Creating an Innovation Ecosystem

When you hear the word “innovation,” what’s the first thing that comes to mind? If it’s new product development, you’re not alone. Perhaps this shouldn’t be surprising, given that new products and services represent, arguably, the most tangible form of innovation. However, today most innovation experts agree that innovation is far more than merely the new products and services that may result from it: it’s a mindset that applies to nearly every facet of business. Innovation is every bit as relevant to organizational design, business systems and processes, and company culture as it is to products, services, and other commercial offerings.

FullSurge embraces this expanded definition of innovation, and it’s reflected in our innovation consulting offerings. Specifically, we view innovation as an ecosystem of interlocking components. At the heart of the ecosystem lies an innovation strategy -- a detailed articulation of the financial goals innovation needs to achieve, the strategic roles it needs to serve, and the means for accomplishing both. With the innovation strategy in place, the second component (growth platforms) can be defined. These platforms are essentially the demand component of the Innovation Ecosystem. The third component, business-building ideas, is then developed to meet the needs and requirements of the growth platforms. These business-building ideas represent the “supply component” of the Innovation Ecosystem. The final piece is infrastructure, including organizational structure, processes and systems, and
the people who make it all happen.

1) INNOVATION STRATEGY

Much like any functional strategy, an innovation strategy sets the vision and direction for what innovation needs to accomplish for the organization, and how it intends to do so. Although the content and format of an innovation strategy may differ from organization to organization, solid frameworks tend to contain the following components:

**Strategic intent.** This is a high-level statement of the relative importance of innovation to the company vis-à-vis other growth avenues, broader business issues, and organizational priorities. Is the organization’s intent to be a leader or fast-follower with respect to innovation? What is the company’s appetite for risk-taking, and what kind of success rate is expected? Does innovation need to be a core competency and potentially even represent a source of competitive advantage? These and other similar questions help define a company’s strategic intent relative to innovation, and in particular, help to place it within a broader business context.

**Business Objectives.** These are related to, and consistent with, strategic intent; however, they are much more specific in nature. Innovation-related business objectives may pertain to a particular business unit or product line, a key competitor, an emerging consumer trend, etc. Examples include: launching a ground-breaking new product line within the Industrial Products Division that leverages proprietary technology; developing a premium-priced, high margin offering for a market leading brand; and reinventing the company’s current stage gate process for new product development.
Financial Goals. This component is fairly self-explanatory, although depending on the strategic intent and individual organizational nuances, different financial goals and metrics may result. That said, two nearly universal financial goals are: “how much does the company need to grow during the planning period in question?” and “how much of that projected growth needs to be fueled by innovation (vs. base business)?” Beyond these basic questions, companies may establish innovation-related financial goals in terms of revenue, profit, gross product margin, price premium, return on investment, etc.

Intended Scope. This component of the innovation strategy defines the potential “playing field” for innovation. In this section, entire types of innovation (e.g., process, products, structure, culture) can be either mandated or ruled out. Additionally, “sacred cows” can be protected and areas that may be inconsistent with the strategic intent or broader business strategy can be eliminated from consideration. If new products and services are intended, this is an opportunity to specify categories, features, benefits, etc. that should (or should not) be explored.

2) GROWTH PLATFORMS (DEMAND)
Growth platforms are broad need-based domains (ideally representing white space opportunities) that share a common theme and shape the playing field for future innovation activity. Collectively, these answer the question, “from where will we source our future growth?” even though they will not contain a single new product, service concept, or idea. Growth platforms are generally end benefit-based and customer-oriented. Examples could include: making eating on-the-go easier, tastier, and more nutritious; reducing manufacturing processing time without sacrificing product performance; and improving the customer experience in wireless communications. It is easy to see why this component needs to follow -- and be solidly grounded in -- the innovation strategic intent. The following items represent a few guiding principles to keep in mind when identifying and shaping growth domains for your company.

**Customer Centricity.** To the extent innovation activity centers on new product and service offerings (as opposed to internal infrastructure), it is highly recommended that growth platforms be identified from an “outside-in” perspective. This means going directly (and indirectly) to customers to understand what their key unmet needs are, and to identify ways to be even more relevant in their lives. Company executives tend to have a poor track record when it comes to projecting customers unmet needs and identifying future growth platforms around them. Therefore, the voice of the customer is essential.

**Latent Needs.** Customer centricity is not always as easy as asking customers what they want, since they frequently are unable to articulate (and are often unaware of) their unmet needs. For example, it is doubtful consumers were telling Apple they could really use a device like what eventually became the iPad. Sophisticated qualitative research techniques are ideal at
surfacing these latent needs—needs that customers don’t even realize they have. New product and service offerings that are grounded in these latent needs are often among the most successful in the marketplace.

**Number and Breadth of Platforms.** As a general rule, companies that identify a fewer number of more robust growth platforms are more successful than those that attempt to address too many growth domains at only a surface level. By definition, having fewer growth platforms to work towards tends to focus a company’s innovation efforts more narrowly, which enables it to master the unmet need/opportunity more quickly and efficiently. It also enables the company to take advantage of economies of scale relative to product development, commercialization, and marketing the new innovations.

3) **NEW PRODUCT/SERVICE OFFERINGS (SUPPLY)**

Once several high-potential growth platforms have been identified, business-building ideas need to be developed and housed within them. In order to be successful in this phase of innovation, these business-building ideas need to be: 1) consistent with the innovation strategy, 2) housed in one or more growth platforms, and 3) commercially viable and financially lucrative. While success in new product development is challenging – and, at times, elusive -- there are some best practices that, when followed, tend to significantly increase the likelihood for success.

**Executive Sponsorship.** Without backing and endorsement from the leadership ranks, meaningful new product launches (i.e., excluding minor line extensions) face a significant uphill battle. Importantly, this commitment needs to be demonstrated not only through providing adequate financial resources, but also
through action, communication, and other visible displays of support. When employees sense senior management is not fully committed to a new product launch, problems will inevitably arise during development and commercialization, if it makes it that far.

**Cross-functional Involvement.** New product/service development should not belong to a single function. It should not be the proprietary domain of R&D, marketing, or even innovation. As such, teams that work on new product/service development need to have full representation of all relevant cross-functional areas. Importantly, to ensure continuity this involvement should be relatively consistent from beginning to end. In other words, the finance team member should not be relegated to only financial analysis during business case modeling, nor should the operations team member only engage during manufacturing and production conversations. All team members can add value at each step of the process.

**Follow a Process.** Success in new products/services rarely occurs by chance. Companies that establish and consistently follow a new product development process are far more successful than their counterparts that do not. Whether it’s stage gate, iterative, or something else, a formal process forces the discipline required to see initiatives through to completion. It also enables companies to learn from experience which activities yield successful results and which do not, and to therefore modify and refine the process as necessary.

**Engage Customers.** Customers play several critical roles in the new product development process. As mentioned earlier, they are an invaluable source when it comes to identifying problems, opportunities, and unmet needs (i.e., demand identification).
They can also be a source of inspiration for new ideas, although they should never be the only source for idea generation. In certain situations, it may even make sense to work side-by-side with customers during the development process -- an approach known as co-creation. Regardless of where it occurs in the process or the form it takes, customer centricity should be an important component of the new product/service development process.

**Measure & Track.** As with any business activity, it is important to establish a system for monitoring the ongoing performance of new product introductions. It is equally important to continually assess the performance of the process itself. This can be accomplished through conducting periodic audits of the process using prior new product/service initiatives as input. While it is never wise to frequently switch processes once they’ve been established, modifying them to take advantage of new learning is always advisable.

**4) ORGANIZATIONAL INFRASTRUCTURE**

Organizational infrastructure refers to factors such as redesigning internal systems to support growth and innovation, developing new skills and capabilities, breaking down internal barriers, fostering a culture that promotes innovation, etc. Clearly, some of these are structural in nature, while others pertain more to the human side of innovation. However, they are equally important when it comes to achieving success.

**Organizational Structure.** As a rule, organizational structures that are relatively flat and have a matrix design tend to be more successful in innovation. Additionally, companies that are relatively less formal and bureaucratic when it comes to accountability and decision-making are more likely to foster a
culture conducive to innovation (see below). Finally, organizational structures that provide more opportunity for cross-division/cross-BU linkages have an edge versus those that operate in silos.

**Systems & Processes.** These are the tools, technologies, processes, and approaches that can be leveraged in order to develop and execute growth/innovation strategies and opportunities. It includes new product development processes, processes for mining external innovation sources, strategic planning initiatives, etc. To what extent does the organization capture, share, and use knowledge in an effective fashion? What corporate assets can be used to facilitate innovation? These are some of the pertinent questions to ask regarding systems and processes.

**Capabilities.** Capabilities refer to the know-how, skills, and assets that can be harnessed in order to innovate effectively. In other words, does the organization have the right talent to drive innovation? In general, there are four types of capabilities to consider. They are: leadership, marketing, change management, and innovation. In general, capabilities can be developed or acquired more quickly than some of the other infrastructure components, which makes their absence a less daunting internal barrier.

**Culture.** There is no recipe for developing a culture that encourages innovation. Moreover, most companies find it challenging to transform their culture, whether it is for innovation or another purpose. With that acknowledged, there are a number of attributes that are common to the cultures of highly innovative companies. According to the Climate for Innovation Survey (2009), the following characteristics are
consistent with a pro-innovation culture: trust, openness to new ideas, willingness to experiment, risk-taking, diversity of thinking, passion, collaboration, flexibility, and team-orientation.

ECOSYSTEM ILLUSTRATED—CORNING’S DISCIPLINED APPROACH TO MANAGING INNOVATION

Corning, a Fortune 50 company, has a long heritage of inventing new technologies and creating new businesses. It presents an excellent example of harnessing the benefits of the business systems approach to new product development. Research, development, and the innovation process are an integral part of its culture and values-driven tradition. Corning is oriented around innovation and constant reinvention. Their corporate slogan, "Discovering Beyond Imagination" is an inherent truth. Corning invented optical fiber and is a world leader in industrial research and development. The company staunchly believes in change, doing everything possible to sustain a culture of innovation. Corning continually invests in research and development to provide scientists with the resources they need. Compared with many corporate innovation processes, Corning's internal venture capabilities differ in three ways:

- Managers have a shared view of trends, discontinuities, and future events that could impact an industry and shape the future; they develop industry, systems and technology roadmaps to develop the innovation strategy
- Respect for the company’s researchers, who are linked to the company’s business objectives
- New business creation is central to achieving corporate strategic and financial objectives; cross-functional teams are involved at every stage of the innovation process; employees recognize the innovation process as the creative source of next-generation systems and products

Corning identified five steps to turning an idea into a successful
new product. The innovation process used at Corning is not just for new product development -- it also applies to achieving process improvement.

The CEO and the corporate executive team formally review individual projects three times a year, making decisions about the portfolio. Cross-functional teams are involved at every stage of the innovation process and have access to every resource and technology that is needed for project success. These teams address technology, manufacturing, and marketing concerns with every new idea and experiment, and they work to keep all these functions synchronized. They determine quite early in the innovation process exactly how the technology fits with customer and market needs, as well as manufacturing constraints. Corning realized that having a sound innovation process is not enough; equally important is how you practice it. Thus, it all comes down to leadership. Project leadership, not control by top management, makes the process work.

When viewed collectively, these four components -- strategy, growth platforms, new product/service offerings, and organizational infrastructure -- form the Innovation Ecosystem. While achieving occasional success is possible by excelling in only one or two of these component areas, continuous and sustainable performance requires excellence across all four. Establishing and consistently fueling an Innovation Ecosystem will dramatically improve the chances for ongoing innovation success in your organization.