

Innovation - a game of chance?

Weighting the innovation dice in your favour

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Executive summary

Innovation is the key to survival in today's complex global market place. Companies need to regularly launch new products and services to keep ahead of aggressive competition, win new customers and provide security for the future.

Business gurus now talk of the new 'creative economy', the 'core competence of creativity' and 'macro innovation' – the big idea that will boost the fortunes of a company. In fact, a recent survey of business leaders found innovation to be a high priority. But how much of it is going on – and more importantly, how much is delivering real end user value, return on investment and subsequently boosting company profits?

Other figures indicate that 96 percent of innovation initiatives fail to meet return on investment targets – a massive failure rate. With thousands of products and services being launched around the world every year, huge sums of money are being wasted developing new products, in

which end users find no value and do not buy. So what can companies do to turn the tables? How can companies ensure that their new innovations are successful?

In our experience, the main cause of failure is the way that many companies approach innovation. Often they do not seek to really push boundaries, they mitigate what they perceive as high-risk opportunities by sticking to 'routine innovation' that results in incremental developments and uninspiring line extensions.

Successful innovation strategies challenge the way we do things but manage risk effectively. They maintain a clear focus on understanding stakeholders; identifying unmet needs and valuable trends; pushing creative boundaries in a focused manner; continual technical, business and stakeholder validation; and the ultimate creation of concepts that delight stakeholders and deliver real business value. Innovation should not be a game of chance.



Introduction

Business leaders around the world are seeing great changes in the markets in which they operate. For example, companies in China have moved from being just a low-cost centre for manufacture, to now delivering full turnkey design and manufacture of increasingly complex products for both themselves and their clients. Western companies are understandably taking advantage of this opportunity to outsource detailed development to a lower cost environment but what does this then leave behind?

Innovation is the obvious answer. Unsurprisingly a recent survey of CEO's and government leaders carried out by IBM found that 'innovation' was high on their agendas – it has to be, it is going to deliver the future of the business. The critical and most valuable element of the entire innovation process is undoubtedly the front end – the identification of real stakeholder needs and their translation into deliverable and valuable new product concepts.

As a result, the knowledge economy has, according to business gurus, been superseded by the creative economy. Increasingly, they tell us, 'the new core competence is creativity - the right-brain stuff that smart companies are now harnessing to generate top-line growth'.

Managing Innovation Risk

Breakthrough innovations deliver something new, something of value something that stakeholders didn't know they needed. But where do these breakthroughs come from and how can companies consistently create them?

Fundamentally they all start with the discovery of an opportunity. However, repeated success comes from systematically developing a deep understanding of the areas of opportunity. This leads to insights and inspiration.

There are many sources for discovering potential opportunities, for example:

But how much of this is reality in business today? How much innovation is really going on and, more importantly, how much of it is successful and generating profit?

According to a recent survey, 96 per cent of innovation initiatives fail to meet return on investment targets. With thousands of products and services being launched every year, huge sums of money and resources are being wasted developing new products, in which end users find no value and do not buy.

All innovation carries an element of risk and genuine breakthrough innovation is, by its nature, the riskiest. However, many companies struggle to manage these risks on a project by project basis. When this is combined with a short term perspective on the likely returns, organisations take what is perceived as the low risk option and pragmatically shy away from true breakthroughs.

As a result, many innovation strategies focus on launching a steady stream of product enhancements and line extensions. Whilst incremental innovation is a hugely valuable part of an innovation portfolio, in our view failure to develop medium to long term innovation projects leading to ground breaking new products or services presents a much higher risk to the ultimate success of a business.

- Finding current unmet needs of users and stakeholders.
- Understanding and capitalising on trends to meet future needs.
- Disrupting the value chain with new technology or practices.
- Identifying where new technologies will disrupt a market/product or service.

"With a good innovation team and great insight into the problems to be addressed, only then can you enter the more creative phase of a project."

We use a range of tools to explore these areas, which can include ethnography, scenario planning, disruptive technology searching and value chain analysis. Discovering and selecting the right opportunities requires a combination of analytical rigour and creativity. We build teams that have access to broad cross-sector experience and deep technical, design, market and business knowledge. This provides the ability to validate and prioritise the output from the 'understand' phase rapidly.

In our experience, while many organisations understand the value of identifying the unmet needs of their users, they fail to understand who other key stakeholders are. These other stakeholders may influence purchasing decisions or the manner in which a product is used.

For example, imagine a new product concept that could reduce by fifteen minutes the time taken to carry out a complex surgical procedure in a hospital. The concept is genuinely revolutionary and is well received by the surgeons who might use it. It would appear to be a valuable opportunity.

However, when we delve a little deeper, we find that the surgical procedure being addressed normally takes two hours. Reducing the time taken by fifteen minutes actually provides very little benefit to the hospital because it does not allow surgeons to 'fit in' another operation – it does not increase throughput, which is a key metric for the hospital.

The purchasing manager for the hospital, a key stakeholder, will not pay for this new device as there is no return for the hospital. Considering this additional stakeholder suddenly changes the value proposition significantly.

Another weak spot for organisations is the approach to creating innovation teams. Organisations typically bring together a group of the brightest and the best – often individuals who have excelled in their respective fields. This creates two challenges. Firstly what should the

makeup of the team look like? High level strategists or those with an eye for detail? Logical thinkers or creative powerhouses? We believe that teams ideally should consist of individuals with a diverse range of personality traits.

They are very challenging to manage but 'cover all the bases' and make it possible to rapidly build and kill concepts. A team of substantially similar personality types on the other hand will be easy to manage but tend to lack capability in certain areas, creating a potential downfall and an added element of risk.

Having chosen a team, the second challenge is promoting the value of early failure. The ability to 'kill' concepts for the right reasons as rapidly as possible is key. A team used to delivering incremental innovation or product development will expect to always deliver successfully. However innovation is risky. Many concepts or opportunities are inappropriate because, for example, they don't address a real need, they cannot be technically delivered or they will not provide a sufficient return on investment.

The objective therefore is to kill bad concepts as soon as is realistically possible. This will in turn free up resources that can be used to develop those concepts that do have real future value. A team that continually uses more resource to get a 'bad' concept to become 'successful' will deliver late failures and perpetuate the impression of breakthrough innovation being too risky.

With a good innovation team and great insight into the problems that need to be addressed, we can enter the more creative phase of a project. Many organisations already understand the value of using a broad range of creativity tools. However, it is important to emphasise how involving the right group of people from a wide range of functions and disciplines, and ensuring the team remains immersed in the world of the key stakeholders and end user, are key factors for success at this point.

The biggest challenge we find is that companies either conceive a handful of new ideas, or are unable to deal with the challenges associated with managing a large number of ideas, say 200 – 400. You cannot stifle creativity at this point, it is crucial that participants are taken to the extremes of their creativity in order to unleash real breakthrough ideas.

What is required, therefore, is a means of appropriately structuring the innovation space. The team needs to be confident that it has understood what the potential space for innovation looks like, that it has covered this space and not missed opportunities and that it has selected the best ideas to take forward.

We have specifically developed a range of structured innovation tools to provide the required confidence and minimise risk in this creative phase.

“Breakthrough innovations deliver something new and of value. Something that stakeholders didn’t know they needed.”

Having generated a large number of ideas, an iterative process of idea development and filtering can be used to gradually get down to a sensible number of ideas to pursue.

We believe that the most effective way of carrying out this selection is to focus initially on removing ideas that are not appropriate. We only start to identify or rank the most valuable ideas when the number involved is relatively small, say less than 50, and they are reasonably well developed.

Ranking preferred ideas at the beginning of the process is both highly resource intensive and also ineffective as the ideas often change as they are developed. This can result in good ideas dropping out of sight before they have been thought

through and result in weak final concepts – and another opportunity to introduce risk into the process.

It is important to mention at this stage that innovation need not necessarily be ground breaking technology. A perfect example of this is Apple’s iPod, which brought together existing hard drive technology, wrapped a software package to enable legal music file downloading around it, and created a well designed and compelling user experience.

None of this was rocket science but what Apple did exceptionally well was to understand and anticipate market needs. They took a well calculated risk and created a highly desirable product that the competition, so far, has not been able to match.

Having built a portfolio of leading candidates, further iterations of testing and validation must be carried out from a technical, business and stakeholder perspective. Each of these is important if all the internal business sponsors are going to give the go ahead for further funding.

It is important to provide a vision of the concept that excites all of the sponsors and internal stakeholders. The vision must effectively communicate what the concept is, why it is valuable and how it can be delivered.

An approach to breakthrough innovation that draws on the areas outlined above is extremely involved and detailed. It is both resource and time hungry but in our experience, it will deliver results. When it is deployed appropriately it can eliminate much of the risk associated with developing breakthrough products or services. Critically, it can enable companies to match the needs of the customer and meet return on investment targets.

Conclusion

Business gurus are absolutely right when they say that a company's core competence should be innovation.

However, in today's complex and dynamic market place, winning organisations will break away from short-term, incremental innovation strategies and embrace the challenges associated with breakthrough innovation. Innovation strategies that provide the capability to develop breakthrough products and services will

ultimately prevail. The initial, often heavy, investment of time and resource will pay dividends and enable companies to create and launch new products that are a significant step ahead of the competition, are desirable and meet return on investment targets.

With this approach, innovation becomes managed, structured and planned – and, therefore, not a game of chance.

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