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No-Excuses Innovation

Strategies for Small and Medium-Sized Mature Enterprises

Bruce Vojak and Walter Herbst • Stanford UP © 2022 • 272 pages

Innovation / Innovation Management

Take-Aways

- Innovation seems too expensive until someone else has a breakthrough.
- Design thinking gives you a reliable, low-cost and low-risk way to start innovating.
- Innovate by tapping into your customers' emotions.
- Use innovation tools to keep innovation moving from idea to market.
- The "who" of innovation is as important as the "how."
- Encourage communication and alignment across your organization with strategic planning.

Recommendation

Real innovation can seem out of reach for "small and medium-sized mature enterprises" (SMMEs) that lack the economies of scale and the resources of large companies. For these firms, sticking with tried and true business formulas may seem like the safest choice. In reality, this choice keeps you trapped in a place of competitive disadvantage, with no way to respond to changes in the market. In this step-by-step guide for owners, advisers and leaders in SMMEs, Bruce Vojak and Walter Herbst provide a concrete method for pursuing innovation in ways that match the scale of your business.

Summary

Innovation seems too expensive until someone else has a breakthrough.

Improvements to your current business like incremental updates to your product line or optimizing your supply chain or manufacturing processes extend the viability of your current business paradigm. If you are focused exclusively on optimizing your current business, however, consider carrot peelers. You can make a carrot peeler as ergonomic and as sharp as possible; you can optimize your supply chain until you have scrimped every penny from your costs; but you still won't be able to compete with pre-peeled baby carrots – a product that responds to the needs of customers who are happy to skip peeling altogether.

> *"At the extreme, renewal by way of breakthrough innovation redefines the nature of competition."*

This example illustrates the difference between innovation within your present paradigm and a true "breakthrough." When you make incremental improvements to an existing product, you stay in the same paradigm. While the product improves, nothing fundamental about the basis of competition changes. This kind of incremental innovation is helpful when all your competitors are in the same paradigm; but as soon as someone makes a breakthrough innovation and shifts to a new paradigm, any improvements within the old paradigm become obsolete. This was the case when Lyft and Uber began competing with conventional taxis. Rather than simply shave dollars off of your production costs, paradigm-shifting breakthroughs change all the rules and can significantly improve your competitive advantage and increase you profit margins.

> *"Innovation is all about increasing the net present value of your business. If you are serious about financial and operational sustainability, the argument that it reduces profits does not hold."*

Investment in innovation may seem too expensive in the short term, but extending maturity leads to stagnation in the long term. Combining both elements puts your business on solid footing. The work of extending the maturity of your core business supports your investment in innovation. An organization that operates its core business and its innovation activities in parallel is an "ambidextrous" organization.

Successful small and medium-sized mature enterprises combine four qualities:

1. Optimization of your production processes using tools like lean six sigma.
2. Incremental innovations, such as improvements to your existing product line or expansion to new markets.
3. Innovations related to product platforms, such as the development of a base product that has qualities that make its market share defendable and that you can use to develop spin-offs that drive conversions.
4. Breakthrough innovations that change the paradigm and shift the basis of competition.

Investing in innovation can seem risky; but some risk is necessary in order to leave your paradigm behind and try something new. And, when done right, both risks and costs are manageable.

Design thinking gives you a reliable, low-cost and low-risk way to start innovating.

Innovation takes creativity and applies it to real-world situations. Specifically, it is about recognizing and responding to a user's needs. Design thinking is a way of looking at problems based on the user's point of view. The process is not linear; it's a way of embarking on curiosity-driven exploration. Design thinking requires that you open your mind to multiple possibilities, uncertainty and open-ended lines of thought.

> *"The best way to have a good idea is to have a lot of ideas." (Linus Pauling, Nobel Laureate in Chemistry)*

Design thinking involves a series of concrete activities:

- **Come up with as many ideas and potential solutions as possible** – Don't dismiss an idea because you're worried that it's not the *right* idea. Conversely, don't assume that the first idea you have is the best solution. Aim for volume.
- **Use empathy to understand the user's point of view** – To come up with the most relevant ideas, do a deep dive into the user's experience and emotions. When coming up with specifications for its luxury brand, Lexus, Toyota began with technical figures like the number of newtons of force with which a door should close. After realizing that this measurement didn't connect to the user's experience, they changed the aim to ensuring Lexus vehicles make customers "feel pampered, luxurious and affluent."
- **Embrace creative risk-taking** – In order to get to a breakthrough, you have to be open to making mistakes. To encourage creative leaps, people need to feel free to try ideas without fear of blowback if they don't work out. This does not mean gambling big on an untested solution, but rather testing many ideas in more limited ways. In the early idea-generating and testing phase the risks taken should be "small bets."
- **Iterate through rapid prototyping and testing** – The best way to manage risk is to do multiple low-cost tests with real users. Testing prototypes and mock-ups with real users is the only way to filter out your own biases. Avoid focus groups that use scripts and moderators. As the idea is refined over many iterations of testing, certainty grows, and you can start making "bigger bets" and committing more resources.

Innovate by tapping into your customers' emotions.

Consumer decisions amongst similar options often come down to a gut reaction. If faced with a selection of similar cars, for example, your choice may well come down to which color you prefer. Design thinking lets you tap into this emotional aspect of buying.

> *"Design is a way to build an experience around the user."*

While it is common to focus on customers' needs, if you want them to want your product, you have to appeal to their emotions. Products with good emotional design are understandable and easy to use. They answer the customer's most pressing questions: what, why, where, when, who and how. If you are not appealing to your customers' emotions, you are left competing strictly on price, forcing you and your competitors to accept narrower and narrower margins.

Use innovation tools to keep innovation moving from idea to market.

Ideas may come to you in any number of ways. The important thing is to recognize and capture them and move them along to the more systematic testing and development phase.

> *"Any attempt to renew an SMME that lacks either a formal or informal process inevitably results in unnecessary waste."*

Innovation tools help you reduce risk and align everyone in your organization around the often uncertain work of innovation:

- **The "phase-gate" process divides idea development activities into phases** – Each "phase" represents an incrementally larger investment, separated by "gates" where you make a formal decision about whether to continue. Phases generally move from initial idea generation and screening to multiple rounds of market, technical and end-user research. These phases output several versions of a product concept before reviewing, testing and revising them. Emphasize engagement with end users at each testing phase.
- **"Lean innovation" reduces wasted resources by testing the "minimum viable product"** – Find the simplest, fastest, cheapest version of a product concept that you can test with lead customers and then do so on a small scale in real market conditions. This approach keeps all of your decisions and investments focused on direct engagement with users' needs and encourages you to pivot to a different concept if you gain new insight into those needs.
- **"Open innovation" lets you outsource certain aspects of innovation** – Outsourcing allows you to focus on your core competencies and leverage collaboration with other organizations to reduce investment and risk.
- **"Product and technology road maps" help you communicate your innovation options to your customers** – Use road maps to collaborate directly with customers about the future of your business. If you know the timeline of your customers' future requirements, you can plan your product development to meet those needs at the right time.

The “who” of innovation is as important as the “how.”

Tools and processes help ensure efficiency, but a myopic focus on process leads you away from the innovation mind-set, which must remain open to new, unexpected opportunities.

> *“While never easy, we contend that, fortunately for you, it’s easier to establish and maintain a new culture in an SMME than in a large mature company.”*

SMMEs need to work to foster a “renewal-friendly culture” that balances optimization of the core business with innovation initiatives. To do this, make sure you identify, develop and work with the serial innovators in your business:

- Serial innovators engage with problems with curiosity and possess a drive to understand the problem deeply and look beyond the first or most obvious solution.
- They work tenaciously on projects and delve deeply into the customer’s point of view and needs, even trying to identify needs customers themselves haven’t articulated.
- They keep in mind that they need to bring ideas to market.
- They see the value in other people and enlist their strengths in the pursuit of their goals.
- They work non-linearly: Innovators are always ready to backtrack and reconsider earlier steps based on new information – for example, reframing a problem after learning more about it.

For instance, by marketing Pringles in an entirely new product category – crisps, rather than chips – Nancy Dawes of Procter & Gamble successfully reframed the problem of how to give Pringles an edge over other potato chip brands.

Develop a pipeline for potential serial innovators, giving candidates incrementally more challenging work and exposing them to a wide range of business activities. Ask yourself whether potential innovators make clear cases for their ideas; understand your customer; can analyze the commercial viability of their ideas; understand their work in the context of the company’s business and how it contributes to the goal of serving the customer; and are able to ask for help, take initiative and try new things. Give your mature innovators free rein to focus on the future of your business, rather than filling their time with day-to-day issues.

> *“Once Serial Innovators have proven themselves, their managers are most effective when they unleash, not drive them.”*

Ultimately, your goal is to encourage everyone in your company to adopt an innovation mind-set. Ask them what they have done to grow, improve and learn in the context of their passions and hobbies. Once they identify that feeling of curiosity that motivates them, ask them to think about how they can bring it to the work they do.

Encourage communication and alignment across your organization with strategic planning.

Your strategy connects your vision to your day-to-day activities. There are, broadly, two types of strategies:

- "Market share" strategies increase economies of scale by growing your share of the market. You can do this by differentiating your product, lowering its cost or entering a new, unoccupied niche.
- "Synergy" strategies increase economies of scope by expanding into different products or markets with activities that can share resources or expertise.

An innovative company will have more opportunities for differentiation. Think of how Apple differentiates itself via the innovative experience of its stores: Rather than shelves, stores feature interactive displays where customers can try all the latest products.

Strategic planning uses a clear structure to help you strengthen the connection between your vision and the day-to-day. It lets you clearly communicate the goals of your organization and align all team members around them. Because it facilitates clear communication, strategic planning also helps define your organization's culture.

> *"We need alignment within the organization for everyone to be on the same page."*

Objective-based planning is a strategic planning method that lets you model the relationship of every level of your organization to your organization's objectives:

- Objectives define the overarching direction of your organization.
- Goals are "stepping stones" towards your objective. They should be expressed numerically, such as a profit margin of 75%.
- Strategies are what you choose to focus on to achieve your goals.
- Measures are the quantitative benchmarks that allow you to determine the effectiveness of your strategies.
- Tactics are the fine-grained, short-term actions you take as part of your strategies.

Objective-based planning uses a cascading structure: As you move down the organizational structure to smaller teams and individuals, the strategies of the level above become the objectives of the level below. For example, an organization may wish to "be the preeminent company demonstrated by market share and profit margins worldwide," and its strategy could entail creating "breakthrough products that are better and less expensive than the competition." This strategy then becomes the R&D department's objective. To reach the objective, the R&D department decides to "introduce new efficient material packaging." This strategy becomes the objective of the product development team.

About the Authors

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