

Business Building – an Innovation based approach

By Roger La Salle© 2007

In reality there are only two ways to improve business outcomes:

- Reduce costs and so increase the margins or profits on what you are presently doing
- Increase revenues by making more sales.

Reducing costs is what process innovation is about, that is, finding better ways of doing what you are already doing. If you can achieve that then profits will clearly improve as costs come down. However, unless the aim of process innovation is to open up new markets built on a lower priced offering, process innovation alone is seldom used as a long term business building strategy. Obviously there are limits to effective cost reduction, and businesses need to build revenues to grow.

In terms of growing revenues there are essentially three ways that this can be achieved:

- Sell more of the same to the same markets – this is short term strategy
- Sell more of the same to new markets – this is a longer term and more expensive strategy, but be assured this option will eventually lead you back to competitive stagnation
- Sell more of different offerings to old and new markets – this is the innovators approach and delivers long term growth and prosperity.

Sell more of the same to the same markets

Selling more of the same maybe a good short term strategy for revenue building, but has its obvious limitations in market size, product obsolescence and competitive pressure.

It is interesting to observe what generally happens to any successful business that is not in some way protected either by regulations, such as banks and casinos, a very high market entry price, like trying to become another SONY or Mercedes Benz, or by patents and copyright, such as becoming the next Polaroid with its patented instant develop camera.

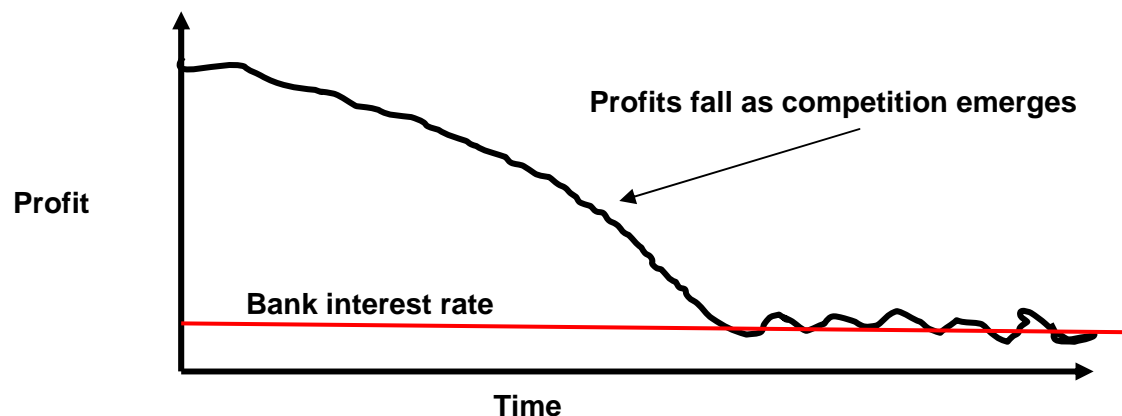
Competing with a stagnant offering or on price alone will drive you into a never ending downward profit spiral with your competitors as they match and better your prices, only to have you react by doing exactly the same. This is a no win situation for all. Indeed this realisation is what led to the creation of the now outlawed price fixing cartels as companies realised they were all becoming involved in a losing game.

Have a look at some business that have flourished in recent times, fruit juice kiosks, video rentals, Internet ISP's, convenience stores, especially in the cities, internet search engines, on-line auctions, just to mention a few.

The early entrants to these businesses were in most cases extremely successful. The first 7/11 shops were hugely profitable, so too the early juice bars and the video rental shops. As soon as people observe successful new and highly profitable

businesses emerging what happens, other see the opportunity and also enter the same market with like products and profits inevitably tumble.

If one looks at the model for the growth and maturity of such business you will see that as new entrants enter, profits begin to fall and as more enter, profits decline even further until profitability is a little above the prevailing interest rates. After that, there is simply no point in entering that type of business. Further, as profits have declined to near the interest rate levels these businesses then become subject to minor changes in economic conditions. If interest rates climb too much, businesses start to fail as they cannot survive in low profit enterprises. Eventually the industry "shakes out" and stabilises as OK, but not the fabulous businesses as they initially were.



This is exactly what will happen if growth strategy is focused on simply selling more of the same. Saturation will inevitably occur, either by your own efforts, product obsolescence or by competitors entering the business to take some of the market.

In short, business growth founded on more of the same products to the same markets is not a long terms survival strategy.

Selling more of the same to new markets

Finding new markets for existing products is a good growth strategy and because the products being sold are already available there is only a relatively low cost of failure as large sums of money no not have to be spent developing new products.

However, notwithstanding that this maybe a low risk strategy, eventually the competition will find you and these new markets will also become saturated as new entrants seize the opportunity to build on your "trail blazing" endeavours.

Indeed it is your risk taking in finding and developing these new markets that provides the very opportunity for new entrants.

Sell more of different offerings to old and new markets

Introducing ever improved products and services is by far the best way to grow and prosper in business. The world's best companies excel at this, the motor car companies, the fashion houses, the software companies, Microsoft in particular, the electronics companies; all of these are top rate companies and all excel at innovation. Their product portfolio and ever increasing market reach speaks volumes for new and better products as a business building strategy.

Businesses operating in these unprotected waters that have continued to grow and prosper have found ways to retain and grow their customer base.

Examples include:

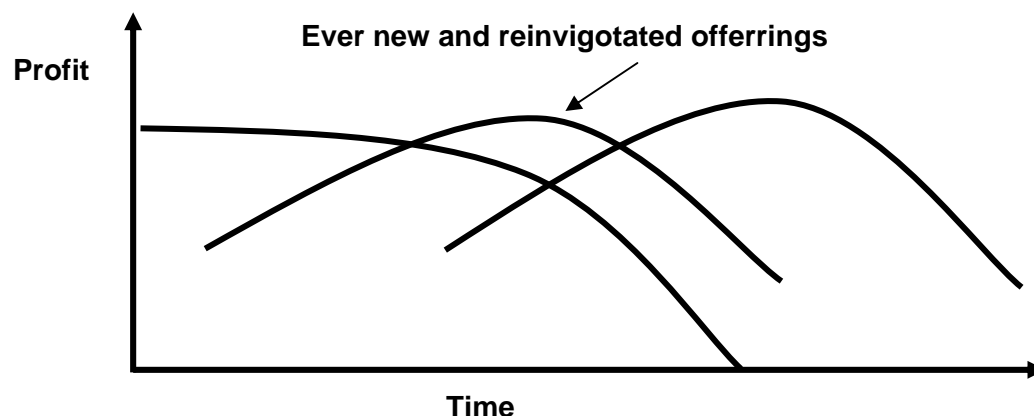
- McDonalds
- Toyota
- Microsoft
- Nokia
- Apple

The one thing that all of these businesses have in common is that they are great innovators.

Consider some of these:

- McDonalds is presently re inventing itself as healthy with more and more health food coming on to their menus
- Toyota is the best in the world at producing quality vehicles with new innovations being added to every new model and the upmarket LEXUS range that competes with other top end brands.
- Microsoft is possibly the world champion at innovation with new non backward compatible versions of its product coming onto the market every three of four years.
- Nokia came from virtually nowhere to take the lead in the cell phone business when MOTOROLA created an opportunity with its initial inferior phones. NOKIA, now the world leader is fighting to retain that spot with new models and more innovations at every turn.
- Apple with the original i-Pod and now endless innovations on the same theme including a plethora of accessories to add to the product offering.

Innovation is the process by which you can continually renew your business so that as the profits of your competitors erode in the typical life cycle of any product yours will be continually reinvigorated by improved offerings to produce a rolling growth effect.



Whilst this innovation imperative is presently a “hot topic” in business, a lot has been done to add an air of mystery to this relatively straight forward task. The basic problem gets down to one of understanding what innovation actually means, and moreover how it can be undertaken. Further, if one embraces the true meaning of innovation, then the single biggest risk in launching a new product or service, that of market risk or market failure can be virtually eliminated.

The word innovate means to change, nothing more. Thus if we define the word innovation to mean “change that adds value” then the way forward becomes a clear

and systematic process that can be implemented time and again to ever migrate your business and customers to an ever better place.

Further, by innovating existing successful products and services the risk of market failure is virtually eliminated. No longer is it necessary to rely on the often dubious results of market research to inspire an entirely new offering. If a product or service is selling well and you introduce a new and better offering, at perhaps an even a better price, then clearly the likelihood of market failure is small as the improved offering takes over from the old.

Of course the opportunity to see a competitive or indeed an entirely new product that has won the market and to innovative that and go back to the market with a better one should also not be ignored. Indeed it is this very strategy of so called innovation that underpins the concept of **“Fast Second”** as a valid business model.

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