

GROWTH THROUGH INNOVATION

Preparing Companies for the Changing
Business World

*In the first two decades of the 21st century, we will
experience more change than in the entire 20th century.
- Ray Kurzweil, MIT Inventor of the Year 1998*

Is your company prepared?

Whether you are Google or the local gas station on the corner, innovation and collaboration are necessity in the “new” marketplace. How have you positioned your company to manage these developments? While innovation is not a new concept, it is receiving increased attention by institutions around the world. International think tanks such as the OECD* (London), KOF** (Switzerland) and the McKinsey Global Institute (Washington D.C.) are studying and attempting to measure it. Governments are holding conferences and trying to foster it. If innovation is not new, why this increased focus on the topic? Many reasons exist, but three stand out as the main drivers of the Innovation engine.

1. GLOBALIZATION

The world has become progressively connected through advances in information technology, communication, and transportation resulting in political, cultural, and economic convergence. We connect daily with people and companies from around the globe – sometimes without even knowing it. Because access is easy to other countries, it is increasingly simple to travel, buy, and enjoy what they have to offer. The August 2007 issue of World Trade Magazine states, “Globalization is not a choice. It is a restriction imposed by the world’s economic revolution, which will continue to accelerate in the years ahead...Globalization forces all enterprises to adopt a worldwide perspective to survive...” Bottom line: Our opportunities to interact globally have grown exponentially and so has our competition.

*(OECD) Organization for Economic Cooperation and Development ** (KOF) Swiss Economic Institute, Zurich

2. INFORMATION TECHNOLOGY

Knowledge is power. The rapid development of technology and our resulting accesses to information has increased dramatically. The ability of a small upstart in India to become a global powerhouse is evident in the rise of WIPRO and TATA Consulting Services as leaders in their field. Their websites scream innovation and references to “co-innovation networks”, innovation Labs, Innovation Councils, company innovation websites, and “disruptive innovation goals”. WIPRO’s motto of purpose is: “Innovation is WIPRO – WIPRO is Innovation.” Young, nimble startups open to new, forward-thinking ideas (versus reactionary) are pioneering change worldwide and posing a threat to established firms. For developing countries, this access to powerful information technology is increasing competition globally.

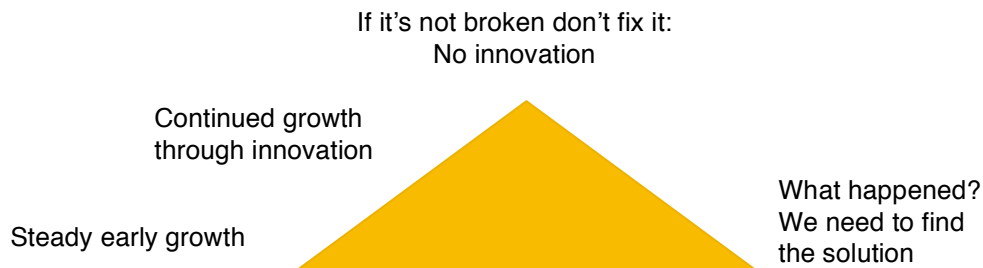
3. LIFECYCLE

Everything has a lifespan – people, countries, organizations, and products. In order to survive and ultimately thrive, organizations need to re-create themselves to align with change in the culture, economy, and political landscape.

Advancements in information technology and manufacturing process have dramatically increased the rate of change. Organizations not open to growth and new ways of doing things will “ride the bell curve” and slowly fade into the background, such as Polaroid and its slow entry and lack of innovation in the

field of photography. Polaroid filed for bankruptcy in 2001. Since 2002, digital photography has overtaken and almost eliminated film in the marketplace. A lifespan of a company that does not innovate and collaborate globally will be shortened by forward-thinking competition.

Innovation Lifecycle



Speaking from experience...I have worked for four international firms and five startups in my career, all of which believed in innovation. They used terms such as:

- + World class
- + Industry/market leader
- + Instituting best practices
- + Finding a "niche" in the marketplace
- + Differentiating themselves
- + Growth through innovation

No matter what the size, each at some level was not comfortable with the status quo, wanting to think ahead of the competition and serve the client with the best product or service possible. All these companies had "innovative moments" although sustaining an "innovative mindset" was challenging.

One international firm was a world-class powerhouse (for the moment), the problem was that introducing any new idea was similar to running the 50-yard dash on an elephant. Communication was slow and management processes rigid. Getting approval to implement a new idea took time - it was potentially obsolete before one could make change happen.

Another international firm was clearly innovative in their product. The delivery system, however, was archaic. To make change in this firm required four levels of management approval. Focus got lost, risk was avoided and the ideas diluted before approval was given to implement. The final change was usually insignificant in relation to the marketplace.

A smaller start-up had innovative ideas, however, there were too many managers or chiefs and no one with specific leadership responsibility to make change. Ideas got tossed about but energy would get focused on current business problems (i.e. poor 2nd quarter numbers) and innovation would move to the sidelines.

One startup, however, did innovate well. Best-in-Class thinking was part of the Strategic Planning Process. Management was nimble and quick to listen and jump on innovative ideas. In a rapidly changing marketplace, the firm was able to navigate opportunity, make strategic (not reactionary or emotional) decisions and stay at the top of their game.

I recently spoke with a corporate executive of a \$1 billion manufacturing firm, sharing with him that I had just read 400 startups in China were manufacturing his product. His reaction was, "China's quality is so poor they are no threat to us." He went on to cite a certain company, which has been sold to the Chinese, and had produced a superior quality but was not "junk". I suggested that at present these companies were not a threat. However with India and China making up 40% of the world's population and man's limitless ingenuity in the face of challenge, these countries could potentially be that "disruptive innovator" down the road. He was clearly not concerned. Would you be?

GETTING ON OUR WAY

Corporate attitudes, management, and organizational structure can be a huge disadvantage to innovation and global collaboration.

Barriers to Innovation:

- + No commitment to innovation
- + Comfortable status quo
- + Too many chiefs in the process
- + Management focused on problem du jour
- + Strategic plans given little or no attention
- + Corporate focus on current quarter performance rather than what's next

The Proactive Solution

Globalization, IT development, and rapid change are all contributing to advancements in world interaction and social welfare. The downside for companies today is that these movements also bring increased competition and threaten to undermine established marketplaces. Innovation is the answer to these concerns.

Defining Innovation

It is creative, strategic, and determined thinking designed to capture and implement vision and value within an organization and a marketplace. There are infinite ways for companies to embrace innovation and enhance their business models. We will disclose three that have significant impact: strategic planning, international collaboration, and global collaboration.

Strategic Planning

In order for a company to embrace innovation, it has to start at the top. The board and CEO must be aligned in the belief and support that innovative practices are vital to the continued life of the company. They must be integrated as part of Strategic Planning. Whether innovation is included as an objective for each manager or a company chooses to invest in a full-time Chief Innovation Officer, innovation goals and investments must be developed, measured, and monitored.

International Collaboration

Communication/Review/Implementation/Failure/Value

Communication is a critical component of Innovation. It is important for a company to create a "listening" system to get continual and strategic feedback from customers, workers, and the competition. Whether from the sales force, the manufacturing line, or the marketplace - ideas for innovation abound.

Many companies find they are not short on ideas - but on the process for filtering ideas into those that can actually create value. Developing a process to review and test new ideas, strategically adopt and implement that which provides the biggest promise of success, and then anticipate that many will fail is critical to the Innovation cycle. An additional process to "fail early" is necessary to limit investment in innovation only to those ideas that are producing results. These processes will vary based on the size and industry of the particular business. The learning that occurs in these internal processes is vital and needs to be regularly reviewed and managed.

Global Collaboration

Global Collaboration is a new model in innovation management. The traditional approach of using a central and co-located R&D team is being challenged.

Companies are looking to partner globally with other firms to:

- + Gain access to complex products and technologies - no one firm can be an expert in it all
- + Gain access to cheaper skilled labor in developing countries
- + Gain access to market intelligence, supplier relations, and political ties overseas

Global collaboration is not to be confused with outsourcing. This innovative strategy is not just about cutting labor costs - but about gaining synergy with other firms by:

- + Sharing knowledge (while protecting intellectual property)
- + Leveraging new ideas/strengths/skills
- + Sharing risk

It is designed to achieve economies of scale and create competitive advantage, resulting in both reduced costs and product differentiation.

Global collaboration requires focus in four areas: people, process, platform and program. People must be trained to work collaboratively with other teams/companies; work flow processes must be managed and continually corrected; technology platforms must be developed and coordinated and finally a holistic management view of all the programs must be taken for the collaborative process to be successful. Companies need an organization structure to develop innovation, measure it, and manage it as a whole. WIPRO's Innovation Council is an example of this structure - a functioning group that nurtures and incubates new ideas, acts as custodian of R&D and innovation investments, and monitors all the processes and results.

WHAT IS THE RETURN ON INVESTMENT?

Ask any CEO today what keeps him/her up at night and they'll tell you:

- + Customer needs and trends
- + Employment issues
- + Current product/service
- + Enhancement and new product/service development
- + Shareholder value
- + Community relations
- + Local and global economic cycles
- + Financial markets/currency dynamics

Watching the global horizon, the bigger picture must be a priority as well. Innovation is a necessity. Organizations that embrace it will continue to "write the next chapter" in their industry and their successes. If managed, innovation's ROI will be to derive value from globalization, embrace and utilize information technology creating both product differentiation and reduced costs, resulting in additional shareholder value.

Back to the local gas station and a story of successful innovation. I discussed innovation with the CFO of a \$3 billion oil company serving 7 states on the east

coast. This firm started with six full-service gas stations in the late 1950's. The founder had a degree in agriculture, and no formal business training, yet he did have his "eye on the market" and it served the business well. In the early 70's, he enhanced his stations with the new concept called "self serve". After researching his customer behaviors, he determined 95% of gas was dispensed self-serve - so he converted 100%.

The next chapter involved the "C" concept, or convenience store model. By the early 1980's the firm had 67 stores. In the late 80's the company moved into diesel and the travel plaza business emerged, growing to 140 stores and introducing successful franchising partnerships with Wendy's, Subway and Taco Bell.

Responding innovatively to consumer trends, this company next made the investment to provide an ethanol blend gasoline to satisfy "green thinking". Government subsidies for providing an ethanol blend offset costs.

The organization now has 340 stores, 50 restaurants and continues to ride high on the bell curve. The latest innovative strategy has been to bring in new management to enhance the administrative side of the business, as well as focus on revenue generation on the non-oil side of the business.

Their challenge is to determine the next frontier for the industry – how to maximize profits on the other side of the gas pumps - with food, convenience items, ATM's, copy services, car wash, television and streaming ads within the store – even selling advertising on the stall doors of restrooms. GPS available at the pumps, and other promising concepts have to be balanced against capital and staff development expense and investment. Determining the right blend of dedicated labor costs and resources to make services profitable is a continual focus of management. Watching the market and studying competitors is another way they focus on the future. Obviously, alternative fuel is a looming issue for any oil company. The company is studying this - seeing it as a long-term initiative that needs further development - and continuing to seek innovation within their current business model.

I include this company as an example of innovation success for 3 reasons: All businesses whether they are a high tech chip company or your local gas station need to innovate to survive. This company has stayed on the cutting edge of trends for almost 50 years and experienced transformation and profitable growth as a result. Secondly, it recognized the need for partnering or collaboration - to enhance product offerings, cut costs, and take advantage of resource availability. Third, it cannot rest on its laurels. The company continues to look forward - to watch its customers, the marketplace, and the economy to write the next chapter in its success.

Innovation and collaboration guarantees new life to organizations in a continually changing social, economic, and political environment.

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