



INNOVATION LEADER
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POINTERS

Expert Guidance on Innovation Strategy

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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...



A handwritten signature in black ink, appearing to read 'Scott Kirsner'.

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Dollar Shave Club: The Ultimate Argument for Design Thinking

BY DAN OSTROWER, ALTITUDE

Dollar Shave Club was acquired for a \$1 billion by Unilever in July. By the time of the sale, the five-year old disruptor had stolen eight percent market share (an astronomical figure) from Gillette, an industry titan if there ever was one.

A DISRUPTIVE INNOVATION UPENDS AN INDUSTRY

How'd they do it? Was it proprietary technology? R&D? Nope...they bought blades on the open market from a supplier in South Korea. Economies of scale? Manufacturing know how? Uh uh. They don't have a factory. Massive distribution networks? Dominant retail shelf space? No. They sell online with an Amazon-hosted site. Madison Avenue relationships? Big ad buys? Think again. The first ad was nearly homemade and caught fire on YouTube.



So what did they have? If they replaced all the “hard parts” of business with internet services and the global supply chain, what allowed them to disrupt one of the most hard-to-crack consumer markets on the planet? Just three things.

DESIGN THINKING IS THE ANSWER

First, they understood the people they were serving. As shavers themselves, they had true empathy and understood the frustrations and pain points in the Gillette-dominated shaving experience. This empathy, and their desire to solve for it, was their reason to be and the fuel for disruptive innovation.

Second, they had great user-centered design. They were able to use their empathy and understanding to inspire the creation of a relevant and holistic new experience encompassing product, packaging, distribution, brand, and communications.



And third, they had the ability to act. Lacking the red tape of a conglomerate, and possessing all the passion of a revolutionary, they went to work, undoubtedly stumbled a few times, kept going, and eventually launched their service.

That doesn't sound like a lot. But those three things—which together make up what people interchangeably call Design-led Innovation, Human Centered Design or Design Thinking—are the new assets of survival in the digital age. In a time when all the normal sources of sustainable competitive advantage—economies of scale, proprietary technology, distribution networks, well-built brands—are being turned to dust, the only truly sustainable advantage is your ability to understand people and innovate for them.

IT'S TIME TO ACT

If a company of fewer than 190 people can create \$1 billion of value and upend Gillette, then who's safe? Unfortunately, no one. If you are a big company relying on those old sources of competitive advantage, whether you make toothbrushes, toasters, underwear, robots, tractors, spectrometers, or lawn mowers, you should be afraid. There's a customer-centric startup looking at your space and licking its chops. So don't get Dollar-Shave-Clubbed.

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Pokémon Go: 5 Innovation Lessons From This Augmented Reality Check

BY ALEX GORYACHEV, CISCO

When launched on July 6, Pokémon Go proved from the start that it could be much more than a global pop culture craze for gamers.

There's more behind this game than searching for Pokémon at your local landmarks, firing red Poké Balls, sprinkling stardust, and capturing points on a smart phone.

The real take-away from Pokémon Go is that it shows market transitions can come from anywhere—even a game meant for kids of all ages. There's no better time for innovators to take an augmented reality check on market disruptions.

Whether Pokémon Go is a fad or franchise, it reveals five lessons on how to identify, adapt, and lead market transitions:

1. Market transitions often expose new ways to do business

They shift our perspective, present different ways of looking at things, transform experiences, change behaviors, and create new business models.

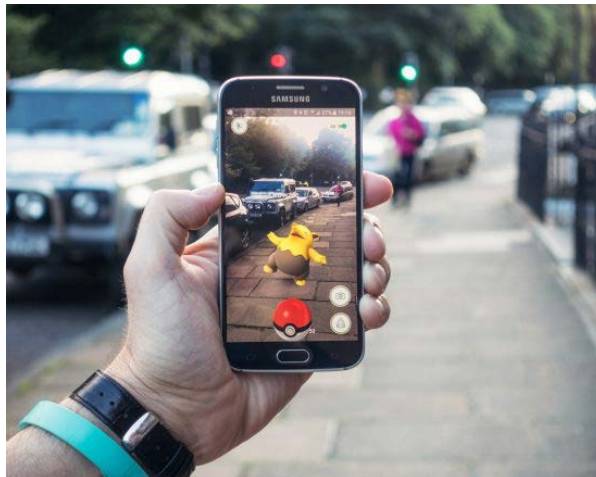
Pokémon Go, which instantly became the most popular mobile device game of all time, did all of the above. In record time, it has disrupted its market and adjacent ones. It merged the real world with an imaginary one and gamified it, creating a new and transformative experience for users.

The game also exposed Virtual Reality (VR) and Augmented Reality (AR) to the masses by syn-

chronizing them with location-based technologies (GPS) on a simple app downloaded to mobile devices. For the first time, most anyone now can visualize how digitized objects and the real world interact. Moreover, AR and VR—once only understood by industry geeks—are now branded into the global consciousness.

As a result, technology buyers in all industries will push solution providers to offer new “cool” innovations to their customers, especially younger ones. Think about it – Pokémon Go makes it easier for innovators to illustrate, explain, and collaborate with their customers about potential solutions that fuse these technologies.

Retailers, travel brands, fast-food restaurants, museums, and other consumer destinations are lining up to attract foot traffic by sponsoring PokeStops. Banks and other financial institutions are looking at virtual dashboards and other tools to improve customer experiences, build communities, and please young investors who want more interaction.



Even the parents of autistic children call it a “miracle transformation,” providing a “social hook” to social circles they didn’t have before. Ironically, the original Pokémon was invented by Satoshi Tajiri, diagnosed with Asperger’s who was on the autism scale of genius.

Inspiration from Pokémon Go will surely accelerate and expand other applications.

2. Market transitions can come from anywhere

Market transitions challenge our beliefs and biases. They force us to open our minds, cock our heads at an angle, and think, “Aha! Maybe we can do it a different way.” So here comes an “Aha! Moment” from Pokémon Go. How does this social phenomenon influence your business?

Today, a disruptive solution can blindside anyone from around corners they didn’t know existed. It’s critical to keep your finger on the pulse of innovation everywhere—and understand how it might apply to you.

3. Co-innovation between big companies and startups leads to game-changers

No single company can keep pace by itself with the speed and complexity of today’s customer-driven, digital economy. Large companies focused on incremental or leapfrog game-changers must collaborate and co-innovate with an expanding ecosystem of startups, entrepreneurs and programmers.

For example, Pokémon Go blazed new trails because of the teamwork between Nintendo and Niantic, a startup and Google spinoff. Niantic had previously invented a similar game called Ingress, but critical mass for an augmented reality game didn't erupt until this collaboration came together; it included the Pokémon Company, a consortium among Nintendo, Game Freak, and Creatures.

Larger companies must also help their innovation partners to incubate ideas. At Cisco, we invest in startups, provide resources and mentorship, and hold grand challenges to inspire innovation worldwide. We also bring together communities of customers, partners, entrepreneurs, and academics at nine Innovation Centers worldwide. Together, we co-develop digital solutions in regional markets, helping to keep us at the front of the pack in the game-changing business.

4. Embrace transitions before it's too late

One thing is certain: Once-mighty brands that failed to anticipate or react fast enough to market transitions will continue to fill up graveyards. Kodak didn't understand the impact of smartphones . . . Borders didn't respond fast enough to Amazon . . . Blockbuster never recovered from Netflix . . . will Yellow Cab adjust to Uber?

Today, market transitions and their disruptive innovations will keep coming in never-ending waves all around us. They can mean the difference between life and death for any company. Learn how to spot them early, appreciate their power, adjust quickly, and you can ride their crest to new shores of opportunity.

5. Never underestimate the power of a brand

Apple rose like a phoenix from the ashes, leveraging the ubiquity of the internet with game-changers such as the smartphone, iTunes, iPod, and more. Who would have ever thought that a Pokémon brand originally targeting 2nd, 3rd, and 4th graders, would spark a social phenomenon by capturing the hearts and minds of middle-school students on up to adults of all ages?!

Regardless of whether Pokémon Go keeps flourishing or fades, market transitions will continue to pop up randomly most anywhere—like Bulbasaur, Charmander, Squirtle, and other Pokémon avatars. Ignore them at your peril. Keep your eyes, ears, and mind open to capture disruptive innovation before someone else does and captures you. If you jump in with enough Stardust, Lucky Eggs, and Super Potions, you too can hatch and incubate new, game-changing ways to win.

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The Single Most Important KPI for Building Innovation Muscle

BY TIM WOODS, HYPE INNOVATION

The best literature on innovation all points to the same thing: innovation is highly uncertain, and therefore the best approach is to experiment and prototype, iterating until you find the right product/market fit, and conduct this iteration with the diligence of the scientific method. The advice is so consistent, yet when we look at innovation metrics, there is rarely any kind of KPI measurements around the details of experimenting and prototyping. Let's look at why it's so important, and what a KPI might look like.

Fire bullets, then cannonballs (Jim Collins)

In "Great by Choice," Jim Collins describes the idea of firing bullets, then cannonballs. Very rarely is an innovation a big single shot, but rather it's the outcome of many smaller steps that helped to calibrate towards that right outcome. When Apple moved into retail stores, they started with one shop, prototyping, firing bullets to see what hits; when they got it right they expanded, and became the most profitable per square foot retailer in the world.

WHAT MAKES A BULLET?

- A bullet is low cost. The size of the enterprise determines what low cost means. A cannonball for a \$1 million enterprise might be a bullet for a \$1 billion enterprise.
- A bullet is low risk. That doesn't mean low probability of success, but it means minimal consequences if the bullet hits nothing.

- A bullet is low distraction. It might be high distraction for a few individuals working with it, but for the enterprise as a whole, it's very low distraction.

The behaviors you need to develop to be successful:

- Ensure you are firing enough bullets. They should be low enough cost and risk to allow for many.
- Resisting the temptation to fire uncalibrated cannonballs. Innovation is not about plowing money into big bets without the data to prove the investment.
- Committing fully when ready, by converting bullets into cannonballs once you have the empirical validation.

Disciplined Experimentation (Govindarajan and Trimble)

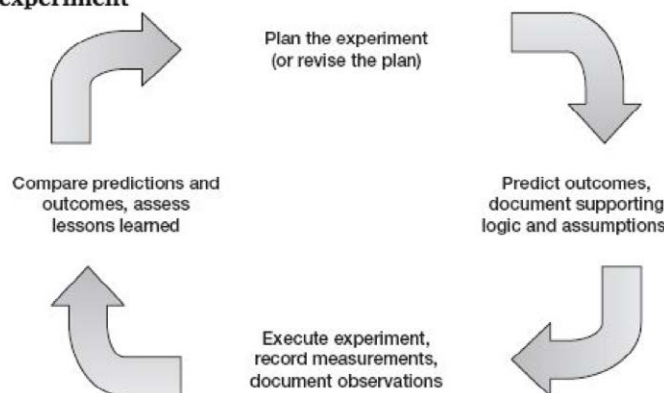
In “The Other Side of Innovation,” authors Vijay Govindarajan and Chris Trimble go to great lengths to describe how to organize yourself for innovation, and how generating ideas is the least difficult part. Execution on ideas is where you need to focus, and the fundamental ingredient is the ability to experiment in a disciplined way.

In managing their ongoing operations, companies strive for performance discipline. For the innovation initiatives, however, they ought to strive for discipline of a different form: disciplined experimentation. Indeed, all innovation initiatives, regardless of size, duration, or purpose, are projects with uncertain outcomes. They are experiments.

For an idea to mature, it must start with an experiment. Create a plan, with a scorecard, which explains the assumptions, and the data points you will measure. Formalize a clear hypothesis, in very simple terms, which states what you think will happen. Then find ways to spend a little, but learn a lot. Keep assessing the plan as you go, and allow formal revisions to the predictions you made.

...the scientific method is the innovator's indispensable friend ... when running innovation initiatives, businesspeople need to behave more like scientists.

Formalizing an experiment



Source: The Other Side of Innovation

The 5×5 Methodology (Michael Schrage)

In Michael Schrage's excellent book, "The Innovator's Hypothesis," he believes experimentation is the difference between those that innovate, and those that don't.

Look carefully at the history of technology, entrepreneurship, or business innovation. A persistent pattern emerges. Successful innovators talk about ideas, but they invest their time, money, and ingenuity in expressive experimentation. Their competitive success comes from getting more value faster from expressive experimentation.

Ultimately, what you're seeking is insight, so that you can get closer and closer to an innovation; you want to buy a dollar's worth of innovation insight for 50 cents, or 20 cents, or less. Fast and cheap, but an extremely high return on validated learning. His 5×5 methodology is designed to achieve this:

Give a diverse team of 5 people no more than 5 days to come up with a portfolio of 5 business experiments that cost no more than \$5,000 (each) and take no longer than 5 weeks to run.

The results are then presented to a senior management board, and the best ideas get more funding to continue. The goal is to build a portfolio of experiments, but the problem is that most organizations just don't know how to design or manage a portfolio of business experiments. The 5×5 methodology quickly gets you up and running.

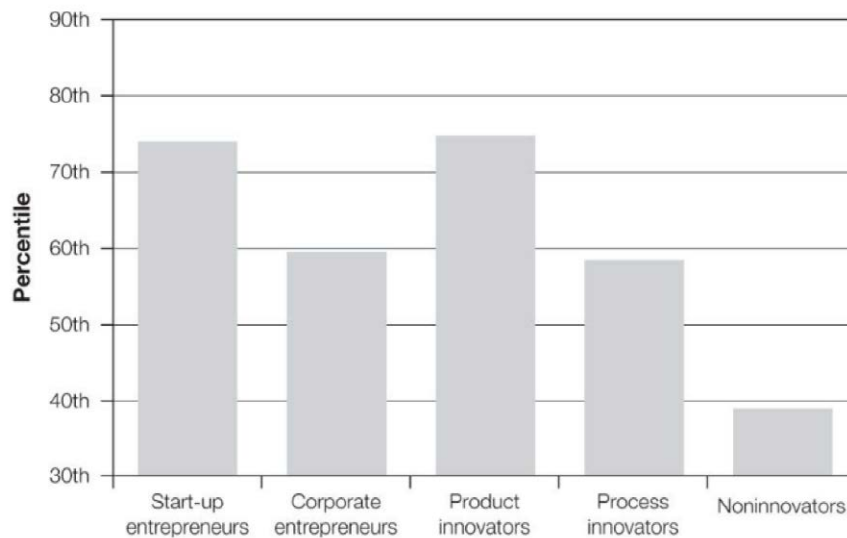
Schrage provides extensive detail on how to run and measure the 5×5 method, along with compelling examples - it makes for tantalizing reading. It's very easily attainable, and has enormous potential to build innovation muscle. But as he notes, big organizations find it incredibly hard to instill as a discipline:

Creating simple, compelling, and readily testable business hypotheses is managerially unfamiliar, uncomfortable, and unrewarding. So managers avoid them.

The DNA of an Innovator (Dyer, Gregersen, Christensen)

In "The Innovator's DNA," business gurus Jeff Dyer, Hal Gregersen, and Clayton Christensen, analyze what makes an innovator. They define five skills that you need to master to become a disruptive innovator: Associating, Questioning, Observing, Networking, and Experimenting.

In their analysis, they found that experimenting skills were significantly higher in innovators of all types, not just the start-up entrepreneurs, but also process innovators at large organizations.



Source: The Innovator's DNA

One of the many example innovators in the study is Jeff Bezos, who puts the ability to experiment at scale at the heart of Amazon's innovation strategy:

Bezos's experience has taught him that experimenting is so critical to innovation that he has tried to institutionalize it at Amazon. "Experiments are key to innovation because they rarely turn out as you expect, and you learn so much ... I encourage our employees to go down blind alleys and experiment. We've tried to reduce the cost of doing experiments so that we can do more of them. If you can increase the number of experiments you try from a hundred to a thousand, you dramatically increase the number of innovations you produce."

Build, Measure, Learn (Eric Ries)

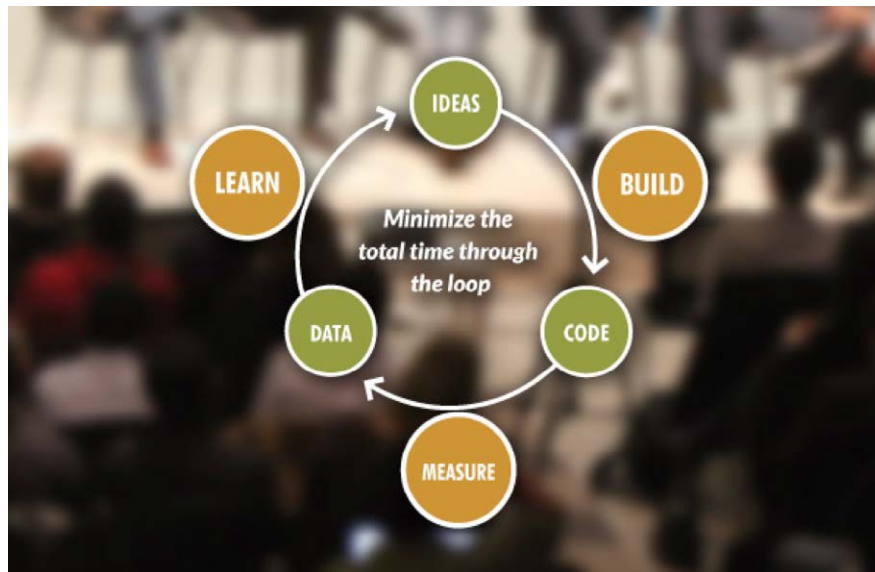
When Ries' book "The Lean Startup" was published, it hit a home run. It nailed exactly the ethos and method for innovating in the 21st Century. Large corporates scrambled to figure out how to adapt it to their environment, and lean startup consultants appeared everywhere. The basic ideas are so simple and so effective.

Generate a hypothesis, define a way to test it (build), define how you can strictly monitor it (measure), and define how to validate the results (learn). Then after each short cycle through that process, decide whether to persevere (do another loop with an adjusted hypothesis and new build), or pivot (move on to another hypothesis). It works for small incremental changes, and it works for whole product launches.

The essential lesson is not that everyone should be shipping fifty times per day, but that by reducing batch size, we can get through the Build-Measure-Learn feedback loop more quickly than our competitors. The ability to learn faster from

customers is the essential competitive advantage that startups must possess.

The Lean Startup works only if we are able to build an organization as adaptable and fast as the challenges it faces. This requires tackling the human challenges inherent in this new way of working.



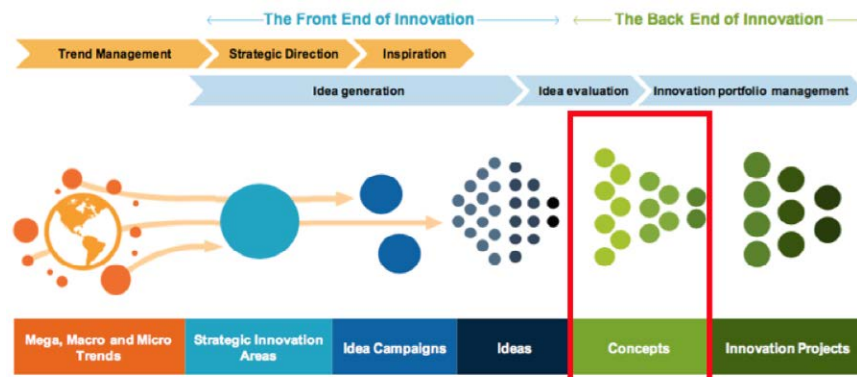
Source: <http://theleanstartup.com/principles>

This is just a quick selection of some of the excellent literature out there, but many more great books exist which similarly stress the importance of experimentation, including “The Innovator’s Method,” “Little Bets,” and anything by Tom Peters (“Ready, fire, aim!” And of course his ‘bias for action’ from “In Search of Excellence.”)

MEASURING EXPERIMENTATION

So if experimentation is so widely regarded as the basis for innovation, why do we rarely see KPIs in place to track it? After all, what gets measured, gets done, right?

In the HYPE process, this is how it can be done. Let’s assume you’re using Idea Campaigns to generate high quality ideas, which target a known problem, with a sponsor who backs (and funds) selected ideas. Ideas are rarely ready for implementation right away; they need to be developed, or combined with other ideas, and then tested. This is where Concepts come in:



HYPE Enterprise process for full-lifecycle innovation management

With Concepts, you can create customized processes and forms for managing the iteration and the evaluation steps.

The two critical KPIs are then:

- Number of experiments in my innovation portfolio (number of Concepts created)
- Number of iterations through those experiments (cycles through the build, measure, learn cycle)

Seeing these numbers go up over time gives you a direct pulse on whether you are building innovation muscle—providing you are following the scientific method, and seeking out validated learning, not just experimenting with no rigor.

Supporting these metrics, you'll also want to know more granular details about the portfolio, such as:

- Number of experiments being run per “strategic innovation area,” to show you the health of each major area you’re targeting.
- Number of experiments by their status (pivot, persevere, or whatever other status you will determine for experiments).
- Number of experiments per organizational unit / business division / department, to help you understand what areas of the business are “getting it,” or struggling. Experimentation is not the exclusive domain of the innovation department, but should be part of the culture across the entire organization.
- You may also want to measure the time to cycle through an iteration. As Eric Ries notes, the question is how fast can you get through each loop, so that you’re learning faster and moving closer to the right outcomes?

Many organizations are still spending a lot of time thinking about number of ideas, number of participants, and other rudimentary KPIs. These are nice to know, but they don't tell you anything about your progress towards a more innovation-capable organization. The back-end is where the true health of your program is measured, and for that, we must measure and promote the experi-

ments. As Michael Schrage nicely puts it in “The Innovator’s Hypothesis”:

Good ideas have nothing to do with good implementations ... Implementation - not the idea - is the superior unit of analysis for assessing value creation. How organizations enact ideas - not the ideas themselves - is the soul and substance of innovation. More often than not, implementation ends up redefining both the boundaries and the essence of the original idea.

Are you tracking how you experiment? I’d love to know.

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Excerpt: The State of Startup/Corporate Collaboration 2016 Study

BY CHRIS TOWNSEND, IMAGINATIK AND MIKE LARHETTE, MASSCHALLENGE

At their core, corporations and startups are very different, and always will be, but the balance of power between startups and corporations is changing and so is the relationship. It is no longer simply antagonistic or acquisitive; nuanced partnerships, joint pilot programs, and early-stage interactions are becoming the norm. Understanding the changing dynamics is crucial for both startups and corporations to gain from this trend and to innovate together.

Ultimately, the key to a successful startup/corporate partnership is to see it as just that—a partnership, rather than a quick one-off transaction. More often than not, there is a lot more to be learned and developed together, and both sides can learn and grow in the process.

Here is our guidance for corporations:

1. THE GOOD ONES WON'T WAIT

It's easy for large corporations to take startup interest for granted—doing so is a mistake. Startups will keep calling—but not the best ones. Top entrepreneurs are savvy enough to focus on corporations that show genuine interest and are capable of making decisions swiftly enough to keep pace. Reputations in the startup community spread quickly and can last a long time. Gaining access to the best early-stage opportunities means treating entrepreneurs right and seeing the relationship as one that can provide long-term, mutual value. Filtering is key here—whether through accelerator programs, competitions, or scouting—as it is not always immediately obvious which startups are worth talking to. Finally, be upfront with the startup as to whether this is a learning exercise or whether there is an actual intent to partner.

2. GET YOUR HOUSE IN ORDER

- **Appoint a startup champion:** A key recommendation is to structure a startup liaison role—either a team or an individual who can ‘own’ the relationship and not just guide the startup through the corporate maze, but also internally influence key stakeholders and shape solutions. Many stories emerged of startups being endlessly passed among dozens of people within a corporation—each with an interest in the relationship, but none with sufficient clout to move things forward on their own. Creating a control tower for external startup relationships is a necessary first step.
- **Establish internal structures:** Establishing a liaison is just the beginning. Once startup conversations develop in earnest, the liaison must quickly figure out who the real relationship owner(s) within the corporation will be, and which resources are in play—usually on a case-by-case basis. Unless internal structures such as an executive steering committee are in place to triage and guide inbound opportunities, the corporate liaison will flounder just as badly as the external entrepreneurs.
- **Solidify the strategy:** Ultimately, corporations must delineate their strategy and nominate internal stakeholders to push those objectives forward. That’s the only way to give the outside world—and the nominated liaison—the ability to cultivate startup relationships with confidence. An “everything goes” attitude only works for a short period of time, and even then only as an experimental means toward discerning mid- and long-term strategic interests more clearly.



3. STREAMLINE PROCESSES

Finally, in following through on promising opportunities, corporations need mechanisms to work on partnerships quickly. Successful startup partnerships depend on being loose, fast, and generous early—allowing both sides to uncover potential and/or fail fast. Lengthy up-front negotiations over IP concerns, access to talent, and expected time commitments may protect against exposure, but almost always lead to gridlock and failure. Forcing startup relationships to pass through rigorous processes designed for vetting other large companies makes no sense. Therefore, it is important to create parallel “fast-track” processes for startup relationships. Work early and often with internal departments—such as Legal, Procurement, PR, and others (depending on the organization)—to make sure everyone is on the same page and understands agreed-upon guardrails.

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Top 5 Consumer Product Innovation Trends

BY BILL NOTTINGHAM, NOTTINGHAM SPIRK

We're asked all the time, "What's next?" That's a hard question to answer; there are too many factors involved in determining which products reach the market and which ones really resonate with consumers. Here are some of the trends we've noticed in recent years that are likely to remain important for the foreseeable future.

AUGMENTED REALITY

Virtual reality is immersive. Augmented reality (AR) layers images over the real world, giving it far more potential applications. Some AR devices are already on the market, but widespread adoption has been held back by the cost and, frankly, the oddity of head-mounted wearables. (Remember Google Glass?) Then Niantic introduced Pokémon Go, an AR game that uses a device nearly all of us already own, and virtually overnight an emerging technology went mainstream.

"Augmented reality begins with Pokémon," writes Vox.com. "It begins as a toy. But it won't remain a toy. It's going to become an industry, a constant, a coping mechanism, a way of life."

This is not an overstatement. Pokémon Go surpassed Twitter's user base in a week, and the stock price of Nintendo, which owns the Pokémon brand and a piece of Niantic, doubled. Small businesses can use the game to generate foot traffic, for a small fee. The craze has legs (no pun intended).

In the past, marketers were suspect that people would be comfortable pointing their phones at "space" to see AR content. Pokémon Go lays that to rest; if the experience is easy and engaging,

they will. The possibilities are endless, even beyond gaming. Imagine museum visits, for example. We're especially excited about the potential for point-of-sale displays and packaging. As we predicted back in April: "For the next few years, we're likely to see a flood of new products and services based on VR and AR technology. The ones that succeed will be those that solve consumers' problems, improve their lives, or provide meaningful experiences."

MODULARITY

Smartphone sales are slowing worldwide. Lenovo is countering not just with lighter, slimmer phones but with modular accessories that add functionality. Moto Mods, according to Forbes.com, are "slick modules that snap on to the Moto Z phones, dramatically extending their capabilities and turning them into new kinds of devices. ...They include a JBL speaker that turns the Moto Z into a powerful stereo system; a projector that allows users to beam videos and photos onto a wall, delivering an instant up-to-70-inch viewing experience; and an assortment of batteries and stylish backings. Not on display yet: a module that turns the Moto Z into a professional-quality camera."

Google is taking the concept a step further with Ara, a phone the user builds from the frame up, almost like Lego. The Ara frame contains the CPU, GPU, antennas, sensors, battery, and display; the rest will be determined by various limited-function modules that users buy and snap in place. A developer edition will be released in the fall. As Wired puts it, "Google wants to open up smartphone innovation by creating an ecosystem anyone can contribute to."

If these phones catch on, expect to see modularity showing up in other gadgets. Video game controllers seem especially ripe for customization.

But modularity isn't just about customization and novelty; it's also driven by more mundane but real concerns like storage space. The Troy-Bilt FLEX, which we developed with MTD Products, allows people to own all the outdoor power tools they want and still fit them in the garage. DeWalt has taken a similar approach with its cordless system. Brands like these "platforms" because they increase the likelihood of future purchases even more than product lines do.



Google's modular smartphone Ara can be built from the frame up by the user, almost like a Lego.

ONE-CLICK AND AUTOMATED REPLENISHMENT

When Amazon introduced its first Dash button, for Tide detergent, in 2015, many people thought it was an April Fool's joke. There are now Dash buttons for more than 100 brands, each performing precisely one function: instantly placing an order that will arrive at your door two days later.

If that still sounds ridiculous, you're either missing the point or just not in a target demo. "This idea appeals to the person who's already ordering most of what they need from Amazon: the college



Amazon Dash Button

kid,” explains Popular Science. “Amazon deliveries are a huge advantage for college kids, some of whom may not have cars, and many of whom live in places where, aside from Walmart, there aren’t a lot of easy shopping options.”

Besides, as an Amazon spokesperson told the Wall Street Journal, “The real long-term goal is that you never have to worry about hitting that button.” Amazon’s Dash Replenishment System is built into certain smart devices that can monitor usage, including Brita water filters, printers, and pet feeders.

Some manufacturers have already figured out that they don’t need Amazon for this. Hewlett Packard’s Instant Ink program cuts out the middle man and establishes HP as the de facto retailer of the replenishment materials.

FAST-LANING

Fast-laning, a concept borrowed from airlines, is showing up in more industries. But airlines have a long history of treating well-heeled customers better; most other businesses need to be mindful of perceptions. Last year a Cleveland-area medical practice surveyed its regular patients to gauge interest in a concierge-style service, offering shorter wait times for a fee.

Later, the practice conceded that the idea had been dropped amid overwhelmingly negative feedback. By proposing the system, the office had inadvertently revealed that it’s capable of better service, but didn’t want to provide it without a payoff.

Fast-laning works best when it’s egalitarian, like Starbucks and Taco Bell’s mobile ordering and no-wait pick-up; Apple Stores’ near-elimination of lines for service or payment; and the growing number of movie theaters with reserved seating.

Or when it’s fun: “Swedish amusement park Liseberg released an app to accompany its new Helix roller coaster. Attendees could play the free Helix game while waiting in line, and every 15 minutes the player with the highest score got a pass to skip the line.”

SUSTAINABILITY

“Fifty-five percent of consumers from 60 countries around the globe say they’re willing to pay more for products and services from companies committed to making a positive social and environmental impact.” That was the key takeaway from a 2014 Nielsen survey on brands and social responsibility. Last year a multi-sector survey by public relations firm FleishmanHillard showed that “the way a company’s management behaves, and its impact on society, accounts for nearly half of what shapes people’s perceptions and beliefs about the company.” The firm identified nine broad “drivers of authenticity,” which included care of environment and community impact.

Virgin Airlines recently experimented with ways to get pilots to be more aware of fuel use. And

that's great, but some companies are setting the bar much higher.

“Whichever way you do the math, incrementalism and efficiency measures won't get you there. Less bad is not good enough,” said Hannah Jones, Chief Sustainability Officer and VP, Innovation Accelerator of Nike, at the Copenhagen Fashion Summit in May. Jones described Nike's “moonshot ambition: Can we double our business, while halving our impact?”

Conservation is a given; innovation is now expected. Like a plastic embedded with silica nanoparticles that make the surface so slippery that every tiny drop of shampoo, lotion or detergent slides right out of the bottle. (“When any percentage of a product ends up in the trash,” notes FastCoExist.com, “all of the resources that went into manufacturing and shipping it are also wasted.”) And the low-tech but clever reusable shipping boxes from stroller manufacturer Joolz. The possibilities are endless.

Bill Nottingham is Executive Partner of Nottingham Spirk (www.nottinghamspirk.com), a business innovation and product design firm.



Nike Flyknit shoes use recycled polyester yarn and reduced waste by about 60 percent.



Enterprise Innovation Management: A New Organic Growth Strategy

BY BRYAN SEYFARTH, SOPHEON

Despite positive economic trends, a number of large, global firms have been struggling with organic sales growth for several years. Recently, a growing chorus of business analysts have identified two dominant market trends—ever-changing consumer behaviors and competitive pressures that arise from global digitization—that have disrupted many of the world’s market leaders. Their response has often been an increased focus on M&A activity, restructuring, and bottom-line strategies such as cost-reduction programs (e.g. zero-based budgeting), and the continued automation of transactional processes. These efforts are important as they can drive the margin improvements necessary to deliver on shareholder expectations in the short-term. But they do not address organic growth in the medium- to long-term. You’ve probably heard the aphorism that “you cannot cost-cut your way to prosperity.”

The answer, of course, is new value creation. And to be sure, an update on innovation progress is a set piece in nearly every CEO’s update to shareholders. But a surprising number of C-level executives will privately admit they struggle with how to make systematic changes at the enterprise-level to improve their innovation capabilities. A common lament is, “I know I’m wasting half of my money on product development, I just don’t know which half.” And sadly, the facts bear this out – in fact, Nielsen reports the success rate of consumer product launches is actually as low as 33 percent.

A core reason why executives struggle is the sheer lack of visibility they have regarding the progress of their own strategic growth initiatives. Even in this age of Big Data, the reality is that most enterprise performance data available to executives is either looking in the rear-view window (e.g. ERP – “what did we sell yesterday?”) or only addresses short-term results (e.g. CRM – “What will

we sell this quarter?”) But when a CEO wants to assess if the business is on track to achieve its growth targets in the medium- or long-term, the quality and/or lack of this data is shockingly poor. How are executives to know which value creation levers they need to pull when they can’t even determine where they have gaps?

Fortunately, there is a new organic growth strategy that overcomes these challenges, and which represents an entirely new operating model for the core value creation function of the business. This is increasingly referred to as enterprise innovation management, which means applying digitization to the cross-functional work of product and process innovation to develop new business capabilities that enable business leaders to respond more quickly to changing consumer, business, and market needs. The result: a more predictable, continuous pipeline of high-value innovations that get to market faster.

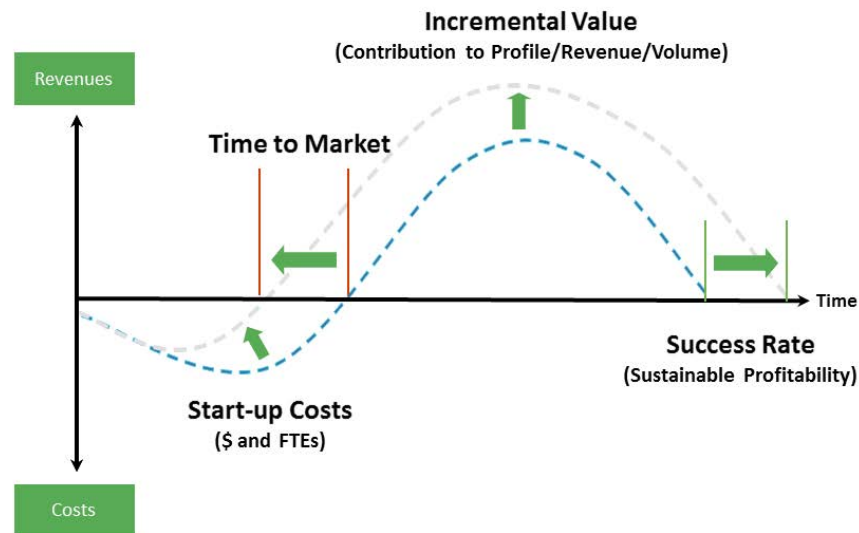
Although this strategy has roots in innovation improvement approaches from the past, what is different is that new cloud-based technologies allow these capabilities to scale across a large global enterprise. This gives them exponential power to deliver strong contribution to organic net sales and profit growth. This strategy is increasingly deployed by a diverse set of market leaders, including companies like P&G, Electrolux, Honeywell, Merck, ConAgra, Parker Hannifin, J.M. Smucker, BASF, and others. For example, Lux Chakrapani, Director of Manufacturing & Technology Applications at Honeywell reports:

“While we have had significant success in new product development due to pockets of innovation that were very successful, the pain point has always been not having a ‘single source of truth.’ With low adoption of these fragmented systems, there was no way to manage our portfolio and projects effectively. This resulted in longer cycle times and very poor visibility to how financial commitments are met (or not met) at a high level of confidence. Now we are harmonizing our systems by implementing an enterprise innovation management software platform.”

The reason for the momentum of this approach is it presents a tangible, easy-to-adopt means by which these firms can innovate at a pace that approaches the speed and agility of a small, aggressive start-up, while capitalizing on the scale and global reach only available to a larger enterprise. As such, it provides a level of business impact that demands attention at the C-level, analogous to other transformational enterprise platforms such as ERP or CRM.

BENDING THE INNOVATION CURVE AT THE PRODUCT, PROGRAM, OR PROJECT LEVEL

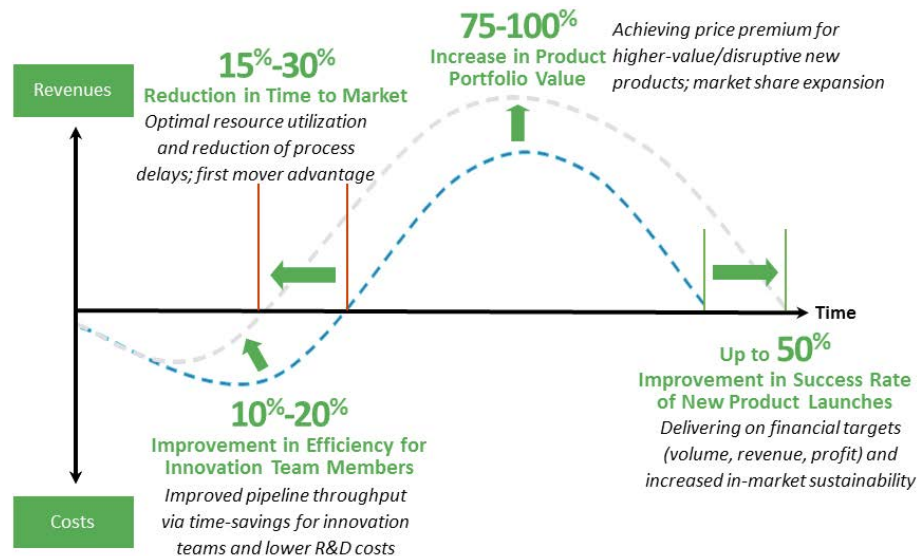
To illustrate the impact of this approach, consider the innovation “S-curve” below, which characterizes the typical shape of the value contribution made by any new product or process improvement over time. For small-scale product- or process-improvements, the time dimension on the x-axis may only be a number of weeks; but for larger-scale efforts, this value contribution may extend across many years.



As highlighted by the arrows on the y-axis, this model addresses both organic revenue growth and cost improvements. The delta between the two dotted lines above highlights the value creation opportunity available to companies when they can “bend” this innovation S-curve by tracking and improving these four quantifiable business metrics:

- **START-UP COSTS:** This is the amount of money and effort (i.e. dollars and FTEs) required to develop and launch a new product or process innovation.
- **TIME TO MARKET:** The duration of time required to bring a new innovation to the market.
- **INCREMENTAL VALUE:** The amount of incremental profit, revenue, and/or volume contributed by the new product or process improvement.
- **SUCCESS RATE:** The degree to which a new product/process achieves (or doesn’t achieve) its forecasted financial objectives. This is represented here by the length of the innovation lifecycle, since successful innovations typically stay in the market longer than unsuccessful ones.

Third-party research and internal benchmark data have proven that companies with enterprise innovation management show a significant improvement across these four metrics. Specifically, companies have reported improvements that fall within the ranges below:



THE EXPONENTIAL IMPACT OF BENDING THE INNOVATION CURVE AT THE ENTERPRISE LEVEL

The big “aha” moment for executives is when they realize the additional, compounded impact as these improvements move from the local to the global — meaning they go beyond a single product line, brand, or business unit, and are effectively scaled across an entire global enterprise, which may consist of hundreds or thousands of product and process innovations. With so many programs affected, even small improvements in these four metrics generate a material contribution to the overall organic sales and profit growth of these companies.

To illustrate, consider benchmark data shared by two of the aforementioned companies:

- **EFFICIENCY AND TIME TO MARKET:** A large global consumer firm conducted a review of its enterprise innovation management efforts over a five-year window, and determined that these new capabilities had reduced their time to market in that period by 31 percent. This exceeded their improvement target of 10 percent, which was the business case for their initial investment. Separately, they also identified efficiency improvements—the average project was completed with six fewer FTEs, enabling them to redeploy those resources to a larger number of projects.
- **INCREMENTAL VALUE AND SUCCESS RATE:** A large global industrial manufacturer also invested in enterprise innovation management to focus their limited resources on fewer, bigger, and better innovation investments. These improved decision-making capabilities enabled them to dramatically reduce the number of low-value projects in their enterprise portfolios. This manifested in a 45 percent reduction in the total number of projects accompanied by a 20 percent increase in the value of their portfolios over a two-year period, and a 500 percent increase in sales from breakthrough projects (new to the world/new to the market) over a five-year period.

Improvements to key performance indicators like these—which are the drivers of organic net sales and profit—are the reason why enterprise innovation management is increasingly getting attention at the board level. These scalable value creation capabilities embody a growth strategy that deserves executive sponsorship, investment, and an agenda for action mandated by senior business leaders. For companies that do so, the reward is the prosperity associated with higher-value and more successful innovations that get to market fast. For those that don't, the risk is a continued cycle of lower sales growth, missed market expectations and, ultimately, being left behind by those competitors better able to respond to dynamic consumer and market needs.

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