a wide range of people, and as many as possible: the more people are working on solutions the better. Do not restrict participation to “creative types”. Adopt a 360-degree view by including suppliers, customers and other facilitators (such as grasp) in the process wherever possible. Facilitated “workshops” are a good vehicle to start a process, maintain a regular flow of ideas, or to bring businesses together to solve problems.

Research also suggests:

- **Throwing down the challenge of raising as many ideas as possible,** quantity and quality are not linked.
- **Individual financial rewards are not normally the best incentive,** public recognition and work-related, team incentives often work better.
- **Do not pressurise colleagues to deliver,** ideas need some time and patience to develop (you want results, but not at any cost!)
- **The budget you allocate for R&D is unlikely to correlate with results** – don't just throw money at innovation, many Japanese R&D

teams are famous for beating American and European businesses to market at a fraction of the cost.

- **Concentrate your efforts** – what this means in terms of projects is up to individual businesses’ circumstances but you need to be very selective about where you direct your resources to do the best ideas justice.

... and finally, all **the evidence suggests that the best way to manage innovation is as part of a continual organisational learning process.** In this environment, the application of innovation can be a less risky and incremental process, rather than a “big bang” revolution. In this way an organisation can **allow for mistakes and learn from them**, can make **innovation a core competence** and can **make innovation part of the way we do things: part of the culture.**

What size and shape of opportunity can this innovation deliver?

Once you have an apparently winning idea you will need to know more about it. Many of these questions can be answered internally, an outside researcher – like grasp – will be able to help you answer the difficult questions.

PRODUCT	PROCESS
How big will the market be?	How big will the cost saving be?
How fast will it grow?	How fast will it come on line?
How much of the market do you want to be in?	How much of your capacity do you want to apply it to?
How much share can you get and keep over time?	Will it change your capacity or capabilities?
Who will be your competitors and customers?	What will be your competitor / customer response?
What resources will be required to land the market opportunity?	What resources will be required to make the necessary changes?
What are the risks?	What are the risks?
What are the likely returns?	What are the likely returns?

Summary

Innovation must be stepped up in the UK for us to compete in the global “knowledge” economy, the process of innovation merits more focus (and the government will be encouraging us!). Innovation has clear advantages for consumers, customers, employees, investors, the environment and business’ competitive positioning.

Becoming more innovative requires us to challenge our motivation, set stretching targets, hold a wide range of discussions, open our minds, remember for improvement, learn from mistakes, get wide buy-in, gather ideas, reward teams with recognition, apply only gentle pressure towards results, budget for quality innovations not quantity, and be VERY selective.

Research your winning ideas carefully and evaluate and learn from the results.

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