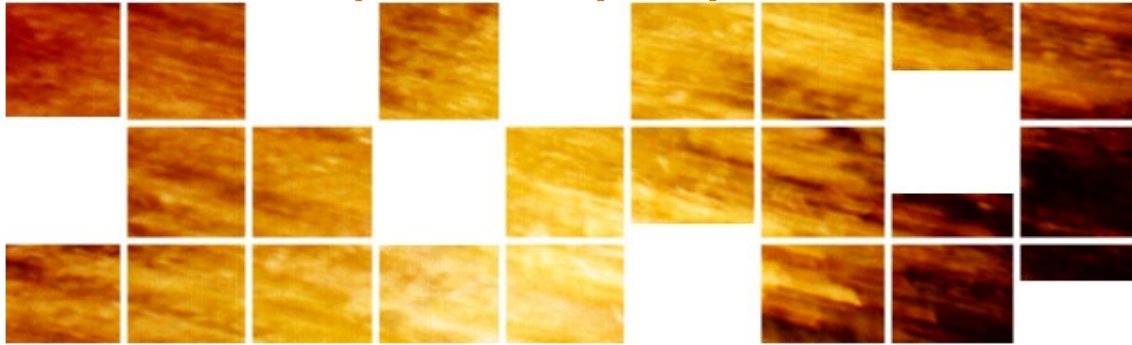


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“A Brief Introduction to Innovation – What Are We Talking About Anyway?”¹

Innovation has been one of the “hot” topics for business for some time. Innumerable articles have been written about it dating back to the 1950s and 1960s and the number seems to be growing at an exponential rate today. Mantras are chanted by consultants, advisers, and others on the need to innovate in every business, such as “Innovate or evaporate,” or “Innovate or die,” which has morphed into another current slogan - “Innovate and die trying.” Many would agree that regardless of the mantra, it has become axiomatic that companies must innovate in order to continue to succeed.

But, what is innovation? What does it mean to innovate? The dictionary on this writer’s notebook defines “innovate” to mean “make changes in something established, especially by introducing new methods, ideas or products.” Legendary management guru Peter Drucker, in one of his classic Harvard Business Review articles, “The Discipline of Innovation,” stated that innovation is the disciplined “effort to create purposeful, focused change in an enterprise’s economic or social potential.”² With no disrespect to one of the greatest management thinkers of the 20th century, or the dictionary, I believe the term can be described in a somewhat simpler manner. Innovation is, at its essence, the process by which creative ideas are put to work.

Whichever definition one prefers (including the reader’s own if the ones above are not acceptable), all of them fall woefully short in describing all of the complexities, challenges and hurdles that must be overcome with innovation projects in at least two, if not three, of the four basic categories of innovation that I believe exist. If the innovation process were described in a book containing hundreds of pages and many chapters, getting the creative idea would be in Chapter 1 (a little longer perhaps than this article, but not by much). The rest of the entire book would describe everything that has to be done to put that idea to work. (Many companies who have experienced what’s in Chapters 2 through the end of this book have been examples of the “Innovate and die trying” mantra).

I think innovation projects generally can be separated into four basic categories, from lowest to highest risk and return potential:

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² Harvard Business Review, May-June 1985.

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- I. Continuous process improvement-hundreds of small investments in incremental process innovations (e.g. G.E.'s 6 sigma program).
- II. Process revolution-improving business processes in major leaps through implementing new technologies that generate substantial gains in productivity (e.g. Wal-Mart's RFID "smart tags" program).
- III. Product or Service Innovations-creative new products or services that use existing business models and contain very substantial new revenue/profit potential (e.g. Apple's iPod/iTunes).
- IV. Strategic Innovations-innovations that involve unproven business models or technologies that offer the potential for major new sources of revenue (e.g. Analog Devices' MEMS (microelectromechanical systems) technology).

Some readers may disagree with the suggested categories, and with good reason. I have no doubt that dozens, if not hundreds, of examples exist in the modern business world that do not fit neatly into any of the four categories, and that hours of discussion would produce innumerable sub-categories, cross-overs, hybrids, and so forth. The categories serve one useful purpose-as one method for describing the different types of innovation projects that are currently being created and put to work in businesses today.³

Most, if not all, of the creative ideas that fall into Category I are small, discrete improvements in a single task or process. None would be worthy of an innovation "book." Establishing a continuous process improvement system, such as the Six Sigma program, at a major enterprise is, I would suggest, a Category II or III type of innovation project worthy of its own book.

Along the same lines, I believe most significant innovation projects-all Category III and IV projects and many Category II projects-typically have 6 different phases, which are not always sequential or chronological in nature:

³ With tongue in cheek (somewhat), I do want to note that I expect a few "fringe elements" to disagree with our 4 categories automatically and without forethought. This hopefully small minority seems to operate on what is axiomatic only to them: if they didn't have the idea to begin with, it has to be wrong/won't work/worst thing they've ever heard of, or not as good as theirs, or both.

Also, for complete candor and to give proper recognition where due, I did not create these categories either. Two business school professors-people much more experienced and intelligent than this writer-created them. I simply took them almost verbatim from what I think is a wonderful innovator's guide book, perhaps an innovator's bible: *10 Rules for Strategic Innovators-From Idea to Execution* by Vijay ("VG") Govindarajan and Chris Trimble (Boston: Harvard Business School Press, 2005).

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1. Creation-the idea, invention, technology, product, service or process is created, discovered, etc. (henceforth the "Big New Thing" or "BNT"). Frequently this 1st phase should also entail some significant "idea-winnowing" if there have been the typical (and usually ineffective) "brain-storming" sessions. (IBM may ultimately prove that its company-wide, worldwide, web-based brainstorming project, conducted earlier in 2006, was a valuable exercise and well worth the effort and expense. If so, I believe it will be the exception and not the rule.) Picking the right BNT idea is very important.
2. Feasibility-conducting the initial feasibility analysis and market research to determine how viable, and valuable, the Big New Thing may be.
3. Planning-developing the implementation plan for the Big New Thing, identifying the best markets to target, verifying the information in phase 2, **and identifying the key management members and technologists who will be in charge of the "Big New Thing" project.** (An often fatal mistake at this juncture is to assume that the best people to bring the Big New Thing through phases 4 and 5, and beyond, are automatically going to be found inside the company. More on that in a later article in this Primer).
4. Going Alpha-engaging in the commercialization efforts that must be done to develop the alpha and beta phases of the Big New Thing, ending-hopefully-with a production ready model.
5. The Launch-selling the Big New Thing to the customers.
6. Making Money-implementing Category I or Category II-type projects if necessary to bring the manufacturing costs of the Big New Thing down, or pushing the gross sales price up, enough to generate healthy, significant net profit margins for the company.

3A-6A. Although not officially one of the phases or stages in an innovation project, a supremely necessary skill for those in charge of a Category III or IV project is the ability to consistently, diplomatically, and successfully encourage senior management throughout these 4 phases to continue to commit substantial amounts of money from the company's capital resources budget for the higher risk Big New Thing project. I believe that almost all BNT projects will, sooner or later, and probably more than once, be way over budget, way behind schedule, far more difficult and troublesome than originally envisioned, and months (or years) away from The Launch phase. These symptoms are normally sure signs of something headed for the corporate cemetery. These symptoms should be ignored usually. Big New Thing projects cannot, and should not, be evaluated under normal corporate or business standards (e.g. this quarters profits, growth rate year over year, and so forth.)

One final set of observations. It has been my experience that invariably the easiest part of an innovation project is finding the breakthrough Big New Thing idea, regardless of how preposterous this may sound initially. Far too many people, for reasons unfathomable to me, think that once the Big New Thing idea is created, the hard work is over. Far too many people (a different group) think that all Big New Thing projects are too risky to undertake because it requires trading sure-thing short-term profits and capital needed to support current products for a

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nebulous future down a road no one has trod before filled with problems and hurdles. Both are wrong.

The hardest part of a Big New Thing project is achieving breakthrough execution of the New Thing idea through phases 2-6. And, while many Big New Thing projects do not succeed, that does not make them failures, at least under the Benjamin Franklin/Thomas Edison standard,⁴ nor too risky to undertake. What is needed to get through phases 2-6, and related topics, will be covered in future Novus articles.

⁴ Mr. Franklin (or “Benny” to all Bob Newhart aficionados) is reputed to have told a skeptical bystander after one of his experiments did not succeed the following, or words to the same effect: “I have not failed. I have simply discovered 10,000 ways that don’t work.”

Other sources have stated definitively that this quote should be attributed to Thomas Edison, who was conducting experiments on the modern light bulb one day in his lab. Before an audience of several reporters and lab staff, Edison flipped a switch to demonstrate the light bulb, but the bulb did not turn on. One of the reporters then asked Mr. Edison how it felt to have failed. Edison turned to the person, fixed him with a piercing glare, and stated: “I have not failed. I have simply discovered 2,000 ways that don’t work.”

Regardless of who said it, if that attitude is good enough for one of our most famous Founding Fathers, or one of our country’s greatest innovators and inventors, or both, it’s certainly acceptable to me as well.