

# Innovation Toolbox

## Why Innovate?

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June 2009  
Version 1.0

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## 1.0 INTRODUCTION

What do the following Queensland companies have in common?

- GroundProbe
- Biolytix
- Withcott Seedlings
- Furitechnics
- Perfect Potion
- Rockcote

They are all amongst the fastest growing small and medium sized businesses in Queensland as measured through recent Q400 surveys, and in all these companies, innovation is key to their business growth. Innovation is a key differentiator – perhaps *the* key differentiator – separating these winning companies from their competitors.

*“The world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow.”*

Rupert Murdoch, Chairman and CEO, News Corporation  
IBM Global CEO Study 2006

Tough economic times are *not* the time to cut back on innovation. Unless you really want to compete on price you need to continue to innovate to drive performance, growth and profitability when the economy improves.

Winners always emerge out of recessions and they almost always beat their competition on the basis of something new. Apple worked on iTunes/iPod and its retail stores during the last recession and came out running once growth returned to beat its competition.

*“Innovation has been the reason for growth of Furitechnics. Innovation gives us a temporary monopoly and higher profits. People will pay for quality products and we need quality products to sustain margins in a mature industry. If it’s not innovative there’s not enough profit in it.”*

Mark Henry, Group CEO and Chief Design Engineer, Furitechnics

## 2.0 WHAT IS INNOVATION?

Innovation is more than simply having a good idea. Innovation is about turning new ideas and concepts into something that will create value. Value can be commercial, social or organisational.

## 3.0 INNOVATION IS NOT JUST ABOUT PRODUCTS

Innovation can occur in any aspect of your business. The four most common types of innovation are:

### 3.1 Product/Service Innovation

You are probably most familiar with product/service innovation. It involves developing new products or services, enhancing existing products or services, and even technological innovation. GroundProbe, a Queensland company supplying precision measuring instruments to mines around the world, is an example of a company that has successfully used service innovation to enhance its innovative products.

#### **GroundProbe**

*GroundProbe's brand promise of 'unique measuring systems' implies innovation. GroundProbe started with a new application of radar technology – to detect movement in the slopes of mines. This was a significant product innovation. The company quickly discovered that customers weren't interested in the technology. They needed information that enables them to measure their risk better and they needed to be able to understand the information gathered. GroundProbe's innovation focus progressed to market demand driven, developing a package of value-added services and new ways of working to meet customer needs, strengthening the company's competitive position and increasing revenues.<sup>1</sup>*

### 3.2 Process Innovation

Applying an innovation approach to improving operational processes in your business such as production line developments, financial systems or human resource management can give a competitive advantage. Using information and communications technology (ICT) can help to improve processes. Moriatis Fresh is an example of a company that has innovated in its supply and delivery processes.

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<sup>1</sup> *Innovation in Fast Growing Companies: A Q400 Study*, BDO Kendalls 2007

**Moriatis Fresh** is an Australian company that supplies supermarkets, fruit markets and national restaurant chains. Moriatis identified the trend towards rising demands for fresher produce. By placing radio frequency identification tags on tomato trays, the company can track the origin, packing date, type, quality and size of the tons of tomatoes it ships every day. Because it knows the precise amount and quality of tomatoes in its supply chain at any point in time, the company can respond rapidly to retailer requests for a specific volume and grade of tomato. The company can tell its retail customers exactly when and where the produce was grown, packed and shipped, which is particularly important as the world works toward food traceability and safer food supply chains. Improved information also allows Moriatis to pay growers based on the actual quality and number of tomatoes received.<sup>2</sup>

### 3.3 Marketing Innovation

Do you use an innovative approach in taking your products and services to market? Have you found innovative ways to increase your customer base in your current market or even find new markets for your offerings?

Marketing innovation centres around how you promote your offering, your pricing strategies, and the channels that you use to distribute your offering. In recent years the web has been the most significant innovation in marketing channels, offering whole new marketing systems, such as with Amazon.com. Furitechnics has taken an innovative approach to marketing its products.

#### **Furitechnics**

*Innovation is critical to the growth of Furitechnics, a Queensland company that designs and produces some of the best knives in the world. Breaking into a conservative, mature industry dominated by traditional European brands is a challenge. Furitechnics has secured a niche by applying a new skill set, mechanical engineering, to develop a revolutionary design, and by educating the industry.*

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<sup>2</sup> IBM Global CEO Study 2006

*Furitechnics has achieved considerable success in changing attitudes by sharing its unique knowledge about technical design with its professional cook target market. The company is involved with colleges, delivering training materials and converting them to use Furitechnics products.<sup>3</sup>*

### 3.4 Business Model Innovation

Business model innovation has the potential to offer the greatest competitive advantages for a business. Are there opportunities for innovation in the structure and/or financial model of your business? Business model innovation often involves structural changes and strategic partnerships. Some examples of Queensland businesses that have used business model innovations successfully are discussed below.<sup>4</sup>

#### *Collaboration with Clients*

**GroundProbe** has developed formal strategic alliances with some of the world's leading mining companies, enabling critical insights into the future needs of mining companies and testing the viability of new ideas. This close connection with clients helps to reduce risk.

#### *Collaboration with Distributors*

**Rinstrum**, a Queensland company supplying sensitive weighing machines around the world, has developed a partnership with a US distributor with a complementary product line. This partner's market research identified the opportunity to incorporate iPod technology into weighing instruments – a first for the weighing market.

#### *Collaboration with Suppliers*

**Jaden Kanga**, a Queensland company that invented the Kanga loader, encourages major suppliers to become business partners, working with the company to complement each others' business. Jaden Kanga's approach is that suppliers need to help them sell more loaders since supplier products are taken to market integrated in the loaders. Following this philosophy suppliers have contributed to the cost of

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<sup>3</sup> *Innovation in Fast Growing Companies: A Q400 Study*, BDO Kendalls 2007

<sup>4</sup> Ibid

*marketing through motor racing sponsorship, which would otherwise not be affordable for Jaden Kanga.*

## 4.0 INNOVATION CAN BE INCREMENTAL OR RADICAL

Have you ever made improvements to existing technologies, processes, products or services? That's incremental innovation and is the most common form of innovation today. However incremental innovation often produces incremental growth.

Radical innovation entails high uncertainty with high risks, and the potential, though not guaranteed, for high returns.

*To illustrate the difference between incremental and radical innovation think about the camera industry. **Kodak** led the industry for years developing new and improved products based on traditional film. However these were all incremental innovations based on the same technology. The radical innovation in this industry was the development of digital imaging. This revolutionised the industry and the way people captured, stored and used images.*

Incremental and radical innovation is compared in Table 1. Do you use these approaches in your business?

Table 1. Characteristics of Incremental and Radical Innovation

Incremental Innovation	Radical Innovation
Exploits existing technology	Explores new technology
Low uncertainty	High uncertainty
Focuses on cost or feature improvements in existing products or services, processes, marketing or business model	Focuses on processes, products or services with unprecedented performance features
Improves competitiveness within current markets or industries	Creates a dramatic change that transforms existing markets or industries, or creates new ones

## 5.0 INNOVATION CAN BE CLOSED OR OPEN

In your business today you probably have access to more information that you can use. In your business you do not have to, and should not, rely on internal knowledge or research only. You can acquire (buy or licence) processes or inventions from other businesses. Also, inventions not being used internally by your business can be taken outside (sold, licensed, spin off, joint venture) to raise additional revenue.

The availability of information on the internet has been a catalyst for open innovation. In the past, most innovating businesses used closed innovation, keeping their discoveries highly secret and making no attempt to look for information from outside the business.

The thinking behind closed and open innovation is compared in Table 2. Do you use these approaches in your business?

Table 2. Closed and Open Innovation

Closed Innovation	Open Innovation
The smart people in our field work for us	Not <i>all</i> smart people work for us. We need to work with smart people inside <u>and</u> outside the company
To profit from R&D, we must discover it, develop it and ship it ourselves	External R&D can create significant value. Internal R&D is needed to claim some portion of that value
The company that gets innovation to market first will win	Building a better <i>business model</i> is more important than getting to market first
If we create the most and the best ideas in the industry, we will win.	If we make the best use of internal <u>and</u> external ideas, we will win.
We should control our IP, so that our competitors cannot profit from it.	We should profit from other's use of our IP (license out) and we should license in other's IP whenever it advances our business model.
We will <u>own</u> all results from contract research with universities	We will partner with universities to create knowledge and encourage use outside our field

### *Collaboration with Research Organisations*

*The innovative wastewater treatment company, **Biolytix**, uses open innovation in its research and new product development processes. Biolytix has developed a number of strategic alliances to assist. These include links with two universities, partnerships and joint product development with large commercial organisations.*

## 6.0 IS YOUR BUSINESS INNOVATIVE?

You probably are already innovating in your business to be successful but haven't really thought about it in these terms. Could your business be *more* innovative? Take the [Innovation Navigator](#) to find out just how innovative your business is and tips for becoming more innovative.

## 7.0 TEN WAYS TO BOOST INNOVATION

Want to boost innovation in your business? Here are some practical suggestions.

### 1. Have a vision for change

To be innovative your team must know the direction in which they are heading. Innovation has to have a purpose. It is up to the leader to set the course and give a bearing for the future.

You need one overarching statement that defines the direction for the business and that people will readily understand and remember. For example, Biolytix vision is to be the supplier of the best solutions in wastewater treatment systems around the world, being technologically superior, as well as robust and cost-effective.

Great leaders spend time illustrating the vision, goals and challenges. They explain to people how their role is crucial in fulfilling the vision and meeting the challenges. They inspire people to become passionate entrepreneurs, finding innovative routes to success.

### 2. Fight the fear of change

Constantly demonstrate the need for change. Innovative leaders say, "We are doing well but we cannot rest on our laurels, we need to do even better." They explain that while trying new ventures is risky, standing still is even riskier. They must paint a picture that shows an appealing future that is worth taking risks to achieve. They help people embrace change.

### 3. Think like a venture capitalist

Venture capitalists (VCs) use a portfolio approach and balance the risk of losing with the upside of winning.

They like to consider lots of proposals. They are comfortable with the knowledge that many of the ideas they back will fail. These are all important lessons for business leaders who typically consider only a handful of proposals and who abhor failure.

### 4. Have a dynamic suggestion scheme

How do you tap into ideas from the people working in your business? Great suggestion schemes are focused, easy to use, well resourced, responsive and open to all. They do not need to offer huge rewards. Recognition and response are generally more important. Above

all, they have to have the whole-hearted commitment of the senior team to keep them fresh, properly managed and successful.

## **5. Break the rules**

To achieve radical innovation you have to challenge the assumptions that govern how things should look in your environment. Business is not like sport, with its well defined rules and referees. It is more like art and is rife with opportunity for the lateral thinker who can create new ways to provide the goods and services customers want.

## **6. Give everyone two jobs**

Give all your people two key objectives. Ask them to run their current jobs in the most effective way possible and at the same time to find completely new ways to do the job.

Encourage your employees to ask themselves—what is the essential purpose of my role? What is the outcome that I deliver that is of real value to my clients (internal and external)? Is there a better way to deliver that value or purpose?

The answer is always "yes", but most people never ask the question.

## **7. Collaborate**

Many CEOs see collaboration as key to their success with innovation. They know they cannot do it all using internal resources. So they look outside for other organisations with complementary skills to partner with.

## **8. Welcome failure**

Encourage a culture of experimentation. To be truly agile, you must give people the freedom to innovate, experiment and to succeed. That means you must give them the freedom to fail, too. Thomas Edison tested over 3000 filaments before he came up with his version of a practical light bulb.

## **9. Build prototypes**

"Don't debate it, test it". Try the new idea at low cost in a section of the market and see what the customers' reactions are. You will learn far more in the real world than you will in the test laboratory or with focus groups.

## **10. Be passionate**

Focus on the things that you want to change, the most important challenges you face and be passionate about overcoming them. Your energy and drive will translate itself into direction

and inspiration for your people. It is no good filling your bus with contented, complacent passengers. You want evangelists, passionate supporters. You want people who believe that reaching the destination is really worthwhile. If you want to inspire people to innovate, to change the way they do things and to achieve extraordinary results, then you have to be passionate about what you believe in and you have to communicate that passion every time you speak.

Paul Sloane, Director Magazine, July 2007