

EPISODE 4

## Innovating Strategically

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It's Rob Llewellyn here and welcome to episode one of transformation management. Thank you so much for joining me today. As always, I'm going to do my best to help you get better equipped to manage and lead transformation.

In today's world of emerging technologies, markets and consumer demands, innovation is no longer a "nice to have" but a "must have" for any business. Because real economic growth depends on real innovation, and technology will play a key role in enabling those innovations to become reality.

Without innovation, efforts at digital business transformation are likely to lead to uninspiring attempts to keep doing the same things but with new technology, which might cut some operational costs, but is neither innovative or transformational. This is why innovation capability is such a key component of "effective" digital business transformation.

If you listened to episode two, you'll already know that I describe "The Delusion of Digital Transformation" as the tendency to label any project or programme involving digital technology as "Digital Transformation". And that those initiatives that will neither disrupt markets nor protect against disruption often lull firms into a false sense of security when executives are led to believe they are transforming their business. This is common when so-called digital transformation happens without taking innovation seriously.

The word 'Innovation' conjures up different definitions for different people, and while most companies proudly announce how innovative they are, many are yet to do any truly innovative. While most people do at least agree that it's good to be an innovator, how companies translate those good intentions into action vary dramatically!

Big companies don't easily reinvent themselves as leading innovators, and they've traditionally struggled to innovate in their business models. Too many fixed routines and cultural factors can get in the way. For those that do make the attempt, innovation excellence is often built in a multiyear effort that touches most, if not all, parts of the organisation. But they can be disruptive, if they identify and overcome their limiting beliefs about how to do business.

Few things frustrate creative people more than empty talk about innovation, and yet the "innovation" word is now so commonplace, with almost every company is proudly claiming that they innovate.

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Many leaders announce to their workforces about their commitment to innovation, and yet there are no innovation processes in place, no high-calibre innovation experts in the company and innovation isn't encouraged.

And so these companies fail to demonstrate any real success with innovation - although they'll do their best to persuade their workforces and stakeholders that the latest cost saving IT project was innovative.

So, does your company really innovate?

Are your people motivated, organised and rewarded to repeatedly innovate?

Does your innovation create new business models? Do you develop and launch innovations rapidly?

These are just a some of the questions that can test how good companies really are at innovation.

How do you motivate, support, and reward innovative behaviour among the right groups of people?

When strategy defines a direction and innovation defines the exciting unknown, how can you combine the two?

The innovation strategy firm Doblin (which is actually part of Deloitte) suggests there are ten distinct types of innovation that need to be orchestrated to bring about game-changing innovations.

They say that if you carefully orchestrate 5 or more of the 10 innovation types, particularly those types which most organisations typically ignore, you'll almost always get disruptive innovation.

A bold claim but let me briefly introduce those innovation types, and the three categories they each reside in

First there's the Configuration Category

This focuses on the innermost workings of the enterprise and its business systems.

The Profit Model is how you make money.

The Network is how you connect with others to create value.

The Structure is how you organise your assets and talent.

The Process is using superior methods for doing your work.

Next there's the Offering Category, which focuses on the enterprise's core product or service, or a collection them.

The Product Performance is how you develop distinguishing features and functionality.

The Product System is how you create complementary products and services.

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And lastly there's the Experience Category, focuses on more customer facing elements of the enterprise and its business system.

The Service is how you support and amplify the value of your offerings.

The Channel is how you deliver your offerings to customers and users.

The Brand is how you represent your offerings and business.

And the Customer Engagement is how you foster compelling interactions.

Go to [doblin.com](http://doblin.com) to learn more and pick up a copy of the book Ten Types of Innovation: The Discipline of Building Breakthroughs - by Larry Keeley, Ryan Pikkell, Brian Quinn, and Helen Walters. I've included a link in the show-notes at [robllewellyn.com/4](http://robllewellyn.com/4)

Another methodology is “The Business Model Navigator” which was developed by the Business Model Innovation Lab in St Gallen, Switzerland to help companies innovate their business models.

This methodology structures the process of innovation of a company’s business model and encourages creative thinking, which is a key prerequisite for successful business models.

The book "The Business Model Navigator" describes how, through extensive research involving hundreds of companies, they discovered that 55 business models are responsible for 90% of the world’s most successful businesses.

These 55 models can help you innovate your current business model through the four dimensions of who, what, how and why, that describe all business models.

There are four central dimensions used in the business model navigator, which are Who, What, How, and Value.

**Who** prompts you consider who is your target customer?

**What** prompts you to consider what you offer that is of value to the customer. Or in other words, the value proposition.

**How** suggests you ask yourself, how is the value proposition created?

And **Value** leads you to answer the very important question of "How does the business make money?"

You can download a free whitepaper about “The Business Model Navigator” and I've included a link to it in the show-notes at [robllewellyn.com/4](http://robllewellyn.com/4)

While the purpose of innovation is to create business value, the value itself can take many different forms, including incremental improvements to existing products, breakthroughs such as new products and services, cost reductions, efficiency improvements, new business models and new ventures. The process used innovate is to discover, create and develop ideas, to refine them into useful forms and to use them to earn profits, increase efficiency and/or reduce costs.

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The innovation process is similar to a funnel, with many ideas at the input stage that get whittled down to a few completed, useful innovations at the output stage. The trick to making it work is knowing what's supposed happen inside the funnel. Remember - ideas are the seeds of innovation, and often not the end-result.

Many innovations never see the light of day because the innovation process itself isn't aligned with the firms' strategic intent. If the CEO has assured the board that the firm is going to reach destination A, you'll find it very difficult to get the CEO and their executive team to get behind an innovation that would get the firm to destination B. Which is why you need to innovate strategically and be seen to be supporting the realisation of strategic intent.

That's not to say you can't be bold in your innovation. If the CEO doesn't know what they don't know, you should at least help guide them towards new possibilities.

You need to think about how innovation is going to add value to your firm's strategic intent, and how it might create strategic advantage.

If you have no innovation process in place yet, let me suggest an innovation exercise.

Don't impose any constraints on your creativity at this stage. Be brave, bold and possibly outrageous. The success stories we all read about involve people and companies who didn't care about how things have been done in the past. They created a new future, which is what transformation is all about.

Limiting thoughts such as, we can't do that, that's against policy, it's not done that way, it's stupid, we don't have the budget, and they'll never approve it should be excluded from this exercise. The people who say things are often the people who get in the way of transformation - because while they might talk about the notion of transformation, their mindset is still stuck in the past.

### **So, here's the challenge:**

First Define your firm's strategic intent - for the next 12 to 24 months.

Next answer the question - What are the top three threats that your firm is, or could be facing, within the next three years and - from where?

Next consider what problems can innovation solve for:  
Your workforce, your customers, your operations.

Then think about what competitive advantages do you want innovation to create:  
For your workforce, for your customers, for your operations.

In step five - aim to establish what innovative business models might disrupt your competitors. Be brave enough to consider what seems impossible to do in your business today, but if it could be done, would fundamentally transform what your business does.

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Next "Capture". To do this, have each person spend perhaps 15 minutes on their own writing all their ideas on to post-it notes. Working in their teams, each person can place their post-it notes onto an affinity diagram on the wall or flip chart.

Then you need to create a Short-List. But before going into this exercise, depending on the nature of your firm and the number of people involved in the exercise, agree on a shortlist that each team should reduce their list of best ideas to. Ten per team might be reasonable.

Finally, you need to Justify. Which involves describing how each idea supports your firm's strategy and objectives.

I've included a downloadable workbook in the show-notes. Basically, that describes all the steps I've just been talking through. So just go to [robllewellyn.com/4](http://robllewellyn.com/4) to download it.

If possible, you really should involve an innovation expert in this exercise. Someone who can help guide you along an innovation process. Because just like HR, Finance, etc, Innovation is a specialism and you shouldn't assume that people can become overnight innovation experts. Innovation sounds fun. But it's a serious profession and companies need to be serious about it.

So, if you don't have an innovation professional in your organisation, bring in an innovation consultant for a few days. It could pay huge dividends later down the line.

Measuring innovation performance is critical to understand if the investment—the time, all of the activity, and all of the capabilities being built to push innovation—is actually amounting to anything. You need metrics that can prove the value of innovation. But that's for another day.

In summary, although well-established companies tend to be better executors than innovators, innovation now needs to become a permanent activity across the organisation. It needs to become a permanent function like finance and HR - not an occasional novelty event. Unless innovation gets processes to structure, organise, and encourage it - it will at become a random and poorly managed activity, which will often result in little if any real value for the business.

I appreciate you listening, and here's a quote to finish off the day from Jeff Bezos.

"I think frugality drives innovation, just like other constraints do. One of the only ways to get out of a tight box is to invent your way out."

How can you help your company invent its way out of the past?

I hope you enjoyed this episode. Thanks for listening - Take care and I'll catch you in the next episode of transformation management. Bye.