

A ROADMAP TO A SUSTAINABLE CULTURE
OF INGENUITY AND PURPOSE

STOKING
YOUR
INNOVATION
BONFIRE



BRADEN KELLEY

Additional Praise for *Stoking Your Innovation Bonfire*

“Braden Kelley has delivered a book that helps people move innovation from theory into practice. Given our experience innovating with clients over the past 40 years, I believe *Stoking Your Innovation Bonfire* shares many useful strategies and case studies showcasing what works. Most importantly, the book helps managers identify and address the barriers to innovation within their organization—a crucial step toward making sustainable change.”

—Mark Bernstein, CEO of PARC (www.parc.com)

“Braden Kelley has been able to abstract the realities of innovation in his book. This is not theory or science fiction; it is about valuable lessons from real-life examples that those in charge of innovation should be aware of if they want to design winning strategies.”

—Moises Norena, Director of Global Innovation,
Whirlpool Corporation

“Braden Kelley helps to demystify innovation, helping readers to understand how to deliver strong and sustainable yield from their innovation efforts. *Stoking Your Innovation Bonfire* is a great primer for any organization focused on advancing its approach to innovation.”

—Joe Boggio, Director of Innovation,
U.S. Commercial Sector

“Without knowing it, organizations drift toward bad habits and blind spots that shut off innovation. *Stoking Your Innovation Bonfire* unpacks the blockages standing in the way of growth so leaders understand how to move the organization forward.”

—Drew Boyd, Executive Director, Master of Science in
Marketing Program, and Assistant Professor of Marketing
and Innovation, University of Cincinnati

Stoking Your Innovation Bonfire

Stoking Your Innovation Bonfire

Braden Kelley



WILEY

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*Innovation is never easy—and not always welcome.
This book is dedicated to the men and women who
dedicate their lives to pushing our organizations
to make more efficient use of our human capital
and natural resources and to make the
world a better place.*

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Foreword

Innovation is not what it used to be. In fact, if you were to pick up a book on innovation from the 1970s and compare it with the book you are now holding in your hands, you would probably find the difference quite remarkable.

Back then, there were basically two areas of focus in the field of innovation. One was on boosting a company's research and development (R&D) capability, which was essentially all about developing new technologies and products. You would have been hard-pressed to find any book at that time that dealt in a serious way with how to innovate around operational processes, services, cost structures, customer experiences, business models, management practices, or industry architectures. The dominant paradigm of that era—at leading companies like IBM, Xerox, or Procter & Gamble—was that innovation was something you did almost exclusively in a scientific research center. And those research centers were usually kept quite separate from the company's core business. They were funded to explore fringe ideas that may have had little or nothing to do with the real work of the company, or nascent technologies that would require a very lengthy time frame before they could ever be commercialized.

The other area of innovation focus in the 1970s was personal creativity—how to “harness your imagination” and “unleash your creative potential” to come up with breakthrough ideas. In many ways, the popular paperbacks of the day helped perpetuate the myth that innovators are always lone inventors and entrepreneurial visionaries who somehow “dare to dream.” On the more scientific side, Dr. Edward de Bono's books on lateral thinking showed us how to use specific techniques to break patterns and solve problems in non-traditional ways. But none of these books really dealt with the issue

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of how to connect individual innovators or innovation teams with a company's political infrastructure, which is why so many ideas never got the necessary funding, talent, and management support they would have needed for success.

Braden Kelley's book is an outstanding example of how far innovation has come since then. Rather than looking at the field from a myopic, R&D-focused point of view, Braden offers us a wide-angle lens that allows us to see the entire of spectrum of innovation opportunities available to today's companies. Instead of segregating the responsibility for innovation to a specific department or isolated unit of the organization, this book presents innovation as something that should be systemically built into every nook and cranny of the company—something that should involve every single employee, in every location, every single day (as well as many constituencies beyond the company's borders). And in place of the old bias toward improving personal creativity and lateral thinking skills, Braden's book outlines exactly what has to happen at the *organizational* level to make innovation happen in a profitable and sustainable fashion. In many ways, this book is like a snapshot of the state of the art of innovation in 2010.

Perhaps the greatest advance in the field to date has been in our understanding of the organizational impediments to innovation. As my co-author and I pointed out in *Innovation to the Core*, building a truly innovative company is not a matter of simply encouraging people to be more innovative; it's a matter of positively changing the things that usually diminish or stunt an organization's innovation potential.

The fact is, the forces that frustrate and inhibit innovation are deep and systemic—they are embedded in the management principles and processes that today's organizations inherited from the industrial era. The real challenge, therefore, to making innovation a corporate-wide capability is surfacing these fundamental inhibitors to innovation—the things that are hindering new thinking and innovation, the things that are frustrating experimentation, the things that are stopping talent and capital from flowing to the best ideas—and then working hard to uproot and remove them. Indeed, the

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challenge is to replace a company's old managerial DNA with new, innovation-friendly practices and policies that enable and sustain new kinds of behaviors.

This book explains exactly how to do that. It clearly identifies the typical blockages to innovation that can be found in a company's vision, strategy, goals, insights, ideation efforts, idea evaluation process, commercialization pipeline, and organization structure, and—most importantly—it explains how you and your colleagues can overcome them. It will help you understand exactly what to change in your own company in order to make innovation sustainable as a new corporate way of life.

On a personal note, I have been proud to contribute to Braden Kelley's "Blogging Innovation" web site for some years. I have watched the site and its enthusiastic fan base grow into quite a significant movement, and I never fail to be inspired by the articles and comments that are posted there each day from across the innovation community. In many ways, this book is a distillation of all that knowledge, giving you a window on the very latest thinking in this exciting field. Braden started something big with "Blogging Innovation" (it was recently ranked number one in terms of popularity among innovation web sites). Who knows? Perhaps he has started something even bigger with this book. If I were a newly appointed innovation director at a major company, I would certainly not want to ignore the valuable lessons presented on the pages ahead.

ROWAN GIBSON
September 2010

Acknowledgments

I want to thank first and foremost my wife, Kathy, for giving me the confidence and support to pursue this project, and my daughter, Gabriella, for understanding that Daddy needed to disappear for a few days to make his deadline.

I first started trying to write this book back in 2006, but the idea didn't really start to pick up steam until I had the good fortune to begin interacting with authors like Michael Raynor and Gary Hamel. Some of these innovation conversations helped to further my exploration of unanswered questions about what it takes to create innovative organizations. Working with great clients like those at Tigo Africa and dialogues with innovation leaders from other organizations including Procter & Gamble, American Express, Whirlpool, and Cisco have also helped to stimulate my thinking and strengthen the contents of this book. I want to acknowledge all of these leaders—especially Percy Grundy and Regis Romero of Tigo Africa. May your innovation journeys be successful and smooth!

Having a successful blog has allowed me to attend a number of innovation conferences around the country and to meet a lot of really great people from around the world. As a result, I've been able to create a rich conversation on the topic of innovation thanks to contributions from more than two dozen authors.

To some of these Blogging Innovation contributors I owe a huge debt of gratitude. Stephen Shapiro, Matthew E. May, Rick Merrifield, and Robert F. Brands have all helped to give me the confidence to undertake this project, increased my ability to navigate the book publishing industry, and helped make introductions to the people that are bringing this book to you.

Acknowledgments

I'd also like to thank my agent, John Willig, and my editor, Susan McDermott, for having faith in me and my concept. And I'd be remiss if I failed to thank my development editor, Judy Howarth, and all the other people who worked behind the scenes at John Wiley & Sons to help make this book a reality.

Finally, I'd like to thank the readers of Blogging Innovation. If you had read less I might have written less, tweeted less, and there might not have been a book. So, please keep reading and who knows what might happen next.

Introduction

It's no secret that executives are under escalating pressure to deliver increasing profits every quarter. In such a pressure-cooker environment, the only way that companies can hope to meet the lofty expectations of the market is to hard-wire their organizations to be mindful of costs while simultaneously pursuing innovation.

Innovation has become the focus not only for businesses but also for governments and whole economies, too, as countries seek to secure high-paying jobs for their citizens and their tax base. This book will help managers identify and begin removing the barriers to innovation that are preventing their organization from creating sustainable growth and change.

Every successful organization began as a nimble, innovative start-up with the ability to course-correct and quickly adapt to the needs of its customers. But along the way, success and growth cause changes in the structure, the culture, and sometimes even the vision of organizations (see Figure I.1). Successful, growing organizations often focus on driving out the operational inefficiencies they maintained during their start-up phase, and unintentionally erect barriers to innovation as they become ever more efficient and profitable.

Unfortunately, when organizations realize that they need to innovate again, they find that they struggle to do so. Successful organizations are typically built around one or more key customer insights that allow them to solve their customers' problems better than their competition. Often when organizations find themselves being unexpectedly disrupted by new entrants or losing share to existing competitors, they make the mistake of copying the artifacts they observe in the marketplace or that they read about in case studies. Too often, organizations then seek to boost their innovation by undertaking one-off

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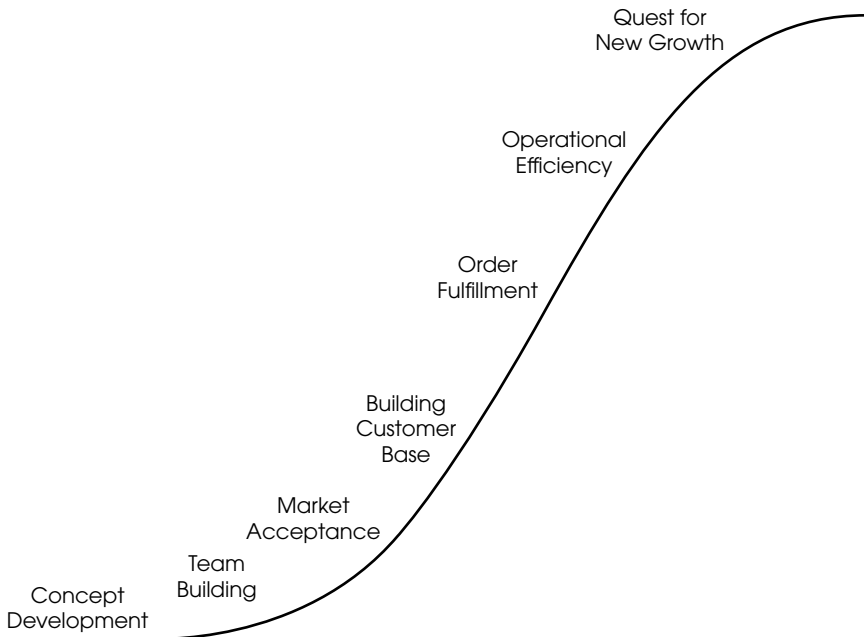


Figure I.1 A Typical Company's S-Curve

brainstorming or ideation sessions to come up with their next technology, product, or service innovation. Instead, organizations need to look internally to uncover the innovation barriers that are challenging their organization, knock them down, and rebuild existing organizational capabilities that will enable them to create more than me-too incremental innovations that cannot be sustained.

The problem for most organizations is that innovation is about change, and organizations and individuals tend to resist change. If you look around the business ecosystem, you'll see that the companies that successfully innovate in a repeatable fashion and stay at the top of their industries have two things in common:

1. They are good at managing change.
2. They were flexible and adaptive enough to survive at least one innovation crisis.

Introduction

Managers who read and absorb this book will be able to make immediate changes in their organization to recapture its original innovative spirit. This will help them leverage the collective wisdom and passion of all their employees to continuously innovate for customers in a sustainable way.

And how important is innovation, not just to organizations, but to the economies of whole countries?

According to “The Innovation Index,” a November 2009 report from NESTA, innovation was responsible for two-thirds of the United Kingdom’s private-sector labor productivity growth between 2000 and 2007. NESTA is the United Kingdom’s National Endowment for Science, Technology and the Arts.

A significant part of the identified productivity increase came not from traditional research and development (R&D) but from other types of investments in innovation, such as design, the development of innovative skills, organizational innovation, and brand equity. 1,500 firms were surveyed across nine sectors in this research, which will be expanded more in the future. Here is an interesting quote from the study’s findings.

The UK is a relatively good place to innovate, but has some important shortcomings. On the basis of available internationally comparable data, the UK appears to be a mid-table performer when it comes to the wider conditions for innovation compared to other leading economies (including the US, France, Germany, Japan, South Korea, and Finland). Although there is scope to develop these data further, they suggest that the UK performed less well on three important indicators: access to finance, demand for innovation (in particular the use of government procurement to encourage innovation), and skills for innovation.

The fact that the United Kingdom and other countries are examining their innovation performance and capabilities as a country points to the importance of innovation not just to firms, but to the economic health of cities, states, countries, and whole regions.

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I would argue that we all need to take a stake in helping our public and private organizations raise their level of innovation capabilities in order to reduce the waste of human capital and natural resources.

This is the whole reason that I devote so much time and energy to Blogging Innovation (<http://blogginginnovation.com>) and its social mission to make innovation and marketing insights accessible for the greater good. We all stand to benefit if we can improve the ability of our organizations to create products and services that truly solve customer problems and if our markets become more efficient at reallocating those resources.

In this book we will not paint visions of utopia that assume a completely new organization. Instead we will help readers identify the innovation barriers specific to their organization and provide case studies and guidance that will help each organization rebuild its hidden or lost innovation capabilities (see Figure I.2). Where appropriate, we will leverage and evolve other leading innovation theories into coherent, practical applications that readers can implement in reinvigorating their organizations themselves—without expensive consultants.

This book is organized into three main parts. In Part I, we will look at how the innovation vision, the innovation strategy, and the innovation goals combine to set the stage for successful innovation. In Part II we will take a look under the hood at the innovation

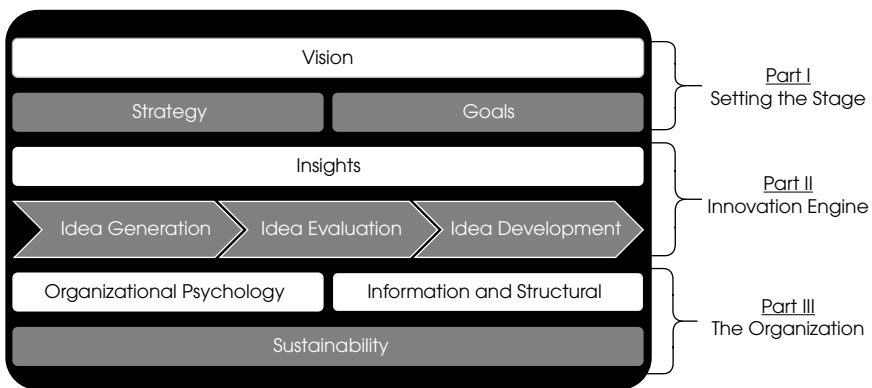


Figure I.2 Where Do Your Barriers to Innovation Lie?

Introduction

engine—where insights, idea generation, idea evaluation, and idea commercialization work together to drive the growth of the business. And finally, in Part III we take a closer look at barriers to innovation in the organization and the potential for an organization's innovation efforts to be derailed by organization psychology, structural and information blockages, or sustainability deficiencies. And don't forget to check out the appendixes in the back for some special visual frameworks and other tools for helping you craft your innovation strategy and goals, and for helping the organization understand how the innovation engine should work.

I hope you enjoy this book and find it a valuable resource to keep in your innovation toolbox!

About the Companion Web Site

I couldn't possibly fit all of the information that I wanted to include in this book between the two covers—no matter how hard I tried. Nor could I stop coming up with great ideas for how to make the book even better. So, I decided to stop writing and instead add all of this great stuff to an interactive web site that you can access online and even contribute to www.innovationbonfire.com.

Here you will find:

- The 50 Question Innovation Audit that I use with clients.
 - Fill it out and get instant feedback.
- An Innovation Healthcheck for each of the 10 chapters.
 - These will be designed to help you pinpoint which of the 10 barriers you are facing.
- Video interviews with authors and business leaders about innovation topics.
- Text interviews with authors and business leaders about innovation topics.
- A place to sign up for our monthly Innovation Insights newsletter.
- All of your different options to follow along.
- Anything else I can come up with or someone else might contribute that adds value.

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System requirements for the non-geek:

- Any computer that will run a modern Web browser (Firefox, Opera, Internet Explorer, Chrome, or Safari) should suffice.
- We won't make the web site too fancy, so it should work on most people's machines.
- Videos will be embedded YouTube or Vimeo videos most likely—I hope that will work for you.

PART I

SETTING THE STAGE

CHAPTER 1

Blinded by the Light

VISION BLOCKAGES

The Key Dangers

- Nobody understands why innovation is important.
- Nobody is really sure what innovation really is.
- It is unclear what kind of innovation we are pursuing.
- People don't see why they should participate.
- People don't feel that innovation has anything to do with them.

OVERVIEW

A start-up begins life as a single-minded entity focused on innovating for one set of customers with a single product or service. Often as a company grows to create a range of products and/or services, the organization can start to lose track of what it is trying to achieve, which customers it is trying to serve, and the kind of solutions that are most relevant and desired by them.

Jack Welch, former CEO of General Electric, once said, “Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion.”

Vision is about focus and vision is about the “where” and the “why,” not the “what” or the “how.” A vision gives the business a

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sense of purpose and acts as a rudder when the way forward appears uncertain. An innovation vision is no less important, and it serves the same basic functions. An innovation vision can help to answer some of the following questions for employees:

- Is innovation important or not?
- Are we focusing on innovation or not?
- What kind of innovation are we pursuing as an organization?
- Is innovation a function of some part of the business?
- Or, is innovation something that we are trying to place at the center of the business?
- Are we pursuing open or closed innovation, or both?
- Why should employees, suppliers, partners, and customers be excited to participate?

When people have questions, they tend not to move forward. For that reason it is crucial that an organization's leadership has a clear innovation vision and clearly and regularly communicates it to key stakeholders. If employees, suppliers, partners, and customers aren't sure what the innovation vision of the organization is, how can they imagine a better way forward?

You have to make sure that stakeholders know not only that innovation is important to the organization, but also what innovation means in their organization and how they can participate. Otherwise, how can stakeholders be expected to make any significant contributions to the innovation success of the organization?

For companies seeking to move innovation to the center and become an innovation-led organization, senior leaders must first clearly communicate this vision, this intention, and then lay out a plan for how they envision making an innovation-led organization a reality. An effort to move innovation to the center is best led by the CEO, but it requires the support and involvement of the senior leadership team to tell the stories to employees and customers about what the organization is trying to achieve, what innovation means to their organization, and how the employees and other stakeholders can participate (see Figure 1.1).

Blinded by the Light

Intersection of Innovation Vision, Strategy, and Goals



Figure 1.1 Venn Diagram

Innovation Vision Example (Alcatel-Lucent)

Some companies even go so far as to publish their Innovation Visions on their public web sites. For example, here is Alcatel-Lucent's Innovation Vision:

Innovation is at the heart of Alcatel-Lucent.

Within Alcatel-Lucent, innovation is achieved through the efforts of scientists, researchers and engineers who work together to mesh what is possible from science and technology with what is required by the markets.

Alcatel-Lucent is the most powerful innovation engine in the industry, leveraging its unrivalled depth, breadth and global footprint to deliver the best communications products, services and solutions.

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At the core of this innovation engine is Alcatel-Lucent's Bell Labs, a world-renowned and distinguished research organization whose role is to:

- Conduct fundamental and applied research in domains where the impact on communications will create significant competitive differentiation and often yield game-changing innovations;
- Anticipate, explore, and de-risk technology evolutions;
- Generate and deliver innovative product ideas, components and architectures;
- Support business and marketing by advancing the company's thought-leadership in the global technical and science community;
- The Alcatel-Lucent research community also incubates "start-up-like" projects targeting the commercialization of truly disruptive technologies and products.

We invite you to explore this Web site to learn more about our innovation engine and how it is transforming the nature of communications and networking. (From International Fund for Agricultural Development [IFAD] web site).

Translated into English, Alcatel-Lucent's Innovation Vision is to create technology innovation in the area of communications products. Their Innovation Strategy for achieving this vision is to use Bell Labs to do fundamental and applied research along with technology commercialization. If I should be an employee in this organization outside of Bell Labs (or a supplier or customer) and I read this web site, I would probably get the message that innovation is not for me—that it's not my job.

Innovation Vision Example (Kuwait Petroleum Corporation)

Here is the Innovation Vision for the Kuwait Petroleum Corporation (KPC):

Develop . . . comprehensive long-term plans and programs for the investment in research and development. Strengthen the

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coordination with local research institutes and organizations on studies, research, and information related to the oil industry.

Translated into English, KPC's Innovation Vision is to focus on technology innovation through internal and external research. Their Innovation Strategy includes five phases dedicated to:

- Phase 1: Research and Development Infrastructure.
- Phase 2: Technology Process Design.
- Phase 3: Value Optimization in the Oil Sector.
- Phase 4: Learning and Knowledge Sharing.
- Phase 5: Information Technology (IT) Infrastructure.

If I'm an employee in this organization outside of R&D and I see this, I probably get the message that innovation is not for me—that it's not my job. But if I am a local industry expert or researcher outside the organization, then I may reach out to them.

There Is No Single Innovation Vision

There is no one right answer when it comes to defining what innovation means for an organization. Each organization is going to be at a different stage of innovation maturity, both now and in the future, and must select both the appropriate definition for the term *innovation* and the vision for where they hope their innovation efforts will lead.

Even more important to remember is that no single innovation vision is timeless or appropriate for all situations. It is incumbent upon senior leaders to recognize when the current or future state of the market or customer requirements will require a change in the organization's innovation vision. When such a need arises, senior leaders must make the appropriate changes to the innovation vision and communicate the new innovation vision (and the reasons for a change) to all of the key stakeholders.

There are many examples of companies that have either failed to maintain an innovation vision or have pursued a particular innovation vision long past its relevance in the marketplace. One such example was the Ford Motor Company in the 1920s.

Innovation Vision Case Study—Ford Motor Company

Most readers will be very familiar with the legend of Henry Ford and his popularization of innovations such as the modern assembly line and vertical integration. The assembly line was so transformational that companies without it often were choosing the quickest path to bankruptcy. To put the impact of the assembly line into context and the dominance of Ford into numerical terms, of the roughly 200 American carmakers in 1920, only 17 were left in 1940. That means that more than 90 percent of the automakers in the United States went out of business during those 20 years.

If we look at the situation as the United States entered the 1920s in deeper detail, it is amazing to note that by the end of 1919, Ford was producing 50 percent of all cars in the United States and 40 percent of all British automobiles. Amazingly, by the end of 1920, half of all cars in the United States were Model Ts. That is an incredible domination of a market by a single company and an even more amazing feat for a single product.

In 1921 Ford produced more than one million cars, nearly 10 times more than Chevrolet—the next most popular brand. Ford dominated the next five years too (from 1922–1926), selling more than seven million automobiles. Then in 1926 something happened. Chevrolet nearly doubled their sales from the year before, while Ford's own sales dropped nearly 15 percent. The following year (1927) Ford's sales dropped an astounding 75 percent and Chevrolet's sales nearly doubled again, meaning that Chevrolet outsold Ford that year by a nearly 3-to-1 margin (1 million versus 367,000). Chevrolet outsold Ford by a 2-to-1 margin in 1928 too. So what happened in that period between 1926 and 1928 when Chevrolet first began challenging Ford's dominance?

When the 1927 model year Cadillac LaSalle rolled out in 1926, it was the first production automobile designed by a professional designer. Harley Earl was hired first to create the LaSalle and then to create the industry's first full-time in-house design studio, which Earl headed for the next 30 years. Considered the father of

Blinded by the Light

automotive design, Harley Earl had been customizing cars for a Los Angeles dealership selling to Hollywood stars when he met Alfred P. Sloan, Jr. and the rest, as they say, is history.

General Motors established the industry's first in-house design studio, and Harley Earl's design influence spread to many more GM automobiles in 1927. But design wasn't the only thing that drove Chevrolet's phenomenal growth beginning in 1926. Alfred P. Sloan, Jr. became CEO of GM in 1923 and began realizing his vision of "a car for every purse and purpose." Sloan divided the U.S. motor automobile market into segments by price range. Each GM brand became focused on one segment, with Chevrolet at the bottom and Cadillac at the top. Meanwhile, rival Ford stuck to a single model, the low-end Model T.

Besides design and market segmentation, the other innovation that GM unleashed on the automobile market was the General Motors Acceptance Corporation (GMAC). In 1919, the first branch of GMAC was opened in New York City, along with branches in San Francisco, Toronto, Detroit, and Chicago. In 1920 GMAC expanded outside of North America with the opening of a branch in Great Britain. GMAC was formed to provide GM dealers with the financing they needed to maintain their vehicle inventories, as well as to give dealers the ability to finance retail customers' new vehicle purchases easily and conveniently. By 1928 GMAC had already financed four million new vehicle purchases. Meanwhile Henry Ford was opposed to making loans to customers, insisting debt would ultimately hurt the consumer and the broader economy. In December 1927 Ford relented and started offering the same terms on the redesigned Model A. The same year, Ford retired the Model T after selling an astounding 15 million of them.

As a result of Alfred Sloan's different innovation vision (a focus on marketing innovation instead of cost innovation), Chevrolet overtook Ford as the sales leader in the U.S. market in 1927 before Ford could react. Ford sold nearly five million of the more stylish Model A between 1927 and 1931, thanks in part to the newly available credit and to a newly available range of colors and configurations, from pickup trucks to deluxe models. Ford regained sales leadership

Stoking Your Innovation Bonfire

of the U.S. automobile market in 1929, but Ford's dominance of the automobile market was broken forever. From 1929 until 1971 Ford and Chevrolet took turns at the top spot off and on, until Chevrolet grabbed the top spot for the 16 years spanning 1972 to 1987.

Innovation Vision Case Study—Hewlett-Packard

You might think that because both Henry Ford and Alfred P. Sloan Jr. became famous that the same scenario of a company leader focusing on cost innovation topping the market and ultimately being overcome by a leader focusing on marketing innovation wouldn't repeat itself, but it did.

In 2005, Mark Hurd took the helm at Hewlett-Packard (HP) and began to place more focus on design and marketing. Until this time computers were a boring box that people stashed under their desk, but with the incredible advances in batteries, screen technologies, and processor speeds, this became a time when even low-end PCs became fast enough for most people and buyers' focus shifted from gigabytes and megabytes to size, weight, and styling. In 2006, Apple shifted its computers to Intel processors, and HP passed Dell to claim the top spot in laptop sales. In 2007, HP took the top spot from Dell in desktop sales too, and Dell dropped to third in laptop sales (behind Acer). By the third quarter of 2008, laptop PC shipments exceeded desktops for the first time (see Figure 1.2).

But there are lots of other examples of companies not having the right innovation vision for the times and of companies not having an innovation vision at all. Let's take a look at some more examples now.

Innovation Vision Case Study—Apple Computer

It might shock you to hear me say it, but Apple has not always been a great example of an innovative company. They may have been a successful disruptive innovator in the personal computer industry with the Apple II. But, after the failures of the Apple III and the Lisa, and the expulsion of Steve Jobs in 1995, there was a time when Apple was more focused on exploiting and protecting their

Blinded by the Light

HP Overtakes Dell in Laptops and Desktops

Market share by units (except where noted), based on 2008 rankings

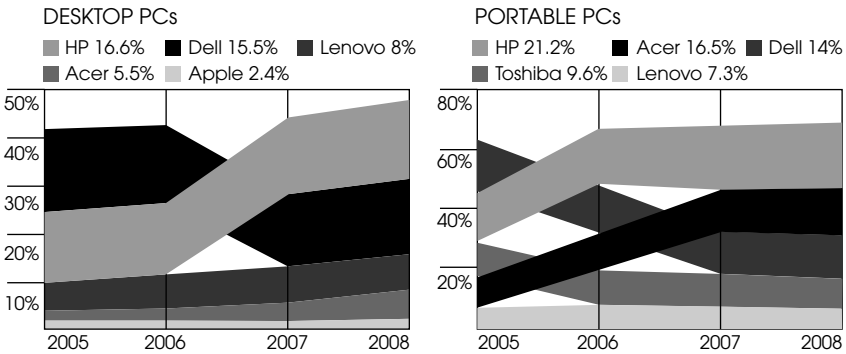


Figure 1.2 H-P Sales Data

Source: IDC and Fortune.

existing Apple II and Macintosh markets than they were on exploring new innovation opportunities.

During the seven years between the introduction of the Macintosh and the launch of the Powerbook and System 7, Apple seemed to have no innovation vision at all. After these two successful launches, Apple struggled again for another seven years until the launch of the iMac. These two lapses in a clear and sustained innovation vision at Apple opened the door for Microsoft and IBM in the personal computer market and gave them 10 years to figure out how to make a decent window-driven operating system. As a result, Microsoft and Intel went on to dominate more than 90 percent of the PC market at the expense of Apple and Motorola.

With the return of Steve Jobs and his NeXt operating system, Apple was able to create Mac OS X, the iMac, the iBook, the Macbook Pro, the iPod, the iPhone, and the iPad. Apple's resurgence has come with the return of a clear innovation vision that cascades from Steve Jobs downward and that focuses on elegant design and platform-driven innovation (iPod/iTunes, iPhone/App Store, iPad/iBooks).

Innovation Vision Case Study—Nintendo

Nintendo is a great example of a company losing its market leadership because of an innovation vision that became too focused on incremental innovation. As a result of its short-term innovation vision, the company dropped from the top spot in the fifth generation of the console wars and fell to third place in the sixth generation. Nintendo failed to switch to a disc format for games in the fifth generation, and failed to develop an online offering and backwards compatibility for the sixth generation.

But, after being defeated in the last two generations, Nintendo has changed their innovation vision from a focus on incremental technology innovation to a focus on family fun. As a result Nintendo has wrong-footed both Sony and Microsoft and is handily winning the seventh generation. But Nintendo can't start celebrating yet—Xbox appears poised to make a stronger challenge this year (2010) on the back of their strong online offering and the launch later this year of their own human interface innovation (Project Natal).

Innovation Vision Case Study—Walmart versus Amazon

Walmart is another company that hasn't always maintained its innovation vision. The company was founded by Sam Walton in 1962, and between 1975 and 1987 it grew from a 125-store chain to a massive 1,198 stores, also completing in 1987 what was the largest private satellite network at the time. It now has more than three times that number of stores in the United States, and from 2002 onwards, Walmart has been the largest of the Fortune 500 (except for 2006 and 2009 when ExxonMobil was #1).

Despite their success with physical stores, Walmart didn't really have an innovation vision at the time that included building the capabilities and solutions that would enable them to be a leader in the online world. As a result, Walmart has had a lot of trouble making Walmart.com successful. Walmart launched a basic consumer-facing site in 1996, but had trouble guaranteeing on-time delivery

Blinded by the Light

during the 1999 holiday season. Things were so bad that in 2000 Walmart created a new entity (Walmart.com USA, LLC) and gave Accel Partners 20 percent ownership to help make the relaunch of their web site more successful.

Amazon, on the other hand, was founded by Jeff Bezos in 1994, launched online in 1995, and was profitable starting in the fourth quarter of 2001. By this time Amazon and its dotcom bubble competitors had up to a five-year head start on Walmart.com. Walmart.com still only ranked fourth among department stores with an online presence in March 2001—behind Sears, Kmart, and J.C. Penney.

Despite spinning out the Web operations, Walmart.com still struggled for several years until more of its Walmart customers got online and the new team was able to refine its operations and focus on becoming more Amazon-like. Going into the 2009 holiday season, Walmart.com was the #1 department store with an online presence and had grown to become the #2 online retailer (Amazon was #1). Walmart.com has become a solid player, and now sometimes sends its competitors scrambling to match them. Walmart.com now has an innovation vision focused on its offerings and fulfillment capabilities.

Innovation Vision Case Study—Intel versus AMD, Qualcomm, and NVIDIA

In the late 1990s, thanks to the success of its Pentium chip, Intel had become the undisputed leader of the microprocessor market, putting competitors like Cyrix out of business and stretching AMD to its limits. But while Intel maintained an innovation vision focused on incremental innovation, product diversification, and pushing the existing architecture further and to higher clock speeds, AMD switched its focus and acquired NexGen to move its product line to a completely new architecture based on the innovations of NexGen's design team. The new architecture allowed AMD's products to use less power, and as this became more important to hardware designers and IT managers, AMD began to make inroads against Intel.

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Intel's attempts to diversify outside of semiconductors into technologies like Virtual Private Networks (VPN), IP Telephony, and e-Commerce Management also proved to be a distraction, and in 2005 the CEO reorganized the company to refocus on the core processor and chipset businesses. Intel hired 20,000 new employees as part of this refocusing effort, and the company was able to regain its momentum with the help of Apple switching to Intel processors in 2006 and the launch of their Core processors in 2007 and Atom processors in 2008.

The other major consequence of Intel not seeing that consumers were increasingly preferring smaller, more mobile computing platforms (smaller laptops, netbooks, PDAs, and even mobile phones), has allowed companies like Qualcomm, NVIDIA, and even Apple to become competitors in the mobile processor space (grabbing the majority of the market share in certain segments). As these processors become faster and more capable, Intel may see its processor dominance eaten away from underneath as these power-misers move up into bigger and bigger devices over time.

Bringing It All Together

An innovation vision helps people understand what innovation is, why it is important, where the organization is focusing its innovation efforts, and whether anything is expected of them. Setting the innovation vision is the role of senior leadership, and many would say that the CEO should also be the Chief Innovation Officer.

Are the leaders of your business creating an innovation vision, articulating the innovation vision, passionately owning it, and relentlessly driving it to completion?

In this chapter we have seen the importance of having an innovation vision, updating it as market conditions and consumer preferences change in the environment, accurately communicating it to the masses, and helping people achieve it.

We have seen how failing to do any of these four things can lead to disaster and decreasing relevance.

Blinded by the Light

An innovation vision must never remain static. Senior leaders (or their teams) should be constantly scanning the marketplace to see if changes are needed. But if you make a misstep with your innovation vision, you can still regain your innovation footing. We've seen several examples of that as well.

So, what's your company's innovation vision?

CHAPTER 2

Peering in the Dark

STRATEGY BLOCKAGES

The Key Dangers

- People have no clue what our innovation strategy is.
- People don't know what to contribute.
- People don't know how to contribute.
- Our innovation strategy doesn't link to our corporate strategy.
- There is no link between our innovation strategy and our innovation vision.

OVERVIEW

Many organizations take the time to create an organizational strategy and a mission statement, only to then neglect the creation of an innovation vision and an innovation strategy. An innovation strategy is not merely a technology roadmap from R&D or an agenda for new product development. Instead, an innovation strategy identifies who will drive a company's profitable revenue growth and what will represent a strong competitive advantage for the firm going forward. Under this umbrella the innovation goals for the organization can be created.

Stoking Your Innovation Bonfire

An innovation strategy sets the innovation direction for an organization toward the achievement of its innovation vision. It gives members of the organization an idea of what new achievements and directions will best benefit the organization when it comes to innovation. As with organizational strategy, innovation strategy must determine *what* the organization should focus on (and *what not to*) so that tactics can be developed for *how* to get there.

In Chapter 2 we take a look at how innovation strategy should form a part of a clear, coherent organizational strategy, how it links to vision, and how to create an innovation strategy that can accommodate both incremental innovation and disruptive innovation goals at the same time.

Strategy Must Be Based in Reality

When it comes to strategy, a colleague of mine, Dan Keldsen, likes to tell people about an IBM commercial from the early 2000s that goes something like this:

A business manager has a room full of his team, and he's proudly showing off the 3-inch-thick paper binder with the "strategy that took us 12 months and 3 million dollars to create. It's the most cutting-edge strategy we've ever had, and we're extremely excited by this. My question to all of you is . . . can we do it?"

(Dead silence for 10 seconds)

No! Absolutely not! No way!

(The manager is stricken deathly pale as the team lampoons the strategy.)

The point of the story is that any innovation strategy must be based in reality—in the ability of the organization to execute upon its tenets. The innovation strategy needs to clearly connect the dots between the current state of the business with the future state of the business, and all of the hard work to actually walk the path from here to there. At the same time, it needs to be clear to people that the innovation strategy will create the kinds of innovation laid out by the strategy, but in a practical way that can be implemented in the existing organization.

Two Sources of Innovation, One Innovation Strategy

Innovation comes from two main sources—directed innovation (or intellectual innovation) and emergent innovation (or instinctual innovation). An innovation strategy benefits both types. An innovation strategy provides the constraints that the organization's directed innovation needs, while also providing the focus that helps emergent innovation emerge over time as members refer back to the innovation strategy.

Best practices indicate that innovation succeeds best when it is constrained. But for some people, it doesn't make sense that innovation needs to be constrained. "Don't great ideas come from giving people free reign?"

The short answer is no. By giving people constraints, it actually sets their creativity free but in a directed fashion.

A well-defined innovation strategy helps the organization define which innovation challenges to focus on and what tactics will best help the organization overcome those challenges. An innovation strategy provides a map to refer back to as projects and ideas are being evaluated.

A good innovation strategy should communicate to the organization the kinds of innovation that will be most valuable to the organization in helping it achieve its organizational strategy. Ideally an innovation strategy will support the organizational strategy.

Innovation strategies can be very different in approach from one organization to another. Apple pursues a top-down approach to innovation—often using skunk works. On the other end of the spectrum is W.L. Gore, which pursues a bottoms-up innovation strategy based on exploiting core capabilities. Despite their radically different approaches and organizations, both expect people within the firm to understand the strategy and to innovate accordingly.

Time as a Component of Innovation Strategy

Google and 3M both famously allow all employees a portion of time to pursue whatever projects they want to help the company

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grow. For both companies, this time investment represents an integral part of their innovation strategies. Google invests 20 percent of people's time and at 3M the commitment represents 15 percent of people's time.

And for those of you who don't know, Australian software firm Atlassian's "Fedex Days" are an irregular answer to Google's 20 percent time. Fedex Days set 1½ days aside for developers once or twice a year to work on whatever they want as long as they can somehow relate it to Atlassian's products. They start after lunch on a Thursday and work until 4 p.m. Friday, when they present what they have to everyone. According to Atlassian's blog:

The goals of "Fedex" are to:

- Foster creativity. Atlassian is good at hiring smart people and we'd be mad to keep all that brainpower locked up.
- Scratch itches. Every developer has something that bugs them about our products, or something they'd like to see them do.
- Spike. Often, radical ideas don't get traction because we don't understand how they'd work or what benefit they'd provide.
- Have fun. Institutions like Fedex make Atlassian a fun place to work.

Being the competitive individuals we are we also have a trophy plus bragging rights for the winner.

While the 20 percent time at Google may be difficult for many companies to justify and copy as part of their innovation strategy, other companies have copied Atlassian's Fedex Days. Seeing the success of Atlassian's initiative, other companies have followed suit. Both Adobe and Microsoft periodically conduct something similar.

Innovation Strategy Case Study—The Whirlpool Example

Rowan Gibson contributed the following account of Whirlpool's innovation strategy to *Blogging Innovation*:

Peering in the Dark

When Whirlpool's former CEO Dave Whitwam set out to define his company's global innovation strategy back in 1999, he chose to call it "Innovation from Everyone and Everywhere." This was a huge aspiration, considering that at the time Whirlpool had 68,000 employees in 170 countries, as well as 50 manufacturing and technology research centers around the globe. But Whirlpool rose to the challenge, and today the company has become a best-practice model for the embedment of innovation as an enterprise capability across a large, global organization.

The key objective of Whirlpool's innovation strategy was to help every single employee to think outside the traditional "white box" of home appliances, and imagine exciting, customer-relevant solutions that create new wealth for the company. The outcome has been a stream of breakthrough ideas for products and businesses that have come from all over the Whirlpool organization—ideas that have delivered value to consumers in ways never before seen either at the company or in the industry. As a result, Whirlpool has seen a steep upturn in its annual revenues from innovative new products. In the three years between 2003 and 2006, for example, these revenues rose from \$78 million to \$1.6 billion (a figure over twenty times higher). And the whole strategic transition has made a massive contribution to growing Whirlpool's overall revenues and profits.

Today, the company has well over five hundred projects in its innovation pipeline, representing expected future revenues of \$3.5 billion. And, having witnessed the power of Whirlpool's innovation strategy firsthand, current CEO Jeff Fettig is planning no change of course in the future. He told *BusinessWeek*, "If we keep innovating we'll keep growing."

Whirlpool's innovation vision of "Innovation from Everyone and Everywhere" was supported by an innovation strategy that provided for the creation of a core group to lead the innovation processes from a home at the corporate center, formal innovation training leading to the construction of a decentralized innovation network, and innovation management software (among other things).

Innovation Case Study—Open Innovation at Procter & Gamble

Procter & Gamble's (P&G) innovation strategy is not focused only on generating innovation from inside the organization but from outside the organization as well. As part of P&G's innovation strategy they publicly include and announce one of their innovation goals—to source 50 percent of their innovation from outside. They even go so far as to publicly post their innovation strategy on their web site. Here is an example of P&G innovation strategy in the United Kingdom:

Innovation in the Box

Our innovation strategy is an approach we call Connect + Develop through which Procter & Gamble is seeking to build a global innovation network. While we invent most of our products in our own labs, we want half of the new ideas to come from outside.

Today's consumer market is global in reach, but remains driven by the cultural preferences and demands of communities from Latin America to Africa to Southeast Asia and beyond. Through our Connect + Develop relationships, we continually search for products, packaging, technologies and commercial opportunities that can be reapplied to our brands and rapidly introduced to better meet consumers' diverse needs. We are accelerating these internal research and development efforts by seeking to leverage the ideas, talents and innovation assets of individuals, institutes and companies around the world.

Our Research & Development efforts cover 150 areas of science. Because the wealth of knowledge in these areas is not limited to our own Research & Development resources, Connect + Develop is our way to encourage more open innovation. It is a way of leveraging internally and externally developed innovation assets. We are developing mutually beneficial relationships with the talents and technologies of today's most inspired minds and capabilities.

Not Just for Corporations

Building an innovation vision, strategy, and goals is not just an activity for corporations. Every type of organization can benefit from this

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type of activity and discipline (including non-profits and NGOs). Here is an innovation strategy example from the Executive Summary of the International Fund for Agricultural Development (IFAD):

As a result of IFAD's Action Plan for Improving its Development Effectiveness, the Fund's core processes now devote explicit attention to innovation. The IFAD Innovation Strategy does not set new objectives for staff, but rather defines what is needed to create an innovation-friendly environment and to support staff in achieving the expected results.

There is no universally binding definition of innovation. Each organization must reach a definition that has the greatest operational value from its perspective. In the case of IFAD, the operational framework of the Initiative for Mainstreaming Innovation defines innovation as "a process that adds value or solves a problem in new ways." This strategy retains this definition, and it further specifies that in order to qualify as an innovation, a product, idea, or approach needs to be new to its context, useful and cost-effective in relation to a goal, and able to "stick" after pilot testing.

The goal of the strategy is to ensure that innovation is systematically and effectively mainstreamed in IFAD processes and in its practice in country programmes. Its purpose is to enhance IFAD's capacity to work with partners to find and promote new and better ways to enable the rural poor to overcome poverty.

The strategy is incremental, builds on current efforts, and focuses on elements of the organization—people, processes, environment and outcomes—that require specific attention in the next three years. To strengthen its innovative capabilities and become a better catalyst of pro-poor innovation, IFAD will focus on four clusters of activities:

1. Building capabilities and understanding of challenges requiring innovation;
2. Nurturing partnerships and facilitating an innovation network;
3. Embedding rigorous innovation processes and the related risk management into IFAD's core business practices;
4. Facilitating a more supportive organizational environment for innovation.

Stoking Your Innovation Bonfire

Implementation will involve the entire organization and it will take place in the time frame of the IFAD Strategic Framework 2007–2010. The Fund will establish an Innovation Services Group, which will facilitate its innovation efforts and advise Management on related matters.

IFAD current expenditures on innovation are estimated at several million dollars per year. The strategy will be implemented to a large extent by applying these resources in a more focused and systematic way.

The strategy will be funded through a combination of mechanisms. These include:

- Programme Development Financing Facility (PDFF) resources to support the development and implementation of innovative projects and country programmes;
- Grant resources to finance innovation experiments in the field;
- The remaining funds available from the United Kingdom's complementary contribution to the Sixth Replenishment; and
- Supplementary funds as they become available.

While innovating is risky, it is important to realize that not innovating could also represent a major risk for the organization. In addition, there are several types of risks related to this strategy. One type pertains to each untested idea. The strategy offers the introduction of a prototyping process to test promising solutions rigorously on a limited scale as the main instrument to manage such risk. Another important type of risk is related to the change management dimension of this strategy. There are three major issues: organizational capacity to absorb change, process overload (too many process controls and too complex) and time pressure. IFAD Management will pro-actively address each of these as it promotes the mainstreaming of innovation throughout the organization (www.ifad.org/pub/policy/innovation/e.pdf).

Innovation Maturity

When it comes to innovation, no two companies are likely to be pursuing innovation in the same way, and they are also likely to be at

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different stages of innovation maturity. Because of this, even if you found out what your competitor's innovation strategy was, it would be of no use to you. It is necessary for an innovation strategy to be tailored to *your* organization's level of innovation maturity, *your* corporate strategy, and *your* innovation vision.

An organization's innovation maturity level is important because you must first master a certain set of basic innovation capabilities before implementing more advanced innovation approaches into your strategy. For example, an organization just getting started on their innovation journey would be foolish to try and implement open innovation in their organization. Every organization should get its idea generation (including evolution), idea evaluation, and idea commercialization policies and processes working well with its employees first before opening themselves up to the outside world. Your organization's innovation strategy must be appropriate to your level of innovation maturity for your innovation efforts to be successful.

I developed the graphic in Figure 2.1 to explain the different levels of innovation maturity based on some thinking from Wharton

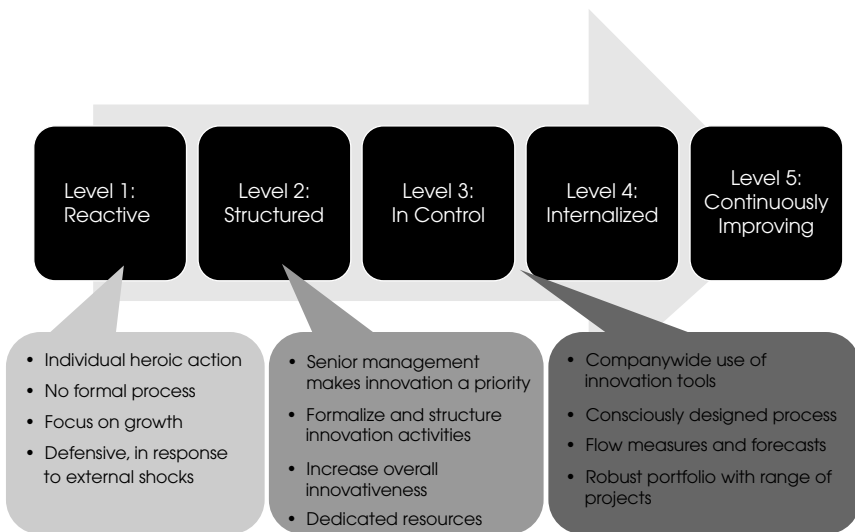


Figure 2.1 Innovation Maturity Model

professors Christian Terwiesch and Karl T. Ulrich, and I think it allows executives to determine at a glance where their organization is across the spectrum. I hope you find it useful.

Incremental versus Disruptive Innovation

Most people have settled on two main types of innovation—Incremental and Disruptive (or Radical). Geoffrey Moore in his book *Dealing with Darwin* defines 14 different types of innovation across four different “Innovation Zones.” You may want to get down to that level of granularity in your innovation strategy, but for the purposes of this book we are going to primarily discuss only incremental innovation and disruptive innovation.

Incremental innovation is typically driven by idea projects that add incremental value, usually to your existing solutions in the marketplace, or by launching new solutions into the marketplace that provide a modest improvement in value over the competition. Incremental innovations provide only a temporary advantage as they are usually copied by the competition in short order.

Disruptive innovation is typically driven by idea projects that introduce a leap in value, often by introducing a new business model (Southwest Airlines) or a different way of bringing competitive solutions to the marketplace (Nucor Steel). Disruptive innovations take longer to realize and typically provide a more sustainable advantage, as it is difficult for entrenched competitors to completely change the way that they do business.

Just in case you’re a little bit curious, here is a quick listing of Geoffrey Moore’s four innovation zones and 14 types of innovation.

1. Product Leadership Zone

- Disruptive Innovation
- Application Innovation
- Product Innovation
- Platform Innovation

2. Customer Intimacy Zone

- Line-Extension Innovation
- Enhancement Innovation
- Marketing Innovation
- Experiential Innovation

3. Operational Excellence Zone

- Value-Engineering Innovation
- Integration Innovation
- Process Innovation
- Value-Migration Innovation

4. Category Renewal Zone

- Organic Innovation
- Acquisition Innovation

Innovation Portfolios

It is very important to have an innovation vision. It is imperative that you have an innovation strategy. But without allocating money specifically to fund innovation projects, and without an innovation strategy that takes an innovation portfolio approach to create a balance of different types of innovation, different time horizons, different risk profiles, and so on, I believe your innovation efforts will fail.

If you only invest in incremental innovation projects, then you will have short-term success, but eventually you will be disrupted from the outside. If you only invest in disruptive innovation projects, you will sacrifice short-term results for long-term bets that, if successful, could take as long as 20 or 25 years to be realized, depending on how much of the foundational work has been done by others before your disruptive efforts begin.

There are many similar continuums out there that you can plot your innovation projects on to help ensure that your portfolio is balanced or you can make your own that fits your industry or situation, but I tend to use this one that I found in the book *Innovation Tournaments* by Christian Terwiesch and Karl T. Ulrich; it is shown in Figure 2.2.

Stoking Your Innovation Bonfire

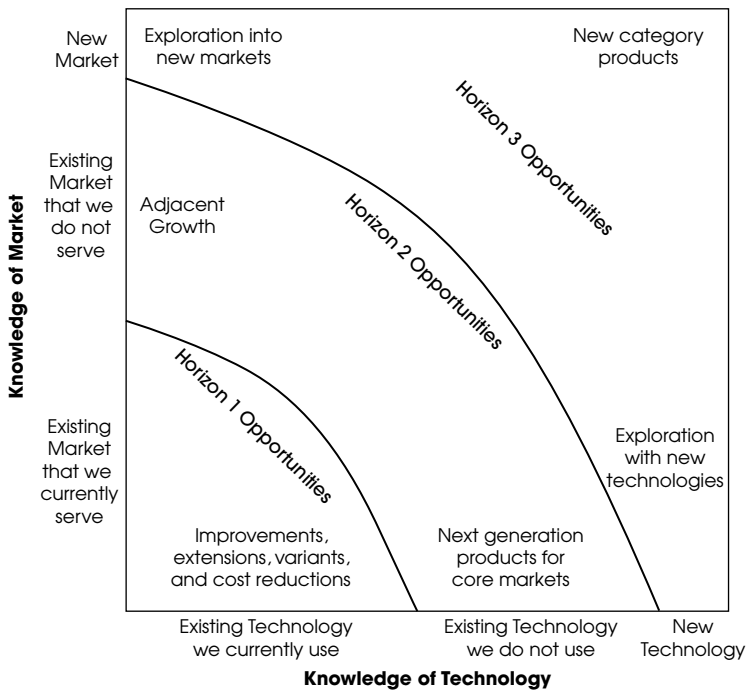


Figure 2.2 Innovation Horizons

Source: Christian Terwiesch and Karl T. Ulrich, *Innovation Tournaments*.

Open Innovation

Open Innovation is getting more and more attention all of the time, but whether it has a place in your innovation strategy depends in part on your level of innovation maturity (as I mentioned earlier), but also on the needs of your brand and of your idea generation pipeline. First let's define open innovation as the pursuit of ideas from outside the organization that contribute to an organization's innovation goals. This would include ideas from suppliers, partners, customers, and potentially even from competitors. I see open innovation as an important component of an innovation strategy for several reasons.

Peering in the Dark

- You cannot build a healthy innovation ecosystem unless you engage in open innovation (an innovation ecosystem is a network of suppliers, partners, academics, customers, and even competitors that you work with organically to bring solutions to market).
- People outside your organization have exposure to different inputs and have different perspectives as a result—this helps make your innovation ecosystem richer.
- Executed correctly, open innovation can have a positive effect on your brand (the converse of course is also true—so you must proceed thoughtfully).
- Being a smart mover (not necessarily first mover) in open innovation can help to establish you as the partner of choice in your industry—ensuring that you get the best ideas.
- Executed really well, you could become the partner of choice for those free radicals out there with excess idea energy to share, providing you with perspectives from people outside your normal industry circles.

If you're thinking that open innovation could allow you to do away with your R&D department, think again. R&D departments inside of organizations will always have a role, but with open innovation their role expands to include evolving ideas that come in from the outside and developing the most promising ones into real solutions. As a result, any organization choosing to add open innovation to their innovation strategy will also need a strategy for how they plan to evolve and evaluate the ideas that come in from the outside.

Bringing It All Together

You must make sure that people know what to contribute and how to contribute to your innovation strategy. Ideally, you should also be linking your innovation strategy to your corporate strategy so that resistance to innovation projects is lower and the quality of their execution is higher. And, your innovation strategy must link back up to your innovation vision.

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Without an innovation strategy, an organization can find itself pulled in many different directions, dissipating its innovation energy and preventing it from accelerating its innovation pace by combining the outcomes of strategically related innovation efforts.

Finally, even those organizations that have successfully created an innovation strategy often miss the most important part—to communicate it very clearly to all members of the organization, so that members know exactly what the innovation strategy is and precisely how to contribute. If you've done a good job of this, you won't be afraid to ask your members the following question: What is our innovation strategy?

Are you afraid?

CHAPTER 3

Setting a Course Blindfolded

GOAL BLOCKAGES

The Key Dangers

- People are not really clear on how they can contribute to our innovation strategy.
- People are not really sure what to focus on in order to execute our innovation strategy.
- It seems like a lot of our innovation efforts are random and inefficient.
- Our innovation strategy is too broad and not really relevant to me.
- People are not really sure how to tell whether we are achieving our innovation strategy.

OVERVIEW

Just as managers and employees need goals to know what to focus on and to help them be successful, organizations need innovation goals too. Clear innovation goals, when combined with a clear innovation strategy and a single-minded innovation vision for the organization, will maximize the instinctual innovation that emerges

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from employees and the intellectual innovation that occurs on directed innovation projects.

Let's take a look at the importance of innovation goals and how to set them. In Appendixes A and B you'll find a customer permission analysis approach and visual frameworks that may also help you come up with your innovation strategy and goals.

The Purpose of Innovation Goals

While an innovation vision determines the kinds of innovation that are appropriate to an organization, and an innovation strategy determines what the organization will focus on when it comes to innovation, it is the innovation goals that break things down into tangible objectives that employees can work toward. Let's look at Procter & Gamble as an example to see how these three things come together at the highest level.

Innovation Vision

- Reach outside the company's own R&D department for innovation.

Innovation Strategy

- Create a formal program (Connect + Develop) to focus on this vision.

Innovation Goal

- Source 50 percent of the company's innovation from outside.

The 50 percent goal gives employees and management something to measure against, and it sets a very visible benchmark that the whole organization can understand and visualize how big the commitment and participation must be in order to reach it. It is at this point of communicating the innovation goals that senior management also has to communicate how they intend to support their efforts and how they will help employees reach the innovation goals.

The Influence of Customer Permissions and Visual Frameworks on Your Innovation Strategy and Goals

Organizations can try to innovate in all parts of their business at the same time, but not necessarily in radical ways. One organization (and especially its customers) can only absorb and adopt so much innovation at one time. Communicating the innovation strategy and goals of different parts of a business in a clear and concise way works best with some simple customer permission analysis and visual frameworks for employees to work with.

In Appendix A we present a customer permission analysis tool that can help you determine areas of the market and the value chain where the customer will give you permission to innovate.

In Appendix B we present two different visual frameworks to supplement a more typical approach—innovation strategy and goals mapped out across solutions or solution families.

Setting Your Innovation Goals

Your innovation goals should of course be linked to your innovation strategy, but what should they be?

Well, in forming your innovation goals, make sure they are S.M.A.R.T.:

- **Specific**
- **Measurable**
- **Actionable**
- **Realistic**
- **Timely**

Here are some sample questions you might ask yourself to help define your innovation goals.

- Is there a product line that needs refreshing?
- Do you want to enter a new market?

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- Would a new business model help create a better path to your customers?
- Is there a business that is struggling that you might need an innovation effort to help it jump to the next curve (think Motorola and mobile phones and the importance of the Droid and the Backflip projects to getting their mobile phone business reenergized)?

Innovation goals should be specific and measurable, otherwise how will you know if you have achieved them?

Here are some other examples of innovation goals.

- Improve energy efficiency of our flagship product by 20 percent.
- Improve performance of our flagship product by 10 percent.
- Adapt our flagship solution to enter a new \$100 million market.
- Decrease the thickness of our flagship product by 2 mm.
- Decrease the average time to serve a customer by 20 seconds.
- Combine the technology in product A with that in product B to create a new product C.

Here are some examples of bad goals.

- Produce what the customer asks for, not what we want as a company.
- Become number one in the market for product A.
- Strive to have every innovation be relevant to the consumer.

Bringing It All Together

As you can see, innovation goals serve a vital role in helping employees (and possibly other stakeholders) see how you not only plan to achieve your innovation strategy and your innovation vision, but also how they can contribute to the execution of the innovation strategy. At the same time, innovation goals communicate

Setting a Course Blindfolded

where people should be focusing their innovation efforts and will help make people's efforts more efficient. Without innovation goals, your innovation strategy may appear too broad and you may lose participation because people won't see the relevance. But with innovation goals, participation will be higher and you will have a way of telling whether you are making progress toward your innovation strategy.

III PART

THE INNOVATION ENGINE

CHAPTER 4

What Are They Really Thinking?

INSIGHT BLOCKAGES

The Key Dangers

- Only a few people have access to the voice of the customer.
- We are more focused on generating ideas than insights.
- There is no formal approach to generating insights.
- There is no global sensing network.
- A higher priority is placed on execution at the expense of insights.

OVERVIEW

While invention may be driven by ideas, innovation is driven by insights. You have to imagine for the customers something they can't ask for but that, once properly defined and communicated, they can then imagine for themselves. Most companies are built on a single customer insight that drives their early success; from there it gets much harder. Often as organizations grow, many people in the organization lose access to the voice of the customer and have a reduced ability to contribute insights to drive future product or service success. In addition, insight capture can become overly structured and formal, causing organizations to develop poor insights that focus the wrong solutions on the wrong problems of the wrong customers. We will look

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at methods for knocking down insight barriers and helping organizations generate better customer insights.

Four Lenses of Innovation

There are many different ways to look at generating insights. My favorite model because of its brevity and substance is the “Four Lenses of Innovation” from *Innovation to the Core*, by Rowan Gibson and Peter Skarzynski.

1. **Challenging orthodoxies:** Questioning deeply held dogmas inside companies and inside industries about what drives success.
2. **Harnessing discontinuities:** Spotting unnoticed patterns of trends that could substantially change the rules of the game.
3. **Leveraging competencies and strategic assets:** Thinking of a company as a portfolio of skills and assets rather than as a provider of products or services for specific markets.
4. **Understanding unarticulated needs:** Learning to live inside the customer’s skin, empathizing with unarticulated feelings and identifying unmet needs.

But there are many other important pieces of information to bring together to create your body of insights and we will cover some of them in the paragraphs to come.

Broadcasting the Voice of the Customer

Before the industrial revolution, most businesses in the United States were sole proprietorships or small family-run businesses. In those days, every member of the business was in direct contact with the customers and had the opportunity to passively or actively hear the voice of the customer.

The voice of the customer tells us what about our product or service that customers find valuable, and what they find annoying or useless. By focusing on what customers found valuable and removing or reducing what they found annoying, these small businesses could accumulate financial success and customer loyalty.

What Are They Really Thinking?

In today's interconnected world, we are in the midst of a customer revolution. Today's customer has unparalleled access to pricing and product information to enable a more informed and economic purchasing decision. Today's customer benefits from marketing developments such as mass customization, mass personalization, and micro-segmentation. In addition, they have unrivaled access to communication channels to make their preferences known. But, who is really listening?

We live in a world of corporations and conglomerates, where most of the employee class has no direct access to the voice of the customer. The man or woman stitching up your clothing has no idea whether the stitching method worked well for you, or if you were happy with the product. They only know whether they made their daily quota and how much failed Quality Control. If the persons stitching your clothing had access to the voice of the customer, would they do their job differently? Would they feel differently about their job?

In many of today's companies, the job of listening to the customer falls to someone in the marketing department, possibly even someone who does nothing but focus on brand and customer research. This person usually works with product management and possibly research and development to inform product revisions and new product development. Often, very few people outside of that core team have access to the voice of the customer. But why restrict customer feedback to a select few?

While it may be important to control access to the customer in order to avoid inappropriate contact, restricting access can stifle innovation and success. One way to control access is to implement a managed research panel. In this scenario, the customer research people in the organization manage access to an opted-in sample of customers, allowing internal constituents from anywhere in the organization to "purchase" a percentage of a focus group. Therefore, no single group has to bear the cost or the burden of organizing a focus group, but instead can access customers to ask their specific queries as a portion of the focus group's overall session. In this way,

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groups as disparate as user documentation, branding, and warranty service can seek to understand and ultimately improve their contribution to the overall quality of the product or service. But will this by itself lead to innovation?

As the innovation velocity of an organization becomes a more crucial competitive differentiator in the global marketplace, it is mandatory that innovation becomes everyone's responsibility in the organization. In order for innovation to reliably happen at every level of the organization, it will be extremely useful for all members to have access to the voice of the customer. Making customer feedback available to all may include making focus group recordings and survey results available to all employees, or at least those who register an interest. Having access to the voice of the customer will enable all levels of the organization to submit more informed innovation project ideas and supporting justifications. But will this only lead to better products and services?

Making the voice of the customer more widely available is not only likely to result in new product or service ideas, but is also likely to spur innovative ideas about how the organization can operate more efficiently. In addition, it has the potential to create a more customer-centric organization, to increase employee mobility within the organization, and to make it easier for disparate parts of the organization to communicate. So why aren't all companies already doing this?

Some companies may hesitate to share this information because of a perceived risk of leaking to competitors, but the incremental risk is minimal. Marketing people go to work for the competition all the time, and competitors have the same ability to research customer perceptions of your product as easily as their own. Organizations have so much to gain by granting access to the voice of the customer to all employees—and so little to lose. So what are you waiting for?

Trend Spotting, Behaviors, and Needs

When it comes to innovation and identifying insights, there are many different parts of our world that you have to look at, and these include three very different (and incredibly important) pursuits.

What Are They Really Thinking?

1. Trend spotting.
2. Putting emerging behaviors into context for a business.
3. Putting emerging needs into context for a business.

Only at the very beginning of a business, when it is all or nothing for a small team of founders, should responsibility for these three tasks be combined. The reason responsibility for these three different pursuits should be split up is that each requires a different way of thinking, and that it often requires different types of people to generate the most relevant and actionable insights.

Earlier we talked about how insights and execution are the real keys to business success, and noted that in building any successful innovation the insights come first. So, combining these three pursuits properly and getting the insights correct is incredibly important. Otherwise you'll design, build, and distribute a solution that misses the mark with customers.

Trend spotting requires big picture thinking, a talent for separating the notable from the unimportant, the ability to see how potential trends connect together, and the vision to see the impact of this trend intersection (what megatrends might they point to, and so on).

Putting emerging behaviors into context for a business requires an incredible capacity for insightful observation, the ability to spot influential thinkers who are good at identifying and describing changing behaviors, and the skills to synthesize a collection of perspectives into a cohesive view of the future. This view of the future must of course have a strong chance of being correct.

Putting emerging needs into context for a business is incredibly difficult and requires understanding how emerging trends and behaviors will intersect with new technologies and other business capabilities to expose new customer needs. Those new needs then represent potential growth areas for businesses to enter with new solutions. The goal clearly is to identify and act upon these emerging needs before the competition has the opportunity to observe these needs as expressed behaviors and actions and react.

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The one skill that all three share in common however, is the ability to disconnect one's own perspective from the changing perspectives of others. Whether you as an organization choose to hire people into these roles, hire in consultants to provide this insight, or spread the responsibilities around the organization, you must have a strategy.

Personally, I believe organizations may soon begin creating insight networks within their organizations in the same way that they currently do with innovation. This means having a central insights team at Corporate HQ with strong executive support that is responsible for managing the process, the distributed global network, its training/certification, and its outputs. This does not have to mean starting a new team—companies could incorporate these responsibilities within an existing dedicated-innovation infrastructure. So, can an insight management software industry be far behind?

And last but not least you will need to assign people to monitor trends and emerging behaviors and needs including:

- Demographic and psychographic changes.
- Legal and political changes.
- Different geographies and cultures.
- Different industries.
- New supplier and technology capabilities.
- New business capabilities and business models.

Do you have a strategy and responsibilities in place for spotting trends and emerging needs/behaviors in your organization? If not, what are you waiting for?

Insights and Execution

For my money, the most dangerous misconception that leaders have is that coming up with a great idea is the key to innovation.

This is not the case. Insights and execution are the most important ingredients for creating innovation. As more industries become commodity battlegrounds, success will now be driven by two key things.

What Are They Really Thinking?

1. The quality of the insights a company has identified to build ideas upon.
2. The organization's ability to turn their insight-driven ideas into reality.

As innovation moves front and center in an increasing number of companies and industries, the quality of insights and execution will separate the winners from the losers.

Insights Case Study—Apple iPhone

Apple moving into the phone business should not have surprised a single handset manufacturer. What competitive response did handset manufacturers expect as they introduced increasingly music-capable phones?

The idea of a phone that is also a music player is not, in and of itself, a differentiated idea capable of capturing the imagination of the consumer, and so the iPhone was not created with the goal in mind of creating a digital music player that is also a phone (though that was the strategic purpose for its creation). Apple needed a strategic response to protect their digital music player market from being disrupted by the mobile phone handset manufacturers.

Apple's traditional noninnovative response to the changing competitive landscape and attempt to defend the core iPod market was a phone developed with Motorola—the Motorola ROKR. This phone merely bolted iTunes into a Motorola candy bar phone and was a commercial failure that taught Apple many things.

Apple's biggest learning was that to be successful in an industry they had no experience in—mobile phones—they needed to introduce a truly differentiated and valuable integrated offering. To achieve that goal, they needed a unique insight to build their ideas on of what a mobile phone should aspire to be.

In hindsight it appears that the insight Apple chose to build their mobile phone business on, the second time around, was the insight that people were now ready to make their computing experience more portable, while also at the same time making it more personal. The

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key differentiated idea built on this insight (apart from the beautifully designed phone and new user interface) was that of the App Store. In building their phone around this insight, they were able to create a device that not only could play music (and help to protect their digital music player market from being disrupted), but could also perform just about any other function that a user might desire (or even imagine).

A lesser company would have endeavored to build the world's best music phone, but instead Apple realized that it was more important to build the world's most personal and customizable mobile phone that happens to play music. This is the power of building around an insight instead of an idea.

Apple also realized that the contracts with AT&T and the permission to do something like the App Store, along with building an application development platform that developers could rally around, were possibly even more important than the device itself.

One of the lesser-known innovation truths is that a true innovation is often more than just a single idea, but is often several ideas coming together to serve a new key insight. Apple's insight was that computing was about to become more personal and move to the hand as part of this increasingly personal transition.

What insight will you build your business around?

Insights Case Study—Apple iPad

Apple announced its rumored tablet device recently and chose to call it the Apple iPad—a very strange and difficult choice. “iPad” was a trademark owned by Fujitsu, but since purchased by Apple for an undisclosed sum. Apple had a similar problem with the iPhone and Cisco, which they were able to resolve with a bit of cash. Apple had to get out their wallet again to make Fujitsu go away. But even more troubling for Apple is that “iPad” is also the name of a fictitious product that was lampooned by Mad TV three years ago in a less than flattering video. This has sparked the kind of viral buzz that a new product launch hopes to avoid—the kind that may cause prospective buyers to not take the device seriously.

What Are They Really Thinking?

The launch of the iPhone was a home run. People immediately lined up around the block to get it when it first came out. The launch of the Apple iPad, as I said before the launch, will likely turn out to be much more like that of the iPod—a single followed by a few more singles to finally score a couple of years later. Why?

Well, Apple themselves didn't exactly convince everyone that they know why the Apple iPad is a revolutionary device. The tagline for the device is "Our most advanced technology in a magical and revolutionary device at an unbelievable price."

This would make you think that the Apple iPad is aimed at the techno-lusting, uber-geek Apple faithful, who always want to be the earliest of early adopters for any gadget from Apple. But from those people the response to the device was a yawn. Those people are going to want the \$829 version, and that is a lot of cash for a piece a tecno-jewelry in this economy.

Will they buy a backlit-LCD iPad to use as an eReader or a portable DVD player? No, this group of consumers is not likely to do that in the volume necessary to make the rumored 10 million first-year unit sales. I'm not even sure there are 10 million people in the consumer group mentioned. And if there are, they've probably already got an iPhone or an iPod touch or a Macbook Air that does pretty much anything they might want to do on an Apple iPad.

Apple has definitely launched a solution in search of a problem. Apple's launch marketing shows that. In my mind the key question as to whether the iPad will be a success is "Do people want or need a fourth screen?"

Most people already have three types of screens.

1. Large screen (currently a television).
2. Personal computer (desktop, laptop, or Netbook).
3. Mobile phone (increasingly shifting to pocketable PC/phone devices).

Will the iPad realistically replace one of these? Probably not. Head-to-head it doesn't solve the relevant problem any better than

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the device in use. So it has to be a fourth screen for most people. And that is the way they've launched it. The iPad is a fourth screen for people who have lots of cash and can afford to have the iPad just laying around to pick up and use when their iPhone screen is too small and they can't be bothered to go boot up their computer. In the home it will probably be used most often when the large screen is already on. But that's a tiny market.

Apple doesn't know who this device is really for. But when you're so focused on the technology and the design, sometimes you forget about the customer. Is the Apple iPad cool? Yes. Will Apple sell massive quantities of them in its first year? No. Will they eventually? Maybe.

For innovation to occur you must progress all the way from insight to adoption. Here is how I lay that out in my Innovation Moonshot framework (see Figure 4.1).

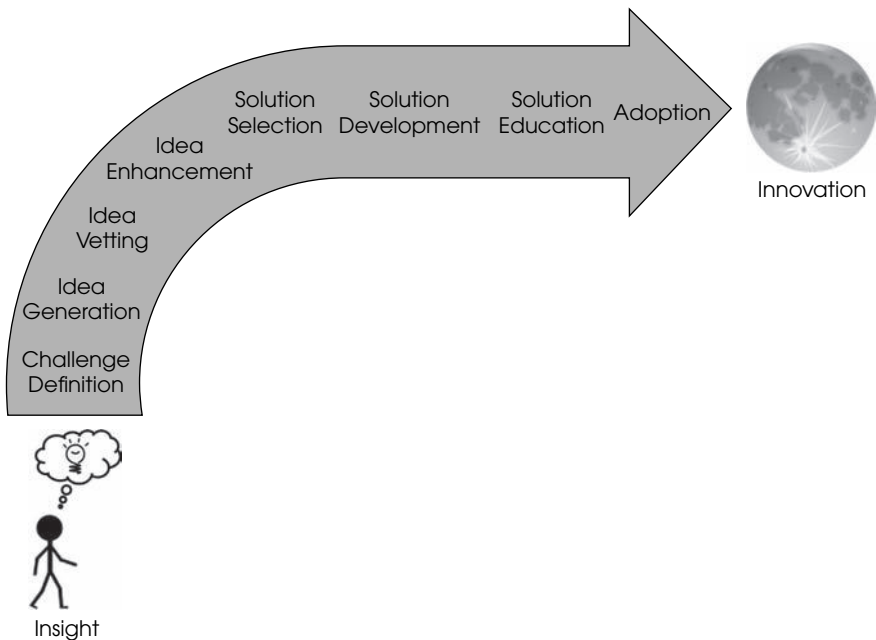


Figure 4.1 What's Your Innovation Moonshot?

Source: Copyright © 2010 Braden Kelley and Business Strategy Innovation.

What Are They Really Thinking?

For the iPad to become an innovation, Apple is going to spend probably two to three years in the Solution Education phase for the iPad (similar to the iPod).

- Getting it in customers' hands.
- Having them experience it.
- Enhancing the device.
- Finding ways to lower the price.

\$499 is a lot for a fourth screen. To do big numbers as a fourth screen, the iPad is going to have to hit the \$199–299 price point (or lower). I can't see Apple wanting to go there for a couple of years (if ever).

So, if Apple wants to sell large numbers of these, they might consider targeting noncustomers in the primary screen market. These would be people who don't have a computer or have one but don't really want one. Let me explain. These are people like my mother-in-law or my dad, who have no interest in computers or their complexity, but might want to do a bit of e-mail or get on the Internet and look at some photos that people e-mail them or post online. For this group of noncustomers, \$499 isn't a bad price point because they would be buying one of their first three screens (probably their second or third).

But if you're listening, Apple, I've said it before and I'll say it again.

People don't want a fourth screen. What they want is to extend the screen they have in their pocket.

In the future as I see it, three screens will be too many. I've laid out my vision for the digital future before and I'll give a snapshot here again.

What would be most valuable for people, what they really want, is an extensible, pocketable device that connects wirelessly to whatever input or output devices they might need to fit the context of what they want to do. To keep it simple and Apple-specific, in one pocket you've got your iPhone, and in your other pocket you've got a larger screen with limited intelligence that folds in quarters and

connects to your iPhone and can also transmit touch and gesture input for those times when you want a bigger screen. When you get to work you put your iPhone on the desk and it connects to your monitor, keyboard, and possibly even auxiliary storage and processing unit to augment the iPhone's onboard capabilities. Oops! Time for a meeting, so I grab my iPhone, get to the conference room and wirelessly connect my iPhone to the in-room projector and do my presentation. On the bus home I can watch a movie or read a book, and when I get home I can connect my iPhone to the television and download a movie or watch something from my TV subscriptions. So why do I need to spend \$900 for a fourth screen?

Tell me, Apple.

Are You Innovating for the Past or the Future?

I had the opportunity to meet and chat with local ethnographic researcher Cynthia DuVal about the role of ethnographic research in the innovation process, and she gave me an insight that I thought I would share here.

She mentioned that it is important for a good ethnographer or researcher to consider the timeline of the development process when extracting insights. Why is this important?

Well, if you've got a 12- to 18-month product or service development process to go from insight to in-market, then you should be looking not to identify the insights that are most relevant today, but the insights that will be most relevant 12 to 18 months from now. If you can go from insight to in-market faster than that, that's fantastic, but the point still holds.

If your research team takes all of the data they've gathered and extracts insights for today, then you are innovating for the past, and if they develop insights too far along the time continuum then you are innovating for the future. You can't really innovate for the past (your offering won't be innovative and will be beaten easily by competitors). If you innovate for the future, then adoption will be slow until customers become ready. The trick is to task your insights team to provide guidance for the future present (see Figure 4.2).

What Are They Really Thinking?

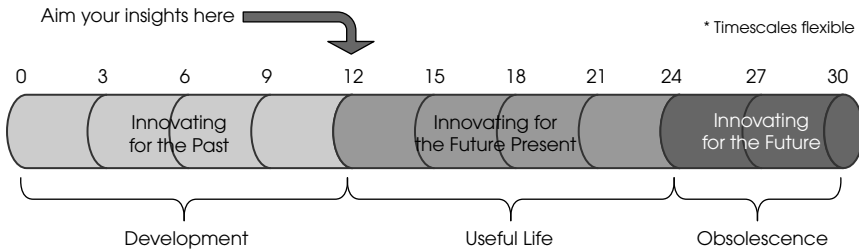


Figure 4.2 Innovating for the Past, Present, and Future

The ideal is to design a product based on customer insights appropriate to the time of the product launch to maximize the useful life of the customer insights.

The product or service is an expression of the customer insights, and it is the useful life of the insights that we are concerned with, not the useful life of the product or service (a post-purchase concept). When the insights reach their sell-by date, sales will begin to tail off, and you better have another product or service ready to replace this one (based on fresh insights).

Now, extracting accurate customer insights for the present is difficult enough. Doing it for the future present is even harder. But if your team starts out with that as its charter, they will likely rise to the challenge, for the most part.

Because the team will likely only get the insights mostly right, it is important that your go-to-market processes include a great deal of modularity and flexibility in the same way that product development processes have to design for certain components that are likely to be available, but also have a backup design ready that substitutes already released components, should the cutting edge components not be ready in time.

To innovate for the future present, you must maintain the flexibility to tweak branding and messaging (and even the product or service itself) should some of the forecasted customer insights prove to be inaccurate and require updates. It is also a good idea to evaluate, as you go, whether a fast follower version (e.g., iPhone OS v3.1)

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of the product, service, and/or branding or messaging will need to be prepared to address last-minute customer insight discoveries that can't be incorporated into the product or service or branding/messaging at launch.

So, will your team have the flexibility necessary to innovate for the future present, or will you find your team innovating for the past or the future?

Bringing It All Together

If your organization is struggling to innovate because you are not generating quality insights, then I hope you will:

- Broadcast the voice of the customer far and wide.
- Build out a global sensing network either through your employees in your global locations or through people that are passionate about what you do in other geographies and analogous industries.
- Place equal importance on both generating quality insights and quality execution.
- Ensure that you are timing your idea development to utilize appropriate insights and technology for the time at which the idea is launching, in order to maximize the idea's useful life.
- Recognize that a quality insight is more important than a quality idea, and that from a quality insight you generate a number of different potential solutions.

If you invest in generating higher quality insights, I'm quite sure that the quality of the solution ideas that you are able to generate and ultimately launch into the market will be much higher. But first you have to gather good data to turn into good information to create knowledge from that can drive insights and ultimately drive innovation. Happy hunting!

CHAPTER 5

Shining a Light on the Customer Problem

IDEA GENERATION BLOCKAGES

The Key Dangers

- Idea generation quantity started off strong, but lately it has tailed off.
- We get a lot of really random, useless submissions.
- Idea quality was good at first, but it is decreasing.
- Only a small number of people participate and it is always the same people.
- Our brainstorming sessions aren't very productive.

OVERVIEW

It is very common for companies to be at least partially blocked in their ability to generate enough quality ideas. Idea generation in some organizations is blocked by a failure to include the successful creation and management of policies, processes, and systems for idea generation and management into their innovation strategy and goals. Not clearly communicating the innovation vision, strategy, goals, and insights driving the organization can also cause

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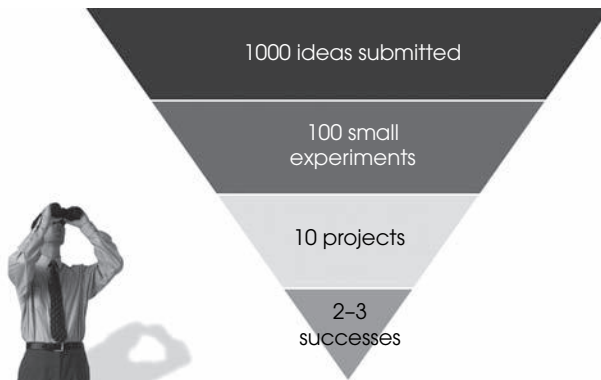


Figure 5.1 Innovation Is a Numbers Game

a majority of employees to have no clue that innovation ideas are being sought or proposed. In other organizations, idea generation and idea evaluation inexplicably collapse into a single activity, greatly reducing the number of ideas that surface. Now let's explore some of the methods for maximizing the idea generation capabilities of the organization from a systemic perspective, but also on a project basis (see Figure 5.1).

Generating Ideas

There are three main ways that companies try to generate ideas.

1. Discrete ideation or brainstorming sessions, typically conducted by product teams.
2. Suggestion box-style approaches where the organization puts out an open call for innovation ideas to a group of people. The scope of this open call could include one or more of the following groups.
 - Workgroup or department
 - Business unit
 - Entire organization
 - A large or small subset of suppliers
 - A large or small subset of customers
 - The general population

Shining a Light on the Customer Problem

3. Posing targeted challenges to a group of people. These challenges could be for final solutions or for the most challenging components of a final solution. They could be proposed to:
 - Workgroup or department
 - Business unit
 - Entire organization
 - Suppliers
 - Expert solvers (i.e., Innocentive, IdeaConnection, NineSigma, Hypios, etc.)
 - The crowd (xPrize, Cisco iPrize, DARPA Grand Challenge, etc.)

And when it comes to idea generation, there are two components that you have to consider.

1. Idea quantity
2. Idea quality

Let's take a quick look at what drives each of these in turn.

Idea Quantity

The quantity of ideas that your organization will be able to generate is a function of the following elements.

- How well you communicate the organization's innovation vision, strategy, and goals.
- How many of the organization's customer insights you share.
- How well you help people understand the customer insights you plan to build upon.
- The level of respect and trust in the organization.
- How much fun you make the innovation process (and the organization in general).
- Whether the organization feels a sense of shared purpose.
- How passionate employees are about the organization's purpose.
- How much senior-level support has been demonstrated.
- How long you have been formally pursuing innovation.

Idea Quality

The quality of the ideas that your organization will be able to generate is a function of the following elements.

- The quality of the customer insights you feed into the process.
- How well you state the question at the beginning.
- The quantity of ideas you are able to generate.
- Whether you are pursuing an open or a challenge-driven approach.
- Whether idea collaboration and refinement is allowed.
- How much idea collaboration and refinement is encouraged.
- How much direction you provide on the types of innovation you are looking for.
- How long you have been formally pursuing innovation.
- How long the participants have been pursuing this type of solution.

Better Brainstorming

Brainstorming is not really my specialty, so I won't spend much time on it, but I can recommend a few things to help you get better results.

- Don't hold your brainstorming sessions in the same place every time.
- Don't conduct your brainstorming sessions in the same manner every time—shake them up.
- Try as much as possible to get people to write their ideas down privately in the brainstorming session before sharing them, or even to bring some ideas with them.
- Don't underestimate the power of properly framing your guidance and questions for the brainstorming session.
- Consider holding a periodic brainstorming session in the place where your customers shop for your product if possible, or perhaps even at a customer's location (maybe even consider including customers in one of your brainstorming sessions—although people seem divided on whether this is a good idea).

The Idea Generation S-Curve

One of the hidden and nasty realities of the innovation movement, much like the quality or value movements, is that any improvement effort typically follows an s-curve as organizations expand the scope and scale of their idea submission universe (see Figure 5.2). And within the overall idea generation s-curve, each idea generation method experiences its own little s-curve. Overall, it takes a little while for the innovation effort in any organization to get going and then once it does, you tend to receive a lot of ideas, good ideas, before both the number of submitted ideas and the quality of the submitted ideas starts to decrease. Part of the reason for this is that there tends to be an innovation backlog at the beginning—many employees have good ideas saved up that they have never had a way of sharing before. Once some of these employees share these golden

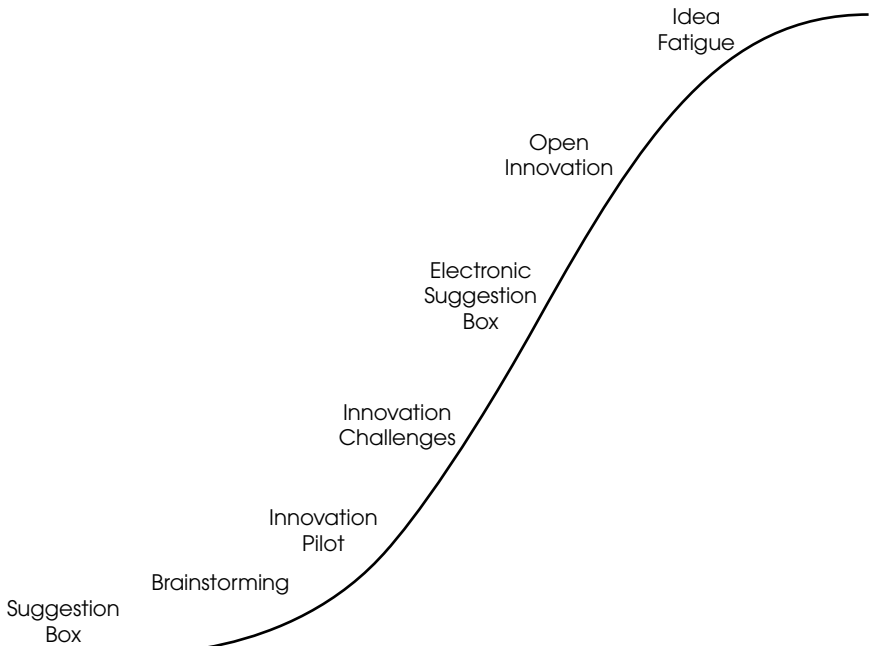


Figure 5.2 The Idea Generation S-Curve

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nuggets that they have been saving, they are done. They may never submit another good idea as long as they work for your organization.

There are two other main reasons that organizations' innovation efforts will eventually run out of steam. The first is that each idea generation methodology has a theoretical limit (it's only capable of generating a certain number of quality ideas). The second main reason is that most organizations do a very poor job of identifying and leveraging the innovation strengths of their employees.

The Nine Innovation Roles

Too often we treat people as commodities that are interchangeable and maintain the same characteristics and aptitudes. Of course, we know that people are not interchangeable, yet we continually pretend that they are anyway—to make life simpler for our reptile brain to comprehend. Deep down we know that people have different passions, skills, and potential, but even when it comes to innovation, we expect everybody to have good ideas.

I'm of the opinion that all people are creative, in their own way. That is not to say that all people are creative in the sense that every single person is good at creating lots of really great ideas, nor do they have to be. I believe instead that everyone has a dominant innovation role at which they excel, and that when properly identified and channeled, the organization stands to maximize its innovation capacity. I believe that all people excel at one of nine innovation roles, and that when organizations put the right people in the right innovation roles, that your innovation speed and capacity will increase.

Here are the nine innovation roles.

1. Revolutionary

- The Revolutionary is the person who is always eager to change things, to shake them up, and to share his or her opinion. These people tend to have a lot of great ideas and are not shy about sharing them. They are likely to contribute 80 to 90 percent of your ideas in open scenarios.

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2. Conscript

- The Conscript has a lot of great ideas but doesn't willingly share them, either because such people don't know anyone is looking for ideas, don't know how to express their ideas, prefer to keep their head down and execute, or all three.

3. Connector

- The Connector does just that. These people hear a Conscript say something interesting and put him together with a Revolutionary; The Connector listens to the Artist and knows exactly where to find the Troubleshooter that his idea needs.

4. Artist

- The Artist doesn't always come up with great ideas, but artists are really good at making them better.

5. Customer Champion

- The Customer Champion may live on the edge of the organization. Not only does he have constant contact with the customer, but he also understands their needs, is familiar with their actions and behaviors, and is as close as you can get to interviewing a real customer about a nascent idea.

6. Troubleshooter

- Every great idea has at least one or two major roadblocks to overcome before the idea is ready to be judged or before its magic can be made. This is where the Troubleshooter comes in. Troubleshooters love tough problems and often have the deep knowledge or expertise to help solve them.

7. Judge

- The Judge is really good at determining what can be made profitably and what will be successful in the marketplace.

8. Magic Maker

- The Magic Makers take an idea and make it real. These are the people who can picture how something is going to be made and line up the right resources to make it happen.

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9. Evangelist

- The Evangelists know how to educate people on what the idea is and help them understand it. Evangelists are great people to help build support for an idea internally, and also to help educate customers on its value.

As you can see, creating and maintaining a healthy innovation portfolio requires that you develop the organizational capability of identifying what role each individual is best at playing in your organization. It should be obvious that a failure to involve and leverage all nine roles along the idea generation, idea evaluation, and idea commercialization path will lead to suboptimal results. To be truly successful, you must be able to bring in the right roles at the right times to make your promising ideas stronger on your way to making them successful. Most organizations focus too much energy on generating the ideas and not enough on developing their ideas or their people.

Bringing It All Together

If you're getting a small number of people participating and it's always the same people, then you're probably attracting only your revolutionaries. You will need to work hard to identify and draw the rest of the role-players out into the daylight. One of the main reasons that idea generation quantity trails off so quickly is that many organizations do a poor job of identifying the conscripts and coaxing ideas from them. At the same time, failure to enlist artists and customer champions before idea evaluation can help to explain the difficulty that some organizations face in sustaining the quality of generated ideas. Companies plagued by a plethora of really random, useless submissions haven't done enough to communicate their innovation vision, strategy, and goals. These organizations might want to consider posing idea challenges to their community members instead. And finally, if you rely on brainstorming and you're not getting good results—don't keep on brainstorming in the same way!

CHAPTER 6

Picking a Winner Without Looking

IDEA EVALUATION BLOCKAGES

The Key Dangers

- Employees don't completely understand the criteria used for judging ideas and so don't know whether their idea is either wanted or worth submitting.
- Employees don't trust that their idea will receive a fair hearing, so they don't submit it.
- The idea evaluation process is not tolerant of the uncertainty that accompanies truly innovative ideas, and this results in more predictable operational improvement or incremental innovation ideas being funded to the exclusion of more innovative ideas.
- The idea evaluation process is not a gated process, and so ideas that are promising when funded but prove mediocre in execution during the idea development process end up crowding out more promising ideas waiting to get funded.
- The idea evaluation process becomes highly political and participation in the idea generation and submission process suffers as a result.

OVERVIEW

The lack of formal idea evaluation policies or transparency on their makeup, plus the lack of clear separation from idea generation, can block innovation output in organizations. Also a problem for innovation projects is the fact that operational improvement projects are often easier to justify because the savings are more apparent to all and more easily measured. Do innovation projects get passed over for operational improvement projects as a result? Do you have innovation assassins in your organization (aka Dr. No)? Has your organization created a culture of no? Is there an outlet for people to try and get to a yes? Do people know the paths for getting from no to yes? Are there formal paths for doing so? We will take a look at these questions and others as we examine how blockages at the idea evaluation stage can result in both lower quality selections and also in a decreased volume of ideas to evaluate.

You Get What You Measure

One of the greatest dangers with any evaluation process is that the measurement criteria that you set have the potential to restrict the flow of submitted ideas down to only the ideas that people think can pass the idea screen. This can be good from the standpoint of possibly trying to keep your innovation strategy consistent with your corporate strategy, but bad if it means that ideas capable of creating the next growth pillar for the organization do not get submitted because the person with the idea doesn't have faith that it will make it through the idea evaluation process. This is a particular danger with ideas that are more radical, or more distant from your current products or markets, where data on potential costs or revenue may be impossible to get or to predict with the same certainty as an idea in an adjacent market or utilizing adjacent technology. If all of the submitted ideas start to look very similar or to come from a smaller and smaller sample of the organization, then your idea evaluation process may have become an innovation barrier.

Separate But Equal

When it comes to innovation, it is generally necessary for organizations to have a pot of money set aside for funding innovation projects or it will never happen. It is too easy for managers to fund more certain, shorter-term product line extensions, marketing campaigns, operational improvements, and incremental innovation projects. While incremental innovation projects are important and they help to refresh the existing products or services, they are generally short-term in their effectiveness. Organizations need a balanced portfolio of innovation projects that span the range from incremental to disruptive (or radical) in order for the organization's success to be sustainable. Organizations that have financing available for more radical innovation projects, money that is separate from the product group's budgets, are more likely to make a broader range of innovation investments.

Idea Evaluation Checklist

It is important that you give some visibility to all the people who can submit ideas about how you plan to evaluate their submissions. This is especially true if your organization is opening up its idea generation, outside of marketing and research and development (R&D), to either the broader employee population or even to people outside the organization.

This could take the form of a checklist incorporating the following questions.

- ☐ What is the customer issue or problem being addressed? (Please give a detailed explanation of the magnitude of the issue or problem to be addressed.)
- ☐ Is the idea original and new in concept, or is it a new combination or adaptation?
- ☐ What are the key insights that should drive potential solutions?
- ☐ What is your idea for solving this issue or problem?
- ☐ What are the key benefits of your solution?
- ☐ What are the possible downsides of your solution?

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- ☐ What changes are involved (concerning the customer or the company)?
- ☐ How simple or complex will the execution or implementation of the idea be?
- ☐ How soon could the proposed solution be put into operation?
- ☐ How quickly could the competition respond?
- ☐ How easy will it be to explain the excess value of the solution to prospective customers?
- ☐ What is the expected monetary cost to develop this solution?
- ☐ What is the expected personnel cost to develop this solution?
- ☐ What is the anticipated time frame to develop this solution?
- ☐ What is the probability that this solution will solve the issue or problem being addressed?
- ☐ What are the key obstacles to be overcome to realize this solution?
- ☐ What is the expected monetary cost to overcome the first obstacle?
- ☐ What is the expected personnel cost to overcome the first obstacle?
- ☐ What is the anticipated time frame to identify whether the first obstacle can be overcome?
- ☐ What are the potential risks to either the cost, personnel, or time frame estimates?
- ☐ Taking into account the magnitude of the customer issue or problem being addressed, are the benefits of the solution (as compared to existing alternatives) worth the anticipated costs and risks, and why?

A good place to start in testing any idea evaluation checklist is to use it to evaluate a range of recent new product or service development projects that already have been submitted and approved; then examine whether they would have been approved using the proposed idea evaluation checklist. It is also important to show the checklist to a broad cross-section of functional employees to get their perspectives in order to see whether the

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questions are representative of what will be required to make accurate evaluations of ideas.

Idea Challenges

If your organization decides to open up its idea submission process to a broad range of employees, or even customers or the general public, then there are two main ways to approach this effort:

1. Allow people to submit any and all ideas.
2. Put idea challenges out to your community of solvers.

If you choose to allow any and all ideas to be submitted, then make sure that you clearly communicate what your innovation vision, strategy, and goals are. If you decide to instead (or in addition) put forth a range of idea challenges, make sure that you very clearly state what problem people are trying to solve or what the parameters of the ideas you are seeking are. Failure to do so will result in poor quality submissions that do not help you.

Parallel Idea Evaluation in a Serial World

We might like to evaluate multiple solution investment opportunities in a parallel manner, but often ideas are going to emerge in a highly serial manner. This makes it very difficult to evaluate projects against other solution ideas competing for funding.

One approach might be to bunch up ideas into quarterly, semi-annual, or annual evaluation and funding rounds, but then you lose some of your speed to market potential.

A better approach, however, is to allow the serial opportunity investment risk to be balanced by conducting monthly investment rounds against an innovation portfolio with a balance of incremental and disruptive innovation investment opportunities that includes a blend of risk profiles, times to maturity, and even possibly a number of competitive solutions focused on the same customer problem or issue. At the same time, you will want to take a gated approach to funding that includes small initial funding to

answer whether the most important obstacles can in fact be overcome quickly at this time.

Saying No in the Right Way

Innovation is hard, and too often organizations will say no to promising ideas without realizing the potential impact on their innovation pipeline. Behind every idea there is a person and an ego, and the 80/20 rule is in effect when it comes to innovation as well. This means that 80 percent (or more) of your idea submissions are going to come from 20 percent (or less) of your employees. This means that organizations need to be conscious about how they set up their innovation evaluation processes and policies and also make sure that they learn to say no to ideas in a meaningful way. Otherwise the highly engaged few may become disengaged, resulting in a substantial reduction in idea flow.

There are several reasons why an idea that should be approved, instead ends up getting killed. One of the least understood and investigated reason is the fact that many people who come up with brilliant ideas are not brilliant at explaining or developing them. When it comes to innovation, we need to remember that there are people who have very different strengths.

- Good at coming up with ideas.
- Good at spotting the flaws in ideas.
- Good at making ideas better.
- Good at extracting the key insight from a broad range of ideas to create a stronger single idea.
- Good at creating alternative ideas or solutions using the same insight.
- Good at evaluating ideas.
- Good at developing ideas.
- Good at launching ideas.

Organizations undertaking formal innovation programs need to learn how to identify which innovation skills their people have, and

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try to create cross-functional teams to explore and evolve ideas that have been submitted—*before* they are evaluated. Does your organization have teams that try to evolve promising ideas before they are evaluated?

The Importance of “Not Now”

Organizations also need to learn to know when to say “not now” instead of just saying no. There are many reasons why a really good idea could get a no during the idea evaluation process. Ideally, most of your no’s will happen not at the idea evaluation stage but before, among the active participants in the idea community, where people can collaborate on making a weak but promising idea stronger before it gets to the idea evaluation stage. When you provide the opportunity for people to collaborate on strengthening intriguing ideas, you end up with not only better ideas to evaluate in that stage, but also ideas that are better described and stronger, richer proposals, which can be more easily evaluated individually, inspected, and then collected into a stronger innovation portfolio.

The “not now” response is *extremely important* and comes into play when a promising idea is found lacking in certain key evaluation criteria. Instead of giving a promising, but incomplete idea a simple no, the “not now” must be accompanied by a written or verbal response that documents very clearly some of the key deficiencies in the idea and provides some guidance on what needs to be resolved before it can be entertained again in the idea evaluation process. The submission team can have the option to circle back on the idea, resolve the deficiencies, and resubmit it, or abandon it and start again.

One use for the “not now” response might be when a promising idea is submitted that the idea evaluation committee knows cannot be successfully completed with technology that either exists now or will exist in the next 12 to 18 months, meaning that significant investment would have to be committed in order to develop the idea. This might be a very promising idea, but if the innovation

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portfolio already contains enough projects of the same type, then the panel may have no choice but to say “not now” until the following conditions apply.

- Some longer-term projects are completed.
- The team can show that they’ve identified a way to develop the solution with more readily available resources.
- The team can show they have discovered a way to develop the new resources in a shorter time frame.

Bringing It All Together

If your organization is struggling to innovate because your idea evaluation policies and processes are getting in the way, then I hope you will follow these suggestions.

- Communicate to people who might submit ideas what your innovation vision, strategy, and goals are.
- If you run idea challenges, make sure you spend quality time getting the challenge framed well so that people know exactly what problem they are trying to solve, or the specific types of ideas you are seeking.
- Make sure that your idea evaluation policies and processes are as transparent as possible.
- Make sure you are funding a balanced portfolio of innovation ideas, so that the diversity of your future submissions is maintained.
- Implement some kind of feedback loop or gating into your idea evaluation process. This will allow you to kill off idea projects that are proving less promising than expected.
- Provide useful feedback to those ideas that are not selected so that trust in the process and passion for submission are maintained—and so that the opportunity can be created through feedback for a promising but flawed idea that is ultimately rejected to be improved and resubmitted.

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- Maintain the integrity of the idea evaluation policies and processes by holding the members of the selection committee accountable for following the guidelines and by rotating new members in over time.

Ultimately, the investments you make in creating clear communications around your idea evaluation policies and processes, and in maintaining their transparency, will be repaid tenfold. Innovation ideas will continue to flow only as long as there is trust and faith in the healthy operation of the process.

CHAPTER 7

Going to Market Blind

IDEA COMMERCIALIZATION BLOCKAGES

The Key Dangers

- Creating solutions (products, services, or a combination) that are merely useful and not valuable.
- Launching a fully funded idea too early—rather than launching it as a cheap experiment.
- Not having the courage to kill off ideas that are proving to be less promising than previously expected.
- Doubling down on sales and marketing rather than listening and evolving the solution based on early results.
- Underestimating the educational effort required for a potential radical innovation and pulling the plug on it before you learn where you can evolve the concept and try again.

OVERVIEW

Too often organizations select ideas to commercialize that are merely useful and not valuable, or they launch an idea too early without understanding customer adoption timelines and the investment needed before it takes off in the market years later. Does

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your organization have idea lock-in challenges where it is okay to fail but taboo not to complete a resourced project (even if it proves to be a bad idea)? Does your organization have sufficient beta or test market processes in place? Does your organization do a good job at nurturing and evolving a potential radical innovation, or is it more likely to kill bigger potential innovations when early results are poor? We will explore the barriers to idea commercialization success that companies erect and suggest ways to knock them down.

Useful or Valuable

Coming up with great ideas will not guarantee success for your organization. While generating ideas is important, organizations that can turn those ideas into a mature product or service that the marketplace finds useful and valuable will be successful.

The distinction between useful and valuable here might need an example. I find Yahoo! Mail and Hotmail particularly useful as Web mail services and have used them for a long time, but I don't find them valuable. If Yahoo! or Microsoft ever starts charging for these services, they will not provide enough distinct value to keep me from switching to Gmail or some other Web mail provider that provides a similar service for free.

I'm not sure enough companies or entrepreneurs take the time to determine whether something they are developing is truly valuable or only merely useful. Imagine the millions of hours of blood, sweat, and tears that are wasted on creating products and services that are useful but not valuable enough to make them profitable for their creators. Imagine how much more profitable entrepreneurs and intrapreneurs would be if they could find a way to pursue only truly valuable ideas.

Innovation is the key, so let's revisit my definition of innovation.

Innovation is the transformation of the seeds of invention into a solution valued above every existing alternative.

To create valuable ideas that become innovation in the marketplace, you have to understand the alternative solutions and make

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sure that your solution not only delivers more value than every existing alternative, but also that it delivers enough value to offset any switching costs, and does so at a price that allows you to earn a profit from the relationship (not necessarily just from the transaction).

Customers also have to understand all of this first before they will switch. So, does this happen quickly or slowly?

Slow Innovation

Why is that we humans always romanticize and compress the past? Someone's four-year ordeal in high school somehow becomes the best years of their life that flew by in a minute. I don't know about you, but it seems like I was 18 years old only yesterday, when in fact I passed that milestone a few decades ago. The same is true about innovation. Looking backward, we tend to believe that legendary innovations happened instantaneously. Here is a true or false question for you:

True or False: When the iPod was launched by Apple, it quickly became the top-selling digital music player.

Now, be honest, how many of you actually answered False based on more than just a guess?

If you answered True, I'm sorry, but you are the victim of a warp in the fabric of the space-time continuum.

Slow Innovation Case Study—The iPod

First, here is a little background.

In the spring of 1998, Saehan released the first digital music MP3 player—the Saehan MPMan—an amazing invention unleashed upon the world. Notice that I did not say innovation. Just because you come up with an incredibly creative and inventive new product, and launch it first, doesn't mean that it is innovative. You can't call something innovative at the launch party or before; only customers through their actual purchases can bestow the innovation mantra on a new product or service. Raise your hand if you bought a Saehan MPMan.

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About the same time, Compaq engineers came up with a way to build a hard-drive-based MP3 player with 6 GB of storage capacity, allowing *200 times the storage capacity* of the 32 MB FlashRAM-based players dominating the market at the time, but the project got a “no!” from Compaq management.

Was this a bonehead decision by Compaq management? It would be easy to say so based on the subsequent success of the iPod, but I have to agree with Compaq management about this one when I am guided by the useful versus valuable principles.

At the time Compaq management was making the decision, the interfaces on Digital Music Players made it difficult to navigate even 32 MB worth of songs, let alone 200 times that. The early adopters could deal with the interface for a small number of songs, but not enough people could imagine paying a premium for the bigger headache of navigating even more songs in the existing manner.

Compaq management was right to say “no!” but they should have said “*no, but . . .*” and sent the engineers back to the drawing board to find a way to make their useful idea valuable. Instead, the technology was licensed to Hango and likely the Compaq engineers were reassigned to other projects. Hango had very little success with turning this invention into an innovation.

In the fall of 2001 (two-and-a-half years later), Apple introduced the first iPod, one of many digital music players for sale at the time in a small market dominated by the Diamond Rio.

I’m not sure when Apple started working on the iPod, but I would guess it was shortly after the iMac launched. Apple designers had to look at some of their competitors’ dreadful devices and think something along the lines of:

Hard-drive-based music players are useful but could be valuable if someone could get the interface for navigating right for browsing through an entire music collection in your pocket. Oh, hey I bet we could do that!

So Apple took a valid “no!” and turned it into a valid “yes!” by taking the main difficulties out of the digital music experience. These were their improvements (see Figure 7.1).

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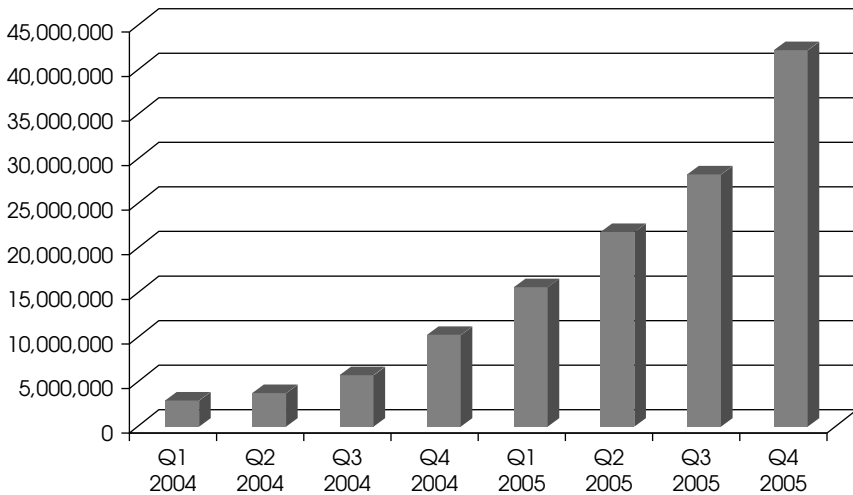


Figure 7.1 iPods Sold

Source: Apple—Macworld San Francisco 2006 Keynote.

- Scroll wheel for a more human interface (more like the radio dial that we all know and love).
- New device OS for improved navigation.
- Software application (iTunes) for Mac OS and then later also for Windows, which simplified the upload/synching of songs between the user's CD/Computer/Device.

The last bit turned out to be the most important component as iPod sales did not truly skyrocket until the Windows version of iTunes came out (the iPod always came with software for Windows, but initially it was a software application licensed from someone else that wasn't as intuitive). iTunes for Windows launched at the end of 2003 (complete with iTunes Music Store integration), two years after the launch of the iPod. You can see in the graph in Figure 7.1 how sales skyrocketed—proof that the most valuable iPod innovation was the iTunes software.

While Compaq came stomping into the Digital Music Player marketplace with a player that was more useful than those previously

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available, Apple strolled in and made Compaq's idea truly valuable, and as a result Apple waltzed off with the lion's share of the market.

Lost in all of this history and analysis is the fact that the graph starts in 2004. Apple launched the iPod in the fall of 2001, meaning that the iPod didn't start catching on for *three years* and didn't start going vertical until *four years* after it launched the product line. Would your management have the patience to wait three or four years for an innovation to take hold or do they want it right now?

And that is a relatively fast adoption example and completely ignores all of the development that happened before the first products started appearing.

Just for kicks, I did some investigation to find out when MP3 players were first developed and I was not shocked to learn that in 1979 Kane Kramer designed a prototype of a digital audio player. His IXI was capable of 3.5 minutes of audio playback but was never commercially produced. He earned a UK patent in 1985 and a U.S. patent in 1987. Apple hired Kane Kramer as a consultant and used his work as prior art in their litigation with Burst.com nearly 20 years later.

So the digital audio player was invented *25 years before* it started gaining real traction in the marketplace on its way to becoming an innovation. You'll see this number come up again. It is also key to note that MP3 players were not really ready for the mass market until the Micronas MAS3507D ASIC MP3 Decoder chip was introduced. This chip could read from flash memory, eliminated the need for a software decoder, and created a low power solution.

When it comes to radical innovations there is almost always a major technical hurdle that has to be overcome before anyone can successfully commercialize the idea, and several key insights that will allow someone to turn the invention into a true innovation. The companies that miss those key insights (even if they solve the key technical challenge) will be painfully unprofitable in their quest for innovation.

So, the iPod was a 25-years-in-the-making overnight success. Those of you who answered True to our little true or false question were only off by about 25 years, so don't feel bad.

Slow Innovation Case Study—The VCR

When we think about the VCR, the first thing we often remember is the Beta versus VHS format war, but that was only a small part of the history of the VCR. The Ampex VRX-1000, the first commercially successful videotape recorder, was introduced in 1956. The Telcan was launched in 1963 for the home market. The Sony U-Matic launched in 1971, VHS was launched by JVC in 1977 in the United States, but it didn't reach 50 percent penetration in the United States until 1987. So again, it took 25 years for the VCR to become an innovation.

Slow Innovation Case Study—The Internet

Some people with a revisionist view of history think the Internet took only seven years to achieve acceptance and thus innovation status, but history shows something different. ARPANET was created in 1969; the Internet and TCP/IP became linked in 1974; Compuserve was created in 1979; the real build-out of the Internet happened around the world during the 1980s; commercial activity was allowed

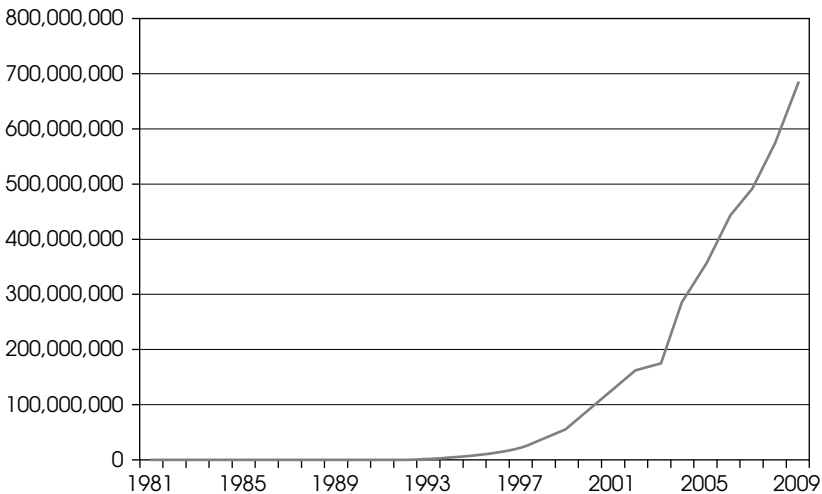


Figure 7.2 World Internet Hosts Growth Curve, 1981–2009

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in the United States beginning in 1992; Mosaic was introduced in 1993; and Google came along in 1998 (see Figure 7.2). Does that look like seven years to you?

Slow Innovation Case Study—Southwest Airlines

Let's take a quick look at a company that people credit with launching a business model innovation and taking an industry by storm—Southwest Airlines—by looking at a quote from their own web site:

More than 38 years ago, Rollin King and Herb Kelleher got together and decided to start a different kind of airline. They began with one simple notion: If you get your passengers to their destinations when they want to get there, on time, at the lowest possible fares, and make darn sure they have a good time doing it, people will fly your airline. And you know what? They were right.

What began as a small Texas airline has grown to become one of the largest airlines in America. Today, Southwest Airlines flies over 100 million passengers a year to 66 great cities all across the country, and we do it more than 3,200 times a day.

Southwest today has over 500 airplanes and tens of thousands of employees, but after 15 years of operation, Southwest Airlines had only 79 airplanes and 5,819 employees. After 20 years they had 124 airplanes and 9,778 employees. And after 25 years they had 243 aircraft and 22,944 employees. Not exactly an overnight success. Did Southwest Airlines sneak up on the major airlines and surprise them? Not exactly.

Slow Innovation—Conclusion

The truth is that innovation, especially more disruptive innovation, often takes decades to be fully realized. Great innovations often build on a lot of existing ideas and technologies and push them farther—they don't come out of nowhere.

But while some people talk about the miracle of the Internet, and some people talk about how fast mobile phones have been adopted,

the truth is that technology adoption and innovation creation is not accelerating, but people are instead moving the starting line closer for newer technologies. Mobile phones have been around more than 50 years and transmitting data since 1992 when the first Short Message Service message (SMS) was reportedly sent.

What does this mean for your organization?

It means that when it comes to idea commercialization, companies need to look backward as well as forward to get a sense of where the idea is on its adoption curve. Organizations should also avoid taking an all-or-nothing view on each idea, and actively build a portfolio of innovation projects that balances different risk profiles and idea maturities. Organizations need to build into their executive DNA the idea that some innovation projects will require sustained investment, may not succeed right away, and that the organization needs to stand ready to learn from the early project inadequacies (or even failures).

Idea Commercialization Stories—Apple Designs a “No!”

The iPod example is a very rich example, so let’s take it one step further. Imagine you are working at Apple and are in charge of the iPod division and someone comes to you and says, “Let’s make an iPod with significantly less capacity and no screen and charge more for it than equivalent small FlashRAM-based digital music players on the market (with a screen).” As this person’s boss, what would you say?

Most people would have shown the person the door for making such a ridiculous suggestion. “We’re trying to make the best digital music player in the market, not the worst. Get out of my office! What do you mean you can’t pick a song? What do you mean it would only play songs randomly or in sequence? Didn’t we just finish convincing people that the strength of the iPod is that they can listen to any of their music whenever they want?” Most companies wouldn’t have even asked customers if they would find such a radical departure from their core product useful or valuable and instead would have just said “no!”

But Apple understood that iTunes was a very valuable piece of software. Not only that, Apple knew it had a huge installed base, but it also knew that the iPod did have some limitations in certain applications—like during running and other active sports. In addition, iPods weren't cheap, competitors were catching up, and Apple was missing a whole segment of the digital music player market with their offerings. Going against what many other companies would have done, the iPod Shuffle project got a “yes!” because ultimately it was more useful than the iPod in certain ways and was more valuable than the price they chose to sell it for (because of the value of the system and not just the device).

Lessons Learned

What is the lesson? The customer is generally right but doesn't always know how to express what it is that they find valuable (they can, however, tell you easily whether something is useful). The companies that will continue to excel or begin to succeed at innovation are those companies that learn to ask the right questions and to truly listen to what the customer finds not only useful but valuable.

Often usefulness comes from what a product or service does for you, and value comes from how it does it. If you are looking to truly deliver innovative products and services into the marketplace, then once you succeed at designing and developing the what, don't forget to also focus on achieving excellence in the how.

My final words on the Digital Music Player are that invention and innovation do not stand still; what was useful or valuable in one time period can be made irrelevant in the next era by technology and usability enhancements. In 2006 Apple was in danger of losing the entire market for Digital Music Players, since the technology for mobile phones had evolved to the point where their customer base not only started finding it useful, but also valuable, to put their music onto their mobile phone (which they always have with them) and leave their digital music player at home. Apple was fully aware of this trend, and while initially they only launched one or two useful efforts to address this risk (notably the failure known as the

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Motorola ROKR), it was the iPhone in 2007 that was the epitome of a valuable device. Microsoft meanwhile backed the wrong insight with their launching of the Zune. While music sharing might be a useful concept to bring to customers, it is not nearly as valuable to customers as carrying around an Internet device in their pocket with a library of applications (one of which happens to play music). The Zune should have been a “no!” The iPhone, on the other hand, has opened up a whole new platform. Not only does it make Internet radio applications and music streaming possible, but also thousands of other applications are being built for this new platform that allows the mobile phone to become the true personal computer.

Bringing It All Together

As you can see, there are a lot of things to think about after you choose to fund an idea. Because innovation is an inherently risky pursuit, it is always important to develop your ideas in a way that allows you to identify where they might fail for as little money as possible.

Not making this any easier is the fact that radical innovations will require you to educate customers on why the value received is far superior to their existing solution. You must plan for radical innovations to take longer to be accepted in the marketplace than you expect, unless you can prove that most of the hard technical and psychological work has already been done for you by others.

And while you must have courage to pursue the risky paths your innovation projects may lead you onto, you must also have the courage to kill innovation projects when they prove themselves to be far less promising at key hurdles than you may have originally thought. Having the courage to prune your innovation portfolio will ultimately allow you to have a healthier, more successful portfolio by freeing up resources to invest in more promising opportunities.

Never forget the fail fast, fail cheap refrain, and design your idea commercialization (aka idea development) process to support this ultimate goal. It will serve you well.

III PART

THE ORGANIZATION

CHAPTER 8

Have You Had an Innovation Lobotomy?

ORGANIZATIONAL PSYCHOLOGY BLOCKAGES

The Key Dangers

- Making your numbers is the most important thing.
- Career opportunities seem limited.
- Failure is a career-limiting event.
- Management doesn't want ideas from employees; they've got enough already.
- We're doing really well; we just need to execute on the business that's there.

OVERVIEW

There is a tension between the need for operational excellence and protecting against (or preemptively creating) disruptive innovation. As organizations grow, they may not want to jeopardize their success and they may become risk averse in their investment decisions, or a culture may emerge where failure is not accepted. Because incremental innovation is usually something people want, and disruptive innovation is often something people don't want (at

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least inside the organization), this can hamper an organization's ability to pursue disruptive innovations. Incremental innovation often comes from implementation, while disruptive innovation often comes from imagination. We will examine the roles that different kinds of innovation play in organization success and look at how to remove the organizational psychology blockages necessary to pursue incremental and disruptive innovation at the same time.

What Are You Afraid Of?

Most people are afraid to fail. And this fear holds people back, both from imagining truly breakthrough solutions and from taking the kinds of risks that lead to disruptive and innovative outcomes. This universal fear of failure can become more acute or less severe depending on the environment we are in. When it comes to failure, most people would say that on average Americans are less afraid of failing than people in Europe or Japan. The cultural factors that influence organizational psychology in American companies include the celebration of American risk takers in schools and the flexibility and mobility of the workforce. Still, there are other cultural factors at work that make Americans afraid of failing, including incentive compensation calculations, family responsibilities, and many more.

The Impact of Culture

The culture of the organization can have a profound impact not only on its ability to innovate, but also on how it innovates, what types of innovation it chooses to focus on, and the ability of the organization to meet future threats. Better understanding the culture of your organization will not only help you innovate more efficiently but also maximize the strengths and compensate for the weaknesses of your organization's particular culture. To gain this understanding, ask yourself and some key employees who know the tendencies of your organization these key questions:

- What type of behavior tends to get rewarded in our organization?

Have You Had an Innovation Lobotomy?

- What qualities in individuals are most valued in our organization?
- Is who you know or what you know more important in our organization?
- Is performance on special projects or core job performance most important?
- Is it okay to fail in our organization?
- Is failure permitted and possibly even celebrated?
- Is learning from failure valued and embraced?
- Is leadership or expertise more valued in our organization?
- Do people openly share information or hoard it?
- Do people openly share credit for a job well done or seek it for themselves alone?
- Do managers hoard budget and resources or do they openly share them with cross-functional teams?
- Does innovation happen only in the Research and Development department?
- Do we have an open, collaborative office environment or a task-focused environment organized into individual offices or high-wall cubicles?
- Is informal power greater than hierarchical power in our organization?

Organizational Hierarchy of Needs

While the industrial economy was built on physical capital and the information economy, today's creative economy (or ideas economy) will be built on ideas. The very best ideas ultimately are going to come from a highly engaged stakeholder ecosystem—including, of course—highly engaged employees. Gary Hamel has written a lot on the future of management; his book called *The Future of Management* highlights his take on Maslow's Hierarchy of Needs, as applied to the workplace and employee engagement (see Figure 8.1).

While I believe this is a great first step in explaining how companies can succeed in the creative economy, I would argue that this

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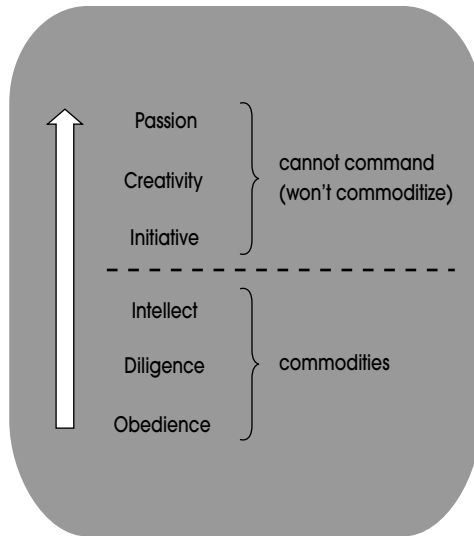


Figure 8.1 Hierarchy of Employee Traits for the Creative Economy

Source: Gary Hamel, Spigit Customer Summit August 2009.

framework does not fully explain how companies arrive at innovation. Companies that want to have a culture that supports innovation must first master the lower levels of the hierarchy (see Figure 8.2).

To get employees to show initiative, there must be a certain level of mutual respect between management and employees. Without *respect*, employees won't feel any desire to do more than the minimum. Without *trust*, employees aren't going to feel safe sharing their creative thoughts and ideas. To create passion in your organization, employees must feel excited to come to work because they have a sense of greater purpose and have fun while they are there. Remember, people often spend more time at work than they do at home with their families. And finally, to create an organization that supports innovation in its workforce, you must clearly communicate to employees the *insights* you are building the business on and provide the labor flexibility necessary to staff the projects that will drive the future of the organization.

Have You Had an Innovation Lobotomy?

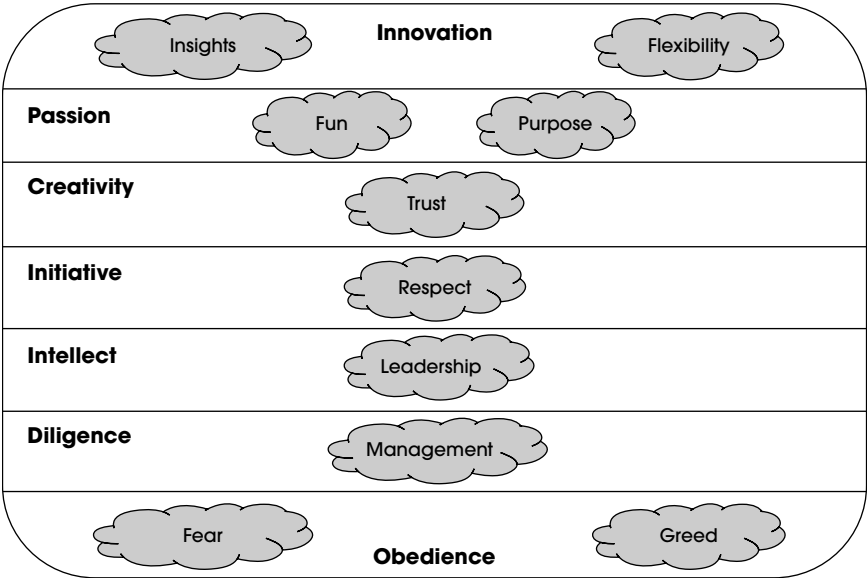


Figure 8.2 The Innovator’s Framework

Breaking Out of the Mold

Some great studies have shown that getting people outside of their normal surroundings can increase their ability to imagine breakthrough solutions. INSEAD and Northwestern University researchers found that students who had lived abroad were 20 percent more likely to solve the classic Duncker candle problem (a psychological task) than students who had never lived outside of their birth country. As an American who has lived and worked in Germany and the United Kingdom but now lives back in the United States, I can honestly say that my tolerance for failure and risk has increased. Before I moved to London, I had always worked for big companies and would never have imagined that I would now be supporting myself by working as an independent consultant, running a blog, doing public speaking, and writing this book. But after having lived abroad, this seems like a perfectly reasonable way to make a living,

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and I'm not really worried about failing because I feel confident that I could always get a job working for someone else because I've done that successfully before.

Another study by Lile Jia of Indiana University found that simply changing the story told about a problem that a group of undergraduate students were asked to solve from “the task was developed by Indiana University students” to “the task was developed by Indiana University students studying abroad in Greece” resulted in the students generating more creative answers.

What does this tell us? On the surface this shows that we filter out our most creative solutions when we think we're focused on people like us. But if we sit back and imagine, and try to make some deeper connections by connecting different dots, I believe what this research shows is that, ultimately, most people are at their very core afraid of being different from other people, so they don't come up with solutions that might be perceived as different or unexpected. But when we don't know what people are expecting, or when we believe people are expecting more exotic answers, then our fear and our self-imposed limits come tumbling down and we offer up riskier, more diverse solutions.

Choose Your Own Hours—A Case Study in Flexibility

A good example of the impact of flexibility on innovation is a story I once read about a General Manager for Retail Banking at the Bank of New Zealand. He strayed beyond a “head office decides” policy and allowed a branch manager to set his own store hours despite objections from HR, IT, and Security. The branch manager shifted hours to match customer demand and reduce queues. For example, he opened the bank on Sunday to accommodate people coming in for the local farmers market. This was accomplished without spending any extra money for staffing or training. Giving the branch manager just a little bit of flexibility allowed him to leverage his initiative, creativity, and passion for good customer service and ultimately improve results for the bank. When people

Have You Had an Innovation Lobotomy?

are allowed to stretch beyond their comfort zone, take risks, and become empowered to try new things, innovation often ensues.

Bringing It All Together

Most organization psychology blockages come down to fear. Feelings of scarcity can be traced back to the fear of not getting enough. The focus on making one's numbers can be traced back to fears of not getting one's bonus or promotion. Management not wanting more ideas can be traced back to their fears that employees might have better ideas. The challenge is to turn that negative emotion, fear, in the organization into something more rational like challenge or greed.

To allow innovation to thrive in an organization the psychology must change so that people see it as a way to create growth and opportunity, not as something to be feared because of the change it might bring or the risk of failure that might come with it.

If your organization is stuck because it sees each innovation project as an isolated effort to succeed or fail individually, then you have to shift the mind-set of your innovation efforts into being a portfolio of projects that succeed or fail as a group. As a supporting example, look at Shell's Gamechanger innovation initiative—their project portfolio has been deemed to be the best performing of all the company's investment opportunities.

If your senior leadership team thinks that they already have enough ideas and don't need more, chances are that your organization probably needs an idea management system and some better idea evaluation policies and processes. I'm sure your senior leaders have a lot of good ideas, but if they could fund a great idea instead of a good one, and earn a higher return, don't you think they would take the money?

And finally if your organization is on the steep part of the growth curve and nobody sees the need to innovate, remind them that many a company before you has been in that same place, and it doesn't last forever. So why not start working on creating the next steep growth curve before the current one flattens out? That way the growth can continue once that inevitable day comes.

CHAPTER 9

Do Your Policies and Processes Keep People in the Dark?

INFORMATION AND STRUCTURAL BLOCKAGES

The Key Dangers

- Tensions currently exist between different workgroups in the organization.
- Compensation and promotion realities don't support the need for cross-pollination over time and cross-functional cooperation in the near-term.
- Organization lacks a simple way for different departments, divisions, and business units to share information and insights.
- Organization has no strategy for how to bring together people in different functions and workgroups to collaborate on the most pressing projects.
- No policies or processes exist to allow employees to work part-time or full-time on cross-functional innovation efforts as required.
- No facility for employees on the edge of the organization to use for sharing customer insights with those in the organization pursuing both incremental innovation and more radical innovations (or those who might otherwise wish to contribute to the organization's innovation efforts).

OVERVIEW

Nothing prevents organizations from reaching their full innovation potential more than barriers posed by the structure of the organization itself. This includes the creation over time of a silo mentality in the organization, policies about how employees spend their time, idea submission and evaluation processes that slow down idea development, and hiring practices that starve organizations of diversity. Separately or together these and other structural blockages choke off any benefits of innovation training or other innovation initiatives. We will examine common structural blockages and methods for removing them to create a more nimble and innovative organizational structure.

Innovation often requires solutions that transcend boundaries. Yet, most companies isolate their researchers from other departments and even from their customers. Some companies are beginning to reach beyond a siloed, internal R&D perspective on innovation. Half of Honda and Toyota's innovation comes from suppliers, Procter & Gamble has a goal of sourcing 50 percent of new product ideas from outside the organization, and P&G has even created joint ventures with its competitors. Overcoming structural blockages also enables companies like General Electric to develop LCD terminals for airplanes, but end up leveraging them instead for use in medical imaging devices.

Successful innovation relies on the free flow of information—customer insights, data from previous project successes *and failures*, rosters of existing innovation projects, ability to locate experts, access to technical and customer research, and so on. Many organizations lack sufficient knowledge management and innovation management systems (idea management, idea evaluation, and tracking, etc.), and this impedes their ability to reach their innovation potential. We will examine the information blockages that many organizations face and how organizations can make changes to get information flowing again.

Some Secrets of Continuous Innovation Are Nothing New

When it comes to information and structure, the real secret to successful and sustainable innovation is nothing new. It involves creating an organization that allows information and resources the freedom to move to where the opportunity is the greatest. At the core are disciplines that people have been seeking to master for decades.

- Information management
- Knowledge management
- Expert location
- Collaboration

While we may have gotten better at collecting information, it does not necessarily mean that we have gotten better at organizing it and making it retrievable easily where and when it is needed. Ultimately, business and innovation success are driven by the quality of a firm's insights and the quality of its execution (see Figure 9.1).

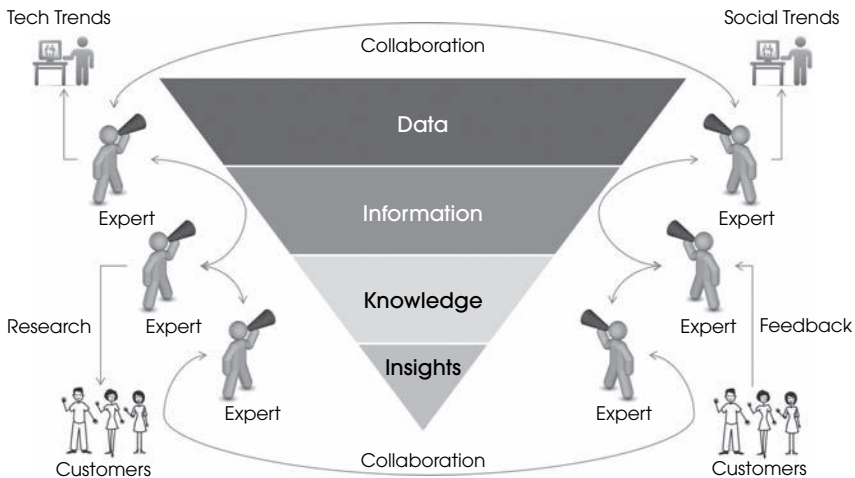


Figure 9.1 Insight Creation

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To generate high-quality insights, the organization has to work to transform data into information so that information can be turned into knowledge before ultimately that knowledge and information are distilled into useful insights. To successfully create the best insights, often organizations must effectively pull together the right experts from different parts of the organization to collaborate on this distillation activity. Let's take a look at the picture in Figure 9.2 showing where Microsoft's HealthVault fits into the healthcare equation.

Figure 9.2 is focused on health data, but it could just as easily be a picture of a big healthcare company delivering healthcare solutions to the marketplace. This graphic shows the inherent

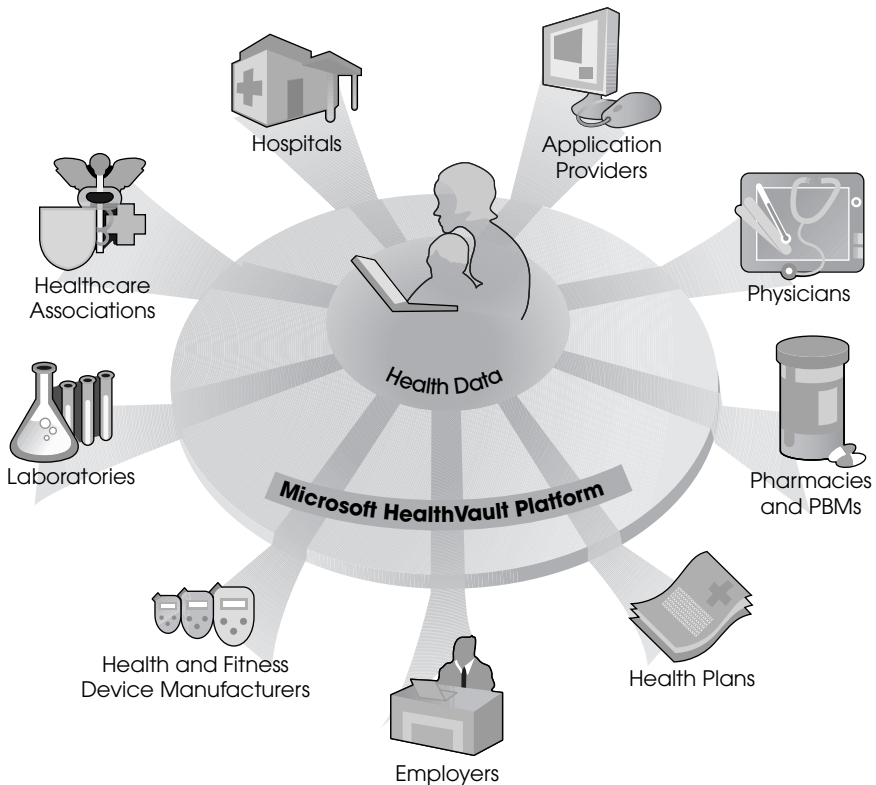


Figure 9.2 Microsoft's HealthVault

Source: Microsoft® HealthVault™, Microsoft Corporation, <http://www.microsoft.com/presspass/events/healthvault/gallery.mspix>.

Do Your Policies and Processes Keep People in the Dark?

complexity of the overall system. How likely do you think it is that the information and knowledge about all of these stakeholders is in a central location? How likely do you think it is that stakeholder expertise across all of these different groups exists in a single individual? This leads to two key questions.

1. Does your organization consciously try to make sure that data and information get shared across workgroups?
2. Does your organization encourage experts to collaborate across boundaries to create knowledge and insight?

Should They Call Them Silos or Bunkers?

Most organizations operate from a perspective of scarcity. Most managers are of the opinion that both financial resources and personnel resources are scarce, and often managers tend to hoard resources even if they don't need them. This scarcity mentality can turn the preexisting functional silos into something more akin to functional bunkers, where people wage a war for resources. This is why it is so important for senior leadership to drive your innovation efforts (they can help to break down the walls between silos) and for innovation to be separately funded. For those situations where resources truly are constrained, W. Chan Kim and Renee Mauborgne make two nice suggestions in their book *Blue Ocean Strategy* about what people might do to overcome such resource constraints.

1. *Redirect resources from your cold spots.*—The authors' concept here was illustrated with an example of the New York Police Department (NYPD) reorganizing the processing of criminal suspects from a process in which a police officer must take a subway crime suspect all the way downtown and handle the processing himself (taking up to 16 hours) to a process in which only one hour was required to take the suspect up to a processing bus on the ground level and begin the process. So how can you reorganize your processes to free up your high value resources by moving them from low value activities to high value activities?

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2. *Engage in horse trading.*—Their concept here was illustrated by an example involving NYPD’s transit and parole units. One was starved for office space and running an excess of motor vehicle fleet inventory, and the other had extra office space but could use a few more cars. After leadership brought a focus to these kinds of situations, the two departments were able to realize the opportunity presented by their respective situations, and they organized a trade.

Get Your Hands Off My Bonus

Often, in organizations, managers are promoted and receive bonuses based on the performance of their department, leaving managers in different groups very little incentive to work together. The only way around this is for senior leadership to, well . . . lead. Senior leadership needs to communicate to everyone that information sharing and collaboration are important. Organizations that view the formation of cross-functional project teams to work on innovation as difficult are likely to have managers that don’t believe they can innovate because they can’t get the resources they need to innovate, and often their own resources will know very little about the operation of other departments outside their own.

A Case Study in Breaking Down Information and Structural Barriers—Cisco

One organization that works very hard to break down the barriers between different departments and functions is Cisco. I had the opportunity to speak with Greg Fox of Cisco, and he told me that two of the major efforts their senior leadership is driving from the top down to help remove information and structural barriers are *Stretch Assignments* and *Councils and Boards*.

Stretch Assignments are projects that Cisco groups post internally. These allow employees from around the company to apply for part-time roles in another department, with the approval of their

Do Your Policies and Processes Keep People in the Dark?

manager, as a way of becoming exposed to an area of the business that they are interested in but have no exposure to. This program started in the marketing group, but it is now expanding to other parts of Cisco. The cost of the program is a little bit of short-term inefficiency in the human resources system, but the benefits of these stretch assignments are manifold.

- The posting department gets some additional help on their own discrete projects, and they can avoid potentially hiring expensive contract resources or consultants to complete the work.
- The posting department brings some different perspectives into their organization from people who aren't involved in its day-to-day business.
- The employees get exposure to another part of the business that they are curious about.
- The organization benefits because employees become more knowledgeable and diverse in their skillsets, and the program increases the informal connections between people in the organization.

Councils and Boards, on the other hand, bring together managers from different parts of the business to drive cross-functional decisions on governance and funding of different market adjacencies and customer types. There is, of course, some management overhead incurred as a result of running the Councils and Boards initiative, but despite that overhead, Cisco has expanded the number of market adjacencies over the last couple of years from 2 to 30 and the number of executives involved from 100 to 750.

Here is an interesting quote about Cisco's Councils and Boards from Randy Pond, Cisco EVP, Operations, Processes and Systems, from the Cisco blog.

What's clear to me is that the most important advantage we've gained is a structure that allows us to quickly pull together cross-company functional experts that are empowered to make

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decisions and drive execution that's good for both our customers and our shareholders.

And here is another interesting quote from Keith Goodwin, Cisco Senior Vice President, Worldwide Channels, from the Cisco blog.

Cisco TelePresence and Webex have enabled me to carve out the previously inefficient travel time that now allows me to do the Council role. Clearly, this is a good thing. I am happier, my family is happier, I am more productive. I am also spending more time with colleagues addressing the issues top-of-mind for the Councils.

Take small business, for example. In the spring of '08 we recognized we could tap a \$10 billion opportunity by better serving organizations with fewer than 100 employees. In less than two quarters, the Council was formed and shifted \$100M in budget and some 500 engineering, marketing, sales and services headcount to focus on that market. In the subsequent two quarters, we expanded our small business networking portfolio to more than 100 products purpose-built for the segment.

That's something we never could have accomplished in our older, more siloed structure.

Clearly what Cisco has done with the way that they manage their business is not easy and not for every organization. But, it is one possible approach to breaking down some of the barriers to information and structural barriers. One thing is for sure, the more you bring people together in cross-functional teams to innovate or to address the day-to-day challenges of the business, the more easily information flows between different parts of the organization and the less likely the structure of the organization will get in your way.

Another Case Study—GE and Reverse Innovation

There is a great Harvard Business School article by Jeffrey R. Immelt, Vijay Govindarajan, and Chris Trimble called “How GE Is Disrupting Itself” that speaks to a notable case study in overcoming structural barriers to innovation. The article details how General Electric (GE)

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is transforming its organizational structure to better allow itself to pursue reverse innovation. At the beginning of the case study, GE is pursuing a traditional “glocalization” approach where companies develop great products at home and then distribute them worldwide, with some adaptations to local conditions (often slight modifications in advertising or distribution execution).

The glocalization approach served manufacturers well in an era when developed countries accounted for most of a product’s sales. But now that populous countries like China and India are asserting their own unique local requirements more strongly, the balance of power and the once logical and cost-efficient glocalization approach is now no longer always the optimal one. GE was set up for maximum efficiency in executing a glocalization strategy, and as good local opportunities started to assert themselves, country managers had neither the product development nor general management resources to pursue some of the emerging local opportunities.

What GE has done is shift the center of gravity in their organization. When CEO Jeff Immelt goes to China and India he meets with local business leaders and GE managers to find out what they are working on and what opportunities exist, and thus promising reverse innovation opportunities get top-level visibility. At the same time, GE created a new business model within their operating model—the Local Growth Team (LGT) model—based on five critical principles.

1. Shift the power to where the growth is.
 - Run it on the ground in the developing country.
2. Build new offerings from the ground up.
 - Build each team and offering to its purpose.
3. Build LGTs from the ground up, like new companies.
 - Different business and operating models are okay.
4. Customize objectives, targets, and metrics.
 - This isn’t the mainline business, so don’t measure it the same way.
5. Have LGTs report to someone high in the organization.
 - Only senior leaders can mediate, connect, and take solution global.

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So, what's the bottom line of GE's efforts? GE's businesses in China will grow 25 percent this year, thanks to strong contributions from LGTs. GE has more than a dozen LGTs in China and India, and while GE's R&D centers in China and India are still predominantly focused on initiatives for developed countries, they now have an increased focus on problems of developing countries. I'm not sure I would call this reverse innovation, because from my perspective it is all about keeping the company moving in the other direction—forward.

Bringing It All Together

If your organization is struggling to innovate because information and resources do not flow to where they need to go to support your innovation efforts, then I hope you will do the following things.

- Get support from senior leadership to create corporate-wide ways of sharing information, insights, and voice-of-the-customer information.
- Get support from senior leadership to bring people from different groups together for a common purpose—even if it is an informal one.
- Set aside separate funds for innovation projects.
- Use cross-functional teams to evaluate which innovation ideas to fund.
- Establish human resources policies that allow the right human resources to be allocated part-time or full-time to the right innovation projects.

If your organization is not pursuing innovation because it is stuck in a scarcity mentality, or because people can't or won't work together, take your fight to the top and get what you need to break that old record. Innovation will start to flow only when people, finance, and information once again begin to flow.

CHAPTER 10

Keeping the Lights On SUSTAINABILITY BLOCKAGES

The Key Dangers

- Viewing innovation as a temporary, extraordinary effort in response to a crisis, or pursuing innovation as a competitive response.
- Treating innovation as the domain of only the R&D or Marketing department, or some other subgroup.
- Treating innovation as a project-based activity, instead of as an integral organizational capability to be invested in and professionally managed.
- Having no systems in place for managing the organization's innovation activities.
- Not investing time and energy into making your organization more flexible and adaptable so that it can cope with the increasing pace of change that innovation introduces.

OVERVIEW

Success can be blinding. Organizations often drive themselves by trying to look through the windscreen and in the rearview mirror, only to get blindsided by something from the left or the

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right. Put another way, organizations often focus on what they've already done and moving it forward (often in an incremental way). Organizations also invest in defending and extending the core products and services that made them successful—focusing a huge amount of energy on protecting their flank. Don't get me wrong, incremental innovation is important, but all of your competitors are trying to make their products and services incrementally better than yours at the same time. At best, your efforts will allow you to maintain or make slight improvements in revenue and profitability. And of course, companies that fail to invest in at least incremental innovation efforts often find themselves getting less and less competitive in the marketplace. Ultimately, the organizations that create sustainable success are those that invest in not only identifying and implementing the change that their customers desire and require, but also the change that is necessary inside the organization to deliver it.

Who Innovates?

Do you have a group of innovation elites in your organization? Maybe these are folks in Marketing or in Research & Development. Or do you make a concerted effort for all of your employees to feel that it is part of their job to innovate? If people feel that innovation is someone else's job, then they're not going to participate, and you are going to miss out on a whole spectrum of interesting innovation ideas. The fact is that markets are too big, too complex, and opportunities for insight lie in too many different reference industries and geographies for any small number of people to be able to successfully sense and ideate. I heard Dr. Alph Bingham, founder of Innocentive, recently talking about who actually solves most of their challenges, and he said that if you were to classify people across a spectrum of those who you believed would be most likely to solve the challenges on the left and those you believed would be least likely to solve the challenges on the right, most of the solutions come from the right-hand side. So if the best solutions are most likely to come from those you would deem least likely, wouldn't it

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make sense to include everyone in your organization in your innovation efforts? And possibly people outside your organization?

Innovating in a Crisis

Companies that only have the courage to innovate when there is a crisis, or a competitive response is needed, will be unable to achieve sustainable innovation. Not only that, but their innovation attempts are likely to lack the vision necessary to leap ahead of the crisis or competition—instead they will merely meet the threat and keep the organization as a reactionary pursuer of innovation instead of becoming a leader. This is the GM approach to innovation—constantly trying to catch up to where Toyota was five years ago—instead of trying to jump the next curve and regaining a leadership position. Innovating in crisis often means that the main motivator is going to be fear. Fear does not serve as an effective motivator for innovation. We know this because of the inverse correlation between the fear of failure and the quantity and quality of innovation in organizations. Organizations looking to innovate in a crisis cannot do so over and over, and so they must find a way to transform feelings of fear into a believable, committed challenge mentality. To make an analogy: When the Russians launch Sputnik, you have to commit to an innovation moonshot.

Innovation Is Not a Project

Often when companies attempt to innovate because of a crisis or in response to the competition, they pursue innovation as a project. When you pursue innovation as a project, the organization does not build any kind of innovation capability. Instead a group of people come together to tackle a particular challenge, and when the work is complete everyone goes back to their day jobs. None of the learnings are retained in a meaningful and easy-to-access manner for future projects, and there is no opportunity for policies and processes to be refined for greater efficiency next time. You may be pursuing a portfolio of innovation projects, but innovation itself is not a project. Projects start and stop, but for innovation to be sustainable, it must be continuous. This often means investing

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in a small core team of people (maybe only allocating part of their time) to serve as innovation shepherds—identifying and cataloging innovation best practices and building the innovation capabilities of the organization so that all innovation projects in the portfolio may benefit.

If You Want Systemic Innovation, You Need Systems to Manage It

If you are really serious about creating sustainable innovation in your organization and engaging more than just a handful of people in the generation of ideas, you not only need to have a group of people to manage the process (either part-time or full-time), but you also need systems to manage the idea generation, idea evaluation, and idea development processes. This class of software is commonly referred to as innovation management software and it is often sold in a Software as a Service (SaaS) manner. Organizations with above average privacy or security concerns may choose to run this software locally in their own organization (see Figure 10.1).

There are tons of companies selling innovation management software, but the three heavyweights in this area are Brightidea,

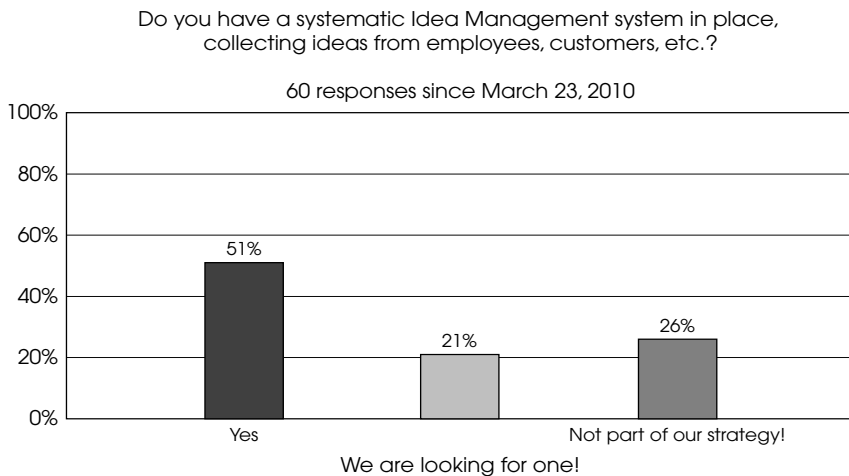


Figure 10.1 Poll Idea Management Software

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How do you collect ideas and suggestions from employees, customers, etc.?

76 responses since March 25, 2010

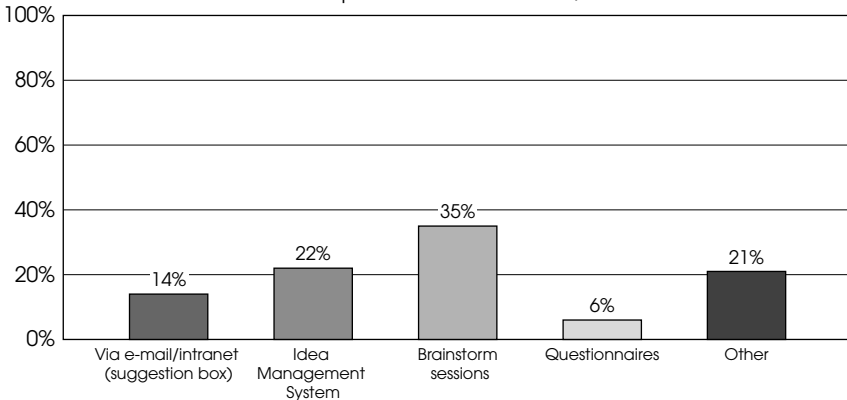


Figure 10.2 Poll Collecting Ideas

Imaginatik, and Spigit, but you also have software like Invention Machine and others that serve similar or adjacent needs (patent searches, etc.). But there is no reason you couldn't build your own innovation management solution into your enterprise portal or collaboration software platform such as Lotus Notes, Microsoft SharePoint, and others (see Figure 10.2).

It's not completely accurate to call it innovation management software because it only manages ideas, but having a software platform for managing ideas is crucial to ensure that you are able to do the following five key tasks.

1. Capture all of the ideas.
2. Allow employees to collaborate on evolving ideas.
3. Allow program managers to evaluate them.
4. Allow program managers to track idea development progress.
5. Allow program managers to monitor commercial success of ideas.

No matter how you choose to solve the need for an innovation management software solution, make sure that you have a plan for

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how you are going to address these five tasks, both in the software and in your organization's policies and processes.

Innovation versus Flexibility

Does your organization focus on identifying only new innovation projects and not on making the organization itself more agile? For innovation to be sustainable, the organization has to become flexible enough to remake itself as its environment changes and succeed at completely new ways of doing business. Think about Nokia going from tires to mobile phones. Could your organization do that?

Or, think about the Apple iPod, and how Apple went from being a computer company to a consumer electronics company. Figure 10.3 shows one way to think about the changes that both the organization and the customer had to think about (see the case study at the end of this section for more detail).

Innovation is all about change. It's about finding a new set of solutions that customers value above every existing alternative—including your current products and services. While investing in innovation projects is important, you have to also make sure that your organization is capable of adapting to the changes in the marketplace. What good is coming up with a breakthrough customer insight that drives great innovation ideas and projects if your organization isn't capable of making the internal changes that are necessary



Figure 10.3 Change Required by the Apple iPod

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to execute upon the insight and bring the product or service solution successfully to market?

If you live in the United States, you may be familiar with a couple of failed airlines—Ted and Song. United started the ill-fated Ted, and Delta started the equally unsuccessful Song in response to the growing success of low-cost competitors like Southwest and Jet Blue. Given that Ted and Song came along and copied a successful, proven business model, how did they manage to fail so miserably?

The answer is not a simple one, but in addition to the brand confusion they caused among customers, the harsh reality is that neither organization could change fast enough to operate as efficiently or effectively as Southwest Airlines and then create any innovation capable of proving their solution to be valued above every existing alternative.

Quite often it is not the technical aspects of invention that keep established companies from delivering disruptive innovations, but the change that is required either on the part of the customer in order to adopt an innovation, or on the company's part in order to deliver the innovation to the marketplace (or both). Investing in innovation without also investing in organizational agility is often a fool's bet.

Managing Innovation Is About Managing Change—A Case Study

Innovation is about change. Companies that successfully innovate in a repeatable fashion have one thing in common—they are good at managing change. Change comes from many sources, but when it comes to innovation the main sources are incremental innovation and disruptive innovation.

The small changes from incremental innovation often come from the realm of *implementation*, so the organization, customers, and other stakeholders can generally adapt. However, the large changes generated by disruptive innovation often come from the *imagination*, and so these leaps forward for the business often disrupt

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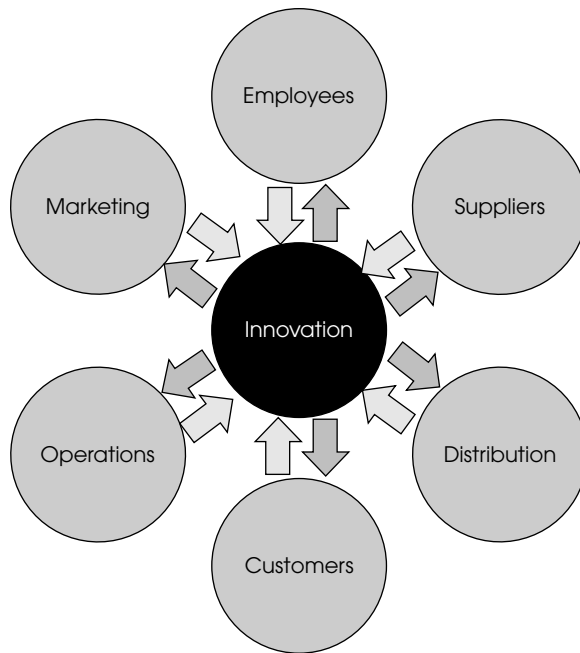


Figure 10.4 Organization Ecosystem

not only the market but the internal workings of the organization as well; they also require a lot of education and experience (not just explanation).

The change injected into organizations by innovation ebbs and flows across the whole organization's ecosystem (see Figure 10.4).

Let's explore the change categories visualized in this framework using the Apple iPod as an example.

Changes for customers—Any disruptive innovation requires a company to imagine for the customer something they can then imagine for themselves. Go too far past your customers' ability to imagine how the new product or service solves a real problem in their lives, and your adoption will languish.

Customers had to try and imagine Apple as more than a computer hardware manufacturer and begin to see it as

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a company to trust for reliable consumer electronics. They also had to imagine what it might mean to download music digitally (without any physical media).

Changes for employees—Disruptive innovations often require employees to do things in a new way, and that can be uncomfortable, even if it is only your employees imagining what you are going to ask them to help your customers imagine.

Employees had to acquire lots of new knowledge and skills. Apple support employees had to learn to support a different, less technical customer. Other employees had to learn how to effectively build partnerships in the music industry.

Changes for suppliers—Innovations that disrupt the status quo may require suppliers to work with you in new ways. Some disruptive innovations may require suppliers to make drastic changes akin to those they had to make to support just-in-time manufacturing.

Apple had to work with suppliers to source components at the higher volumes and shorter lead times required for success in consumer electronics. This meant finding some new suppliers who could handle the new volumes and market requirements.

Changes in distribution—Often big innovations disrupt whole distribution channels and this can cause challenges for incumbent organizations (think Compaq and big box retailers versus Dell Direct).

Going into consumer electronics meant that Apple had to build relationships with the big box stores including people like Target, Walmart, and Costco. They also had to build a completely new distribution system—iTunes—for distributing digital music.

Stoking Your Innovation Bonfire

Changes in marketing—New products and services (especially disruptive ones) can require Marketing to find and build relationships with completely different types of customers and/or require Marketing to speak to customers in a different way or to reach them through different channels.

Marketing had to begin moving the brand from computing to lifestyle, including changing the company name from Apple Computer to just Apple in 2007.

Marketing also had to learn how to connect with mass market consumers, and help them imagine how this new hardware/software combination would enhance their life—no small task.

Changes in operations—In addition to changes in the supply chain, the organization may have to adapt to disruptive innovations by hiring different types of employees, retraining existing employees, accounting for revenue in a different way, or going about production in a new way.

The Apple iPod was an experience sell, which highlighted the fact that Apple didn't really have a place where they could help customers experience their products. This led to the opening of Apple retail stores. Apple's finance and operations had to adapt to the change from low-volume, high-price items to high volume, low-price items. Apple also had to build out a resource-intensive online operation that didn't exist before (lots of IT investment).

Note that Figure 10.4 has arrows going in both directions, but not simultaneously. There is a push-pull relationship. At the beginning of the innovation process the satellites influence what the innovation will look like (new production capabilities, new suppliers, ideas from partners/suppliers, component innovations, new marketing methods, etc.). But as the innovation goes into final commercialization, the direction of the change becomes outwardly focused.

Keeping the Lights On

You can see that while an organization is imagining how to take their creative idea and transform it into a valuable innovation in the marketplace, they also should be imagining all the changes that are going to be required and how they will implement them. This is no small feat, but with proper planning, organizational learning, and adaptation over time, any organization can improve its ability to cope with and even anticipate the change necessary to implement its next disruptive innovation.

Purpose and Passion

Ultimately, successful and sustainable innovation is all about purpose and passion. The people in your organization have to be clear on what the purpose of the organization is. Ideally, that purpose has to be something bigger than the individuals and something that people can get passionate about, because first and foremost, as Jeffrey Phillips has said, “You can’t force a disinterested person to innovate.”

Passion is a prerequisite not just for getting started with innovation; people leading innovation projects must have enough passion to fight through, over, around, or under any obstacles they may encounter in their effort to make a new idea a reality.

Passion-based organizations stop at nothing to accomplish their goals and are able to attract people and resources to their causes. That got me thinking. Over all of my years as an innovation junkie, the common denominator, among the innovators I have connected with and the most successful enterprises I have observed and worked with, is passion. They started with a passion or cause and then organized around it to make it happen. Not the other way around.

—Saul Kaplan

Blogging Innovation as a Case Study in Passion

I started innovating long ago, but I didn’t start Blogging Innovation until 2006. I realized I needed an outlet to express my passion for innovation, and blogging offered the perfect opportunity. I kept reading and writing about innovation despite getting only a couple

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of hundred people to read my articles each day. Then at the start of 2009 I completed a marketing strategy project for Wunderman and Microsoft Windows Live, and, using some great tools including Website Grader, I discovered that the blog had some technical challenges. After fixing those, traffic to Blogging Innovation finally started to take off. Now instead of averaging more than 200 daily visits, the blog averages nearly 10,000 and the numbers are still growing. Do I spend less time on the blog now than I used to? No!

Most people would consider an increase in traffic of 2,500 percent in one year as being a huge success and a chance to relax, but I don't see it that way. Back in August 2009 I decided to commit the blog to a mission of making innovation and marketing insights accessible for the greater good. As a consequence of that mission, I decided to open up the blog to the very best contributing authors on the topic of innovation and other marketing-related subjects that I could find.

Instead of using the blog as an extension of my company, Blogging Innovation exists to help raise the baseline understanding of innovation and marketing so that organizations can become better at satisfying the needs of their customers, the first time they try. After all, the more efficient our organizations are at meeting their customers' needs, the less waste of human capital and natural resources. That's what drives me to get up at 5:30 A.M. seven days a week to start letting people know about all the great content our contributing authors have published that day.

We have recently decided to take on a monthly sponsor who wants to be associated with innovation in a tasteful way, but that is not for commercial reasons but because the blog needs additional people power to run it and a new site design to make the content even more accessible. As I go out to look for the assistance I need to take Blogging Innovation to the next level, I'll be looking for one thing in the people I choose to help make the community stronger—passion.

Passion versus Obsession

There is a great article "Passion versus Obsession" by John Hagel that explores the differences between passion and obsession. This

Keeping the Lights On

is an important distinction to understand in order to make sure you are hiring people to power your innovation efforts who are passionate and not obsessive. Here are a few key quotes from the article:

The first significant difference between passion and obsession is the role free will plays in each disposition: passionate people fight their way willingly to the edge to find places where they can pursue their passions more freely, while obsessive people (at best) passively drift there or (at worst) are exiled there.

It's not an accident that we speak of an "object of obsession," but the "subject of passion." That's because obsession tends towards highly specific focal points or goals, whereas passion is oriented toward networked, diversified spaces.

The subjects of passion invite and even demand connections with others who share the passion.

Because passionate people are driven to create as a way to grow and achieve their potential, they are constantly seeking out others who share their passion in a quest for collaboration, friction and inspiration. . . . The key difference between passion and obsession is fundamentally social: passion helps build relationships and obsession inhibits them.

It has been a long journey and it is far from over, but it has taught me that obsession confines while passion liberates.

Innovation Is Social

These quotes from John Hagel's article are important because they reinforce the notion that innovation is a social activity. While many people give Thomas Edison, Alexander Graham Bell, and the modern-day equivalent, Dean Kamen, credit for being lone inventors, the fact is that the lone inventor myth is just that—a myth. All these gentlemen had labs full of people who shared their passion for creative pursuits. Innovation requires collaboration, either publicly or privately, and is realized as an outcome of three social activities.

1. Social Inputs

- From the very beginning when an organization is seeking to identify key insights to base an innovation strategy or

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project on, organizations often use ethnographic research, focus groups, or other very *social* methods to get at the insights. Great innovators also make connections to other industries and other disciplines to help create the great insights that inspire great solutions.

2. Social Evolution

- We usually have innovation *teams* in organizations, not sole inventors, and so the activity of transforming the seeds of useful invention into a solution valued above every existing alternative is very social. It takes a village of passionate villagers to transform an idea into an innovation in the marketplace. Great innovators make connections inside the organization to the people who can ask the right questions, uncover the most important weaknesses, help solve the most difficult challenges, and help break down internal barriers within the organization—all in support of creating a better solution.

3. Social Execution

- The same customer group that you may have spent time with, seeking to understand, now requires education to show them that they really need the solution that all of their actions and behaviors indicated they needed at the beginning of the process. This social execution includes social outputs like trials, beta programs, trade show booths, and more. Great innovators have the patience to allow a new market space to mature, and they know how to grow the demand while also identifying the key shortcomings with customers who are holding the solution back from mass acceptance.

When it comes to insights, these three activities are not completely discrete. Insights do not expose themselves only in the social inputs phase, but can also expose themselves in other phases—if you’re paying attention. Flickr famously started out as a company producing a video game in the social inputs phase,

Keeping the Lights On

but was astute enough during the social execution phase to recognize that the most used feature was one that allowed people to share photos. Recognizing that there was an unmet market need amongst customers for easy sharing of photos, Flickr reoriented its market solution from video game to photo sharing site and reaped millions of dollars in the process when they ultimately sold their site to Yahoo!. Ultimately, action is more important than intent, and so as an innovator you must always be listening and watching to see what people do and not just what they say. Build your solution on the wrong insight and nobody will be beating a path to your door.

Bringing It All Together

If your organization is struggling to sustain its innovation efforts, then I hope you will do the following things.

- Find the purpose and passion that everyone can rally around.
- Create the flexibility necessary to deal with the constant change that a focus on innovation requires for both customers and the organization.
- Make innovation the social activity it truly must be for you to become successful.

If your organization has lost the courage to move innovation to its center and has gotten stuck in a project-focused, reactive innovation approach, then now is your chance to regain the higher ground and to refocus, not on having an innovation success but on building an innovation capability. Are you up to the challenge?

Epilogue

Now that you've read the whole book (I hope), I thought I would leave you with the results of a poll that I conducted on LinkedIn (see Figure E.1 through E.6), along with some of the comments:

Every stakeholder in the organisation has good education and understanding of the need for innovation—take for example NHS system. Everyone has great backgrounds, but has a lack of will to do the necessary actions. This is my argument for trust and respect is the reason that innovation fails.

—Niels-Peter Thoms

Although limited resources are a key barrier, the underlying cause for a weak innovation program is the lack of leadership commitment to the hard work required for meaningful innovation. If the commitment was there, the resources would be abundant.

—George Cugini

Our organization is used to strong leadership so the psychology of taking a risk and moving forward with innovation at the worker level is scary. In addition, although we have a strategy, we haven't implemented enough tools and processes so employees feel like they understand how to move forward.

—Karen Bradbury

Information sharing is the key barrier. Lack of knowledge sharing and using the existing knowledge, I always say "If we only knew what we know, innovation would go a lot faster."

—Nel Mostert

Epilogue

What is your organization’s biggest barrier to innovation?

543 responses since March 3, 2010

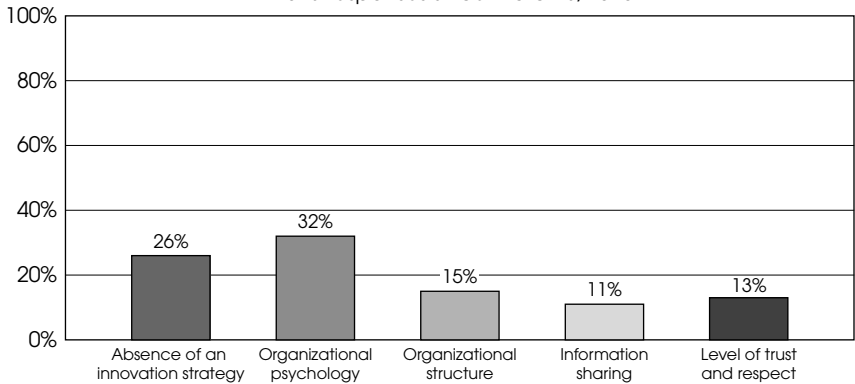


Figure E.1 Biggest Barrier to Innovation

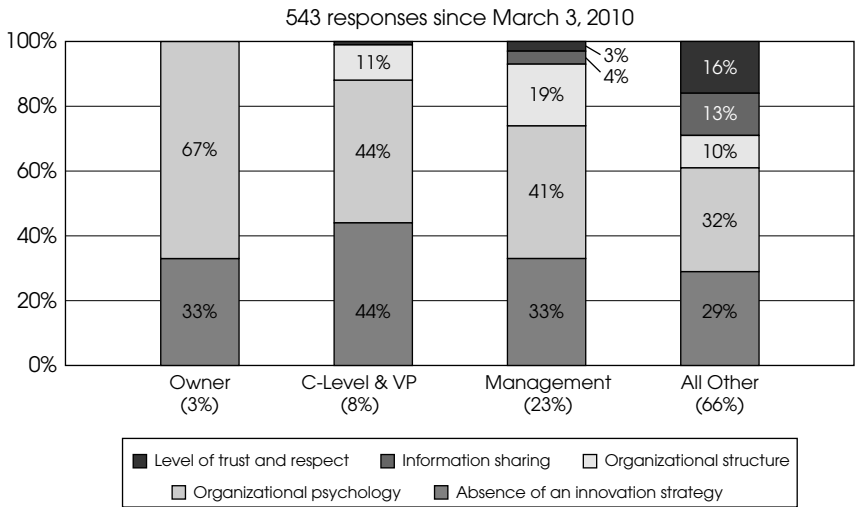


Figure E.2 Barrier Job Title

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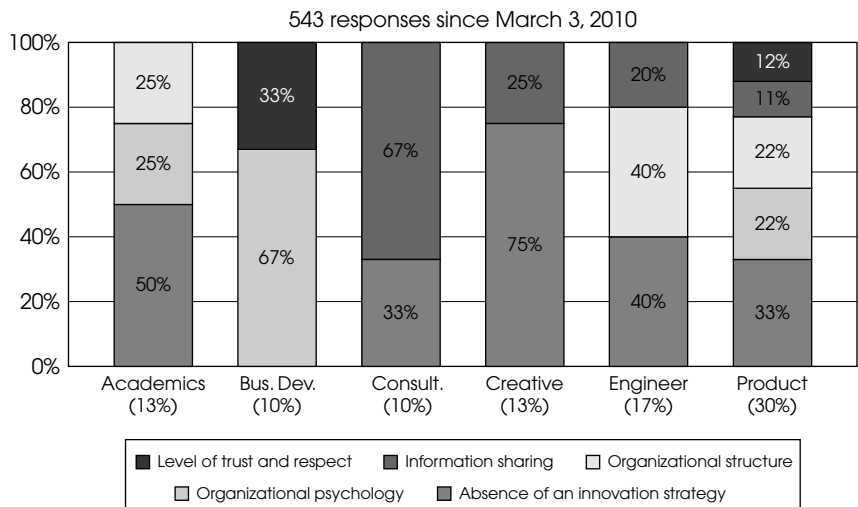


Figure E.3 Poll Barrier Function

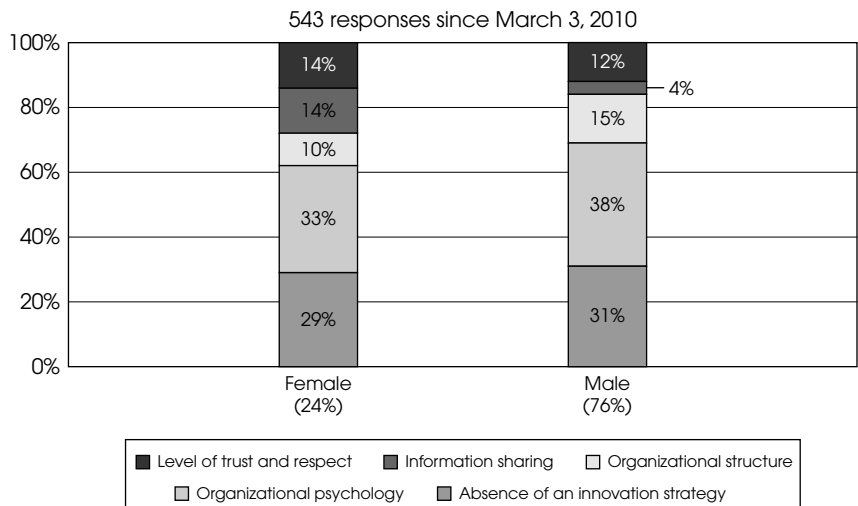


Figure E.4 Poll Barrier by Gender

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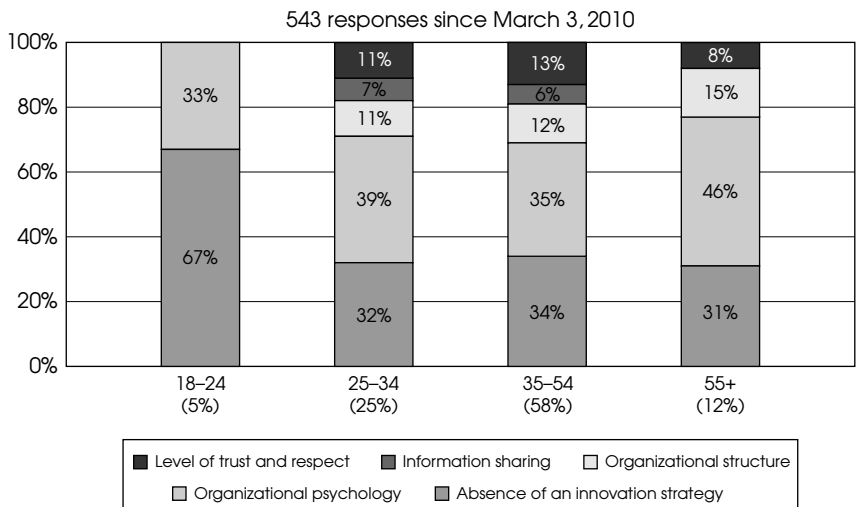


Figure E.5 Poll Barrier by Age

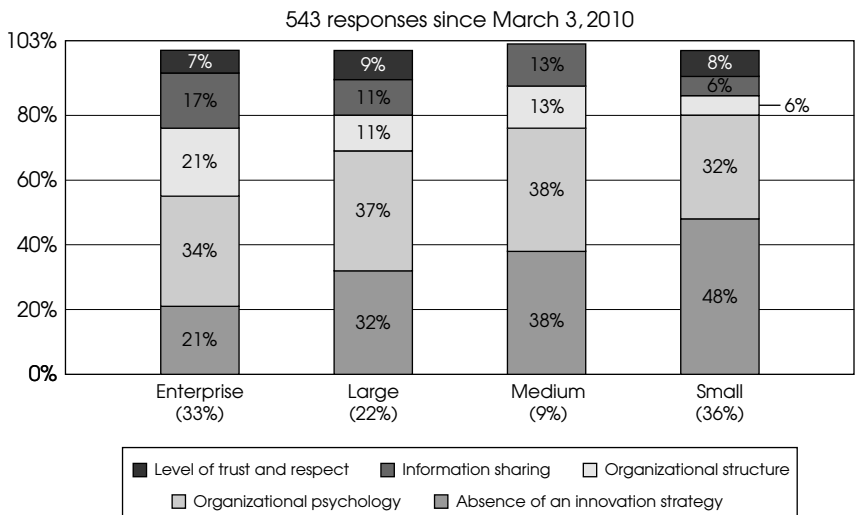


Figure E.6 Poll Barrier by Company Size

Epilogue

The biggest barrier I see is often organizations fail to recognize any quantifiable value in innovation. And these days it is all about getting the most out of your IT budgets. Unfortunately, innovation often does not have a quick return on investment and with CxOs looking to make their mark in months instead of years, innovation takes a back seat to cost cutting initiatives.

—Joe Rubino

Notice how results are different by gender—women are more likely to think that information sharing is the problem than men. Also “organization psychology” is selected more frequently by older respondents.

—Alexei Polkhanov

In my experience the absence of a strategy driver for innovation is a key stumbling block. An innovation strategy enables each of the other key elements above to be built and developed—but unless it’s driven top down or at least sponsored—it doesn’t matter how good your structure, psychology and trust and respect is—it won’t happen beyond the day-to-day pressures.

—Robyn Thomas

Many people in the poll wanted to choose “lack of time” or “lack of resources,” which was predictable, but I say to you that if these are the biggest barriers to innovation in your organization, then your innovation strategy is incomplete. When the senior leadership team decides to focus on innovation, they must create the organizational policies and flexibility that allow for the resources (human, financial, etc.) to be allocated to innovation projects; otherwise you are doomed to fail. And to conclude, let me say this:

Any organization can create brilliance in dim light by identifying and removing one by one the particular barriers to innovation that their organization has put in place one at a time over the years. Will your organization continue to take a rescue flare approach to innovation, or will you begin wiring your organization for sustained

Epilogue

brilliance? We've provided the tools you need to find ways to continually provide the marketplace with revolutionary solutions to customer problems. Now get out there and do it! Don't let your brilliance fade. Knock over your unique barriers to innovation, create a healthy cooperation with the need for operational excellence, and let your brilliance shine out.

A P P E N D I X A

Customer Exploration

Customer exploration at its core involves opening an honest dialogue with a representative sample of your customer base to explore the level and type of relationships you have created with your customers. Generally the best way to approach this step is to create structured focus groups composed of the various types of customers that you currently serve. These can be organized and conducted either by internal resources or an external service provider, whichever you feel most comfortable with.

If you are operating in a start-up environment and don't have the funds or possibly even the time to organize and conduct focus groups, then please, please don't skip this step. At a minimum at least conduct a series of informal one-on-one interviews of a representative sample of your customers. The information gained from these focus groups or one-on-one interviews can be extremely helpful in determining your innovation strategy and your innovation goals.

Defining the Customer Relationship

We first must understand what types of customer relationships you have. There are three main types of customer relationships based on when your company begins engaging the customer. Some of these relationships may have additional variants based on additional characteristics of the relationship. Here are the three customer relationship types along with definitions, examples, and any associated variants.

Appendix A



1. Initial Relationship

- *Definition:* The defining characteristic of an initial relationship is that the customer makes the organization the first and possibly only stop on their purchasing journey. This gives the organization the opportunity to capture additional value from recommending complementary products and/or services to the customer, but not to dictate who shall provide any other necessary products and/or services.
- *Example:* Southwest Airlines would be a good example of an initial relationship. Airlines have increasingly discarded intermediate Internet companies like Expedia and Hotwire by offering them seats at higher prices than they intend to sell those same tickets on their Internet site, and reduced the power of travel agents by reducing or eliminating their commissions. An increasing number of people when planning a vacation or business trip will begin the planning and purchasing on an airline Internet site like Southwest.com.

a. Relationship Owner

- *Definition:* The defining characteristic of a relationship owner is that the customer gives the organization control over their entire purchasing journey. This gives the organization the opportunity to capture additional value from the execution of other necessary products and/or services on behalf of the customer, and ultimately to dictate who shall provide these other necessary products and/or services.
- *Example:* A general contractor in the construction industry would be a good example of a relationship owner. When a customer chooses to build a new home, he or she selects a general contractor, agrees on the home's size, features, and so on, and negotiates a price. Once that is done, typically a general contractor has complete control over who provides the plumbing, heating, and other necessary components.

Appendix A



2. Component Relationship

- *Definition:* The defining characteristic of a component relationship is that the organization is providing only part of the purchasing journey and has no power to influence any of the product or service components either before or after what the organization is being asked specifically to provide.
- *Example:* Intel or AMD would be the component relationship for people on a laptop purchasing journey. Though Intel and AMD make one of the key components of a laptop (the processor), they do not have any interaction with the end customers and as a result have no influence over any of their purchasing decisions. A component relationship is different from a supplier relationship in that nearly all of the customers will be aware of this key component's presence in the product and its presence may even influence product or service selection, but still there is no influence over other parts of the purchasing journey.

a. Relationship Participant

- *Definition:* The defining characteristic of a relationship participant is that while the organization may only be providing a component of the overall purchasing journey, their component is a key component, a component important enough to influence purchases upstream and downstream of their component. While both a relationship participant and a component relationship involve a key component that is visible to the customer, only a relationship participant has the power to influence other parts of the purchasing journey.
- *Example:* A mortgage lender would be a good example of a relationship participant. Even though the real estate agent is likely the initial relationship in a real estate transaction and may even have recommended the mortgage

Appendix A

lender, the mortgage lender has the ability to influence other parts of the purchasing journey, such as the vendors selected for home inspection, title insurance, home appraisal, and so on.



3. End Relationship

- *Definition:* The defining characteristic of an end relationship is that the organization represents the last contact the customer has with the purchasing journey. The impact they have on the customer can taint the organization with the initial relationship so they occupy a very important part of the overall purchasing journey. They have no power to influence earlier decisions in any other part of the purchasing journey by the customers, but they can influence future purchasing decisions (repeat or additional purchases) positively or negatively.
- *Example:* FedEx occupies the end relationship in many different purchasing journeys. FedEx takes products purchased from numerous initial relationship organizations to deliver to customers, and if the service they provide is poor (the goods are lost or late), then the end relationship could prevent any future sales for the organization with the initial relationship. FedEx might also cost themselves future sales as the initial relationship for a customer's self-shipment business.

What Level of Customer Permission Do We Have?

The level of customer relationship dictates the level of permissions the customers grant to you to communicate with them and to recommend ancillary products and services. Do not assume that you already know what level of customer relationship you have with

Appendix A

your customers. You must ask them, and you must carefully select a representative sample of all of your customer types to ask. There are three main levels of customer relationships.

1. High

- Customer welcomes communications from the organization and is open to recommendations of ancillary products and services.

2. Medium

- Customer welcomes communications from organization, but *is not* open to recommendations of ancillary products and services.

3. Low

- Customers do not want to receive communications from the organization or recommendations of ancillary products.



Now, predictably there will be a variety of opinions among your customers on how they feel, which is why the selection and proper sampling of your customers is so important. There will, in spite of this variety of opinion, be an emerging overall voice.

Level of Customer Permission versus Customer Relationship Type

In some cases the type of customer relationship will be more powerful than the opinions that come from the trust that you have earned, but in many other cases these customer sentiments will be more important in determining the high, medium, or low categorization.

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Here are some general examples of where the customer relationship type may be more powerful.

1. High Level

- The airline industry is likely to have a high permission level relationship with customers as it is understood that certain travel-related information needs to be communicated from the organization to the customers. Other information, such as fare sale information, may also be expected and even desired. Because of the type of relationship (initial relationship) the airlines have with their customers, the customers will be comfortable with the airline (in general) recommending ancillary products and services such as rental cars, hotels, or luggage.

2. Medium Level

- The cable industry is likely to have a medium permission level relationship with customers as they will find it valuable to receive communications about upcoming events on cable network channels or pay-per-view. Telecommunications companies (including cable providers) have a poor reputation in many areas for service and trust, and as a result will have earned little permission to recommend ancillary products and services, earning them a medium level relationship.

3. Low Level

- Lawyers are likely to have a low permission level relationship with customers since customers have a love-hate relationship with lawyers. Many people may try to avoid being contacted by a lawyer, figuring that it can only be bad news or something that will negatively affect their lives. This makes it very likely as well that people will be adverse to receiving recommendations of ancillary products and services from a lawyer, earning lawyers a low level relationship.

From understanding the type and level of customer relationship your organization is currently engaged in with its customers, your

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organization can identify ways to move from a low level relationship to medium or medium to high. It may be possible to move from a low level relationship to medium or medium to high, but this will take a commitment, extensive work on the part of the whole organization, and is ultimately only possible with the permission of the customers.

Maximizing the Customer Relationship

Beyond increasing the customer relationship permission level, the organization also has the opportunity from better understanding the customer relationship type to maximize the customer relationship in new ways. These new approaches may utilize the type of customer relationship permissions of the organization, to enable the organization to potentially develop new products or services or at a minimum recommend ancillary products or services (if their customer relationship permission level is high).

Have in-depth dialogues with your customers about the information that they find valuable, and conversations with them about what ancillary product or service offers they would find most attractive. Work with your customers to understand what factors from an offer would drive a purchase from a recommendation, what approaches would be best received, and how best to deliver recommendations. Once you have a good idea about the approach, the delivery mechanism, and the content of your recommendations, then you can move on to the business of identifying how you will monetize these recommendations for the benefit of your organization.

Providing Real Value

Any recommendations you make must provide additional, real value for your customers or they will come at the cost of your own creditability with your customers. The key is to establish standards for the ancillary products and services you intend to develop yourself that are equal to or greater than your core products or services. For those ancillary product or service recommendations that you intend to do with a partner, both sides must have a common

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understanding of expectations up front and partners must adhere to a set of standards that protect the organization's relationships and allow the partner to add value.

Ideally, in a perfect world, you would like your delivery of ancillary product and service recommendations (assuming you have customer permission to do so) to be seen by customers as a valuable additional service that comes from doing business with you. The only way that your organization can do that is by carefully controlling the process and keeping what the customer will find valuable as your primary concern (even above your own perceived profitability from these extracurricular activities). The truth of the matter is that if you apply this rigor to these new programs, you may have a lower volume of presented offers, but will likely yield a much higher conversion rate as a result of the quality of the recommendations and the value offered by the partners you work with.

Ensuring Useful Feedback on Permissions

Please remember that the most important part of this exercise is the selection of the representative sample of customers for the process. To make the process truly effective, make sure that you select customers who are likely to give you detailed and abundant feedback and dialogue. Don't look just to your biggest customers or those you think will be the easiest to get to participate, but truly focus on involving those that you think will provide you the best feedback and dialogue. Executing this selection process well may have a profound multiplier effect on the usefulness of this whole customer exploration.

A P P E N D I X B

Visual Frameworks for Guiding Your Innovation Efforts

Choosing and Communicating an Innovation Focus

Organizations can try to innovate in all parts of their business at the same time, but not necessarily in radical ways. One organization (and especially its customers) can only absorb and adopt so much innovation at one time. Communicating the innovation strategy and goals of different parts of a business in a clear and concise way works best with some simple visualizations for employees to work with.

We will present two different visual frameworks to supplement a more typical approach—innovation strategy and goals mapped out across products or product families.

These two visual frameworks will clarify your business for the stakeholders that you choose to share them with (stakeholders involved should at a minimum include your employees). These simple frameworks will enable stakeholders to imagine a flood of new ideas. In addition to generating a wealth of new ideas, your stakeholders will now be able to target their ideas toward specific part of the framework (they will be able to see where they fit)—enabling much better relevancy and categorization.

To create these frameworks, start with a cross-functional team of three or four people whom you consider to be open-minded, lateral thinkers with experience in the business so that they will be able to completely imagine the full spectrum of components that

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ought to be included in the framework. The operations framework especially will require a great deal of organizational expertise to be input and ultimately to simplify it to a useful level of detail. The team probably will not be able to create these frameworks in one attempt.

For success, it is best if you assign this team to be the ultimate decision makers of what the final frameworks will look like—otherwise the frameworks may suffer the death of a thousand cuts and never be completed. The framework must be shared out for comment before being finalized, but it must be finalized. A well-designed framework will seem simple and obvious to the people who see it, so don't be offended if people don't understand how much work has gone into creating the framework. You will know when you are finished as the numbers of revisions people suggest when they see it will become consistently zero or close to zero.

We will now explore a few very simple examples to show what these frameworks might look like and better explain how they can be utilized to guide the powerful innovation capabilities of your stakeholders.

Example #1 The Airline Passenger Lifecycle—Visual Framework (Customer Journey)

Our first example will be a customer journey framework built several years ago for the airline industry in the wake of 9/11. This framework is called the Airline Passenger Lifecycle and you will see how it can be utilized to uncover new product or service ideas for companies in the airline industry (see Figure B.1).

As you can see from the visual framework of the Airline Passenger Lifecycle, there are five main transitions that all airline passengers go through when they take an airplane journey. Unless the passenger is flying one-way, these same five transitions will be repeated on the way back. Stages are also an opportunity in and of themselves to potentially be a source of new product or service ideas (I neglected stages when I first developed this framework). Let's look at each of the five transitions and each of the five stages in turn.

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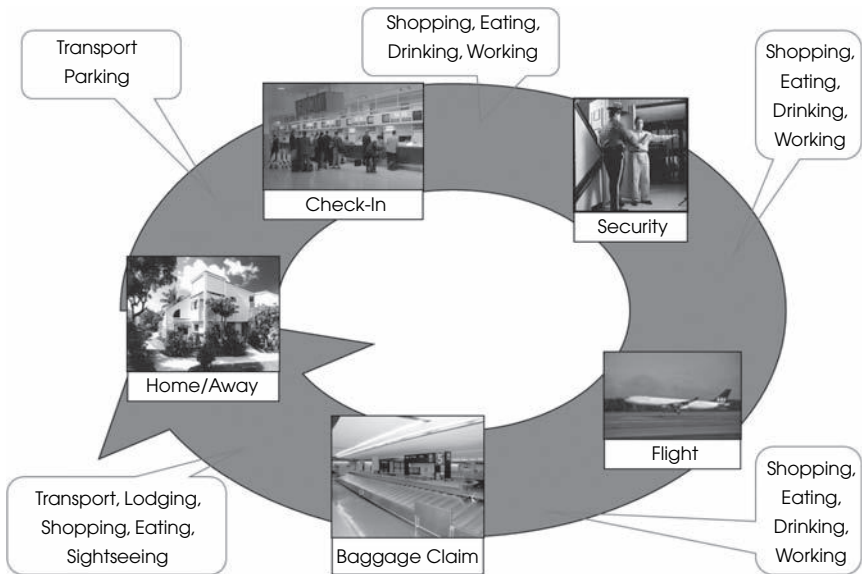


Figure B.1 Airline Passenger Lifecycle

Source: Copyright © 2003 Braden Kelley.

Stage 0: Pre-Trip

- *Description:* This is the stage that begins after the purchasing decision for the airline ticket and before leaving the house.
- *Idea Examples:* Supplemental revenue ideas include airline partnerships with travel insurance providers, life insurance providers, and travel guidebook publishers. You will find additional ideas that may be transacted at this point in time listed in the actual transition they relate to.

Transition 1: Home/Away to Check-In

- *Description:* This transition is the actual process of transitioning to the airport and getting to the check-in counter.
- *Idea Examples:* Supplemental revenue ideas include airline partnerships with taxi companies, car services, shuttle buses, and parking lots.

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Stage 1: Check-In

- *Description:* This stage is the first face-to-face interaction the customer has with the airline and sets the tone for the entire experience.
- *Idea Examples:* Supplemental revenue or added value product or service ideas include curbside check-in, train station check-in (locations where you can take a train to the airport), check-in kiosks, preferred check-in for high value customers (Business Class/First Class/Frequent Flyers), and airport lounge check-in.

Transition 2: Check-In to Security

- *Description:* This transition will find the customers typically lighter and more mobile, having freed themselves of any checked baggage. This is the first transition where airport commerce opportunities will present themselves.
- *Idea Examples:* Supplemental revenue ideas include advertisements (flyers/coupons) for shopping, eating, or drinking establishments outside the security area, and for other airport services such as airport WiFi connectivity.

Stage 2: Security

- *Description:* This stage is often the most unpleasant part of the entire Airline Passenger Lifecycle as people must keep one eye on their personal belongings while in the queue and possibly even get searched.
- *Idea Examples:* Supplemental revenue or added value product ideas include express security lines for people who pay for the privilege or who are high value airline passengers (Business Class/First Class/Frequent Flyers).

Transition 3: Security to Flight

- *Description:* This transition will find the customers feeling liberated and rid of the feeling that they might miss their flight. This transition represents the best conversion opportunity for airport commerce opportunities. Some airport authorities (in cities such as Frankfurt or Calgary)

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don't seem to understand this and put the majority of their commerce facilities outside the security checkpoint. Airline passengers will feel permission to linger at this point of their journey and are much more likely to make a purchase, and even to come to the airport early if good opportunities are available.

- *Idea Examples:* Supplemental revenue ideas include advertisements (flyers/coupons) for shopping, eating, or drinking establishments inside the security area (including duty-free shops for international travelers), and for other airport services such as airport WiFi connectivity.

Stage 3: The Flight

- *Description:* This stage is the only one that most airlines care about (even today), and the one that in too many cases actually loses them money. While many airlines have expanded their horizons beyond this stage, only a few have restructured their operations and mind-set to maximize the earnings potential of this framework.
- *Idea Examples:* Supplemental revenue ideas include in-flight gambling, product trials or giveaways, fashion shows, advertisements (magazines, seat-backs, tray tables, sick bags, in-flight entertainment), and duty-free shopping.

Transition 4: Flight to Baggage Claim

- *Description:* This transition will be the last with a lighter and more mobile customer. It is often forgotten that particularly for domestic flights (less likely for international flights), that the customer exits the plane into what should be a bounty of airport commerce opportunities inside the security barrier.
- *Idea Examples:* Supplemental revenue or added value product ideas include express baggage or passport services, advertisements (flyers/coupons) for shopping, eating, or drinking establishments inside the security area (including duty-free shops for international travelers), and for other airport services such as airport WiFi connectivity.

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Stage 4: Baggage Claim

- *Description:* This is a very mundane stage characterized by people standing around waiting for their luggage to come by. Advertising signage in this area is controlled by airport, but there are still creative opportunities here.
- *Idea Examples:* Supplemental revenue or added value product ideas include bag forwarding (to Hertz, Avis, etc.) so that the customer doesn't ever touch their bag (it's waiting in their rental car for them), checked baggage lotteries (be the lucky passenger to find a golden ticket attached to your bag and win a prize), or baggage sticker advertisements for local attractions, restaurants, airport shuttles, or airport commerce/services located outside the security area.

Transition 5: Baggage Claim to Home/Away

- *Description:* This transition is the actual process of transitioning from baggage claim back home or on the way out to stay with a hotel, friends, or family.
- *Idea Examples:* Supplemental revenue ideas include airline partnerships with taxi companies, car services, shuttle buses, and local lodging providers.

Stage 5: Home/Away

- *Description:* This stage is characterized by people arriving at their destination. People are ready to do things, to have fun, to relax (whether they are arriving away or at home). The opportunities are actually the same no matter where you are arriving.
- *Idea Examples:* Supplemental revenue or added value product ideas include airline partnerships with local attractions and local eating establishments. Despite what you might think, these opportunities definitely exist when someone is arriving home as well.

This examination of the Airline Passenger Lifecycle is one good example of a customer journey visual framework. We will now look at a second example from the electronic commerce industry.

Example #2 Buying with Cash Online—Visual Framework (Customer Journey)

Our second example will be based on thinking developed back in 2004 for the electronic payments industry in the United Kingdom, the vision of which has yet to this day to be fully realized (likely due to the lack of a higher level visual framework to present at the time). The purpose of these frameworks I have created after the fact is to illustrate how an organization could have uncovered the vision capable of leveraging existing technology to make an online business like a brick and mortar shop, where people can walk in and pay cash.

This vision would have been but one idea to come out of the visual framework of the electronic commerce customer journey shown in Figure B.2. As you can see from the visual framework of the electronic commerce customer journey, there are 19 stages that prospective customers go through when purchasing something from an electronic commerce site. Let's look at each of the 19 stages in turn:

Stage 1: Site Awareness

- *Description:* This stage is all about potential customers becoming aware of the Internet site and its potential usefulness to them.
- *Idea Examples:* Supplemental revenue ideas for this stage include staples such as co-marketing (featuring another brand or site in your advertisements and marketing for a fee).

Stage 2: Site Arrival

- *Description:* This stage begins when potential customers land on your Internet site. This may be a landing on the home page or customers may begin on one of many customized (or at least tracked) landing pages that you have introduced as part of your marketing efforts.
- *Idea Examples:* Supplemental revenue ideas for this stage include staples such as advertising and product placement.

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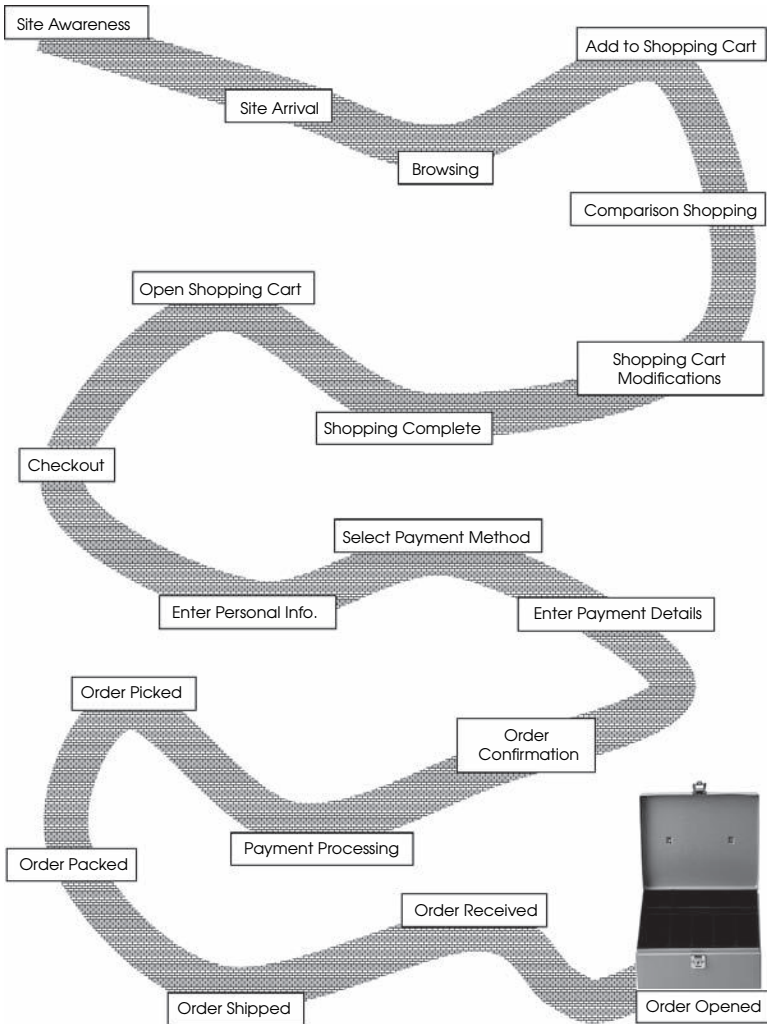


Figure B.2 The Yellow Brick Road of eCommerce

Stage 3: Browsing

- *Description:* During the browsing stage, customers are reading content on your Internet site, learning about products or services you offer for sale, or searching directly for particular products or services.

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- *Idea Examples:* Supplemental revenue ideas for this stage include staples such as advertising, complementary or supplementary product recommendations, creating product bundles, or negotiating product placements. Product placements differ from advertisements in the Internet sense in that product placements appear in the product description area and include such things as featuring pictures of other products (within reason) or selling particular keywords so that they link through to a supplementary or complementary product page.

Stage 4: Add to Shopping Cart

- *Description:* Hopefully prospective customers will find products or services on your Internet site and add them to their shopping cart. This is the first stage of commitment on the part of the prospective customer.
- *Idea Examples:* Supplemental revenue ideas for this stage include staples such as advertising, complementary or supplementary product recommendations, or creating product bundles. The delivery of these could be a pop-up if you don't take users to a separate page when they add products or services to their shopping cart, or on-page content if you do.

Stage 5: Comparison Shopping

- *Description:* It is quite common for people to add a product or service to their shopping cart and then go look at other possibilities before actually making a purchase. This includes other similar products or services on your site, or in fact visits to other Internet sites. Prospective customers may also continue their shopping to select other products and services they wish to purchase. Ideally you want to provide enough functionality and selection on your site so that people stay on your site and purchase rather than referring to outside information resources from which they may never return.
- *Idea Examples:* Supplemental revenue ideas for this stage include staples such as advertising, complementary or

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supplementary product recommendations, creating product bundles, negotiating product placements, or including external product review content on your site for free or for a fee charged to the publisher for featuring their publication.

Stage 6: Shopping Cart Modifications

- *Description:* After prospective customers complete any comparison shopping and additional browsing, they will then put additional items into their shopping cart or take previously added items out.
- *Idea Examples:* Supplemental revenue ideas for this stage include staples such as advertising, complementary or supplementary product recommendations, or creating product bundles. In addition, if the prospective customer chooses to remove any items from their cart you have the opportunity to advertise a “breaking promotion” if you think they will buy the item at a lower price (and you are willing to drop your price to win their business), or to recommend more popular products or services of the same type, or to recommend products that are in stock (if the item is showing out of stock and you think that is the reason they are removing it).

Stage 7: Shopping Complete

- *Description:* At this point the prospective customer has generally finished adding items to and removing items from their shopping cart. They are ready to leave the site or to check out.
- *Idea Examples:* Supplemental revenue ideas include pop-up exit advertising as a prospective customer clicks away from the site. Prospective customers moving on to the next stage really have no additional revenue potential at this stage.

Stage 8: Open Shopping Cart

- *Description:* Many prospective customers will proceed to open their shopping cart when they are through shopping to see what it contains before checking out.
- *Idea Examples:* Because there is no way to tell for sure whether the prospective customer is inspecting their shopping cart

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before continuing to shop or is truly through shopping, the major supplemental revenue ideas for this stage will include the same staples such as advertising, complementary or supplementary product recommendations, or creating product bundles.

Stage 9: Checkout

- *Description:* This stage begins when potential customers click on your Checkout link or button. This stage will allow the customer to verify their order and to select shipping and insurance options.
- *Idea Examples:* Supplemental revenue ideas include advertising, special shipping, packaging, or insurance programs, and gift certificates.

Stage 10: Enter Personal Information

- *Description:* This stage is all about the customer telling your organization who they are, where they live, and how to contact them.
- *Idea Examples:* Supplemental revenue ideas include advertising and opt-ins for other companies' e-mails.

Stage 11: Select Payment Method

- *Description:* This stage is all about the customer telling your organization what payment method they are using to pay for the goods in their shopping cart.
- *Idea Examples:* Supplemental revenue opportunities include developing new payment method alternatives that would allow even more people to purchase your products (possibly people without checking accounts or credit cards), and special offers for the customer to use or to obtain a particular payment method (showing an American Express banner when they choose to pay by Visa).

Stage 12: Enter Payment Details

- *Description:* This stage is focused on the customer entering their payment details. This stage must be incredibly secure as prospective customers are entering highly sensitive data.

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- *Idea Examples:* Supplemental revenue ideas include advertising and opt-ins for other companies' e-mails who specialize in payment methods.

Stage 13: Order Confirmation

- *Description:* This stage lets the organization's customer (no longer just a prospect) know that their order details, personal details, and payment details have all been received and provides a confirmation on-screen and usually also sends a verification by e-mail giving the customer the opportunity to print a copy and even an invoice for tax purposes.
- *Idea Examples:* Supplemental revenue ideas include advertising, recommendations for post-purchase services, and coupons or other offers for future orders.

Stage 14: Payment Processing

- *Description:* This stage is all about validating the customer's payment and marking the order as paid.
- *Idea Examples:* Supplemental revenue ideas include advertisement or recommendation of other payment methods if the customer's payment is rejected.

Stage 15: Order Picked

- *Description:* This stage involves people in a warehouse or a garage somewhere pulling products off shelves or in an office selecting individuals to perform services.
- *Idea Examples:* Supplemental revenue ideas include bartering for a co-marketing deal that mentions that you use your suppliers' equipment to do your picking or storage.

Stage 16: Order Packed

- *Description:* This stage involves people in a warehouse or a garage somewhere packing products into boxes or in an office confirming individuals to perform services.
- *Idea Examples:* Supplemental income ideas include negotiating for discounts to use a certain packaging material, and allowing advertising on your packaging materials (for example air bag cushioning materials).

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Stage 17: Order Shipped

- *Description:* This stage involves people in a warehouse or a garage somewhere shipping products out via a shipping company, or in an office directing individuals to go and perform services.
- *Idea Examples:* Supplemental revenue ideas include bartering for a co-marketing deal that mentions that you use your shippers' service to deliver your customers' orders.

Stage 18: Order Received

- *Description:* This stage occurs when the customer receives their order and finds it in their mailbox, or by their door, or signs for it.
- *Idea Examples:* Supplemental revenue ideas include allowing advertising on the outside part of the box you ship your products in.

Stage 19: Order Opened

- *Description:* This stage occurs when the customer gets around to opening the package containing their order that you have sent to them.
- *Idea Examples:* Supplemental revenue ideas include allowing advertising on the inside part of the box you ship your products in, and other forms of in-box advertising such as flyers, coupons, leaflets, and product samples.

This examination of the visual framework for the electronic commerce customer journey exemplifies how this visualization technique will allow you and your stakeholders to examine a lengthy, complicated customer journey while remaining focused on unearthing insights and ideas. The visual framework provides a guide and a categorization scheme for idea submissions, improving both their quantity and quality to maximize the inputs into your strategic and new product and service development processes.

Example #3 Lemonade Stand—Visual Framework (Operations)

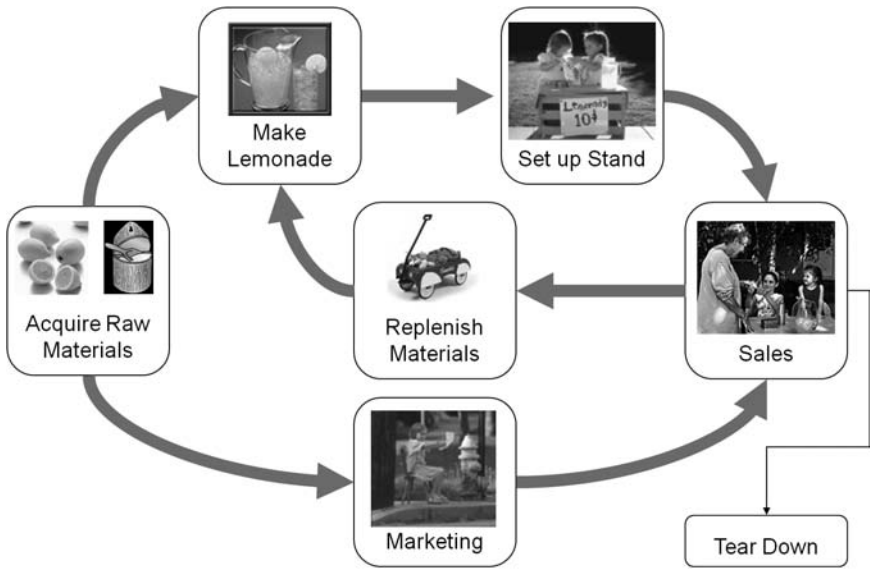
We will now take a look at a visual framework for a simple operations scenario (a brother and sister operating a lemonade stand) that everyone can understand to illustrate how the second type of visual framework can be used to help drive innovation. We will then finish off this chapter with a matching visual framework for the lemonade stand customer journey. The operations visual framework should be headlined with a strategy statement. Here is our lemonade stand example.

Strategy statement: “To operate a lemonade stand for fun and profit.”

It is much easier to map an existing organization’s operations into a visual framework than it is to create a visual framework for a new operation because it will surface a series of strategic questions that you must answer before you can complete the visual framework. Here are some from our lemonade example.

1. What kind of lemonade shall we make?
 - a. A hundred years ago this wouldn’t have been a question; there was only one kind (the usual mixing of lemons, water, and sugar to the correct tasty balance).
 - b. Now we have to ask questions like:
 - i. Organic or standard lemons or take a shortcut and use lemon juice concentrate? *We will use organic lemons.*
 - ii. Organic refined sugar, standard refined sugar, raw sugar, or fair trade sugar (luckily standard sugar doesn’t grow up in cages or then we would also have free range sugar to choose from)? *We will use organic refined sugar.*
 - iii. Tap water, filtered water, bottled purified water, or bottled mineral water? *We will use tap water.*
 - iv. Or should we skip all this hassle and just mix up frozen lemonade or powdered lemonade or premixed lemonade from a carton? *That would take the fun and the artistic challenge out of the business, so we will skip these shortcuts and make it from scratch.*

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"Operate the finest organic lemonade stand in our neighborhood for fun and profit"

Figure B.3 Visual Framework

- c. *Solution:* Operate the finest homemade organic lemonade stand for fun and profit.
2. How shall we market our lemonade?
 - a. Shall we market it in our neighborhood from our front lawn or have mom or dad drive us somewhere with lots of foot traffic?
 - b. *Solution:* Operate the finest homemade organic lemonade stand in our neighborhood for fun and profit.

Figure B.3 is the visual framework that comes out as a result. Let us now look at each of the stages in turn.

Stage 1: Acquire Raw Materials

- *Description:* For the lemonade we will need sugar, water, lemons, a juicer, measuring cups, a stirring spoon, and a

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pitcher. For the lemonade stand we will need ice, cups, a table, money for making change, a money box, and an ice chest. For marketing we will need cardboard, markers, nails, and a hammer.

- *Idea Examples:* Some cost-saving ideas include buying the ingredients in bulk, soliciting ingredient or material donations from parents or neighbors, or borrowing equipment. Supplemental revenue ideas include taking photographs and selling them to an ingredient or material manufacturer, or securing sponsorship from a local store in exchange for passing out the sponsor's advertisements to prospective and actual customers.

Stage 2: Make Lemonade

- *Description:* To make the lemonade we must juice the lemons, measure out the components (lemon juice, water, sugar), pour all of the ingredients into a pitcher, stir, taste, adjust to taste, and chill.
- *Idea Examples:* Here we might pull a classic Tom Sawyer and make people feel privileged to pay us to help juice the lemons or do other tasks (or at least to do them for free).

Stage 3a: Set Up Stand

- *Description:* To set up the lemonade stand, we must transport the materials to the sales site, set up the money box, and pour lemonade into cups.
- *Idea Examples:* Cost- or time-saving ideas would include anything that speeded up the process of transport or set up so that we have more time to sell.

Stage 3b: Marketing

- *Description:* To set up marketing, we must set the price, determine the message for each sign, select the sign locations, and erect the signs.
- *Idea Examples:* Supplemental revenue ideas include bundling lemonade with other products to increase the

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customer's perceived value and likelihood to act, or soliciting volunteers to help hang signs or to allow signs to be posted on their property.

Stage 4: Sales

- *Description:* To initiate sales, we must develop our sales message (even if it is by trial and error), solicit all people that walk or drive by the lemonade stand, and work together to funnel people in from a busy corner to the lemonade stand.
- *Idea Examples:* Supplemental revenue ideas include soliciting volunteers to hold signs on busy corners directing passersby to your stand or possibly even having volunteers keep the product with them for sale out on busy corners, allowing for bulk sales, and selling prepaid punch cards for use throughout multiple weekends during the summer.

Stage 5: Replenish Supplies

- *Description:* With any luck, we will more than once run out of ready-to-sell product, requiring the replenishment of our pitcher(s), and possibly even our raw materials.
- *Idea Examples:* Time-saving ideas include storing supplies under the table, juicing lemons in between customers, using a wagon to transport supplies, and measuring out plastic bags of sugar ahead of time.

Stage 6: Tear Down

- *Description:* Inevitably our sales day will come to an end and we must put everything away, determine what to do with any unused product, supplies, and materials, and return any borrowed items to their rightful owners.
- *Idea Examples:* Supplemental revenue ideas include raffling or auctioning off the unsold product, selling unused supplies to a competitor at the end of the season. Time-saving ideas include using a wagon and recruiting volunteers to help with the tear down.

Example #4 Lemonade Stand—Visual Framework (Customer Journey)

To conclude we will now look at our lemonade stand example through the lens of a visual framework of the customer journey and finally look at each of the stages in turn (see Figure B.4).

Stage 1a: Drive by lemonade marketing sign

- *Description:* This stage occurs when the prospective customer drives by one of our lemonade marketing signs (or a person holding one) and takes notice.
- *Idea Examples:* Creative ideas include dressing up signs with unusual borders or graphics, or dressing up people to hold/wave your signs in unusual costumes, or providing them with unusual props to attract attention so that your signs are at least seen and read.

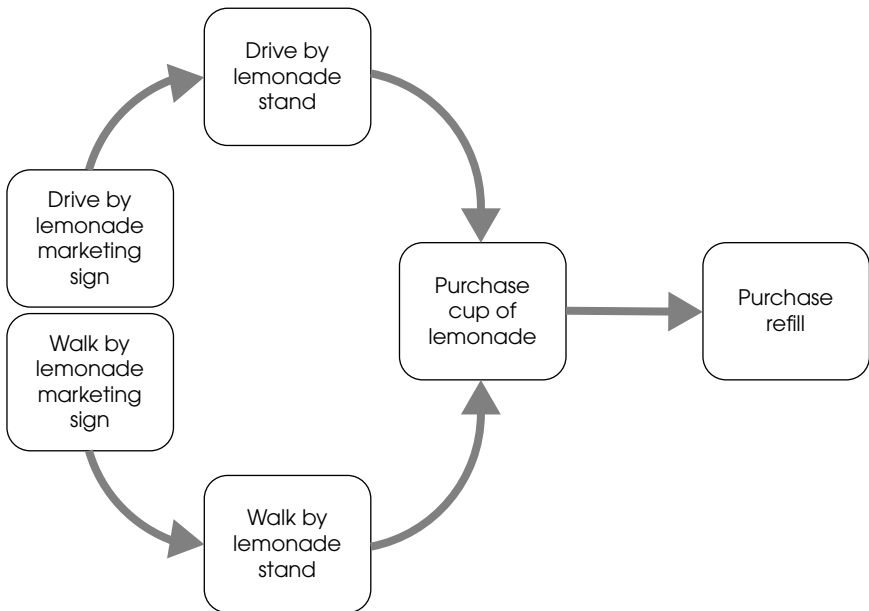


Figure B.4 Lemonade Stand Visual Framework

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Stage 1b: Walk by lemonade marketing sign

- *Description:* This stage occurs when the prospective customer walks by one of our lemonade marketing signs (or a person holding one) and takes notice.
- *Idea Examples:* Creative ideas include dressing up signs with unusual borders or graphics, or dressing up people to hold/wave your signs in unusual costumes, or providing them with unusual props to attract attention so that your signs are at least seen and read.

Stage 2a: Drive by lemonade stand

- *Description:* This stage occurs when the prospective customer drives by our lemonade stand and takes notice, hopefully stops, and allows us to make our sales pitch for why they should buy our lemonade.
- *Idea Examples:* Revenue ideas include product bundles like lemonade/windshield wash, lemonade/cookie, etc. (bad choices include lemonade/vodka), and marketing ideas include utilizing costumes or props on your front lawn to attract attention.

Stage 2b: Walk by lemonade stand

- *Description:* This stage occurs when the prospective customer walks by our lemonade stand and takes notice, hopefully stops, and allows us to make our sales pitch for why they should buy our lemonade.
- *Idea Examples:* Revenue ideas include product bundles like lemonade/hand massage, lemonade/cookie, etc., and marketing ideas include utilizing costumes or props on your front lawn to attract attention.

Stage 3: Purchase cup of lemonade

- *Description:* This stage occurs when the prospective customer actually buys some lemonade.
- *Idea Examples:* Supplemental revenue ideas include volume purchase opportunities (including multiple cup size purchase options), sale of prepaid lemonade cards for use

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throughout the season, loyalty punch cards (buy 10 this summer and get one free), and passing out advertisements for sponsors.

Stage 4: Purchase Refill

- *Description:* This stage occurs when the prospective customer has purchased some lemonade and liked it so much that they want to buy more.
- *Idea Examples:* Supplemental revenue ideas include volume purchase opportunities (including multiple cup size purchase options), sale of prepaid lemonade cards for use throughout the season, loyalty punch cards (buy 10 this summer and get one free), promotion of a leftover product auction or raffle (buy a refill and be entered into a drawing for the leftover lemonade at the end of the day), and passing out advertisements for sponsors. People entering into the raffle could provide their mobile number to be notified whether they win, and these numbers could also be used for text message reminders that you have lemonade for sale whenever you are open for business.

We have now seen two examples of visual frameworks for customer journeys and one example of a complete set of visual frameworks (both customer journey and operations) for our lemonade stand. From these examples you should now have a better understanding of the power of building these visual frameworks and will have seen how the two different frameworks are capable of generating some of the same ideas, but also on their own of generating unique ideas.

These two visual frameworks will clarify your business for your stakeholders that you choose to share them with (stakeholders involved should at a minimum include your employees) and will enable them to imagine a flood of new ideas. In addition to generating a wealth of new ideas, your stakeholders will now be able to target their ideas toward a specific part of the framework (they will

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be able to see where they fit)—enabling much better relevancy and categorization.

You now should have everything you need to begin constructing your own visual frameworks. Please do not forget to create these frameworks with a cross-functional team of three or four people whom you consider to be open-minded, lateral thinkers with experience in the business so that they will be able to completely imagine the full spectrum of components that ought to be included in the framework.

The operations framework especially will require a great deal of organizational expertise to be input and ultimately to simplify it to a useful level of detail. More complicated operations scenarios would likely require multiple levels to the operations visual framework that would allow you and your stakeholders to drill down to the appropriate level. These more complicated scenarios generally require additional attention and assistance (and much larger paper formats) to work through the additional levels of visualization. Do not expect this cross-functional team to create the two visual frameworks in one attempt.

The framework must be shared out for comment before being finalized. To reach the point of final frameworks, this cross-functional team must be the ultimate decision makers on what the final frameworks will look like. A well-designed framework will seem simple and obvious to the people who see it, so don't be offended if people don't understand how much work has gone into creating the frameworks. You will know when you are done when after showing the frameworks to people, the numbers of suggested framework revisions become consistently zero or close to zero.

A P P E N D I X C

The Innovation Baker's Dozen

The Innovation Baker's Dozen is about visualizing all the key components that keep the innovation process moving within an organization, and it also serves to help all parties understand what is currently in place in the organization to capture and support ideas and innovation. This goes far beyond the question of whether the company has a suggestion box. Of course every company should have the modern-day equivalent of a suggestion box, but what good is a suggestion box if nobody submits ideas? And what good are ideas if the best ones never are transformed into valuable new products and services?

The Innovation Baker's Dozen helps the organization see whether it has the infrastructure in place to create fully baked and ultimately tasty and valuable innovations, modeled on the 13 major steps involved in making a loaf of bread. It is presented in a list of exploratory questions and summaries you can use to establish how ready your organization is to support success at each step.

The Innovation Baker's Dozen

1. Gather Seeds

- *Definition:* The seed gathering part of the process is defined by how ready the organization is to gather ideas and how effective the organization is at gathering ideas. Success in this stage is defined by how easy the organization makes it to submit ideas, how strong the belief of

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The Innovation Baker's Dozen

	1. Gather seeds
	2. Plant
	3. Nurture
	4. Harvest
	5. Separate wheat/chaff
	6. Mill
	7. Mix
	8. Knead and form
	9. Rise
	10. Bake
	11. Cool
	12. Taste
	13. Mass production

stakeholders is that their ideas will be listened to, and how effective the organization is in gathering large numbers of potentially innovative ideas from their stakeholders (employees, customers, suppliers, investors, etc.).

- *Questions:*
 - a. Does your organization have a physical suggestion box at every location available to employees?
 - i. Does your organization repeatedly reinforce their availability and detail what happens to submissions?
 - ii. Has your organization made someone responsible for ensuring there are writing implements and papers available, and for gathering the suggestions and forwarding them on?
 - b. Does your organization have a physical suggestion box at every location available to visitors?

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- i. Does your organization repeatedly remind visitors of their availability and encourage visitors to submit suggestions, or at least make them available in a prominent place?
- ii. Has your organization made someone responsible for ensuring there are writing implements and papers available, and for gathering the suggestions and forwarding them on?
- c. Has your organization made someone responsible for ensuring that all of the suggestions forwarded from the physical suggestion boxes are sorted and routed to responsible individuals (and identified these responsible individuals)?
 - i. Is one of those responsible individuals accountable for receiving the potentially innovative ideas and tracking them?
- d. Does your organization solicit ideas from employees online?
- e. Does your organization solicit ideas from customers online?
- f. Does your organization solicit ideas from suppliers online?
- g. Does your organization solicit ideas from investors online?
- h. Has your organization made someone responsible for ensuring that all of the ideas submitted online are sorted and routed to responsible individuals (and identified these responsible individuals)?
 - i. Is one of those responsible individuals accountable for receiving the potentially innovative ideas and tracking them?
- i. Does your organization actively promote the sources available for submitting potentially innovative ideas?
- j. Has your organization gone so far as to make it part of your talent management plan to include some sort of recognition for potentially innovative ideas that reach certain key milestones including potentially achieving prototype, patent, launch, or success in the marketplace?

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2. Plant

- *Definition:* Until a seed is planted, it has the potential to blow away in the wind or to get lost in the vast spaces of the barn. Success in this stage is defined by how well the organization stores the potentially innovative ideas where they won't be lost and where they can actually be nurtured (the next step in the process).
- *Questions:*
 - a. Do you have an application for storing the potentially innovative ideas?
 - b. Do you have an application for tracking the potentially innovative ideas and their outcomes?
 - c. Do you notify the person who submitted the idea (idea submitter) that it has been received and entered into your application or database?
 - i. Do you notify the person of what to expect from the submission process and at what point they will be contacted (if at all)?
 - d. Do you have a taxonomy for grouping similar ideas together?
 - e. Do you have node owners for all of the parts of this taxonomy who will look after all of the ideas in their node through the nurture and harvest phases of the process?

3. Nurture

- *Definition:* Unless a planted seed is nurtured, it may never reach its full potential, and it may even wither before it emerges from the ground. Success in this stage is defined by how well the organization nurtures potentially innovative ideas. This is achieved by allowing potentially innovative ideas to be tended to by the idea submitter and other devoted gardeners—nourished, cross-pollinated, weeded. Ultimately each organization must make a decision on how open to make the nurturing process.
- *Questions:*
 - a. Do you allow the idea submitter to participate in its nurturing?

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- i. Do you notify the idea submitters how and when they may help to nurture their ideas?
- ii. Do you notify the idea submitters how they may encourage others to help nurture their ideas?
 1. Do you have a nurturing invitation submission mechanism?
- b. Do you allow customers to nurture the idea submitter's idea?
- c. Do you allow employees to nurture the idea submitter's idea?
- d. Do you allow investors to nurture the idea submitter's idea?
- e. Do you allow suppliers to nurture the idea submitter's idea?
- f. Do you allow customers to see all of the planted ideas before submitting their idea in case it makes more sense to nurture someone else's idea instead of submitting a new one?
- g. Do you allow employees to see all of the planted ideas before submitting their idea in case it makes more sense to nurture someone else's idea instead of submitting a new one?
- h. Do you allow investors to see all of the planted ideas before submitting their idea in case it makes more sense to nurture someone else's idea instead of submitting a new one?
 - i. Do you allow suppliers to see all of the planted ideas before submitting their idea in case it makes more sense to nurture someone else's idea instead of submitting a new one?

4. Harvest

- *Definition:* Seeds that have been planted and nurtured will most likely grow, but some will inevitably fail to be harvested after being identified as a weed and removed. Those ideas that make it through the harvest stage will be those that are judged relevant for the business. Success

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in this stage is defined by how well the organization harvests those potentially innovative and relevant ideas and prepares them for the next stage (*Separate wheat/chaff*). Organizations will vary in how relevant ideas must be to make it through the harvest stage.

- *Questions:*
 - a. Do you have criteria for determining whether a potentially innovative idea is relevant for the organization?
 - b. Do you have a process in place for handling promising but not relevant potentially innovative ideas?
 - i. Do you have other organizations that you partner with to exchange nonrelevant potentially innovative ideas?
 - ii. Do you communicate back to the idea submitter of a promising but not relevant potentially innovative idea why the idea was found to not be relevant (maybe even with suggestions on how to improve it for resubmission)?
 - c. Do you have a process for preparing harvested ideas for the next stage (*Separate wheat/chaff*)?
 - i. Do you have a process for gathering additional background information from the idea submitter?
 - ii. Do you have a process for creating financial projections for promising potentially innovative ideas?
 - iii. Do you have a process for identifying internal idea champions for each promising potentially innovative idea to take them to the next stage?
 - d. Do systems exist for tracking relevant/irrelevant idea decisions and communications of outcomes?

5. Separate Wheat/Chaff

- *Definition:* After harvesting the relevant promising potentially innovative ideas, it is time to critically evaluate the chance of success of each idea for the first time. This is where we separate the commercially viable ideas from those that are merely intriguing. This is the most difficult

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stage because some promising and definitely innovative ideas will be left behind because their readiness for commercialization or expected market return is insufficient. Success in this stage is defined by how efficiently the organization selects the winners and how accurate their predictions of success end up being in hindsight. The ideas that win will be funded and enter into the development and prototyping process.

- *Questions:*
 - a. Do you have criteria for determining whether a potentially innovative idea has sufficient market readiness and profit potential for the organization?
 - b. Do you have a process in place for handling promising but not sufficiently capable ideas?
 - i. Do you have internal volunteers to be what I call salvage experts? These are volunteers in the organization who relish the challenge of looking at ideas that other people have said are definitely innovative but not capable of success—examining those ideas cast aside to look for any that can be rehabilitated.
 - ii. Do you communicate back to the idea submitter of a definitely innovative but not sufficiently capable idea why the idea was found to be insufficient (maybe even with suggestions on how to rehabilitate it for resubmission)?
 - c. Do you have a process for preparing funded ideas for the next stage (*Mill*)?
 - i. Do you have a process for selecting a team to drive each idea forward?
 - ii. Do you have a process for creating financial projections for promising potentially innovative ideas?
 - iii. Do you have a process for identifying internal idea champions for each promising potentially innovative idea to take them to the next stage?
 - d. Do you notify the idea submitter that the idea has been funded?

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- e. Do you have a budget and a process for making a match between the budget and the available ideas?
- f. Do systems exist for tracking wheat/chaff idea decisions and communications of outcomes?

6. Mill

- *Definition:* Now the hard work begins on the idea. For this stage, a project team is put together to support the development of the idea for the market (possibly including the idea submitter on the team). This project team now begins really working the idea, driving the idea toward a working prototype and stress testing it further.
- *Questions:*
 - a. Do you now bring the idea submitter in to be part of the idea advancement team?
 - b. Do idea champions have the internal support and budget necessary to drive the idea to a working prototype?
 - c. Do idea champions have the authority or empowerment necessary to build a suitable cross-functional team to support the idea development?
 - d. Are innovation projects given high enough priority alongside team members' normal responsibilities to give idea development a chance at success?
 - e. Are realistic time frames and goals set from the outset of the project?
 - f. Are lab space and other necessary resources in place to support idea development teams?
 - g. Are there permanent resources in place to help support the project teams as they come together and eventually disband, and to retain knowledge of best practices for the successful operation of idea development teams?
 - h. Are there systems in place to track the idea development process?

7. Mix

- *Definition:* The mix stage is not part of many idea development processes, but it is an important component of ours. By this stage, project teams should have already completed

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preliminary work on developing their ideas and hopefully begun to run into problems. The main purpose of this stage is to bring the various project teams together to present:

- a. The ideas they are developing.
 - b. How at a conceptual level they plan to introduce the idea to the marketplace.
 - c. Key challenges they are facing thus far in realizing the potential of the idea.
- *Questions:*
 - a. Is there any overlap in the ideas that your project teams are typically developing at any one time?
 - b. Do you believe that what one project team learns developing their idea could be useful to other project teams?
 - c. Does a community exist to support interaction and sharing of knowledge among teams pursuing various idea development projects?
 - i. Do you have a process or guidelines for these cross-pollination sessions (i.e., whether criticisms are allowed to be aired or not)?
 - d. Does your organization require or encourage project teams to collaborate at certain points of the idea development process?
 - e. Do you maintain a database of lessons learned for new project teams?
 - f. Do you have systems in place to capture the productive outputs of the mixing sessions?

8. Knead and Form

- *Definition:* After getting new insights from colleagues on other idea development project teams during the mix stage, project teams are now ready to fully form their ideas. Project teams should now push to design a finished prototype taking into account all of their inputs and their learning along the way.
- *Questions:*
 - a. Are the resources available to build a finished prototype?

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- b. Are there criteria in place to evaluate whether the project team has put sufficient research, development, and evaluation effort in to enable a well-designed finished prototype?
- c. Does the composition of the project team need to change at this point at all?
- d. Is a system in place to capture key evolutions that occur during this evolutionary part of the idea development process?

9. Rise

- *Definition:* Now that the project team believes it has a design for a finished prototype and is ready to build it, give them time off, a break from the project, a vacation, or whatever type of space you can afford to give them. At this point they will think they have all the problems solved and may even think that they've designed the perfect product or service. This is of course never the case, and that is why asking the project team to step away from the bar is a good idea at this point. Give everyone strict instructions not to contact each other or to work on the project during the break period, but do give everyone special notebooks to jot things down if they just can't help themselves.
- *Questions:*
 - a. Does your organization have a forced vacation from the project at this point as part of its idea development process?
 - b. Do the people in your organization understand the point of such a break?
 - i. Will your people actually take the break from the project?
 - c. Can you afford for your project team to take a break from the project?
 - i. Note: Unless your company is going bankrupt, you must find a way for the project team to take a break at this point.

Appendix C

10. Bake

- *Definition:* At the end of the rise stage, have the project teams get together and share anything that they couldn't help themselves from jotting down during the break. Now is when you build the finished prototype, the prototype that you are ready to share with the outside world. By this point, your project teams should have already gone through several phases of conceptual prototypes for illustrating potential solutions to problems and for developing the idea. During this stage your project team should also achieve fully baked market projections and marketing plans.
- *Questions:*
 - a. Do your project teams have the ability to reconvene in full, or do you typically lose project members at this point due to fatigue or managers not rereleasing their people?
 - b. Do your project teams have market projections ready at this point?
 - c. Do your project teams have Go-to-Market (GTM) plans ready at this point?
 - d. Have high level estimates and plans now been updated in a project-tracking system from the initial estimates?
 - e. Do your project teams now have finished prototypes ready at this point?

11. Cool

- *Definition:* The cool stage is a preparatory stage for the final stage (the taste stage). During the cool stage you should be gathering together the final checkpoint review committees and lining up the first series of internal or external focus groups for reactions to the newly developed product or service. The cool stage is about making sure that everything is prepared for the final go or no-go decision to be made.
- *Questions:*
 - a. Are your project teams typically prepared for their final presentations?

Appendix C

- b. Does your organization typically have internal or external focus groups on standby in case the newly developed product or service is a go?
- c. Do your project teams typically transition seamlessly from promoting their idea internally to promoting it externally?

12. Taste

- *Definition:* The taste stage is the culmination of an incredible amount of work on the part of your project teams. This is the moment they have all been waiting for, unless they already have discovered the idea is a dud and have either abandoned it or are prepared for it to fail at the finish line. During this stage, the final checkpoint review committee tastes every idea in the “kitchen” before unleashing them on the guests (the internal or external focus group members).
- *Questions:*
 - a. Are there defined criteria for determining which ideas will be given the green light for the guests to taste?
 - b. Are there defined criteria for determining which ideas will make it out of the test kitchen and move on to the final stage?
 - c. Is there a system for tracking the outcome of the final checkpoint review and the rationales given for success or failure?
 - i. Does this system give visibility to the failures to other people looking to submit an idea in the future?
 - d. Are the complete project teams present for the final checkpoint review or only the project leaders?
 - e. Does the organization invite the idea submitter to attend?
 - f. Does the project team have any chance of a rebuttal?
 - g. Is a rejected idea rejected forever?
 - h. Does the project team have any chance of an extension, with which to develop a modified prototype based on the committees’ feedback and to return and pitch again?

Appendix C

- i. Is there a system in place to recognize the idea submitter and the project team for advancing the idea this far even if the idea they have developed is rejected?
- i. Are funding and resources budgeted for those ideas that are judged to be a “go!”?
- i. Do these come from a fixed pool that is allocated to the “most successful” or will every “successful” idea be funded?

13. Mass Production

- *Definition:* Promising potentially innovative ideas that make it this far have been judged to be “successful”—meaning that they are sufficiently innovative and have a sufficiently large market opportunity for the organization to move from final prototype to shipping product. The feedback from the previous stage (the tasting stage) will be incorporated into the shipping product.
- *Questions:*
 - a. Has the project team been disbanded?
 - b. Have criteria been set for measuring success in the marketplace?
 - c. Is there a system for recording the results in the market for comparison with the initial and final market projections?
 - d. Is there a system for recording market performance for ideas that failed the final checkpoint review of our organization but that were instead launched by a competitor into the marketplace?
 - e. Is there a system for the organization to continue to capture any important future learning from the marketplace that wasn’t uncovered in internal or external focus groups?
 - f. Is there a system in place for the organization to track the level of market success of a “go!” project and to recognize the idea submitter and the project team members?

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