



# INNOVATION

## THE NEW CURRENCY OF SUCCESS

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In the competitive global business climate, innovation is the new yardstick of success. Beyond originating products, companies must also devise innovative business models.

**A**s consumer confidence in the economy returns and global markets regain strength, companies in all industries are jostling for the top position in the uber-competitive new economic climate. To win the battle, businesses must recognise that genuine innovation is the new currency of success.

According to Senator Kim Carr, Minister for Innovation, Industry, Science and Research, the Australian economy is at a tipping point, with profound consequences for business, the economy and our way of life, and innovation is its only saviour. "As a country, we are facing serious competition on a global scale," he says. "If we don't deal with that properly it will mean we can't maintain living standards and our way of life."

Carr believes innovation is key for Australian businesses to remain competitive in the tough domestic and international markets that have become

constricted since the GFC. Those who don't invest in innovation, he says, are locked into a race to the bottom. They will be forced to cut production costs and drop prices in a downward spiral that will guarantee their eventual demise.

"We must ensure we're involved in a race to the top in terms of providing economic opportunities for all people, not a race to the bottom by cutting wages, lowering standards or reducing quality," he says.

Carr believes the Australian business community must shift its perception of innovation as an easily cut cost to an essential investment in the future. Fortunately, Australian businesses seem to have received the message.

The latest edition of the Innovation Index of Australian Industry, published by IBM Australia and the Melbourne Institute, reveals a significant rise in innovation activity during the brunt of the GFC. After three years of flat >



innovation growth between 2005 and 2007, the report shows a rise of 6.1 per cent in innovation activity between 2008 and 2009, measured by the level of investment that Australian companies dedicated to research and development programs. That's almost double the average rate of increase since 1990 and an indicator that a significant number of Australian businesses resisted slash-and-burn cost cutting during the economic downturn and ramped up their investment in innovation instead.

**INNOVATE TO SURVIVE**

It may seem counterintuitive to expect companies to dedicate more funds to innovation – a money-hungry business function geared more towards long-term results than a short-term windfall – while fighting to survive during a time of economic distress. However, many of today's global business juggernauts

successfully gambled on innovation when others were cutting costs.

During the Depression of the 1930s, for instance, DuPont poured money into research and development and came up with nylon. It was

**During the Depression, DuPont poured money into research and development and came up with revolutionary nylon.**

the first successful synthetic fabric and a product that revolutionised everything from parachutes to pantyhose. At about the same time, a little company called IBM built a new research centre, while Douglas Aircraft debuted the DC-3 airplane, cornering 90 per cent of the passenger airline market within four years. During the US recession of 1969, Hewlett-Packard invested in research that led to the invention of the pocket calculator. More recently, in the wake of the dotcom crash of 2001, multinational Apple rose above the fray on the back of its new iPod.

By innovating during a financial downturn, those companies took advantage of the cheaper labour and production costs that come with a distressed economy. They then catapulted past their hibernating competitors in the next business cycle when their new products were snapped up by consumers in a recovering economy. Meanwhile, ▷

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Above, from left: Despite the Depression, DuPont invested in research and development to invent nylon; The Depression was a catalyst for innovation for some businesses.

the companies that focused on inward-looking cost cutting and allowed research and development to stall were forced to compete on price with their outdated products. Essentially, they were locked into a race to the bottom while the innovators soared to the top.

Columbia Sportswear Company is one business that has taken on board the lessons of history. In the midst of the GFC, its research and development department was busy working on its new Omni-Heat technology. Columbia Sportswear Company's breakthroughs in thermal reflective material, eco-friendly insulation and an innovative heating element that is activated at the touch of a button boosted its product range and gave the company a competitive edge when its rivals were clinging to old technology.

The company's latest financial results are a testament to the power of innovation. During the third quarter

Below, from left: Douglas Aircraft's DC-3 revolutionised air travel; The HP-35 was the first scientific pocket calculator. It cost US\$395 in 1972.

of 2010, following the launch of the Omni-Heat range, net sales increased by 16 per cent to a record A\$504 million, and net income climbed 11 per cent to A\$51.1 million. The results were so positive that the company

was compelled to revise its full-year 2010 outlook to account for a projected 18 per cent net sales increase.

"Sportswear companies have traditionally bought their technologies," says Woody Blackford, vice president of Global Innovation at Columbia Sportswear Company. "They go to companies like Gor-Tex, Polartec and 3M to get their materials and, as a result, everyone has essentially the same product. By bringing other ideas to the market that are our own, we've achieved a very positive consumer response. That's really central to our reason for investing in innovation.

"Long-term, I hope our Omni-Heat innovation contributes to happy consumers who are buying Columbia sportswear because they are really pleased with the results and can't get the same from our competitors. Through constant innovation [it's possible to] create a situation where consumers >

#### FIVE TIPS FOR INNOVATIVE THINKING

1. Look beyond your product. Innovation applies to all business functions.
2. Consider your business model. In addition to what you sell, there is potential for innovation in how you do business.
3. Don't censor your ideas. Holding back in a brainstorming session for fear of ridicule will dampen your powers of innovation.
4. Maintain objectivity. Know when to pull the plug if an idea isn't working.
5. Commit to a time line. Innovation requires an extended period of research and development.

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are excited about your next product because they really enjoyed their previous experience [with your brand].”

#### BEYOND THE PRODUCT

While sexy new smartphones certainly attract the consumer’s attention, product innovation is only part of the story. Auckland-based home and kitchen appliances company Fisher & Paykel is known for product innovations such as the DishDrawer dishwasher and the IZONA CoolDrawer refrigerator. However, it is understanding the importance of process innovation – meaning innovation applied to the way you do things, as opposed to the innovation of the product you sell – that underpins the company.

“Innovation has become a buzzword, but the real challenge is taking an innovative idea from the drawing board and commercialising it,” says Stuart

Broadhurst, CEO and managing director of Fisher & Paykel.

“Businesses have to continually innovate across a wide range of business functions to stay competitive. For some time we had

been product focused, but the transition [to commercialising our ideas] involved getting all the other parts of the business to give us that competitive advantage as well. Manufacturing was one of those. We realised we needed an advantage there, so now we build our own production lines and, as a result, have developed a company that builds production lines for others.”

Indeed, innovative thinking can be applied to the DNA of your business model. Fisher & Paykel, for example, was able to see beyond its prime function as a home appliances manufacturer and found an additional revenue stream in building industrial production lines. Recently, the company started licensing its technology to other manufacturers, including a revolutionary refrigerator compressor that promises up to 30 per cent better energy efficiency than anything else currently on the market. ▷

Above, from left: Columbia Sportswear Company’s research and development during the GFC has paid off. The iPod spawned a new business for Apple.

## innovation

### BE AN INNOVATOR

You don't need to peddle a shiny new product to be an innovator. Here are some ways to innovate in any business sector.

#### Customer service

Consumer needs change constantly and companies must find ways to serve them. Business models such as DVD vending machines and supermarket self-check-outs are all about serving the time poor.

#### Production

In most cases, a series of tasks is required in the manufacture and delivery of products. Applying innovative thinking to the production line increases efficiency.

#### Engineering

Breakthroughs and advances in machinery and computer hardware and software can have fundamental effects on the way you do business. Think innovatively about how your business can use new technologies.

#### Marketing

Social media has given marketers a new way to communicate with consumers. Market penetration is essential to business success, so finding new ways to interact with your customers is an important area of innovation.

#### New markets

Many businesses have the potential to tap into new markets or even create them. Apple transformed itself from a struggling computer company into the largest seller of online music through the synergy of product innovation and service innovation.

"That gives us diversification within our business," Broadhurst says. "You can't rely on an innovative product alone."

Innovation is no less important for companies that don't manufacture a product. "Most people think that if they don't manufacture anything, innovation is not relevant to them," says Dr Rowan Gilmore, CEO of the Australian Institute for Commercialisation. "However, product innovation is all about enhancing the value proposition of a business, while process innovation is about improving your activities to deliver that value proposition to customers. It goes to the core of how you do business and how you think about your business model."

Gilmore cites Apple as the prime example of a company that has applied a high degree of innovation to the structure of its business model. While he admits the iPod, iPhone and iPad are innovative products, he argues that Apple's true

brilliance is its innovative business model. Apple's products are a platform for the company's real cash cow, iTunes, and have created a new market in the sale of iPhone and iPad applications. Apple has sold 10 billion apps

in two and a half years while sales of its iPod consistently decrease, diving by 7 per cent in the final quarter of 2010.

"Apple's revenue has risen significantly as a result of the company transforming itself from a computer company to the biggest online seller of music," Gilmore says. "And look at all the apps that Apple sells. The company gets independent developers to make them, so there's little investment there for huge returns." In fact, Apple posted record revenue in the last two fiscal quarters, boasting an incredible A\$26.29 billion revenue for the quarter ending 2010.

"Efficiency lowers costs so you can compete on price, but innovation creates value so you can charge more," Gilmore continues. "Apple is not the market leader in smartphones, but it is the leader in terms of revenue because it does things that other companies don't. Yes, Apple has a high degree of product innovation, but it's the company's innovative business model that is really paying off."

Similarly, Broadhurst believes Fisher & Paykel's innovation of both product and process will be the measure by which other companies are judged in the future. "Innovation is absolutely fundamental to our survival," Broadhurst says. "You can't be a one-trick pony any more." ■

Below: Fisher & Paykel looked beyond its prime function as a home appliances manufacturer to create an additional revenue stream in industrial production lines.

