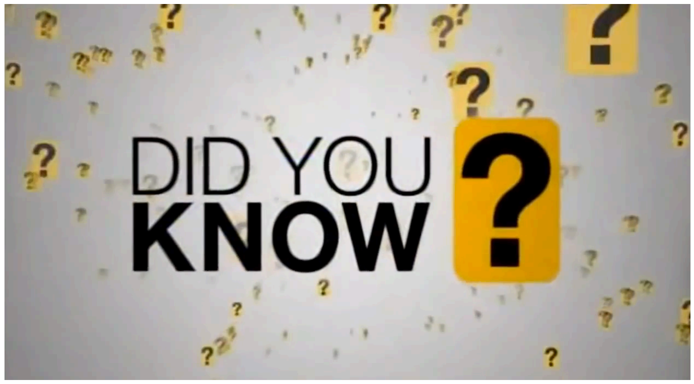
Innovation:

because growth matters

Christine McMahon & Associates

INNOVATION

VIDEO: Did you know? link: http://www.youtube.com/watch?v=cL9Wu2kWwSY



University of Berne study reveals that:

- *Roughly half of the companies that exist today do not live longer than a decade*
- *15% survive longer than 30 years*
- *Only 5% make it to the 50 year mark*

COMPANY FAILURES – size is no guarantee of success

- AT&T (acquired by SBC in 2005)
- MCI
- Nextel
- Kmart acquired by Sears
- Montgomery Ward
- Chrysler (part of Daimer, Fiat)
- Oldsmobile, Saturn, Hummer
- Digital, Compaq
- Acquired Philips, Texaco
- Acquired: Eastern, Western, Southeast, Pan Am, Swissair, Northwest, TWA airlines
- Nations Bank swallowed Bank of America
- Netscape, Napster
- Peoplesoft, Sun, Seibel became part of Oracle

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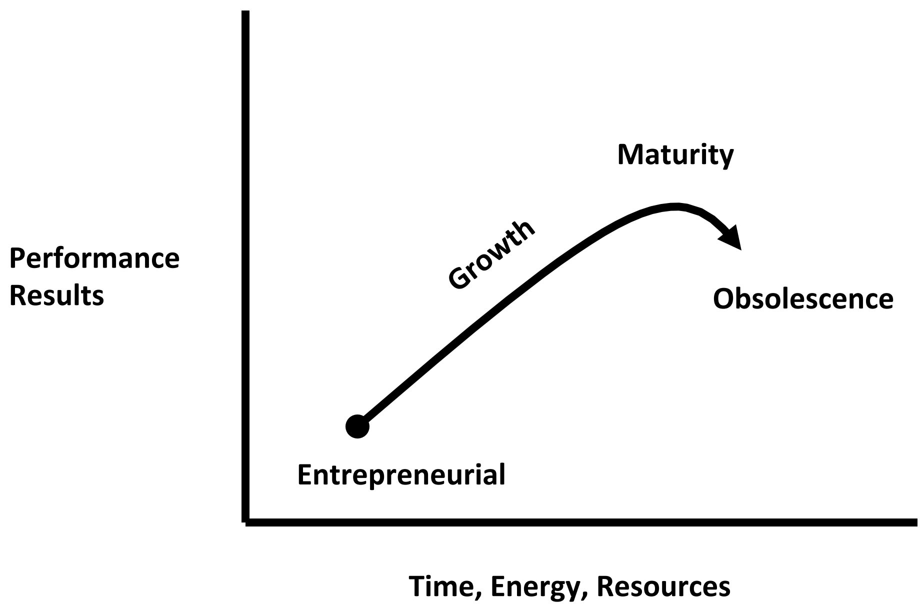
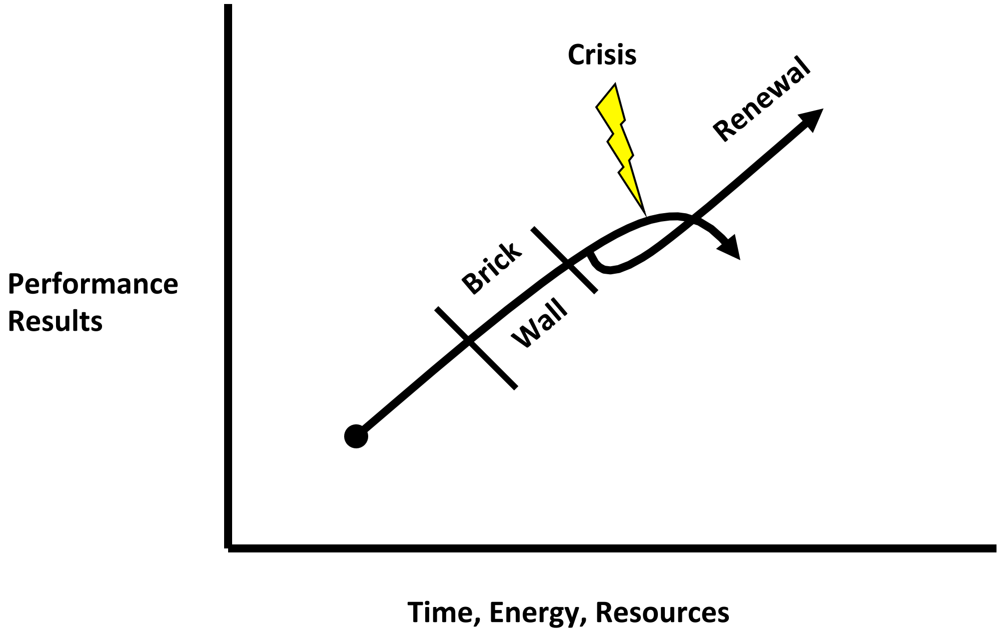
LIFECYCLE OF A BUSINESS





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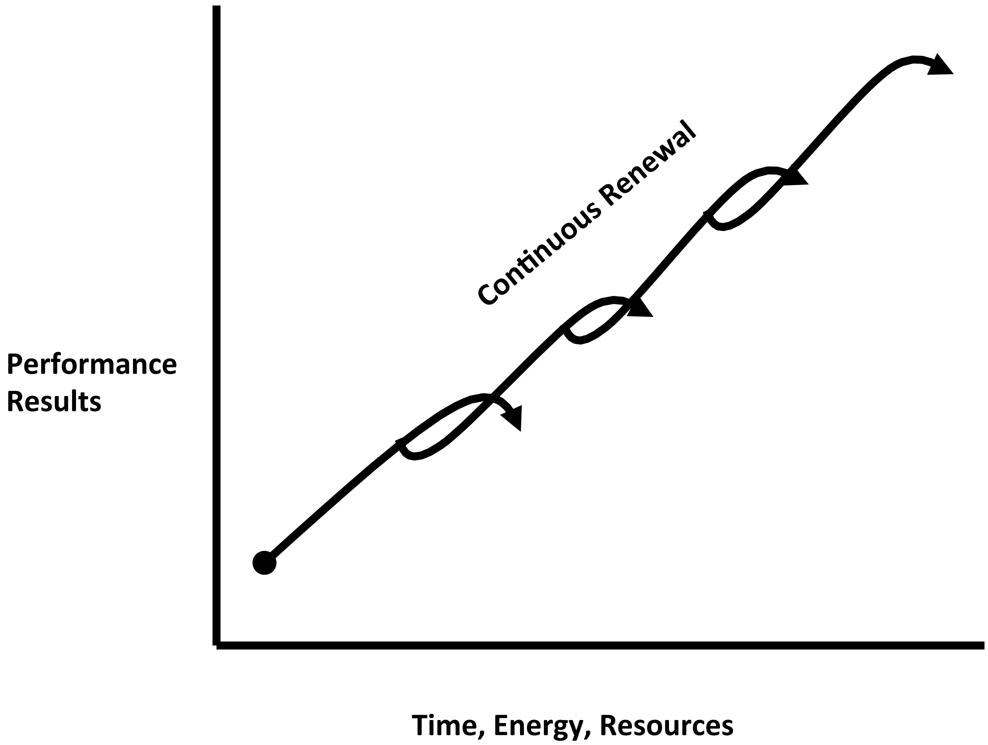

"It is not the strongest of the species that survives, nor the most intelligent, but the one that is the most responsive to change."

- Charles Darwin

MARKET POSITION

	COMPETITIVE	MARKET LEADER	INNOVATIVE
PRODUCT			
SERVICE			
RELATIONSHIP			

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2103 TOP 10 MOST INNOVATIVE COMPANIES * Fast Company

Ranking	Company
1.	Nike
2.	Amazon
3.	Square
4.	Splunk
5.	Fab
6.	Uber
7.	Sproxil
8.	Pinterest
9.	Safaricom
10.	Target

DEFINiTION OF INNOVATION:

"Innovation is the process of continually creating new ideas and turning them into new business [and profitable streams of revenue] as a matter of STRATEGY, METHOD AND HABIT."

- Langdon Morris

Innovation is the process by which organizations create their own futures.

Activity: What are some examples of innovation at your company?

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THE FOUR TYPES OF INNOVATION

1. INCREMENTAL INNOVATION

These are modifications made to existing products and services that improve functionality, reduce cost or change the appeal. Sometimes even a small improvement can be the difference that allows a company to maintain or even gain market advantage. Even when introduced after a competitive entry, an incremental innovation prevents the company's market share from eroding.

2. BREAKTHROUGH PRODUCT AND TECHNOLOGY INNOVATION

Disrupts the marketplace which is the desired effect. When dealing with potential breakthrough innovations, usually solid, indisputable evidence that you've got a good idea is unavailable. It's part guess, part customer indications.

3. BUSINESS MODEL INNOVATION

Is a critical source of competitive differentiation. Companies including Wal-Mart who developed a series of supply chain innovations, evolved to a new business model for mass market retail. Home Depot redefined what it meant to shop at lumber yard and hardware store – by combining them together, they became the market leader forcing Lowe's to follow.

4. NEW VENTURE INNOVATION

Is an organizational response to innovation where new skills, perspectives, and a new identity are required.

New venture innovation seeks to enhance the prospects for the future by enlarging a company's scope of operations into markets that are so different from its current markets that they must be addressed by entirely new entities called new ventures. Some examples include: Toyota launching Lexus and Scion. GE launching GE Financial. GM's Saturn division.

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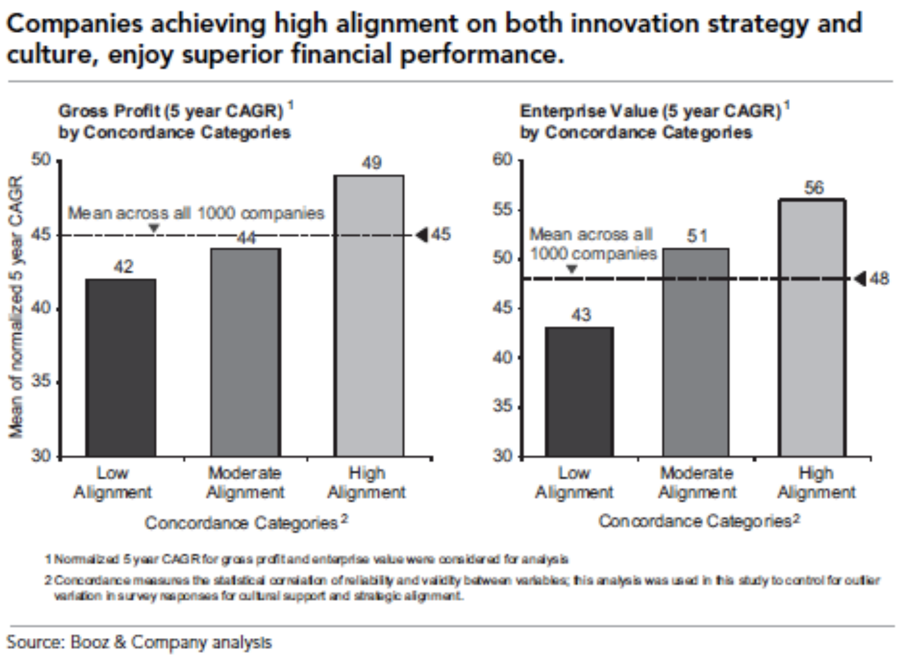
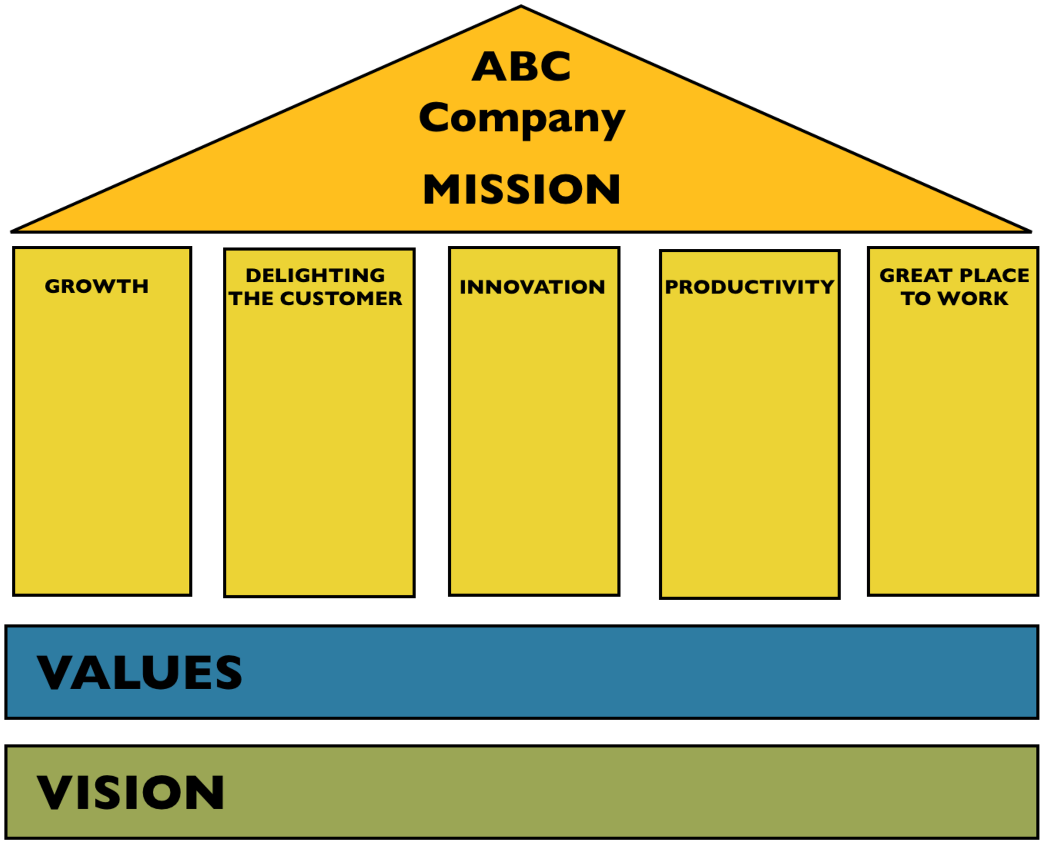
INNOVATION MUST ALIGN AND BE PART OF THE BUSINESS STRATEGY



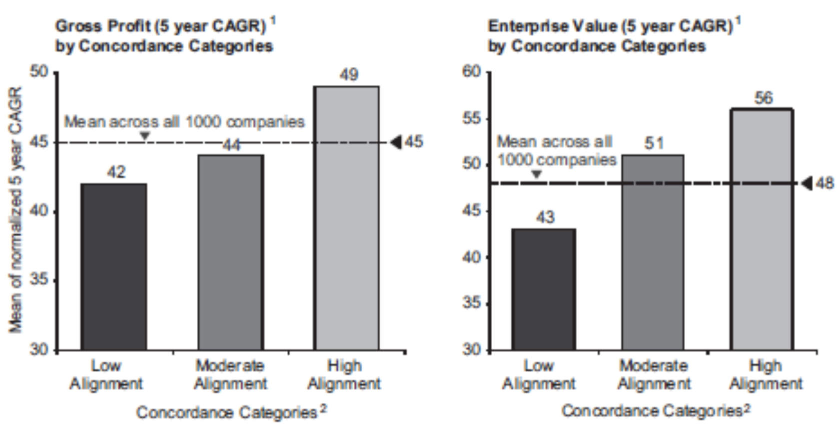
INNOVATION IS A TOP DOWN INITIATIVE

Begin by defining the criteria by which you evaluate new ideas, services and products. *It's easy to fall in love with new ideas but the only ones you should ever fall in love with are the ones that change the competitive landscape. The ones where the value is so real, that it generates demand.*

INNOVATION MUST ALIGN AND BE PART OF THE BUSINESS STRATEGY



Companies achieving high alignment on both innovation strategy and culture, enjoy superior financial performance.



1 Normalized 5 year CAGR for gross profit and enterprise value were considered for analysis

2 Concordance measures the statistical correlation of reliability and validity between variables; this analysis was used in this study to control for outlier variation in survey responses for cultural support and strategic alignment.

Source: Booz & Company analysis

<u>DOES YOUR ORGANIZATION HAVE SUSTAINABLE INNOVATION HABITS?</u>
RECOMMENDED BOOK: *The Power of Habits* by Charles Duhigg

Habits are the behaviors or thoughts that when repeated over time become an ingrained part of a company's culture. They can be responsible for a company's rise to stardom, or the reason for its demise.

The good news it that habits can be changed if you understand how they work.

A habit is formed when the brain converts a sequence of actions into an automatic routine which is called the Habit Loop. The three steps that create the pattern which make up the habit loop include.

Keystone habits are cornerstone corporate habits that have the power to start a chain reaction that moves through an organization. They disrupt the status quo because they have the power to influence how people work, eat, play, live, spend, and communicate. They start a process that, over time, transforms everything.

A keystone habit encourages widespread change and fosters a new culture.

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MILWAUKEE BizTimes

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A flash of insight

Make innovation a core competency

CHRISTINE McMAHON
INNOVATION

Innovation may feel like a trend or industry buzzword, but at companies like Apple, Agilent, 3M and Infosys, it is a core competency. Executives at these companies have chosen not to fall prey to their own past successes but instead they have chosen to make innovation a methodology for how they do business.

A study published by Claudio Loderer, Klaus Neusser, and Urs Waelchli (2009, University of Berne) reveals that less than 50 percent of companies survive longer than a decade, only 15 percent survive longer than 30 years, and a mere five percent make it to celebrate their 50-year mark.

For a company to be a market leader, or shift from a defensive to an offensive position, innovation must play a key role. But rarely is the road to innovation a straight line.

Five years ago, Booz & Company identified three categories of innovative companies: Need Seekers, Market Readers and Technology Drivers. Each offers its own distinct way of managing the innovation process and engaging with customers and markets.

Need Seekers include companies like Apple and Procter & Gamble that go directly to the customer for new ideas. They proactively gather expressed and unexpressed customer needs, and vigilantly work to be the first to get to market.

Market Readers such as Hyundai, Caterpillar, and Samsung use a variety of means to generate ideas by closely monitoring their markets, customers and competitors. They focus largely on creating value through incremental innovations to existing products and services. These companies are also referred to as fast followers.

Technology Drivers like Google and Bosch, depend heavily on their internal technological capabilities for the development of new products and services. Time-to-market is less of a concern than the technology behind the initiative.

Regardless of the strategy, innovation is just a fad and not a strategic discipline unless corporate executives:

1. Create a customer centric culture.
2. Institute processes for capturing creativity and ideation.
3. Develop outcome-based implementation plans.
4. Make accountability a corporate strength.
5. Embrace change and support others through the process.

Let's examine each aspect:

Create a customer centric culture

For all innovative companies, understanding their customers better than their customers understand themselves is an area of expertise especially for Need Seeker companies. Strategy, decision-making and implementation plans center around the goal of delighting, or "wowing," the customer. Before strategic decisions are made, the question is asked: "How will this result in delighting our customers?" If the answer is not compelling enough, alternate options are explored.

At these companies, every employee understands and can articulate how the work that they produce contributes to delighting the customer. Individual performance goals align with corporate strategic goals and performance is measured. When I worked at Procter & Gamble, our mantra was "performance excellence" – it was a cultural norm.

Institute a process for capturing ideas

Innovation can only flourish in a fear-free zone – where everyone at every level has permission to contribute. Innovative companies often flex between different styles of ideation, creating a new spin to diversity initiatives: collaboration between those with highly technical expertise mesh with those who possess customer expertise; those with historical company knowledge engage with market or industry visionaries; analytical thinkers partner with those who think imaginatively. Consider adding customers, suppliers and outside experts to the conversation as their perspective can enrich the discussion and spark new ways of thinking.

The fundamental competency shared by innovative companies is that they all have a formal process for capturing and processing ideas. They recognize that many of the best ideas occur as a by-product of everyday work life and want this information captured in real time.

Develop outcome-based implementation plans

Not all ideas are created equal.

There is an inherent risk of falling in love with ideas that have great curb appeal, but aren't likely to generate significant revenues. Outcome-driven executives require a business case to justify customer value before the investment to allocate financial or manpower resources is allocated.

In the Booz & Company's "Making

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Ideas Work" article, Matthew Ganz, vice president and general manager of research and technology at the Boeing Company says, "If you have a creative idea and it doesn't create value, it's not technology. It's art. You need to prime the pump with creative ideas, and then you need to have rigorous processes in place to turn those ideas into dollars."

Ideas must be vetted and the financial investment justified. Once that happens, a detailed working plan is developed so everyone knows who owns what responsibility.

Make accountability a corporate strength

Accountability is what turns innovation from being a fad, to becoming an institutionalized corporate value. Idea generation transforms into idea conversion and the roadmap for implementation is then defined. Action steps are assigned, and team members become accountable to one another creating a closed-looped process.

Embrace change and support others through the process

New product or service offerings can demand new ways of doing business, and in some cases even require a new business model.

The resistance people feel about change is often not so much about the change itself, but what the change represents: a loss of status, the uncertainty of unknown (a loss of control), or a threat to existing relationships.

Leaders can help employees improve how they embrace change by preparing them for it. Explaining why the change is necessary and the inevitable consequence(s) of maintaining the status quo provides employees with a context for understanding the rationale. Too often, this information is discussed at the executive level, but by the time it is shared with employees it has become so intuitive that it is often overlooked.

Whenever possible, it's best to present information in smaller chunks (versus disclosing the whole plan at a single meeting) so employees have adequate time to internalize the meaning of the message and its respective impact. Seek employee input so key opportunities, and likewise barriers to success, are identified and discussed. This cultivates an environment of trust and encourages a higher level of employee engagement.

For innovation to become a cultural competency, leaders must pay equal attention to two elements: fostering an environment that nurtures innovation, and establishing the infrastructure and processes to generate the right results. Innovation is both systematic and opportunistic and inspiring engagement is a top-down responsibility. ■

Christine McMahon is a business strategist.
She can be reached at (414) 290-3344 or by email at: ccm@christinemcmahon.com.