

Demystifying Innovation

By Simon Caulkin

Innovation is essential – ‘innovate or die’ is not an idle phrase. It is the most important thing that companies do. But innovating, as everyone also agrees, is difficult. Most product launches fail. For every iPad or iPod, there are hundreds of ideas that don’t even get to first base. For most companies, it’s safer to go with the herd. Behind this unwelcome truth lies a more fundamental one: natural ‘ambidexterity’, as the management jargon has it, is no more natural to companies than it is to children. That is to say, they’re good at *either* exploiting existing opportunities *or* exploring new ones (more often the former), but rarely both. For most managers, brought up on conventional notions of efficiency and control, exploitation is much the easier option. By contrast, exploration, as in any wilderness, is unfamiliar, sometimes scary territory.

That makes it sound doubly daunting. And in the abstract it is. But one of the key points to emerge from a lively October Forum organised by The Foundation, a growth and innovation consultancy, on big-company innovation was that innovation doesn’t have to be about a breakthrough product or a new social medium to matter. The key step to making innovation useful is to reframe it in practical terms, that is, in terms of the business. Defining innovation as ‘any change made by a business to deliver better business performance’, as O2’s Director of New Business Development, Tim Sefton did, instantly brings it into clearer focus and closer reach. Practical innovation is all about context, which is why it comes out meaning very different things to, say, a national newspaper, a telco or an FMCG multinational such as Unilever or Procter & Gamble.

“Innovation is defined as “any change made by a business to deliver better business performance”

*Tim Sefton, O2’s
Director of New
Business Development*

To put it another way, *innovation has to be related to purpose*. At one extreme, if big FMCG firms by general admission aren’t very good at large-scale brand, product or category innovation – why should they be, asked Richard Rivers, ex-Head of Corporate Strategy at Unilever, provocatively. Since their leverage is in exploiting large global brands, it makes more sense for them to hone the ability to roll out periodical ‘up-to-dates’ and activities that protect their ‘little monopolies’ than to try to invent something new from scratch. The problem for would-be innovators inside such firms, he noted, is ‘the rest of the organisation’ – the 90 per cent of it that is focused on incremental improvement and is primed to reject disruptive change. ‘The thought of 30 talented entrepreneurs in Unilever would drive me crazy, I’d be paranoid’. Hence the paradox that for big consumer firms small innovation may be more productive than large (unless, of course, you’re Apple, which a Foundation poll unsurprisingly identified as the company by far the most admired for its innovation record). Rather than spending time and effort on the attempt to cultivate fundamentally infertile domestic ground, such firms may be better off allowing the Darwinian selection process to filter promising start-ups before they step in to buy the survivor and subject it to the treatment that it knows best – building it steadily into a major international brand.

“A lot of the innovations that we’ve done aren’t new to the world, but they happen to be new to our organisation”

Steve Folwell, Guardian News & Media’s Business Director

As this suggests, a company doesn’t have to invent something to serve its particular purpose. Someone else’s insight can be borrowed, co-opted, adopted and adapted to produce transformative effect. Thus *The Guardian* wasn’t the first newspaper to go online, but it has done so more wholeheartedly and with greater effect than many others, as proved by the expansion of its audience from 1 million to 50 million in 10 years.

What's more – another lesson – the effects have been cumulative, so that what were initially small product innovations (expanding Comment is Free, live blogging leading on to 24/7 rolling news) cumulatively added up to a complete change of business model.

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Tim Sefton

Innovation has to be directed at the right thing. That means: based on real customer understanding and directed at real customer need. Innovations don't have to be sexy. They may be invisible and even unadvertised to customers – but still offer crucial differentiation from rivals. A striking example was O2's rethinking of the way it handled bad debts. 'We thought, well isn't bad debts a really important place to be innovative, because that's a really crappy experience for those customers, and actually it puts them off your brand for life,' explained Sefton. An organisation structure that allowed Unilever to expand the Dove brand into 85 countries in two years is another.

The latter makes another critical point: *the best innovations are those that leverage the company's other strengths.* 'Just about everything Google does allows Google to do just about everything it does better,' brilliantly summed up a recent admirer on the web. There's a case for saying that the hidden turbocharger behind Apple is not cool design and elegant interface (important as those are to the brand), but iTunes and its spiritual successor, the App Store. These went beyond personalisation, effectively allowing Apple to crowdsource the function of its devices. Consider the contrasting fates of Newton, its early version of the tablet, and today's iPad. When Apple introduced the Newton in 1993, it had no idea what it was for. An unripe Apple, the Newton flopped. Seventeen years later, Apple still didn't know what a tablet was for, but this time it didn't need to because customers could decide for themselves through the App Store. iStethoscope, anyone? Remarkably, the iPad became a runaway success without a killer app: or rather the company has a meta-killer app in the App Store, which potentially allows the company to pull the same trick again and again.

Some valuable incremental innovation should come out of disciplined attention to marketing (a sadly declining discipline, regretted Rivers). For more strategic cases, *it has to be rooted in clear leadership.* The course innovation has taken at *The Guardian* has been shaped by editor Alan Rusbridger's unwavering focus on using technological opportunity to further editorial quality and reach, to which commercial policy has to bend. What's needed, noted Folwell, is courage as much as cleverness: 'Leaders don't need to be clever, they just need to be brave enough to call what's happening, and that allows the space for [innovations] to be made'. Sefton made a similar point: to counter the tendency for the organisation's immune system to reject innovation implants, you have to win the strategic argument. And that means leadership: 'You've got to have the debate upfront strategically... Unless the CEO is prepared to stand up and say it's a key part of strategy, the ambiguity will leave the organisation to probably come back and attack.'

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Innovation is as important as ever, and it doesn't get any easier. In fact in some ways it gets harder. For many businesses it's no longer enough to track customer sentiment and need but to plot that against technological development too. But the secret of making it actionable is to cut it down to size, and that is as much a case of being clear about what it isn't as what it is. Thus, realistic companies know that innovation is not:

- the answer to everything
- being first
- about invention (begging and borrowing are just as good)
- having ideas (cheap): it's execution that counts
- game-changing products: small is often better than large
- money.

On the other hand, it is about purpose, priority, leadership and people. The seed of Apple's invention 'comes from saying no to 1,000 things to make sure we don't get on the wrong track or try to do too much,' Steve Jobs once put it. 'I'm as proud of what we don't do as what we do.'

The Foundation's view

We saw three main points arise out of this discussion.

The first is the need to start with a clearly defined purpose as this leads companies to channel their focus on the right type of innovation. Innovation is a really big word and concept which can be interpreted in many ways. Assumptions about it tend to the idea that Apple's approach is the model, but innovation covers a much broader and richer environment than just sleek, new products.

Second point, you need to direct innovation at the right problems. Innovating erratically, even if you understand your purpose isn't useful. The most valuable innovation can be big and dull (or possibly even small and dull), but that's still really useful.

Thirdly there is a spectrum of innovation – from lots of small and better incremental improvements to bigger, game-changers. No matter the size, successful innovation is about two activities: ideas to do things in better ways and putting those ideas into action. Being better means adding value for customers (giving them more of what they need or want, or reducing costs, effort or time) and adding value for the business (growing revenues or reducing costs without reducing customer value). And having strong leadership to protect the work as confidence grows is the most important condition for all of this to succeed.