

# TOP 10 Reasons Why We Need INNOVATION

by Lorraine Yapps Cohen

The last century has been full of innovation. New technologies, new products, new services, whole new industries have emerged. Yet the call for innovation in business has never been more intense. Why? Here is my list of the top ten reasons for why we need innovation.

## **10. For economic growth**

This is the most often cited reason for needing innovation. Innovation is the route to economic growth. Industries are maturing. Products are maturing. Innovation is the creation and transformation of new knowledge into new products, processes, or services that meet market needs. As such, innovation creates new businesses and is the fundamental source of growth in business and industry.

## **9. For the progression of human well-being**

This may be the least cited reason for needing innovation but perhaps the most important result of achieving innovation. As given in number 10, innovation creates new businesses. As such and at the same time, new businesses create new jobs. For reasons obvious, new jobs create personal income and thereby provide the where-with-all for achieving the personal well-being of humans.

Innovative new products are essential to the progress of any society. Imagine if we had not progressed beyond stone-age tools and implements: we might go home tonight and do a load of laundry by banging our socks with a big stone in the neighborhood stream. New products respond to the wants and needs of the populace and stimulate higher standards of living. The processes of developing new products provide employment and economic well-being for those directly associated with them and for persons employed in supporting industries. Thus, when innovation processes are properly managed (the proper management of innovation processes is the subject of another discourse), an expanding variety of new products stream forth. These products respond to the changing needs of a society whose welfare is constantly increasing.

## **8. For competitive advantage**

Companies that use and act on their insights get a jump on the competition. They are the competition. They leave behind those that are lulled by the security of strong, enduring economic performance and the conventional corporate wisdom that stays the course. Often, the leader loses. The battle is swift; it's too late to respond. This is not a theory. It is fact.

- o Michelin captured the US tire market when it introduced radials.
- o Citibank made its competitors look old-fashioned when it introduced ATMs.
- o Sony grabbed the recorded music market with the introduction of the compact disc.
- o The Japanese gained advantage over the Swiss with digital watches.
- o Text processors, now computers, obsoleted Smith Corona's product, the typewriter.

Examples abound.

## **7. Because cost-cutting is not enough anymore**

Profit = revenue – cost. The profit equation shows that for profits to grow, or even be maintained, you've got to manage cost, even reduce it. It is the most obvious way to grow profits. And companies have been doing this: with technology; by downsizing; through re-engineering. While U.S. companies have been very good at squeezing the last ounces of efficiency out of their organizations and work processes, and while companies have pared their costs to the bone, many are looking anorexic. These practices simply allow you to stay in the game, to stay in the business. They alone are not enough.

## **6. Desire for higher business revenues**

On the same side of the profit equation as cost is the revenue term. It is the most often neglected term, but it takes only a little insight to see that profits can be increased by increasing revenue. With costs reaching bottom and few opportunities to reduce them further, companies can turn to increasing sales. Marketing innovations come to mind here and do well to sell more of what you have to sell. But new products and services bring in new revenues too. Innovation sells.

## **5. To improve disappointing performance from past decades of U.S. firms**

It has been suggested that the disappointing performance of U.S. firms during the 1980s in technology-intensive, global markets was from failure to improve upon products and processes. It has been cited that "the U.S. makes the breakthroughs, while other countries, especially China and Japan, provide the follow-through." Revolutionary innovation has been contrasted with less dramatic advancements. Incremental improvement can turn products over and get more, newer models out. This may all sound dull, but the achievements can be exhilarating. American firms may have failed to follow up on their breakthroughs with such continuous improvements. Where there were successes, they were built upon a combination of breakthroughs and incremental improvements. It is the subject of yet another discourse as to what constitutes an innovation: a breakthrough or an incremental improvement, or both, and/or everything in between.

#### **4. To take advantage of opportunity**

It is no surprise that surprises, often disappointing surprises, are the seeds of innovation. Take the oil companies. It is no surprise that some oil companies are becoming oil-and-gas companies. Why? Because gas is found more often and in greater abundance than oil is. After the surprise and disappointment of continued gas finds, oil companies realized that opportunity might be presenting itself. With large amounts of a raw material considered to be the less desirable one, you can be sure that utilizing the abundant raw material in hand became the focus of many innovations in the oil industry.

Take 3M's Post-It notes. You know this story. A researcher was disappointed in the laboratory with the poor sticking performance of an adhesive he was working on. The poor sticking performance became the basis of removable but staying-in-place pieces of paper. The sticking performance was the disappointing surprise that was turned into an innovation for those who would recognize it as such. It is the subject of yet another discourse as to the role that serendipity and recognized opportunity play in innovation.

#### **3. For a more constant flow of innovation**

For some companies, it's feast or famine. They find themselves either scooping up the wealth of new ideas turned into new products or waiting for one to arrive. Or pouring money into existing operations with no visible new

output. Or cutting back so hard that output is a trickle. Innovation — and the deliberate systematic management thereof — can even out the surges and slumps by providing a continuous stream of ideas for the innovation pipeline.

## **2. For better returns**

Innovations themselves not only break the mold (i.e., are truly novel, different, never done before), but also yield far better returns than ordinary business ventures. One American study found that the overall rate of return for some 17 successful innovations made in the 1970s averaged 56%! Compare that with the 16% average return on investment for all American business over the past 30 years.

I might say I think even 16% is high for the average hurdle rate for new projects. In your company, what is the hurdle rate — what is the expected return for projects to be considered? A-hah! Then, is your company really looking for innovation?

And the number 1 reason why we need INNOVATION . . .

## **1. For business survival**

As Alan M. Kantrow, former editor of Harvard Business Review, once put it, "For companies to survive a discontinuity (Kantrow is referring to S-curve discontinuities or major innovations that change the nature of the game: the subject of yet another discourse), they must face the rather unpalatable reality that there may have to be fundamental changes in who they are, what they do, and how they do it, as wrenching and dislocating as it may be." In a real sense, they will have to undergo a metamorphosis. Kantrow does not discuss the alternative. It is not a subject for further discourse.

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