Accelerate Your Innovation – Something You Can Control in Economic Uncertainty

Businesses are holding onto cash rather than investing in innovation. Prioritizing innovation over short-term gains can drive long-term growth and success.

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Despite record profits and continued economic growth, businesses worldwide are tightening their belts. Rather than invest in innovation, they are either returning cash to shareholders through dividends and stock buybacks or simply sitting on their profits. In fact, a handful of top companies in the S&P 500 are currently hoarding over a trillion[1] (yes, trillion) dollars alone.

But why are so many companies prioritizing cash over investment? The causes are many, including political chaos, supply chain disruptions, accelerating technological change, perceived economic uncertainty, and changing employee and consumer demographics. The most likely reason, however, is that business leaders see their companies impacted by forces outside of their control and are saving for sunnier days.

Ironically, corporate leaders are not compensated to sit around and wait for better days – they're paid to run their businesses *today*. The best-performing stocks are not those of companies that are idle or constricting. Rather, the best-performing stocks are those of companies that are growing. [2] So, what can business leaders do now that will pay off regardless of who wins the next election, how supply chain disruptions are resolved, or whether the U.S. addresses its overwhelming government and private sector deficits and debt? It's simple: Drive innovation!

Business is a cycle. That cycle starts with innovation and ends when companies stop innovating. In the middle, it is not uncommon for companies to get conservative and promote leaders and managers who are skilled at extracting every penny of value out of established products in established markets, but who pay little attention to innovation and potential five to seven years in the future.

There is a strong argument to be made that the best time to shift to an optimization mindset is when companies *don't* see growth and innovation on the horizon. An MBA finance professor might say this optimizes the Net Present Value of future projected cash flows. And yet, you must wonder which came first. Did the company run out of growth, new markets, and innovation? Or did the company stop investing in innovation, thereby perpetuating its self-fulfilling demise?

An example of a company that simply ran out of growth was Kodak. Founded in 1892, the Eastman Kodak Company saw incredible growth for over one hundred years focusing on traditional print photography. The company hit its highest stock price of $92.87 on February 10, 1997, about the same time that digital photography was being innovated by Kodak's competitors. Failing to react, officers at Kodak did not invest in innovation. Instead, they doubled down on print and heavily invested in advertising during the 2000 Olympic Games in Sydney, Australia. The stock price eventually plummeted from $60 in 2000 to $.36 by 2012 due in large part to a lack of innovation and failure to adopt new emerging technologies.

On the other hand, there are many examples of new leadership, or a renewed focus, jump-starting innovation. Perhaps the most famous example is the return of Steve Jobs to Apple in 1997.[3] Jobs had been outed from Apple over a decade earlier and, by the mid-1990s, the company was suffering. When Jobs returned to Apple in early 1997, it wasn't innovating, and its adjusted stock price was $0.14. Within a few years of Jobs' return, the company introduced the iMac, iPod, iPhone, and iPad. Its stock price rose 6,712% during his 14-year tenure, clearly demonstrating that executives who are focused on innovation can turn companies around rather than simply extracting cash for shareholders.

There are essentially seven steps to driving innovation at any company. In this article, we'll explore each in more detail and outline a clear roadmap that business leaders can follow to grow their companies and avoid stagnation.

1. Establish Your Baseline Innovation Performance

2. Document the Case for Innovation Change

3. Establish an Innovation Council

4. Garner an Innovation Charter and Drive Governance

5. Establish a Clear Innovation Strategy

6. Define the Innovation Process

7. Establish and Celebrate a Culture of Innovation

A word of note before beginning. The most important objective at the outset of your innovation improvement journey is to establish broad organizational buy-in. You aren't going to change the slope of your innovation curve overnight, and the investments you will be making need to stick over the medium to long term to make a difference. Establishing your baseline performance and then creating a case for change (Steps 1 and 2) are designed to accomplish that.

1. Establish Your Baseline Innovation Performance

Before you can tackle any growth plan, it's important to first analyze your current level of investment and determine if your company is innovating enough. Fortunately, there's an easy way to calculate this. The best answer to the question, "Am I innovating enough?" is to define the percentage of your revenue that comes from new offerings (new products, services, markets, etc.) introduced in the last three tofive years.

As new products, services, and revenue lines are introduced, tag them if they fit within a pre-defined timeline. For example, consumer-based products with a quick cycle time should be measured against a three-year timeline while B2B industrial applications tend to be measured on a longer, five- to 10-year timeline.

In addition to tracking revenue from new products and services, you'll also want to keep tabs on some secondary measures, including:

1.

R&D Spending as a Percentage of Sales:

While this is a more traditional measure, you should be careful: gross spending doesn't guarantee effectiveness and overall spending may need to increase to gain innovation momentum. Companies with effective innovative ecosystems already in place, however, may be able to spend less than companies that are only beginning their innovation journey.

2.

Innovation Pipeline Strength:

Assess the number, potential impact, stages, and diversity of projects in the innovation pipeline. Track progress over time, as well as the graduation rates of ideas.

3.

Market Share:

Innovation can directly or indirectly drive market share growth. Strong marketing, pricing, and distribution can play into innovation and can be amplified by competitor mishaps.

4.

Customer Feedback and Engagement:

Customer feedback is an important ingredient when measuring innovation success. Fresh customer insights combined with investments in market intelligence can drive innovation. Note that both existing and new customers need to be engaged to ensure all applications are explored.

5.

Patents and Intellectual Property:

Patent away — just be sure to track the number and quality of your company's patent applications.

6.

Employee Engagement:

Ideation velocity and breadth of employee involvement are strong secondary or tertiary indicators of innovation quality.

7.

8.

9.

Benchmarking Against Competitors:

Comparing yourself to the competition is always popular with corporate executives. But remember that disruptive innovation often comes from outside the industry and is usually a surprise when it happens.

Adaptability and Response to Market Changes:

The speed at which the organization "pivots" is an important indicator of resiliency with existing customers and markets.

Awards and Recognition:

Seeking awards and recognition is a great way to measure innovation. It also helps attract and retain the best engineers and innovators.

A combination of these measures should help you track your innovation against a baseline. Or, if you're just getting started and the goal is a general "up your innovation game," simply include baseline establishment as part of your project plan.

2. Document the Case for Innovation Change

The case for innovation should be short and sweet with a mix of logic and emotion. Questions you should answer in your Case for Innovation Change include:

What is your company's history and base performance?

Why is change needed now?

Why is innovation important?

What does success look like?

What are the steps in the company's innovation improvement journey?

What can your employees do to help?

A strong case for innovation can lead to significant changes in the way an organization makes decisions, allocates funds, and develops corporate culture.

Once the case for innovation has been documented, share it widely – both with those who can provide valuable input and those whose buy-in will be critical to the initiative's success – and revise it as good ideas and suggestions are made. Ownership of the case for innovation should move from "yours" to "ours." Over time, the positive culture of innovation will catch on as more co-workers are brought into the process and corporate executives make larger funding and resource allocation decisions toward innovation.

3. Establish an Innovation Council

An Innovation Council is a small governance body of senior managers that enables cross-business/function/geography decision-making and coordination. Councils ensure that innovation activities in various parts of the organization are strategically aligned, coordinated, and supported by appropriate processes and resources. From a leadership standpoint, council members remove internal roadblocks so that enterprise innovation can be encouraged. Members are often hand-picked or nominated, and the council can include a mix of roles across levels. They should all, however, possess three things: time, passion, and a willingness to push the envelope.

The council should also understand the processes and technologies that need to be implemented to manage and govern innovation while simultaneously keeping the big picture in mind. Existing structures and teams should maintain focus on incremental innovations such as point releases and incremental product and service improvements. In some cases, innovations guided by the council are intended to fill holes, claim white spaces, or solve problems for customers that no one is solving. In a nutshell, you are striving to change the game or play in a new one.

4. Garner a Charter and Drive Governance

The drafted case for change should be presented to the C-suite so that a charter can be issued, and the Innovation Council granted the authority to pursue and govern innovation incubation. This charter is critical to ensuring that the council can effectively champion winning ideas and eliminate internal roadblocks.

The charter provided by the C-suite should be created in congruence with your corporate culture. Is it an email to the Innovation Council with affirmations and direction? Is it a call-out during a town hall? Whatever the natural method of communication is for your company, the directive needs to clearly state that: (1) this is important to the C-suite; and (2) authority and governance are delegated to the council.

5. Establish a Clear Innovation Strategy

Once the charter has been written and communicated, the committee should work quickly to establish an innovation strategy for the council. Existing product management activities that result in incremental improvements and/or product and service refreshes might be considered outside the purview of the council. Executives have limited bandwidth and tasking innovation leadership with incremental and "always been done this way" planning should be avoided.

There are many approaches to outlining the innovation work the council *should* be involved in. And there likely will be a different "right answer" for each company that embarks on this journey. Before you focus on a specific innovation strategy, however, encourage the team to evaluate various options and then consider piloting the top one or two concurrently. Some options include:

1.

Form a Consulting Team:

Establish a cross-functional team to follow a specific innovation methodology. For example, "Jobs to Be Done" is a popular innovation theory that focuses on how customers use your products to accomplish their goals. Identify the goals and needs that are not being addressed by your current product line.

2.

Engage External Innovation:

Engage externally with startups, research institutions, and even competitors. This can include partnerships, acquisitions, crowdsourcing ideas, and participating in innovation ecosystems.

3.

Establish Innovation Labs:

Establish a dedicated innovation lab or team to explore new technologies and business models without the constraints of core business operations.

4.

Engage Customers and Suppliers:

Potentially in conjunction with "Jobs to Be Done," collaborate with customers and suppliers to expand the definition of innovation to a wider space.

5.

Evaluate Global Innovation:

Are there countries or markets where you are uncompetitive or can't compete due to price? Establish a team to determine a path forward in those markets, and then introduce the ideas and lessons into existing markets.

Once you build a team and identify several innovative strategies to pilot, you'll need to obtain resources. Ideally, you should commit dedicated resources with technical knowledge, creativity, communication skills, collaboration skills, and drive to innovation. Find folks with the right skills and passion, and then turn them loose.

6. Define the Innovation Process

While there are many best-in-class innovation processes out there, they all generally follow a similar five-stage flow with specific decision gates required to advance. Note that it is important to understand your innovation goals before making your process decision gates. If you are focused on white space and new markets outside the company's traditional zones, then you'll need to monitor discarded ideas to ensure the process isn't constricting creativity.

Phase I

Idea Generation:

Ideas can be generated across the organization or by specific teams dedicated to innovation. Each idea should be aligned to the overall corporate strategy and be able to drive customer value.

Phase II

Concepting:

Here the value proposition is further defined along with a high-level view of technical feasibility. The total addressable market should be identified along with early estimates of impacts to earnings before interest, taxes, depreciation, and amortization (EBITDA). Additional financial and legal implications are

Phase III

Development:

In the development phase, additional engineering and design investments are made to further build prototypes. Some marketing planning can begin in this phase, along with customer engagement, to get customer buy-in. Further costing and financial projections should be included at this stage.

financial and legal implications are considered along with "buy versus make" decisions.

stage.

Phase IV

Execution:

For innovations that make it this far, the execution phase is where significant investments are made. These include any tool and manufacturing buildouts for goods and/or the development of new processes for service innovations. Final steps on customer buy-in, including pricing and consumer messaging, are solidified. Legal implications on IP protection, licensing, and terms and conditions can also be included here. The execution phase ends with a thorough understanding and setup of customer-support processes and warranty plans.

Phase V

Delivery & Measurement:

The fifth and final phase includes the official production and market launch, both of which are supported by quality and commercial success monitoring. This is also where the previously described financial and secondary measures come into play, as does an element that's focused on improving the product, processes, organization structures, and technology.

7. Establish and Celebrate a Culture of Innovation

When establishing a culture of innovation for your organization, it is critical to consider both front-line customer-facing and back-office employees. This drives a diversity of input and encourages everyone in the company to participate in the innovation process.

Naming innovation advocates or champions is also another key ingredient when creating an innovation culture. These champions not only help employees make time in their schedules to invest in the innovation process but also communicate with leadership to ensure that innovation remains top of mind and a top priority for the company. Metrics and incentives might also need to be evaluated to confirm they support the goals of innovation and are not just focused on the day-to-day job.

Finally, employers should supply the right tools and frameworks, as well as provide a safe space in which employees can take risks. The outcome of a healthy innovation culture includes employees with high energy and passion. They should be celebrated and encouraged to take risks and fail forward. Failure is okay if it advances the innovation process.

Conclusion:

By following these seven steps, you can future-proof your organization, business models, and revenue streams. Your company will continue to reinvent itself by thriving on creativity, ideation, and the overall innovation process. And you can ensure your organization doesn't just focus on the optimization of current resources but stays targeted on true growth in new markets, products, and customers. Remember, no matter the short-term uncertainty caused by government changes, politics, supply chain disruptions, and economic uncertainty, innovative companies that invest in growth win in the end.

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