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### **Innovate To Survive**

Innovation, at the right time and in a way that enables the company to make profits, is an important but difficult job in any enterprise. Every company is trying to find ways to gain a larger market share for its products.

Innovation can give good results, but it involves a lot of investment on research and development (R&D) activities. However, the right level of R&D spending by US companies could lead to much greater levels of growth.

#### **Are they related?**

Do increased R&D efforts really lead to increased sales? Statistics show that in the last ten years, new consumer products introduced in the US market have grown at a compound annual rate of 7 percent. While approximately 32,000 new products were introduced every year, only 3 percent of these have resulted in sales growth.

#### **Profitable innovation**

It is important that a company invest in profitable innovation, not just spending on R&D. This means that the spending on R&D should be effective, and the return on this investment should be high.

How can a company ensure that it gets a good return on its investment in innovation? There are some principles that a company can follow to ensure that the investment made on the development of new products and services brings in good returns.

#### **Diminishing returns on innovation investment**

Companies should invest in innovation, but in a limited manner. You cannot go overboard on investment in innovation. Just like the law of diminishing marginal utility, the gains from increasing innovation investments also begin diminishing after a while.

Innovation effectiveness is high when the company is able to invest in good projects. However, maintaining this effectiveness is the difficulty that most companies face. This directly affects the company's return on innovation investment.

#### **The innovation value chain**

It is not easy to increase the innovation effectiveness of a company, which requires the development of several capabilities. The company should have an innovative value chain, which includes the capabilities of idea generation, project selection, development and commercialization.

Successful idea generation requires the company to identify the changing trends in the markets, and to react to the changes suitably and innovate accordingly.

Project selection is a stage where the company should be careful to select the right ideas. Generally, companies select their projects on a net present value basis. But this is not an accurate measure of the effectiveness of the project. Other aspects also should be



## **TenStep Supplemental Paper**

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considered, such as strategic fit to the current trends and the availability of resources, not just at present, but also in the future.

Development of the project should be done at the appropriate speed and time, so that the idea can generate the best results in the market. Efficient project management eliminates wasting the time and resources of the company. Maintaining efficiency in time-to-market is important, but often companies miss these deadlines.

Commercialization, or final launch of the product into the market, is the crucial stage where the marketing has to blend perfectly with the innovation process. Returns on innovation investments are often lost because of the wrong marketing strategy. For the best returns, it is important that the marketing team is involved in the innovation process from an early stage, so that they know how to present the product to the market.

### **Outsource that activity**

Attempting to do all activities in-house locks up a major portion of the company's time and resources. Outsourcing some of the activities is a good idea.

Innovation requires specialization, and a company can outsource this activity so that it does not have to concentrate its resources in R&D. It is important, however, to take care that the company's core competencies are kept in-house, and only the other activities outsourced. Also, importance should be given to the priority functions in the company. The limited financial resources available to the company need to be appropriated efficiently.

Taking inputs from suppliers, business partners and third parties can provide a company with effective insight into innovative ideas for its products.

### **Competitive advantage**

Innovation is increasingly being considered as an important competitive advantage. It is important for the company to concentrate on the overall performance of the organization. Innovation should be a part of the overall strategy of the company instead of a one-time activity.

In the end, what is important is that the top management should support the company's innovation activities. Issues such as time and resource allocation for innovation activities require the support of the top management. Innovation is a long-term strategy, and incorporates within itself all the functions of the business.