Innovationedge® Insights

Winter 2019 Issue #3

New year, new beginnings

Welcome to our first newsletter for 2019! As we begin the new year, thought I'd share some fresh insights to guide your innovation planning. Please see below for my views on mega trends that offer the most opportunity as well as ways to balance short-term pressures with long-term growth -- not easy, but critically important in today's volatile market.

I'm also excited to introduce our new podcast series, **Incite Innovation**, which answers some of the biggest questions and challenges many of you face. These 10-15 minute conversations are brief and to-the-point to fit into your busy day. Our first episodes cover:

1. Collaborative Innovation, Partnerships, and Ecosystems for the Digital Age
2. Balancing Long-Term Growth with Short-Term Profits: Strategy, Culture and Execution (3-part series)

Overall, our 2019 research will continue to focus on:

[ ] Balancing short-term profits with long-term growth
[ ] Collaborative partnerships, networks and ecosystems
[ ] E-commerce (B2B and B2C) and digital transformation
[ ] Fostering an innovation culture
[ ] Linking strategy with execution

If you'd like to receive customized updates, please check the topics you prefer and send me an email at cperkins@innovationedge.com. Please feel free to suggest other topics as well.

As always, I welcome your comments, questions, and thoughts and would love to hear what you're up to. Send me an email (cperkins@innovationedge.com) or give me a call (920-205-3297) anytime.

--- Cheryl

Trends & developments to watch - and which belong in *your* innovation plans?

As we head into 2019, we see some of the biggest CPG trends getting even bigger while others will fade or become less important. So, which trends should you factor into your innovation plans for the next few years?

Here's our take on the mega trends with staying power and growth opportunity:

- This is the big one: The physical/digital blur. Digital natives are going for physical presence while brick-and-mortar companies are going online.The trend of omni-channel, blended retail models is not only here to stay, it's growing rapidly and likely to spur new innovations, collaborations - and disruptions. Whether you're a manufacturer, distributor or retailer, your digital strategy must keep pace.

- More partnerships and acquisitions between large established firms and start-ups/digital natives to accelerate digital competency.

- Focus on the end-to-end consumer experience from search and buy to delivery and post-sales service. With the addition of tools such as AI, machine learning, sensors, VR, and AR, consumer buying patterns will become more data- and behavioral science-based. Wearables, voice (Alexa), and mobile will contribute to ease of purchase as well as data collection. The challenge will be balancing technology with human touch and privacy concerns; there could be backlash if algorithmic 'intimacy' goes too far or seems creepy. The winners will be those who clearly use technology and data to benefit the consumer more than themselves. Trust is paramount.

- Along these lines, more and more manufacturers will seek direct-to-consumer connection driven by pressure on margins and the quest for data to guide new product/service development. Relationships with distributors as well as retail outlets will become more complex as companies create their own e-commerce channels. The complexity is even greater as retailers (both online and in store) push their own private label and house brands.

- Smart products or services that 'mistake-proof' and/or do difficult tasks for you. Taking convenience a step further, AI and machine learning are enabling a new generation of products/services that not only save consumers time, they can save lives. (For example, PillPack and Hero Inc. help seniors and those with multiple medical prescriptions remember and manage their dosages; wearables, like the latest version of Apple watch,can monitor health and enable people to receive help even if they can't call 911, etc.).On the time-saving, efficiency front, smart home and smart kitchens will take care of security, product replenishment and more.

- More IoT and blockchain-enabled interactions, complex ecosystems, and M&A activity will require an exceptional level of collaboration capability. No company is an island - those that know and protect their core strengths and choose their partners wisely will succeed. Sharing data, knowledge, risk and profits/losses is a whole new - and mandatory - ballgame. Make sure your strategy and boundaries are clearly defined and well understood.

Read more >
http://innovationedge.com/2018/12/11/trends-and-predictions-for-2019-and-beyond-and-which-should-be-in-your-companys-innovation-plans/

Balancing long-term growth with short-term profits - making the business case

The importance of playing the long game cannot be overstated; meaningful innovation and growth takes time. Nonetheless, most innovation leaders are under pressure to deliver results quarterly. The following approaches to balancing both are drawn from our recent podcast.

1. What are the biggest issues faced by leaders when it comes to meeting long term goals?

Several months ago we conducted a pulse survey which found that short-term thinking, shifting priorities, and leadership expecting pay-off sooner than realistic are among the biggest barriers. For smaller firms, resource constraints are an additional barrier.

Anecdotally we also hear about risk aversion, resistance, 'fire-fighting,' project uncertainty, shareholder pressure, and aiming for quarterly earnings reports. One of the most divisive problems is treating innovation as a collection of separate projects that compete with each other for time, money, and attention rather than holistically as total innovation. This creates unnecessary conflict and emphasis on the wrong things.

2. What should leaders do to overcome these barriers?

The first step in overcoming barriers is making a strong business case for the long term. In our briefing report we share findings from McKinsey, Bain & Company, and others that demonstrate how investing for the long-term yields higher returns. For example, Bain found that on average, the value created by accelerating growth by 1% far exceeds the value created by increasing pre-tax margins by 1% on a sustained basis.In fact, the multiple of value created by growth versus margins is more than four to one!

McKinsey found that the revenue of long-term firms cumulatively grew on average 47 percent more than the revenue of other firms, and with less volatility (from 2001-2014). These firms spend more on R&D and continue to invest even in downturns. Ultimately, their financial performance over time was far greater and their market capitalization grew $7 billion more than that of other firms.

In terms of pressure from shareholders, companies like Amazon, Tesla, and Netflix have demonstrated that growth over the long haul is just as - if not more - attractive to Wall Street than profit in the short term. Amazon has achieved massive revenue growth by focusing on growth over net income, and investors have certainly realized the value.

Overall, expectations of ROI timing may actually undermine ROI amount. The biggest payback often comes from breakthrough efforts that can take 5 or more years to develop. Also, it is crucial to build a growth pipeline for the future - to think about the next ten years as well as the next few quarters.

3. Many leaders are torn between big bets with high growth potential and maintaining the 'bread and butter.' There's fear of risk and reluctance to commit resources. This may be the toughest obstacle - what can be done?

Many high-growth companies use a Three Horizon (3H) framework for this purpose. Based on the model introduced in 1999 in a book titled The Alchemy of Growth, there are several variations which help reconcile the competing demands of running current businesses and building new ones. Some refer to the horizons as Core, Adjacent, and Transformational, our IE model defines the three horizons as:

1. Incremental - including items such as line extensions or feature updates
2. Sustaining - higher value creations giving more competitive advantage
3. Breakthrough (or new-to-the-world/disruptive) - involves launching an entirely novel product or service rather than providing improved products and services along current lines. It includes expansion into new-to-the-company business areas (including new regions and geographies) or the creation of new-to-the-world products and services.

Horizon 1 (H1) activities generally address bottom line growth needs. Growth comes from maximizing the current profit pictures. Horizon 2 (H2) and Horizon 3 (H3) activities both address top line growth. We have found this model to be very effective in helping to balance resources and simultaneously deliver short- and long-term results.

Bottom line: Not losing sight of your long-term strategy is more critical than ever. While it's important to flexibly meet customers' changing needs and take action on new opportunities and threats, sustainable growth requires vision and commitment. If your company has not defined its long-term strategy, your course will be rocky. If volatility is causing doubt, remember that the most successful growth companies invest in R&D even in tough times. Believe in your vision - attend to Horizon 1, but make sure Horizon 3 is funded and well supported.

Innovationedge is a global strategic innovation consultancy with offices in Florida and Wisconsin. Our team's fearless champions of innovation break barriers to help executives define their strategy, develop capabilities, design a winning organizational structure, and deliver breakthrough innovations through a robust growth pipeline of sustainable solutions and new-to-the-world innovations.

Innovationedge also gives inventors an edge by crafting winning business propositions and creating strategic corporate partnerships that deliver commercial success.

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