

Finding Opportunities for Innovation and Growth

by Blair Kingsland, Senior Consultant, Spectrum Innovation Group

Businesses that actively pursue innovation generate more growth and profits than those that do not. Plus they usually enjoy higher brand awareness and appeal. Here are nine ways of finding ideas and opportunities for innovation and growth.

Innovation is about introducing something new or doing something in a new way. The goal of innovation is to take an idea from concept to realization and improve business performance. An innovation can be a new product, a new process, or a new way of doing business.

Innovation can come from anywhere or anyone inside or outside an organization. The main ingredients of successful innovation are a fresh perspective, a diverse source of ideas, and an open environment.

Many employees are preoccupied with managing day-to-day operations and “putting out fires.” They don’t see opportunities because it’s not their job to innovate.

But others have their heads up. They see more and know more. They develop more new products. They sell more to new customers and new markets. Innovation makes their products and company stand out from the competition. Innovation puts their organization on a path of sustained growth and profitability.

Understand the trends and drivers in your industry

The pace of innovation around the world is increasing and is driven by five major trends:

- **Increasing global competition** – Free trade, capital mobility, labor mobility and global knowledge enable companies large and small to compete in markets anywhere and everywhere. Your competitors could be anyone.
- **Increasing advances in technologies** – are providing endless opportunities for new types of products and services. The development of some technologies is increasingly rapid or complex and requires the resources of more than one organization.
- **Changing and diverse market needs** – Demographics, politics, cultures and society are changing in different ways in each local region. More people around the world can afford to buy new and better things. Consumers want to have choice and control, to interact with others, and to express their individuality.
- **Increasing volatility of natural resources** – Changing supply and demand of energy and raw materials affects their prices. Companies must assess their exposure and minimize their risks.

- **Increasing environmental concerns** – The earth’s environment is increasingly threatened by man and industry. People want more environmentally friendly products and sustainable business practices.

Plus there are specific trends and drivers that affect each industry. These often relate to or stem from the major trends. Conduct a competitive analysis of your industry to identify the players, products, technologies and factors that affect your business. Standard elements of a competitive analysis are:

- Industry characteristics, trends and driving forces.
- Industry structure: Competitor rivalry, new entrants, substitute products, power of suppliers, power of buyers.
- Key factors for competitive success.
- Competitive positions in the industry and market.
- Competitive strategies.
- Internal strengths and weaknesses.
- External threats and opportunities.
- Scenario analysis of possible competitive moves and outcomes.

Control the way you earn your profit

Profit can be measured by dollars per item, per hour, per customer, per transaction, or per some other parameter (the “denominator”). Change the way you do business and get more control over this parameter and how you earn your profit.

- Be aware of the beliefs and principles in your industry that are barriers to innovation.
- Develop a recurring revenue stream.
- Change your sales mix among pre-sales service, products, maintenance and after-sales service.
- Offer lower-priced products that provide higher asset turnover.
- Offer higher-priced products that have higher profit margins.
- Change your cost structure by shifting fixed costs to variable costs or by shifting your costs to another supplier.

Compete differently in the value chain

The competitiveness of an industry changes over time. New players enter and exit. Competitive advantage shifts among players and along the value chain. Find competitive opportunities in the value chain by looking at:

- Increase the activities in which you can add the most value. Usually by either offering a complete proprietary product or process or offering part of an open modular system.
- Enhance product differentiation to increase prices and margins.

- Provide more pre- or post-sales service to alter the linkages in your value chain.
- Increase vertical integration (forward or backward) to control more of your supply chain.
- Decrease vertical integration by shedding or outsourcing time-consuming or unprofitable activities to focus on your core activities.
- Develop a complementary business or product that supports your main business and provides a more complete customer experience. For example, Google Mobile supports Google Search.

Look at customers in a different way

The traditional ways of looking at customers, such as demographics or purchase history, are often incomplete or misleading for determining the real or future needs of your customers. By looking at customers from a different perspective, you can see new opportunities for innovation. Find customer opportunities by looking at:

- All the jobs (tasks) customers and others are trying to do when they use a product or service. Look at them all in the right context.
- The outcomes (results) customers want to achieve when performing these jobs in a variety of circumstances. Why do customers buy the product? Why do customers buy your product?
- The constraints (barriers) that prevent customers from using a new product or service.
- The buying decision process. Who influences the decision? How do the buyer's purchase criteria change during the process? When is the sale most at risk?
- The relationship with customers. Make all customer touch points a positive experience for the customer. Disney is a master at this.
- Ask your customers directly. Use group discussion with customers. Set up customer panels. Run a Web community. Survey your customers. Work with lead users who are early adopters of new products. Ask about their needs and goals. Ask them about their problems and what they like and do not like about certain products. Will they recommend your product?

Expand into new markets and customers

Expanding your market is one of the best ways to grow a business. New market opportunities are constantly appearing for those sharp enough to see them and skilled enough to exploit them. Find market opportunities by looking at:

- The market boundaries that define who uses or does not use a product. Create new markets or reshape existing ones. Example: Starbucks redefined who drinks coffee and why.
- Over-served customers who think products are too complicated, too expensive or not worth the price. Move down market. This is the single biggest source of disruptive innovation and new growth. Examples are Honda (1970s), Wal-Mart and Dell.
- Under-served customers who want more features and benefits and are willing to pay for it. Move up market. Examples: Private banking and luxury vacations.
- Non-consumers: people who do not currently use your product but could.
- New uses or applications for existing products.

- New geographic regions. The two largest emerging markets are in China and India.
- New market segments. Create new segments based on a set of common customer characteristics or circumstances. Divide large segments into viable sub-segments.

Develop new products, services or processes

New products are the lifeblood of growing and profitable companies. As products get older they are copied, matched or beaten by competitors. To find new product opportunities:

- Understand the trends in your industry. Acquire deep insights into your industry, markets and customers (as described above) to develop the right products.
- Use (create or buy) new technologies in your business to make your products better or lower your costs. For example, high-speed Internet access is creating many opportunities for new services.
- Offer new technologies in your products to customers. Example: Mobile GPS systems.
- Offer your customers a better value proposition by providing more benefits (features or perception) or reducing prices.
- Offer different value propositions to different market segments. This forces you to optimize your resources and will maximize your profits. Example: Toyota and Lexus brands.
- Create an “innovation funnel.” Maintain a constant flow of ideas into the top for consideration. Many will not pass to the next stage. Some products will fail. But over time you will be managing a portfolio of projects that will produce a range of successes.
- To take a concept from idea to commercial success, make sure your resources, skills and motivation support your objectives.

Pursue a range of degrees of novelty

The degree of novelty of an innovation ranges from incremental to breakthrough. Incremental innovations are smaller, easier to implement and less risky. They are good for sustaining your business. Breakthrough innovations are more radical, more complicated and more risky. They can disrupt the market in a big way and provide a big leap in growth.

Most companies succeed over the long-term by making a continuous series of incremental innovations focused on growth and developed across many areas. But some organizations are too risk-averse and resist all change to the point where they stifle all innovation and growth. To pursue a range of degrees of novelty of innovation:

- Define your risk tolerance and pursue innovations within it.
- Create and manage a pyramid-shaped portfolio of innovation projects. Many incremental innovations, some midlevel innovations, and a few breakthrough innovations.
- Be rigorous about managing new product development, especially staying focused on customers and controlling costs.

Foster a culture of innovation

Your employees can be a very rich source of innovation, especially those who have contact with customers. But if employees are not motivated or given incentives to innovate, they will simply maintain the status quo – with all its good and bad consequences. Effective methods of generating new ideas from employees are:

- First, make sure you have the right employees in the right positions to start with.
- Then, let them network, interact, collaborate and share with each other in the organization and with outsiders.
- Have as many employees as possible thinking of ways to improve your products and business as part of their regular work. Make it fun. Don't "command" it.
- Allow some free time (maybe 10%) for employees to pursue ideas that they are interested in or think might be worthwhile. (They will be happier and pay you back with 20% more productivity.)
- Company suggestions – Have a system for getting new ideas from all employees. Define the authority, responsibility and accountability to make the process effective.
- Brainstorming sessions can generate original ideas. Don't make them too formal or too controlled. Just let the participants' "neurons fire" and collect the fallout.
- Don't punish employees for ideas that don't "fit the mold" or fail to work out. Make failure a positive learning experience. Learn from mistakes and move on.

Look outside your organization for ideas and opportunities

Good ideas can come from anywhere. The more diverse your world is, the broader the range of ideas and opportunities to which you will be exposed. To find opportunities outside your organization:

- Network, share and collaborate with people outside of your organization. Their ideas or activities may seed good ideas at your organization.
- Look for ideas and opportunities at trade shows, trade publications, competitors, patents, universities, consultants, experts and advisors.
- Have a regular program to scan for information and gather business and market intelligence. Watch trends in popular culture.
- Sometimes step outside of your "regular world." Be open to chance events that might lead to good ideas. For example, visit a trade show or read a magazine from outside your industry.

Following these nine ways of finding opportunities for innovation and growth is hard work. There is no magic formula. But the sooner you start, the sooner you will reap the rewards, as most innovators before you have done.

The opportunities for innovation and growth in the world are unlimited. With a positive attitude, the right skills and the right motivation, you will make the path of innovation clearer and more rewarding.

Feb. 14, 2007

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About Spectrum Innovation Group

Spectrum Innovation Group is a consulting firm specializing in innovation and growth. It provides insights into business trends and helps companies identify opportunities for expanding their business.

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