POINTERS
Expert Guidance on Innovation Strategy

INSIDE

Making new stuff happen in an established organization isn't easy. So one of the things we try to do at Innovation Leader is provide as much guidance and data, and as many case studies and concrete examples, as we can.

Some of our biggest allies in that mission are the strategic partner firms that regularly share their advice with Innovation Leader's members — at live events, in our website's Thought Leadership area, in our print magazine, and in this series of PDF publications.

Pointers collects the best recent insights into how you can have more impact on your organization, all created by our partners. We designed Pointers for easy printing, and we encourage you to share it with colleagues. I'd love to hear what you think...

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Leader

The Hypothesis-Based Approach: A More Innovative Organization

BY AGNES SÄVENSTEDT, **INNOVATION 360**

The business community may remember 2016 as the year when crowdfunding surpassed venture capital in financial support for startups. The unbridled success of crowdfunding platforms such as Kickstarter, Profunder, Microventures, and GoFundMe should not surprise anyone given that they open up a new path for entrepreneurs to rapidly proto-type their ideas in front of real customers. Kickstarter alone has seeded at least 8,800 new business ventures over the past seven years, including the lucrative and influential Oculus Rift. Many, but not all, of these projects lacked a proper network of VCs and investors. The success of crowdfunding methodology is perhaps the best demonstration of the power of the hypothesis-based approach.

WHAT IS HYPOTHESIS-BASED INNOVATION AND HOW DO YOU DO IT?

The hypothesis-based approach to innovation consists of four steps:

1. Formulate a hypothesis
2. Design and run experiments to test the hypothesis
3. Measure results
4. Verify or discard hypothesis and, if necessary, return to step one.

It may sound reasonable, yet it is rarely practiced in the business world. Instead, teams responsible for innovation often follow a solution-based approach preferred by local experts. In a solution-based approach, a problem is defined and a solution proposed based on expert opinion. That solution is justified by reporting, then funded and it enters the market. As a result of gut-instinct or prior experience, the expert is convinced that their solution is the best way to solve the problem.

When asked to support their reasoning, experts can normally cite countless statistics and case studies that back them up, thanks to confirmation bias. Confirmation bias is the natural human tendency to perceive only the data that confirms initial assumptions. It requires a carefully-structured experimental design to counter the effects of confirmation bias. The fact that this approach is so prevalent may also be at the root of a breakdown in innovation execution, as identified by McKinsey. They reported that although executives agree on the critical value of innovation, 94 percent are not satisfied with their own results and they lack clarity on how to improve the situation.

HYPOTHESIS-BASED INNOVATION AND THE LEAN STARTUP

If the hypothesis-based approach to innovation looks familiar, it's most probably because

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it is closely tied in with two of the principles of the lean startup methodology, popularized by Eric Ries. In his proposal for new rules to govern startup management, Ries introduced the following principles:

· Validated Learning – Startups must discover their own unique pathways to making the business sustainable. This can be done by conducting iterative experiments, testing out each component of the founder's greater vision for the startup.
· Build-Measure-Learn – Startups must turn dreams into marketable goods. Based on how customers respond, they can adjust, adapt, and build on what they produce. Through rapid and incremental iterations, startups grow more innovative, agile, and disruptive.

It's to be expected that the first time a business attempts to do something it hasn't done before, it will make mistakes and not reach its potential. However, overcommitment of resources to failing projects and late corrections have doomed many commercial ventures. Given the new normal of hyper-competition and economic uncertainty across the globe, firms have a better chance of survival using the hypothesis-based approach. It creates a framework where companies can make serious mistakes as early and as cheaply as possible.

LESSONS FROM 'THE MEDICI EFFECT' AND 'WHAT MATTERS NOW'

Two authors of management books in recent years have delved into the heart of innovation to reveal what works and what has been a persistent illusion in the market. Frans Johansson in "The Medici Effect" emphasizes the diversity of concept sources and intersectional thinking, while Gary Hamel in "What Matters Now" promotes innovation training for the entire organization. However, both agree that one of the most important practices that distinguishes a company as more successful at innovation is the sheer number of attempts that are fully tested. Sometimes this is expressed as "Fail fast and learn fast." In this case, "failure" is just a rhetorical device referring to the validation or refutation of hypotheses. From this perspective, crowdfunding projects really ought to be even more commonly employed by the greater business community. Crowdfunding encourages innovators to find a first paying customer to prove out their concepts on, using a Minimum Viable Product (MVP). It's a direct way to test MVPs in a real marketplace without overburdening company resources. Innovation, by its very nature, does not conform to rigid structures, but emerges organically from a supportive environment and iterative experimentation.

KICKSTART

If an organization can only do one thing to kickstart innovation, its best option would be to start applying the above hypothesis-based approach in validated learning cycles. It can start on any level: from a single project (i.e. what underlying assumptions produced the hypothesis that this project is the best way forward?) to the macro-level of the company itself (i.e. creating a business model canvas, or BMC, to map out every unstated hypothesis behind your business model). Only the best ideas can survive this kind of test.

HOW TO SUPPORT INNOVATION

One time is no time. Nevertheless much is won by getting a flying start and therefore kickstarting complemented with a deeper understanding of the nature of the organisation, and its capabilities for innovation, multiplies the chances for innovation delivering success after success. Assessing the leadership, culture and capability is essential to uncover the true nature blocking, hindering or stimulation the process from ideation to commercialization. For this we developed the InnoSurvey™, ready to use free of charge in a simplified version or an extensive enterprise solution via our consultants or licensed practitioners in more than 20 countries. From projects all around the globe we have learned that kick-starting in parallel with building the right capabilities, and building on the right capabilities, is what lead to success. Not necessarily the best strategy or the best idea.

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Why it's Not Too Late to Build Your Own Industrial Internet Platform

BY MICHAEL BRADY, NED CALDER AND JOE SINFIELD, **INNOSIGHT**

Over the past three years, the emergence of the Industrial Internet of Things (IIoT) has led to an outpouring of technological cooperation, as more than 350 firms have joined various consortia to hammer out standards around open digital platforms. Yet this leaves industrial companies in an uncertain competitive position in terms of creating and capturing value for themselves. With the industrial internet accounting for nearly $800 billion in commerce last year and growing to a multi-trillion dollar opportunity over the next decade, companies don't just need to cooperate: they need to focus on forging a digital platform strategy that generates growth.

Indeed, while these digital networks are meant to be "open," there is also great advantage in being the provider of the platform. The Industrial Internet Consortium, for instance, counts Bosch, GE, Intel, IBM, SAP, and Schneider Electric among founding members working to assure that different equipment can share data for energy, health care, manufacturing, transportation, and smart cities applications. While the rise of Industrial Internet platforms does not mean every company must build one, every company must have a strategy for how to remain relevant to their customers.

For a prime example of a company doing both, we need to look no further than General Electric, whose turbines generate 300 data points per second (see image on following). If GE increases fuel efficiency 1 percent in its jet engines by analyzing data from embedded sensors, airline industry profits could increase by $3 billion. At the same time it is providing those kinds of benefits for those who plug into its Predix operating system, GE's digital industrial business generated about $7 billion in revenue last year and is on track to reach $15 billion by 2020. That is good for GE, but the question for other firms is clear: is there still an opportunity to build your own digital platform, even on a smaller scale, or is the best strategy to simply plug your equipment in and cooperate?

WHAT IS YOUR DIGITAL PLATFORM STRATEGY?

The challenge for companies that want to capture new value is that industrial applications often exist in a 'systems of systems.' That is, there are many systems and subsystems from different manufacturers that need to work together.

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This requires coordination. 'Platforms' are a type of solution that enables different systems and stakeholders to coordinate all the various inputs and outputs—and to provide developers the ability to build vertical software applications that are used by end users.

As the central clearinghouse, the company that owns and manages the platform is well positioned to capture a significant portion of the value. Dozens of companies have launched IoT platforms targeting industrial applications, with analysts expecting this new capability to add $14.2 trillion to cumulative global GDP by 2030. According to Forrester Research, 60 percent of decision-makers at global enterprises are using or planning to use IoT-enabled applications over the next two years. Gartner has suggested that two-thirds of industrial enterprises will be doing so with an IIoT Platform by 2020.
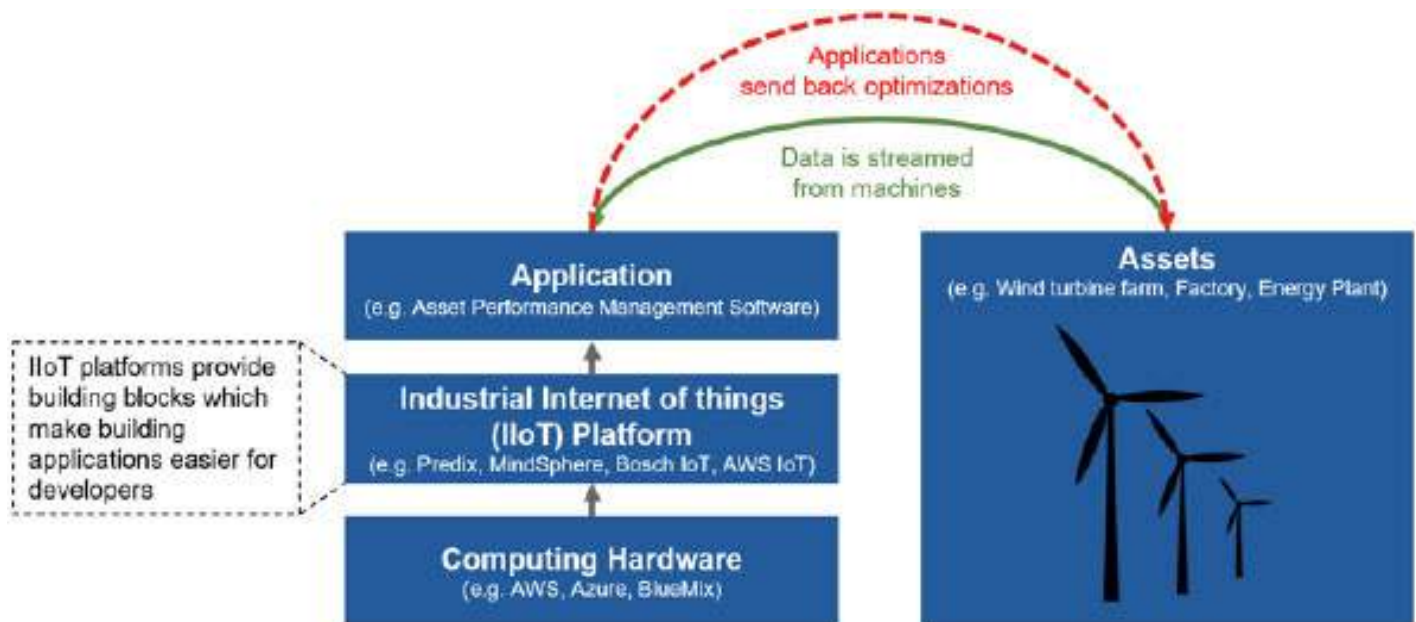
We suggest that there are two types of Industrial Internet systems: broad platforms like GE's and niche platforms that serve specific industries or applications. To determine where you are best able to play, it helps to begin with a common understanding: First, building an IIoT platform is not cheap. It requires a significant and sustained investment to build infrastructure to develop capabilities required to sustain the platform, and to fund customer acquisition activities. Second, building an IIoT platform is very different from making, say, a jet engine. Industrials considering playing in these new areas will need new strategies, business models, and organizational structures to succeed. IIoT platforms have the potential to widen a company's competitive landscape while also providing a source of future growth. To achieve the optimal IIoT platform strategy, we believe it is fruitful to study the recent history of platforms, which yield these five lessons:

Lesson #1: Outside hires and agile development cycles are required to deliver constant iteration. Most industrial businesses have long development cycles that require focused development activities with incremental changes spanning years and sometimes decades. Like most digital opportunities, IIoT platforms entail dramatically shorter, faster development cycles. Whether you're considering a broad or a niche platform, many industrial companies will need to fundamentally revisit their internal development process and talent base.

Here we can learn from the cloud computing space, where competitors seek differentiation by constantly adding new features. Recently, Google Cloud has added artificial intelligence and data analysis. The IBM Cloud has focused on tailoring vertical solutions for different markets. Amazon Web Services added 1,000 distinct features in 2016. In all these cases, agile development is core to those cultures.

Constant iteration is necessary for several reasons, including staying competitive, increasing revenue from existing customers, and creating features targeted at niches. For example, AWS targeted government customers by adding Criminal Justice Information Services compliance and by launching a "GovCloud" with security for government use. Most industrials presently lack the ability to ship hundreds of features per year, so this means a new agile software capability must be built. Agile development is an iterative approach to building software that accelerates the delivery of finished projects. Many industrial companies, including John Deere, have moved their existing software groups to an agile workflow and seen delivery timelines drop by 92 percent. In addition to agile, many industrial companies are pursuing what is known as bimodal IT. According to Gartner, bimodal refers to the practice of managing two separate IT work styles. One group is focused on predictable, well-understood legacy products. A second group explores new problems in a fast-moving, assumption-driven manner. Strategic acquisitions are one way to rapidly build an agile software capability. Bosch used a technology acquisition to form its Intelligent Solutions Group, which has since developed an IIoT platform.

But for most industrials, achieving agile development or bimodal IT to build a viable IIoT platform requires consistent hiring of outside talent. GE CEO Jeffrey Immelt has said that GE never made progress in digital "until we brought people in from outside." Despite employing over 10,000 software developers, GE still chose to initially staff its software center of excellence with 98 percent outside hires. To attract talent, GE has located offices near software hubs, which included moving its headquarters from Connecticut to Boston. In doing so, GE also changed compensation packages and launched advertising campaigns focused on the potential impact GE's work can have.

Lesson #2: Leveraging B2B relationships are essential for incumbents to gain a fast foothold. When discussing market entry strategies, many players focus on technology development strategies and ignore the human side of IoT. Incumbents with customer relationships have multiple advantages that new entrants will lack. First, existing relationships provide a source of first mover advantage and serve as potential platform validators. GE has relied on existing customers to serve as validation stories for its Predix platform. Second, customer trust built over time will help incumbents address customer's concerns around security and compliance.

The same lesson is reinforced in the cloud computing environment. More than a decade into the cloud revolution, many large enterprises are still in the early stages of adopting a cloud computing platform. But the transition is quickening; a 2015 study found that 77 percent of companies primarily used traditional on premise data centers for at least one workload, but that by 2018 the percentage will drop to 43 percent. The shift is being driven by cost savings, decreased time to market, and the quality of cloud systems. This lag has provided incumbents that can leverage a sense of trust to address concerns around security and compliance with an opportunity to catch up to early entrants.

That's because a minimum viable platform needs a significant customer base to be financially sustainable. For example, Johnson Controls shuttered its Panoptix platform after failing to attract enough interest to justify development costs. Thus, IIoT platform operators should focus on attracting customers, knowing that the lifetime value will be high. Google recently used incentives to help provide capacity to host the Spotify music service and even Apple's own iCloud platform. Customer acquisition in the early stages of the industry lifecycle is crucial for the platform to gain critical mass in the long-term.

Lesson #3: Niche platforms can differentiate by focusing on critical customer-job-circumstance combinations Even if your organization can't sustain the investment and operational speed that is required to grow a broad-based IIoT platform, smaller companies can win by focusing on narrower customer jobs, or problems that crop up in specific circumstances. This requires a more targeted feature set, which are not sufficiently addressed by the broad IIoT platforms.

A good way to start is with a simple mapping of jobs, or needs, addressable by IIoT versus the circumstances that specific customers may encounter. This map can allow you to understand where general platforms compete and highlight opportunities where your unique capabilities and knowledge can provide an advantage.

SKF Group, the Sweden-based leader in the ball bearing systems industry, has developed IIoT solutions designed to increase the performance of its products. SKF Insight provides real-time updates to customers, alerting them to when conditions such as temperature or lubrication levels may cause a system to fail. SKF Insight is able to provide this service by collecting data generated by tiny sensors embedded in bearings that are powered by kinetic energy generated by the motion of the bearings.

Preventing bearing failures is an important job many SKF customers have. Replacing the main bearing on a wind turbine is so costly that doing so can undermine the business case for building the turbine. Companies have also found success partnering with established IIoT platforms. Pitney Bowes, a leader in the mailing equipment industry, has been forced by a long-term decline in mail volume to transform itself. To fortify its legacy mailing equipment business, the company has partnered with GE's IIoT platform, Predix, to develop a suite of software tools for its equipment. These tools are available to customers as a paid subscription. Seeking new growth, the company has leveraged its experience in the mailing industry to simplify the international shipping process for retailers. Pitney Bowes has pursued a conservative IIoT strategy for its legacy business while pursuing new growth opportunities enabled by digital. In partnering, SKF and Pitney have both been successful decreasing downtime—a priority job for many industrial customers.

Lesson #4: Platform operators should build core features and when possible allow partners to provide supporting features. Regardless of the scope of an industrial IIoT platform, industrial companies should look to partners to provide basic IIoT platform functionality. For example, Apple famously built Apple Maps because of the increasing importance of mapping to mobile platforms. Mapping was becoming a differentiating feature that Apple risked losing control of, unless an internal capability was developed. Yet Apple still partners with third parties to provide weather and stock data for their mobile platform. Weather and stock data are
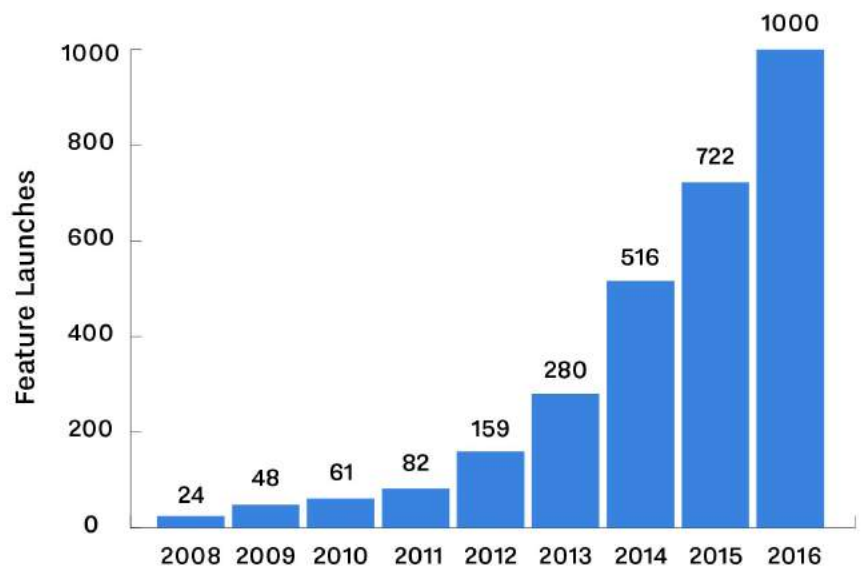
basic features that customers expect but not features upon which they base their purchasing decisions. Another example can again be seen in the cloud computing industry, where basic computing and storage has become a basic feature expected by customers. Prices for these features have fallen over time, partly driven by Moore's law and partly by the willingness of competitors to sell basic computing at prices that allow little margin. This trend suggests to industrial IIoT platform managers that these features may be best provided through a partner. Digital leaders have already recognized this insight and begun partnering with Microsoft's Azure, AWS, and others to host their IIoT platforms on established cloud computing platforms. Similarly, General Electric recently paired with Microsoft to host Predix on Microsoft's Azure platform. This partnership allows GE to focus resources on building core IIoT features, rather than dedicating resources to supporting features.

Lesson #5: Not every company is positioned to build an IIoT platform, but every company must develop a strategy to remain relevant. Few companies are positioned to become broad IIoT platform operators, like GE, IBM, or Google. Even smaller, more niche solutions like SKF Insight are not an option for every company. However, companies that do not pursue IIoT platform strategies must still find ways to remain relevant to customers and to protect against disruption caused by digital.

For instance, Yard Club is a startup seeking to de-link the value construction equipment creates from actually ownership of that equipment. The company allows equipment owners to rent their machines to operators during periods of downtime. Yard Club thus has the potential to significantly reduce the demand for new equipment by increasing the utilization of existing equipment. Rather than ignore this potentially disruptive business model, Caterpillar has invested in the company and has instructed its dealer network to list their rental inventories on the platform. This enables it to add the benefits enabled by another IIoT platform while remaining relevant to its customers.

Komatsu, second to Caterpillar in construction equipment sales, faces a similar threat. Rather than wait to be disrupted, Komatsu has pursued efforts to create disruptive concepts internally. Komatsu's Smart Construction unit provides a service that semi-autonomously excavates sites. The service combines drones, remote operators, and Komatsu equipment to accomplish a job that previously required ownership of expensive equipment and significant labor. Selling excavation as a service is a significant departure from selling equipment and could eventually reduce Komatsu's traditional equipment sales.

MOVING FORWARD WITH YOUR DIGITAL STRATEGY

Leaders must identify where their company is positioned in the industry ecosystem to determine the optimal strategic action. Incumbents do not have to be the first mover, but waiting too long will make it difficult for a platform to reach viability. This is seen in the cloud space, where the top five or six platforms, including Google, IBM, Amazon, and Microsoft, together control about 60 percent of a giant market.

A successful IIoT platform will begin by targeting existing customers with differentiated features created through constant iteration and funded with sustained investments. Not every company should build a general-purpose IIoT platform; opportunities exist for niche platforms as well as in adjacent areas. To determine an optimal IIoT platform strategy, leaders should assess their existing data portfolio as well as the priority jobs of their target customers. But it's now becoming vital to settle on your strategy soon, as the cloud platform business shows just how momentum can entrench the strongest digital marketplaces.

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Five Product Innovations that Evolved Over Time

BY JESSICA DAY, **IDEASCALE**

The product innovations that generate the most excitement and public interest are the disruptive innovations. They could be a new way to call a cab, drive a car with little need for gas, or a new way to look at medicine, technology, or entertainment.

However, these innovations aren't that common. The most successful, innovative companies strike a balance between core, adjacent, and transformational initiatives. A 2012 study found that companies that allocated about 70 percent of their innovation activity to core initiatives, 20 percent to adjacent ones, and 10 percent to transformational ones outperformed their peers.

To illustrate how this can happen, it's helpful to look at innovations that evolved over time. Sometimes, you have the perfect solution already created. You just need a different perspective, and opportunity to look at it in a new way.

Jessica Day
VP of Marketing & Communications

LISTERINE — FROM SURGERY TO YOUR BATHROOM COUNTER

Listerine is well-known today as a mouthwash, but it didn't start that way. This product innovation initially had an entirely different use, in operating rooms.

In the 1860's, an English doctor named Joseph Lister was inspired by Louis Pasteur's work on microbial infection. Lister was able to demonstrate that using carbolic acid on surgical dressing dramatically reduced rates of post-surgical infection.

Inspired by Lister's discovery, American Joseph Lawrence developed a surgical antiseptic that was alcohol based and included eucalyptol, menthol, and other compounds. Lawrence named his creation "Listerine" in honor of Dr. Lister.

A licensee realized the potential of Listerine extended well beyond the operating room. With aggressive marketing to dentists and American consumers, Listerine became a runaway success in the 1920s as a treatment for chronic bad breath. In seven years, the company's revenue rose from $115,000 to more than $8 million.

AVON SKIN SO SOFT — FROM MOISTURIZER TO HIKING COMPANION

Some product innovations aren't created by the company at all. Instead, the innovations are brought out by customers who discover a new way to use a product. This is why including various sources of input is so vital in innovation projects!

Avon's Skin So Soft bath oil was long considered by customers as a useful bug repellent. The company points out that the product wasn't intended as a bug repellant, but Consumer Reports found that it worked to repel some mosquitos and ticks for up to two hours.

Two hours isn't as long as most bug sprays, but it is something. For many of its fans, the oil has a pleasant scent and a positive effect on the skin. Avon responded to the product's popularity by creating a Skin So Soft Bug Guard, a similar product designed as a bug repellent.

By listening to customer reviews of its products, Avon was able to innovate within its product line and create something new in response to consumer demand.

WD-40 — FROM BOMBS AWAY TO SQUEAKING HINGES

There's a joke that anything can be fixed as long as you have both duct tape and WD-40. What many people don't know is that WD-40 was among many product innovations that initially had a totally different purpose.

When it was developed in 1953, WD-40 was intended to be used by Convair to protect the Atlas missile balloon tanks from rust and corrosion. The name means "Water Displacement, 40th formula," which gives you some insight into how difficult it was to create.

WD-40 was later found to have a wide variety of household uses, and became available to the general public in 1958. While the product isn't glamorous, the company has grown steadily, especially in foreign markets.

This simple innovation has caused WD-40's stock to grow 200 percent in the last ten years, while the S&P Index has grown 70 percent in that time. The company positions the product as a multi-use item, allowing flexibility in marketing and store placement, as well as ongoing profitability.

MINOXIDIL (AKA ROGAINE) — FROM BLOOD PRESSURE TO BALD HEADS

Medical product innovations often come from alternate uses that are discovered over time. Minoxidil was tested to treat ulcers, which did not work. However, it was found to be powerful in widening blood vessels. As a result, minoxidil was initially approved by the FDA as a blood pressure treatment medicine named Loniten.

Unfortunately, Loniten had an unpleasant side effect – it caused excessive hair growth on both the head and other parts of the body. Patients who were balding were glad to have additional head hair, but it could also affect the arms, legs, chest, and back.

Researchers jumped on this side effect, seeing a big market in treating baldness. In 1988, the drug was ap-

proved for treating baldness in men, and was released under the name Rogaine. Now available in a dropper, foam, and spray, Rogaine has been available without a prescription since 1995.

SLINKY — FROM STABILIZING SHIP INSTRUMENTS TO A FAVORITE TOY

In 1943, a naval mechanical engineer named Richard James was working on creating springs that would support and stabilize sensitive equipment on ships. The equipment would often get damaged or lose calibration on rough seas.

As he developed one spring, he accidentally knocked it off a shelf. He watched it as it "stepped" in a series of arcs across the room. He realized that if he adjusted the steel and tension, he could make a spring that would walk and become a great toy.

His instincts were correct, and in 1945 he was able to demonstrate and sell the toy Slinky in the toy section of a Gimbels department store. The first 400 units sold out within 90 minutes, and the toy continues to be a children's classic.

Not all product innovations have to be dramatic and transformative. Of course, you can't avoid disruptive innovation, but having a balanced approach focusing on all three types of innovation is key. Transformative innovations can change your organization's trajectory, but incremental improvements are equally vital.

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Beyond Flavor of the Month: Managing Idea Challenges as a Repeatable Program

BY SARA HUSK, IMAGINATIK

An idea challenge is a structured process to collect new ideas from large groups of people – employees, customers, partners, or other stakeholders. Done right, they create multiple radiating benefits. The most obvious are all the new ideas that might otherwise have gone unnoticed by executives. But there are other powerful benefits, such as increased staff buy-in for new initiatives, higher productivity, improved morale, and a more engaged workforce.

Here's the problem: idea challenges are traditionally treated as one-time events. Though they often deliver some success, organizations often struggle to take the challenge beyond the initial project, and into a complete innovation program. As a result, participants don't stay engaged, momentum is lost, virtual ideation often fizzles out, and innovation ultimately dies on the vine.

To solve the problem, many of our Innovation Central customers are treating idea challenges more strategically – transforming them from one-off projects to a programmatic component of a broader innovation program.

They're employing challenges not as one-off events, but as an ongoing business tool that continuously feeds the idea pipeline. And what they're getting in return is deeper employee engagement, faster results, and greater business value.

Sara Husk
Chief Solutions Officer

TREAT YOUR IDEA CHALLENGES AS A JOURNEY

The most successful idea challenges are not employed as one-off projects, but rather as part of an idea journey. The conclusion of an idea challenge is not the end of the project – it really is just the beginning. Here's what the idea challenge journey looks like:

Alignment – First six months

The first step is alignment: align stakeholders with the business outcome you're trying to achieve. Align the idea challenges with this business goals and strategies. Once you've achieved alignment, you can assign resources, deliver challenge training to challenge leaders, and launch the challenges.

Engagement – Years 1-3

Next, you can begin running challenges around the strategies you have in mind. The key here is to enable employee engagement over the long term. As you progress, you can improve and expand on the program by:

- Adding more engagement methods, such as Hackathons or Jams and more specialized innovation challenges
- Enabling the capability within individual business units
- Driving business processes improvement
- Tracking and reporting on business impact
- Sharing successes and lessons

Value Delivery – Years 3-5

Over time, the question you want to be asking yourself is, "How do we maintain the momentum?" A key to sustaining your initiative over the long term is to keep delivering innovation activities, and make sure that they are connected to company strategies, business unit goals, and core cross-company programs.

It's also important to measure and monitor results, share success stories, and continually look for new ways to improve engagement and content. Innovation management software can help you automate all of these to make your life easier.

MAKE IDEA CHALLENGES BUSINESS-AS-USUAL

Over time, as employees and leaders are engaged in successful idea challenges, you can merge your challenges into business-as-usual practices. By taking a strategic approach to challenges, you can establish idea crowdsourcing as "the" place for ideas across the entire company, and feed a rich idea pipeline that drives innovation results throughout your business.

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Lessons Well Learned: Disruptive Product Innovation, Business Innovation Go Hand in Hand

INTERVIEW WITH VIRGINIA STEWART, **NOTTINGHAM SPIRK**

Ideating is just the start. Can you identify and overcome the internal obstacles in the complex, winding path to market? Organizations are taking different paths to their innovation goals. Writing in *Harvard Business Review*, Eddie Yoon and Steve Hughes advise large companies and start-ups to partner as one method of circumventing this familiar roadblock:

> **"Startups are better at detecting and unlocking emerging and latent demand. But they often stumble at scaling their proof of concept, not only because they're often doing it for the first time, but also because the skills necessary for creating are not the same as scaling. ... In contrast, big companies often end up launching things they can make, not what people want. Successful established companies are focused on increasing scale and are often better at scaling proof of concepts than creating new products from scratch."**

Virginia Stewart,
Strategic Program
Director

This makes sense for those organizations that can afford the entry fee. (The authors cite the example of the Campbell Soup Company investing $125 million in a venture fund to support food-related start-ups.) But those companies — and much smaller ones — improve their odds of innovating successfully by getting past the notion that startups can solve everything, and instead evaluate how they are holding themselves back.

The CEO of a prospective partner company once told us: "I have three innovations, and I have no one inside to drive them." A good problem to have, perhaps, but a problem nonetheless. An innovation that never makes it to market is like the proverbial tree falling in the forest. And in our experience, nothing holds innovation back more than a lack of appreciation for the level of organizational and cultural shift that's often necessary to support all of the critical stages required for success:

1. Identify new opportunities and ideate truly disruptive products in response
2. Execute the work and effort to commercialize them and fully bring to market
3. Support the product over the longer term, treating it as a full-class citizen within the larger, pre-existing product portfolio

We asked Virginia Stewart, one of Nottingham Spirk's seasoned Client Relationship Managers, to relay some of what she's observed in partnerships.

THE ORG CHART AND CAREER CONCERNS

When we partner with another company, we work with the partner's senior-most executives to identify and appoint an internal "champion" for the project. The champion is our primary (though certainly not only) contact and is responsible for facilitating communication and driving progress between meetings of the NS and partner-client's teams. In the beginning, we spend a lot of time discussing and planning for the realignments that might be necessary within the partner's organization to see the project to completion.

"Early on," Stewart explains, "I look at organizations from the standpoint of, how is this going to be nurtured on their end?" This means from start to finish, from ideation through manufacturing and marketing. Sometimes the partner's team assumes that NS will handle all of that, but we stress that the partner needs to own the entire process, in order to support the innovation in the long-term and to build upon it. This is how growth is sustained. Ideas still need care when they're ready to leave the incubator. While much of the heavy lifting of new product innovation can be outsourced to a partner like NS, at the end of the day, responsibility for marketing, distributing, and supporting the product post-launch falls to the company that owns it.

The problem is that this seemingly simple concept runs headlong into a fundamental fact about most large, successful companies — they are hyper-focused on efficiency. Finding faster and less expensive ways to do everything is deeply ingrained, and often plays a significant factor in determining compensation and promotions. Innovation, however, is not a tidy, linear process that maps itself readily to these kinds of scorecards. It can be messy, chaotic, and plodding.

Helping partners with traditional corporate cultures understand this, and to make adjustments in support of the ambiguity — not just because it's inevitable but because it's beneficial — is another layer of our work with partners, separate from core product development areas such as insights, design, and engineering.

For those tasked to root out ambiguity, however, the creative process can be frightening. The commitment to a project can be "fragile," Stewart says; even champions who start off with enthusiasm can suffer bouts of cold feet. This is neither uncommon nor frustrating for us; there is nothing outrageous about being afraid that one project can make or break people's careers — especially if they're uncertain whether their purported mandate for innovation and disruptive risk-taking has risen to the uppermost echelons of their organization.

This holds true for the many Vice Presidents and Directors of Innovation we frequently meet. Sometimes the companies creating these roles understand that true innovation requires more than making the word part of someone's title; sometimes they don't. Many of these folks have few direct reports — especially little to no operational reports — and soon find that they are hemmed in by varying levels of resistance from the individuals and departments whose cooperation they need to move the product concept from the successful focus group to manufacturing, in market sales pilot, and beyond. Culture can temper enthusiasm for the boldest ideas. But culture can change, with ongoing, vocal support from the C-suite, and a clear roadmap delimiting the who, what, and how for every aspect of bringing a wholly new product to market within the existing organizational framework of the company.
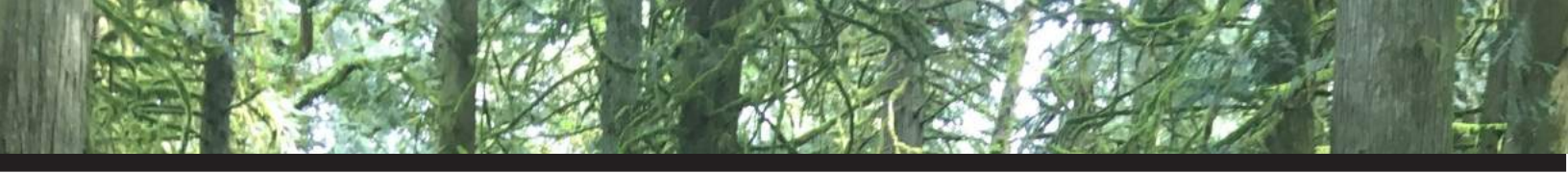
THE IDEA IS LESS THAN HALF THE BATTLE

Sometimes internal support is strong, however, and we have to counsel our partner to handle a different issue — slowing down, and moving through the logical steps. Stewart recalls attending a meeting at which an executive led a discussion of all the possible "hows" of bringing a planned product innovation to market — licensing deals, distribution partnerships to extend market reach, etc. — but the actual product didn't exist yet; it wasn't even defined.

There are myriad ways that even the clearest idea can change through the design, engineering, prototyping, and testing phases, any of which can alter plans for manufacturing, marketing, and launch. These stages should not be treated as distinct; they overlap and inform each other, with a cause-and-effect pattern throughout the cycle. In this particular example, we explained how the development of the market opportunity and product approach to target more disruptive opportunities would "unlock" and reveal areas such as partnerships and alternative sales distribution models as we proceeded. Starting with a pre-determined approach in these areas would actually undermine the process of product innovation, not help it advance any faster.

In another case, a partner with an innovation with many potential applications planned to design and launch more than 40 different products across a wide range of markets, some of which were thoroughly saturated. We call this the "world domination" effect — getting so excited so early in the process that the zeal to race ahead unrestrained undermines the focus, rigor and discipline that innovation actually requires. Stewart advised a more methodical and selective approach, focusing on the markets most ripe for disruption with a number of product platforms that had the greatest odds of success. Advancement into additional areas was better suited for a strategic product roadmap, rather than a rash, scatter-shot approach which would sap marketing budgets and strain post-launch customer service resources.

INNOVATION CALLS FOR INTROSPECTION

There is no one way to innovate. But every organization can improve its capacity for ideation and execution through clear-eyed assessment of where it is, where it wants to be, and all of the steps necessary to get there. The most essential element is trusting the process and the people guiding it.

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Is Big Acquisition an Expensive and Wasteful Route to Innovation? Here's How to Beat Your Competitor

BY SCOTT RASKIN, **SPIGIT**

Too often companies sail into greatness with a few brilliant ideas — then flounder and fade because they stop innovating. As someone who grew up in Detroit during the years the auto industry was collapsing in the 1970s, while Japan came out with more efficient and more reliable cars, I know this story well.

But it's not just U.S. automakers that failed to keep up with the next wave of technology. Examples are everywhere. Stuck on film photography, Kodak ignored the digital camera (which, ironically, it had actually invented.) Blockbuster didn't see the video industry was moving from rental to streaming, but Netflix did. And Blackberry ho-hummed the touchscreen smartphone only to get steamrolled by Apple's iPhone.

Scott Raskin
CEO, Spigit

Clearly, innovation is the key to staying in the game, especially during an era of sweeping technological change. But it's not that easy, which is why so many big companies address their shortcomings by acquiring younger, nimbler companies with solid, market-tested ideas.

The problem is that "innovation through acquisition" is the slow and expensive route.

We can see this dynamic in action yet again with the recent news that General Electric (GE) is spending $1.4 billion to acquire two 3D printing companies. GE is several years into an ambitious and public reinvention as a high-tech, software-driven company, and clearly it sees these acquisitions as a way to help modernize its manufacturing capabilities. Similarly, Walmart's recent $3 billion acquisition of Jet.com is a move to gain an innovative edge in online retail, where it lags behind Amazon.com.

But while the tech may be new, the story is an old one. These enormously costly acquisitions can add to the success of many companies — whether it was P&G acquiring Gillette for $57 billion a decade ago or Microsoft acquiring LinkedIn for $26.2 billion just a few months ago. Most of the time, however, acquisitions don't add anything meaningful to the bottom line, and often, the acquired employees just drift away.

Yahoo! is a perfect example. Since 2012, the tech giant has spent over $2 billion acquiring more than 50 companies to bring in the talent and technology it needed. But ultimately, nothing worked to bring the broken digital media company back around, and last year, nearly a third of the company's employees left, The New York Times reported. Now Verizon is acquiring Yahoo! for $4.8 billion — far less than the $125 billion Yahoo was worth at its peak in 2000. In other words, Yahoo!'s many acquisitions didn't help dig it out of the innovation hole it was in. Will acquiring Yahoo! help Verizon address its own innovation deficit? I don't know about you, but I wouldn't bet on it.

Here's the problem: acquisition doesn't actually work that well as a substitute for internal innovation. Besides, the chances are good the companies you're acquiring were started by people who used to work at your company, and left because they couldn't achieve their ambitious dreams.

And then there are the missed opportunities. Brian Acton and Jan Koum, the founders of instant messaging app WhatsApp, used to work for Yahoo! Tony Fadell, an uncompromising product design guy, had a long career at Apple before leaving to start his new company, Nest (later acquired by Google). And Biz Stone, who played a key role in founding Twitter, used to work for Google. Consider how well Apple might have done if it had kept Steve Jobs around instead of forcing him out 1985. After that, Jobs went on to found NeXT, which Apple acquired for $427 million in 1996, finally bringing Jobs back.

So — why outsource R&D to the market? Doesn't it make more sense to encourage new ideas and entrepreneurial thinking within your company, to keep these employees from leaving in the first place? CEOs need to take a hard look at fostering innovation within their companies before it walks out the door.

One good way is to solicit ideas from your employees. By that, I mean more than just setting up a suggestion box in the lunchroom. You need a structure that allows the best ideas to turn into products, projects, or even independent subsidiaries — and you need to give the employees who helped create those things sufficient recognition, autonomy, and rewards.

A recent Gartner report supports this idea. "Enterprise architects and technology innovation leaders must evaluate their innovation capabilities and develop systematic but flexible approaches for engaging the crowd. The objective is to create an innovation pipeline with an ongoing source of ideas feeding the innovation portfolio," the research company writes in its Hype Cycle for Enterprise Architecture 2016.

That's what Google did. It made a concerted effort to boost internal innovation when it reorganized itself into Alphabet. The goal was to take the most promising innovations from within Google (self-driving cars, robots, home automation) and put them into independent subsidiaries where they could develop their full potential. Executives understood that innovation needs a place to thrive internally. Because when companies fail to create a fertile environment for new ideas to grow, creative employees simply head out the revolving doors— taking their inspiring ideas along with them.

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Creating & Defining the Role of Chief Customer Officer

BY CHARLES TREVAIL, **C SPACE**

For many companies today, the appointment of a Chief Customer Officer (CCO) is a new addition to the C-suite. And my frequent meetings with CCOs confirm this; many haven't taken over the role, they're charged with creating and defining it.

We'll likely see this trend continue. As of 2014, just 22 percent of Fortune 100 companies had appointed a CCO, according to a Chief Customer Officer Council study. That number appears to be growing. Last year alone, new CCOs were appointed at companies like Pizza Hut, SAS, and Lowe's.

With new roles come new challenges. For CCOs, one of the biggest is to dispel common misconceptions about the notion, and treatment within the business, of customer centricity. It's not enough to be close to customers. A CCO must define how the business will draw from the inspiration of customers to transform company culture, differentiate against competitors, and grow.

No one articulated this undertaking better than Jose Vergara, CCO at McKesson Medical Imaging, part of McKesson Technology solutions. McKesson, a leading global player in healthcare information technology, medical supplies, and pharmaceutical distribution services, is the biggest company you've never heard of. With more than 76,000 employees worldwide, it ranks fifth on the Fortune 500. I had the chance to interview Jose for the latest episode of Outside In, a customer centricity podcast.

Charles Trevail
CEO of C Space

CUSTOMER SUCCESS IS COMPANY SUCCESS

Jose approaches his role as CCO in a refreshing way. Rather than focusing on what's good for the business as it relates to customers (in his case, health care organizations and physicians), Jose focuses on partnering with customers to enable and nurture their own success.

"That's the reason we embarked on this journey of customer success and customer experience. We not only sell products and tangible systems and solutions, but we also offer a partnership. The reason that customers are doing business with us is because we're becoming their partners in their own success."

The healthcare space is getting increasingly more complex: government regulations, the Affordable Care Act, and the transition from fee-for-service to value-based care. "This is challenging our customers more and more," Jose says, "so we need to understand what makes them successful, not only clinically but also in their business, and align our company to help them achieve their goals. We look at our success through the eyes of our customers. That's how we'll be successful."

TURNING CUSTOMER RELATIONSHIPS INTO BUSINESS STRATEGY

CCOs should play an active part when creating the company's strategy to ensure continued growth and the achievement of other business goals. In this way, CCOs are needs alchemists – blending strategy, execution, and cultural transformation into the customer centricity mix.

Jose acknowledges that "a blurring between products" in all industries has increased consumer choice and furthered competition. But it's those heavily-commoditized industries that have the most to gain from – and should therefore have the most interest in – becoming customer centric.

"It's more about the relationship you have with customers...the partnership that you establish with them than the products themselves," Jose advises. In a global marketplace where commoditization and disruption are becoming the rule rather than the exception, that's a critical point.

In talking with Jose, it's clear that the role of the CCO is about much more than being the official customer champion of the C-suite. It's a position of great strategy, complexity, and influence. In the years ahead, as sure as customers will change, so too will the role change. As Jose sees it, "I think it's an evolution."

This article is based on the fifth episode of C Space's "Outside In" podcast. To subscribe, go to http://learn.cspace.com/outsidein

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