



Working Resources

Helping Companies Assess, Select, Coach and Retain Emotionally Intelligent People

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Newsletter

Finding Your Next Big Idea

The business enterprise has two, and only two, basic functions: marketing and innovation. It is not necessary for a business to grow bigger; but it is necessary that it constantly grow better. —Peter F. Drucker

The organization that fails to continually innovate new products and services will not survive long. As competition becomes tougher and market challenges increase, innovation is an imperative for business leaders and managers around the world.

A recent survey by Booz Allen Hamilton Inc. found that 90 percent of executives considered innovation to be crucial to growth and planned to improve innovation performance by an average of 30 percent.

But not all innovations produce commercial success. A new business idea must offer customers exceptional utility at an attractive price, while delivering a tidy profit. The uncertainties inherent to innovation are so great that even the most insightful managers have a hard time evaluating commercial readiness and potential.

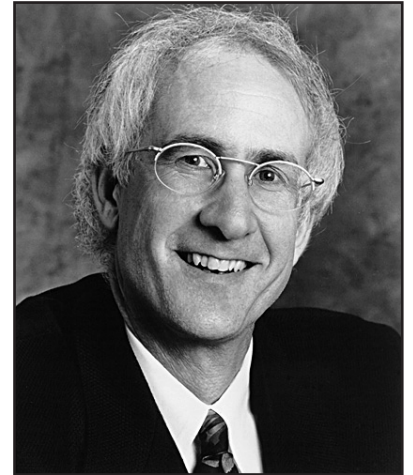
Innovation and commercially successful new business ideas emerge partly from inspiration, but mostly from hard work. Managers must establish the right roles and processes, set clear goals, require relevant measures and review progress at every step of the way.

Identifying business ideas that have real commercial potential is difficult. Even the most admired companies have stumbled at times.

In 1998, Motorola invested heavily in the Iridium mobile phone system, which was supposed to redefine global wireless communications. In its rush to embrace the new technology, Motorola overlooked its drawbacks. Managers were so excited about the bells and whistles of their new product that they forgot to examine the customer's experience. The product was a colossal flop.

Most business opportunities emanate from methodical analysis of seven areas of opportunity, according to

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Dr. Brusman is a highly sought-after speaker and workshop leader. He facilitates mission, values, and vision retreats.

“Maynard Brusman is one of the foremost coaches in the United States. He utilizes a wide variety of assessments in his work with senior executives and upper level managers, and is adept at helping his clients both develop higher levels of emotional intelligence and achieve breakthrough business results. As a senior leader in the executive coaching field, Dr. Brusman brings an exceptional level of wisdom, energy, and creativity to his work.” — Jeffrey E. Auerbach, Ph.D., President, College of Executive Coaching

He has been chosen as an expert to appear on radio and TV, and in the Wall Street Journal and Fast Company.

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Peter Drucker (*Harvard Business Review*, 2002). Some exist within the companies or industries themselves:

1. Unexpected occurrences
2. Incongruities
3. Process needs
4. Industry and market changes

Others are based on broader social or demographic trends:

5. Demographic changes
6. Changes in perception
7. New knowledge

Astute managers focus clearly on all seven areas—but even the most seasoned executive may not recognize a good opportunity when it presents itself. What, then, can we learn about sources of innovation from both inside and outside the organization? How do you decide which bright idea to back and identify innovations that will yield commercial success?

Finding Ideas

An innovation's potential may meet several of Drucker's seven criteria:

Unexpected occurrences can be illustrated by what happened in the early years of computer technology. Univac, which had the most sophisticated machine, spurned business applications. IBM quickly realized their potential and redesigned a computer for payroll applications, making them an industry leader within five years.

Unexpected failures may also prompt innovation opportunities. While Ford's Edsel was a colossal flop, company leaders consequently realized the value of segmentation: categorizing consumers by "lifestyles." This led Ford to create the Mustang, which appealed to consumers' tastes and reestablished the company as an industry leader.

While unexpected successes and failures are useful sources for innovation opportunities, most businesses disregard them. Instead of viewing a misstep as a learning opportunity for future innovations, many executives prefer to forget and "shelve" mistakes.

Incongruities become apparent during many stages of a product's life cycle. They can then be used to create better services or designs. In the steel industry, for example, the market grew steadily, but profit margins were falling. The innovative response to this incongruity was the creation of mini-mills.

Many innovations develop from *process needs*—notably, the invention of Linotype in 1890, which allowed newspapers to substantially boost their press runs. The convergence of production enhancements and inclusion of paid advertisements made the newspaper business a lucrative industry.

When an industry grows quickly—the critical figure seems to be in the neighborhood of 40 percent growth within 10 years—its *structure changes*. Established companies, which defend approaches that have consistently worked for them in the past, tend to ignore challenges from newcomers. *When market or industry structures change*, traditional leaders may shortsightedly neglect faster-growing market segments (i.e., the financial services industries, HMOs, telecommunications and the Internet).

Outside Sources of Innovation

Of the three outside sources of innovation opportunities, *demographics* are the most reliable. Demographic events have predictable lead times. For example, baby boomers will begin to reach retirement age in a few years. Business leaders who pay attention to such population changes can reap great rewards.

A key example is Japanese leaders' prescient use and development of robotics in the 1990s. Everyone knew around 1970 that there was a baby bust in developed countries. People were also pursuing educational goals beyond high school. Consequently, there was a drop in the number of blue-collar workers in manufacturing sectors. While virtually all industry watchers were aware of this, only the Japanese acted on it by developing robots in their factories, giving them a 10-year lead in robotics.

Demographic changes—population, age distribution, education, occupations and geographic location—create rewarding innovation opportunities that are often the least risky entrepreneurial pursuits.

Changes in Perception

Along with greatly improved health care in the last 20 years, there has been a growing awareness of personal-care needs. Exercise equipment, health clubs and natural foods are among the industry sectors that have experienced immense growth in the last two decades.

Consumers' perceptions are based on moods that can be studied, analyzed and exploited for innovative opportunities.

Using New Knowledge

When *newfound knowledge* is used to create sought-after products, leaders generate “buzz,” publicity and funding—what people usually mean when they refer to innovation. Such innovations have the longest lead time, with a protracted span between the acquisition of knowledge and its distillation into usable technology.

The computer required no fewer than six separate strands of knowledge:

- Binary arithmetic
- Charles Babbage’s conception of a calculating machine in the 19th century
- The punch card, invented by Herman Hollerith for the 1890 U.S. Census
- The Audion tube, an electronic switch invented in 1906
- Symbolic logic, developed between 1910 and 1913 by Bertrand Russell and Alfred North Whitehead
- Programming concepts and the feedback generated by abortive attempts during World War I to develop effective anti-aircraft guns

Although all of the necessary knowledge was available by 1918, the first operational digital computer did not appear until 1946.

Long lead times and the need for convergence among different types of knowledge explain the peculiar rhythm of knowledge-based innovations, its attractions and its dangers. During a long period of incubation, there is much talk and little action. Then, all of a sudden, there is a flurry of activity that produces myriad new products, followed by a shakeout and survival of only the most viable.

Between 1880 and 1890, 1,000 electric apparatus companies were founded. By 1914, only 25 were still in business. In the early 1920s, there were 300 to 500 automobile companies. By 1960, only four remained.

Knowledge-based innovation can be difficult, but competently managed. Success requires careful analysis of the different types of knowledge required to make an innovation possible. Careful investigation of the enduser’s needs and capacities is essential.

Innovators must go out into the field, observe consumers’ behavior and listen to them.

Successful innovators use both the right and left sides of their brains, analyzing facts and using their creative intuition. They analyze what an innovation requires to satisfy consumer demand; after that, they study potential users’ expectations, values and needs.

To be effective, an innovation must be simple and focused. It should accomplish only one goal; otherwise, it confuses people. The greatest praise an innovation can receive is people saying, “Of course! Why didn’t I think of that? It’s so simple.”

Recognizing a Winning Innovation

How do you differentiate between new products or services that will sustain commercial success vs. those that are simply good ideas? W. Chan Kim and Renee Mauborgne have studied 100 companies that have repeatedly succeeded at innovations (Harvard Business Review on Innovation, 2001). They found that successful innovators focus on product utility: how a product changes consumers’ lives.

This perspective is critical, as the focus of product development moves from emphasis of technical features to how it will be useful to customers.

Creating Exceptional Utility

The Kim and Mauborgne “*Buyer Utility Map*” helps managers think from the right perspective: the consumer’s.

List the following customer experiences:

- *Customer productivity*
- *Simplicity*
- *Convenience*
- *Risk*
- *Fun and image*
- *Environmental friendliness*

Then consider the customer experiences during the life cycle of the product:

- *Purchase*
- *Delivery*
- *Use*
- *Supplements*
- *Maintenance*
- *Disposal*

Leaders must consider how a new innovation can help consumers do something faster, better or differently (the most overlooked factor). Companies can innovate by focusing on one of the six utility levers in distinct stages of the buying cycle.

When Innovation Leads to Complexity

Companies have strong incentives to be overly innovative in new-product development. Introducing distinctive offerings is often the easiest way to compete for shelf space, protect market share or repel a rival's attack. Moreover, the press abounds with dramatic stories of bold innovators who revive brands or product categories. These tales grab managerial and investor attention, encouraging companies to concentrate even more intensely on product development.

But the pursuit of innovation can be taken too far. As a company increases the pace of innovation, its profitability often begins to stagnate or even erode. The reason can be summed up in one word: *complexity*.

The continual launch of new products and line extensions adds complexity throughout a company's operations, and as the costs of managing this complexity multiply, margins shrink.

Managers aren't blind to the problem. Nearly 70% admit that excessive complexity raises costs and hinders profit growth, according to a 2005 Bain survey of more than 900 global executives.

What managers often miss is the true source of the problem: how complexity begins in the product line and then spreads outward through every facet of a company's operations.

To meet the complexity challenge, you must begin at the source: the way your company views customers and their needs. In most cases, managers overestimate the value buyers place on having many choices. But some companies have begun to challenge this belief. They have launched efforts to determine how many product or service choices customers really want; then, they gear their operations to efficiently provide that degree of complexity—and no more.

When organizations prune their offerings to better fit customers' needs, they do more than cut costs. They often boost sales, as well.

Resource: Gottfredson, M. & Aspinall, K. (Nov. 2005). "Innovation Versus Complexity: What Is Too Much of a Good Thing?" *Harvard Business Review*. Boston MA.



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