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Funnel vision

MAKING INNOVATION PART OF EVERYDAY BUSINESS

Innovation is the lifeblood of a competitive business. But while high-tech industries typically have well-developed R&D pipelines, companies in other sectors may find that eureka moments are few and far between. Adopting processes that make the finding and testing of new ideas part of everyday life can speed up the pace of change.

In “high-tech” industries, the pace of technological progress demands continual change. If Nokia does not keep building better phones, its position in the mobile handset market will rapidly decline. In “non-tech” sectors, the pressures of competition may be just as intense, but drive actions of a different kind. In the retail sector, for example, the battle for market share typically requires continual tweaking of prices, product mix and marketing. The demands of these trading pressures absorb managerial energies that in other sectors might be expended on the search for technological innovation.

Innovation involves risk. High-tech companies, which have to live with major innovation risk all the time, create processes to manage this. So, for example,



pharmaceutical companies will usually build a portfolio of R&D projects, in the expectation that there will be many failures and the hope that they will be interspersed with sufficient successes. Motor manufacturers patent thousands of ideas, and test many new models that do not ever make it to the showroom. In a non-tech business, where the need for continual product innovation may be less keenly felt, the “unnecessary” risks of innovation may appear far more daunting.

In such businesses, a combination of different day-to-day pressures, and less obvious need to make risky investments to survive, may well blunt managers’ appetite for innovation. When performance measurement deadlines are looming, a busy commercial manager is likely to fall back on the familiar tools of pricing, buying and marketing to meet targets, rather than devote resources to what may or may not prove to be successful in a later measurement period. To rebalance incentives, innovation needs to be made part of everyday business, and processes for managing the risks involved agreed in advance.

HUNTING AND GATHERING

In high-tech sectors, the source of new ideas is typically the technology itself. Smaller batteries, faster processors and better screens have helped the makers of mobile handsets and MP3 players figure out how to pack more and more features into smaller, lighter units. Car manufacturers squeeze more power and better fuel economy out of engines that become ever more technologically sophisticated. But in a non-tech business, it is not so easy to decide where to focus the search for innovative ideas.

Market research, customer complaints, staff suggestion boxes, international fact-finding trips and the man in the pub will all throw up ideas; the question for managers is how to narrow the search. A good first step is to divide the search process into two separate activities: gathering potential ideas for development on the one hand, and hunting for opportunities for improvement on the other.

- The *gathering* exercise involves drawing up a long list of suggestions thrown out by the variety of information sources. The aim is to avoid duplication of effort. Too often, different parts of the business are looking at different sources in isolation (HR at employee feedback, marketing at commissioned research and the strategy department at competitor behaviour).
- *Hunting* involves a search for opportunities for improvement – starting with needs rather than ready-made solutions. What annoys customers about what you do and don’t do? Filling gaps and sorting out underperforming products can do more for the business than introducing new gizmos. On the supply side, identifying opportunities for cost savings should be a parallel part of the hunt, and straightforward “what if” analysis can be a quick way to identify where the biggest opportunities lie.

Pulling the hunting and gathering together should then enable you to have a not-too-short list of possible innovations for testing. The next step is to rank order these by both their potential value, and the time it would take to execute them. Quick wins can be put on a fast track, while potentially more valuable ideas, which are harder to execute, can be given fuller review.

Funnel vision

EFFICIENT EXPERIMENTS

Trials offer a way of limiting innovation risk. But even small trials cost time and money. So it is vital to extract as much information as possible from them, and many non-tech businesses lack the disciplines embedded in high-tech industries. Careful measurement and recording of experimental results is second nature to science-based businesses, not least because it may be required by regulation. Trading businesses, by contrast, may have short institutional memories. The question: “Didn’t we try something like this a few years ago?” is too often followed by a fruitless search for the results of an expensive past experiment.

Embedding efficient innovation processes means measuring the results as objectively as possible, and learning as much as you can from what went right and wrong, rather than simply looking for a pass or fail result. Setting up hypotheses helps you to identify exactly what effects need to be measured. Tracking “positive feedback” from customers will tell a retailer much less than precise measurement of whether customers are visiting its stores more, and/or spending more per visit. Simple “before and after” measures are easily distorted by competitor activity or other extraneous factors. Statistical techniques such as regression can help identify the influence of different factors, and establishing a clear counter-factual benchmark will help achieve reliable test results.

Once the results are in, the ideas you have been testing are likely to pass or fail on the basis of the financial impact; at the bottom line, what’s their profit contribution? But pass or fail, digging deeper into the results will help you to make the most of your investment in a trial.

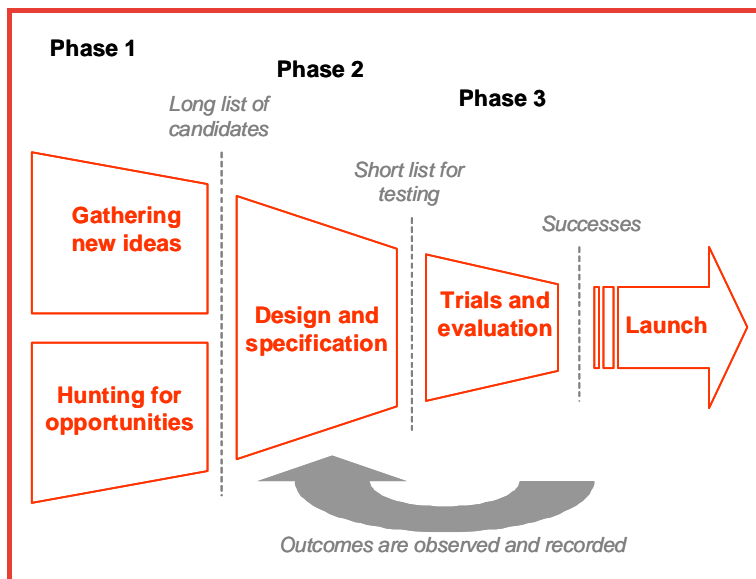
Did some parts of it work? And if so, can the scheme be adapted? If not, what can you learn about the likelihood of other innovations succeeding? When Frontier advised a high street specialist retailer that recently experimented with a bold new store format, customer feedback was good but sales results were disappointing. It took detailed analysis of the results to establish the twin effects of the format: it attracted more customers in to the stores, but put them off buying things once they were in. From this failed experiment came important information about customer behaviour to inform the redesign.

INS AND OUTS

A good process makes innovation part of the day’s work. It helps managers to look in the right places. And it requires them to run efficient experiments. Take, for example, the way such a process has been embedded in pharmaceutical companies. The development of a new drug follows a well-specified sequence of stages, through which it is carefully tracked. First comes the search for new chemical compounds. Next, laboratory evaluation. Then, clinical trials of escalating size and complexity, until drugs are approved by the regulators for sale.

While few non-tech companies have to get their ideas through so many checkpoints of clinical trial and regulatory approval, thinking about the innovation process as a funnel helps to embed it in the business. A high street bank that Frontier worked with recently created such a process, which highlighted the need to have a continuous stream of new ideas for evaluation and trial.

Funnel vision



How the innovation funnel works

Source: Frontier

By assigning owners and deadlines to each stage of the process, you can create reward structures that incentivise innovation as well as day-to-day trading management. Commitment to a regular number of improvements in the customer offer each year can help. Even a simple agreement to have investigated two new ideas before each quarterly board meeting can force the pace.

CONCLUSION

Businesses in many other sectors can accelerate profitable innovation by taking a leaf out of the book of the science-business industries. They need to develop:

- a “funnel” of possibilities drawn from the results of “gathering” ideas from disparate information sources and “hunting” for opportunities for business improvements;
- processes for prioritising these by both potential value and speed of potential execution;
- incentives that will embed these activities in the day-to-day activities of managers likely to be preoccupied by short-term trading strategies;
- a disciplined approach to trialling, that ensures all possible information of value is extracted from each test, and the results efficiently recorded; and
- processes to manage the associated risks of engaging in such experiments.

Setting this kind of framework can do much to move innovation from afterthought to front of mind, ensuring that there is sufficient well-disciplined activity to yield an efficient flow of results.

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