The Need for Speed:
How Digital Specialists Revolutionized the Innovation Cycle

"Innovation has nothing to do with how many R&D dollars you have," Steve Jobs once said. "When Apple came up with the Mac, IBM was spending at least 100 times more on R&D. It's not about money. It's about the people you have, how you're led and how much you get it."
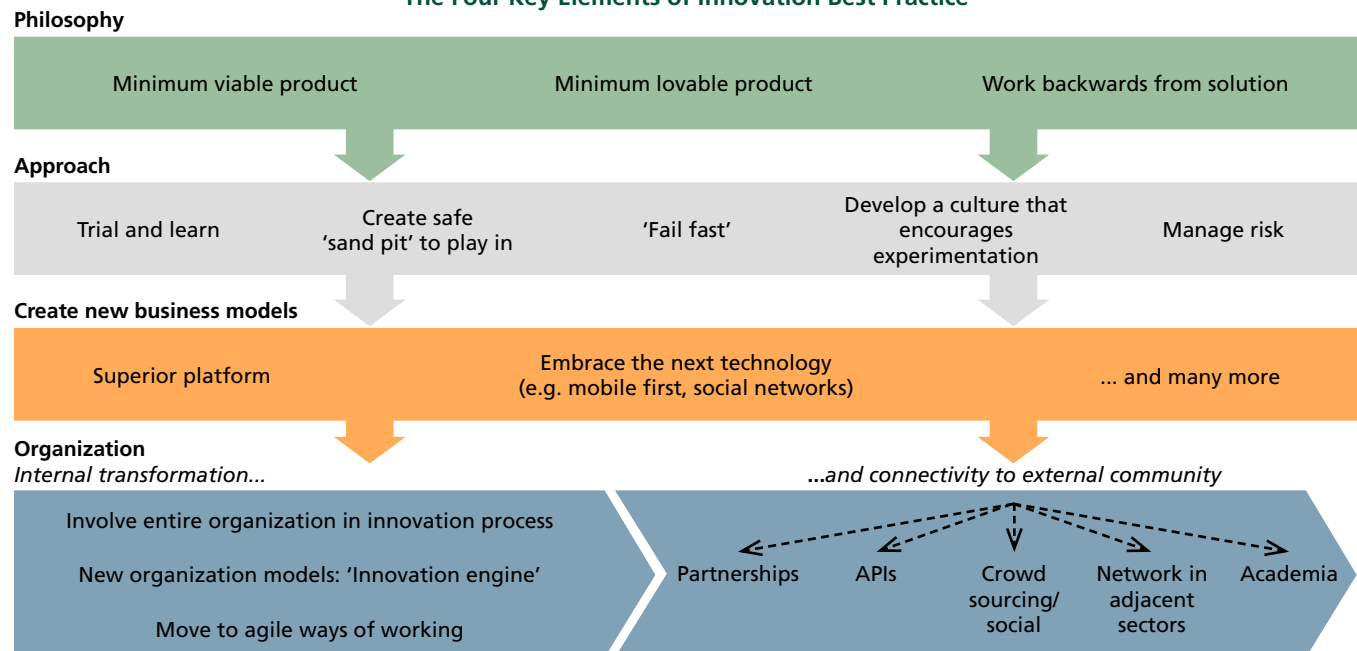
For those large corporations routinely outwitted by comparatively small digital specialists, these words will touch a painful nerve. But rather than throwing yet more money at an

innovation pipedream, it is surely time to sit down, take stock and figure out how to do it better and smarter.

Speed is at the heart of innovation best practice in the digital world: speed to market, speed of learning and speed of adaption. By examining how digital specialists handle innovation and achieve such fast innovation cycle times, L.E.K. Consulting has identified exactly what it is that sets them apart. To avoid becoming irrelevant, established companies that compete with

Figure 1
The Four Key Elements of Innovation Best Practice

Philosophy
- Minimum viable product
- Minimum lovable product
- Work backwards from solution

Approach
- Trial and learn
- Create safe 'sand pit' to play in
- 'Fail fast'
- Develop a culture that encourages experimentation
- Manage risk

Create new business models
- Superior platform
- Embrace the next technology (e.g. mobile first, social networks)
- … and many more

Organization
Internal transformation…
- Involve entire organization in innovation process
- New organization models: 'Innovation engine'
- Move to agile ways of working

…and connectivity to external community
- Partnerships
- APIs
- Crowd sourcing/ social
- Network in adjacent sectors
- Academia

Source: L.E.K. Consulting analysis

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them must look to adopt their practices. Others lucky enough not to have to compete directly with digital specialists can still learn a great deal from a proven innovation model.

We believe there are four key elements to this new approach to innovation. Digital specialists have an overarching philosophy towards innovation; common themes recur in their practical approach; they have devised appropriate organizational structures and processes; and they often invest in superior platforms that enable faster innovation or adopt other clever twists to an existing business model (see Figure 1).

Overarching Philosophy

Among the innovation philosophies practiced by digital specialists – businesses which develop products and services enabled by, and traded through, digital technology – we have observed three that are especially powerful: 'minimum viable product,' 'minimum loveable product' and 'working backwards.'
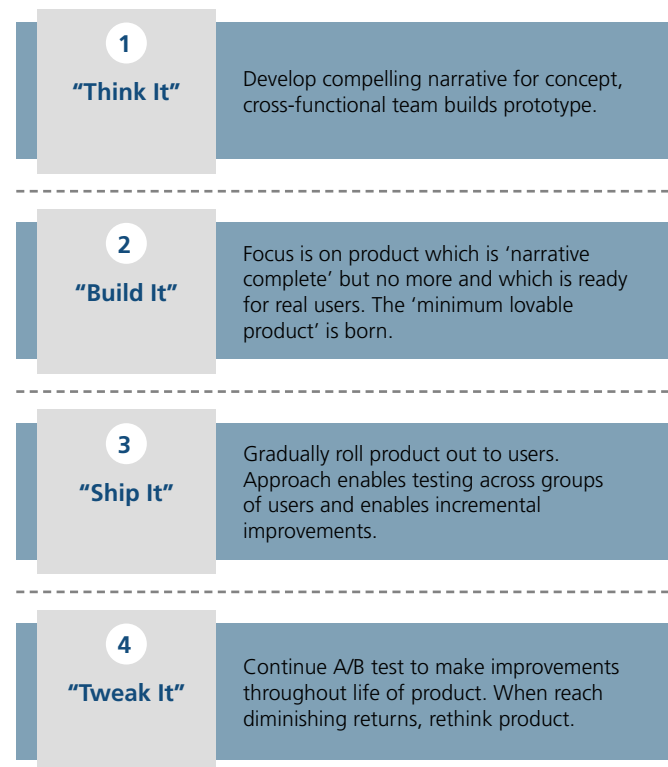
The 'minimal viable product' philosophy is intended to start the process of learning as quickly as possible. It also draws on the insight that customers often don't know what they want until you put something into their hands and they 'get it.'

Dropbox, the online file sharing company, is an exemplar of the minimum viable product philosophy. Dropbox was designed to solve the problem of file synchronization – a problem customers didn't really realize they had until they experienced a solution that worked seamlessly. Building the Dropbox service would involve a major financial investment and customer demand was very uncertain. In this case the minimum viable product was not a working product at all; rather, the company simply released a video demonstrating how the service would work. The video went viral among the technology early-adopter community, prompting an extremely positive reaction and giving confidence in the required investment. The company thus avoided the risk of spending a vast amount on creating something that few people would ultimately want. This minimum viable product philosophy is common within the digital development

community as a means of starting the learning process as early and as cheaply as possible.

A closely related variant is the 'minimum loveable product' philosophy, championed, for example, by Spotify, the music streaming service. The idea here is to pinpoint the compelling narrative of a given product, and then release something which contains this essence, but without full functionality. The product is conceived, launched and continuously refined through a four phase "Think it, Build it, Ship it, Tweak it" approach (see Figure 2).

Figure 2
Minimum Loveable Product Approach

1 "Think It"	Develop compelling narrative for concept, cross-functional team builds prototype.
2 "Build It"	Focus is on product which is 'narrative complete' but no more and which is ready for real users. The 'minimum lovable product' is born.
3 "Ship It"	Gradually roll product out to users. Approach enables testing across groups of users and enables incremental improvements.
4 "Tweak It"	Continue A/B test to make improvements throughout life of product. When reach diminishing returns, rethink product.

Source: Henrik Kniberg 'How Spotify Builds Products'

The 'working backwards' philosophy is utilized by Amazon. Here, the development team first sets out the description and benefits of a prospective product in a mock launch press release, and then subjects the document to internal scrutiny prior to any major product development work.

If the benefits in the press release do not persuade the internal audience, then it follows that the product itself would struggle commercially. It is also considerably easier and cheaper to iterate an imperfect press release than to amend a launched product. Once the press release gets the green light, the product can then be developed according to these agreed fundamental characteristics.

Practical Approach

There are certain common themes in how digital specialists approach innovation. These include:

- **Trial and learn** – This approach involves learning from real users very early in the innovation process, as detailed in the Dropbox and Spotify examples.

- **Create a safe 'sand pit' to play in** – When companies want to innovate and test new ideas quickly, they should take care not to perform this trial-and-learn process in areas critical to the business, where the costs of potential failure are extremely high. Digital specialists have understood that new ideas are best tested in environments where risks are limited (e.g. with subsets of users or self-selecting groups of enthusiasts eager to try the latest product in an early form).

- **Fail fast** – This approach represents a logical progression from the earlier trial-and-learn formula. If the product is not working, then companies should stop and rethink at that point, rather than refuse to accept reality and carry on regardless.

- **Culture of experimentation** – An environment is created in which new ideas are actively encouraged, and where failure is not frowned upon or punished. This is a culture foreign to many more mature companies, where the emphasis is on incrementally improving the efficiency of an existing business model, rather than on innovation.

- **Manage risk** – Different types of innovation should not necessarily be subject to the same internal corporate governance. There may of course be high costs of failure associated with a new product, in which case very rigorous governance is appropriate; but other types of innovation may benefit from a lighter touch, allowing the company to launch some products earlier than would otherwise have been possible.

The results can be remarkable. With the right platform, the innovation cycle can be measured in days or weeks rather than months as shown in the example below of a high growth online travel agent (See Figure 3).

Figure 3
Innovation Cycle of an Online Travel Retailer
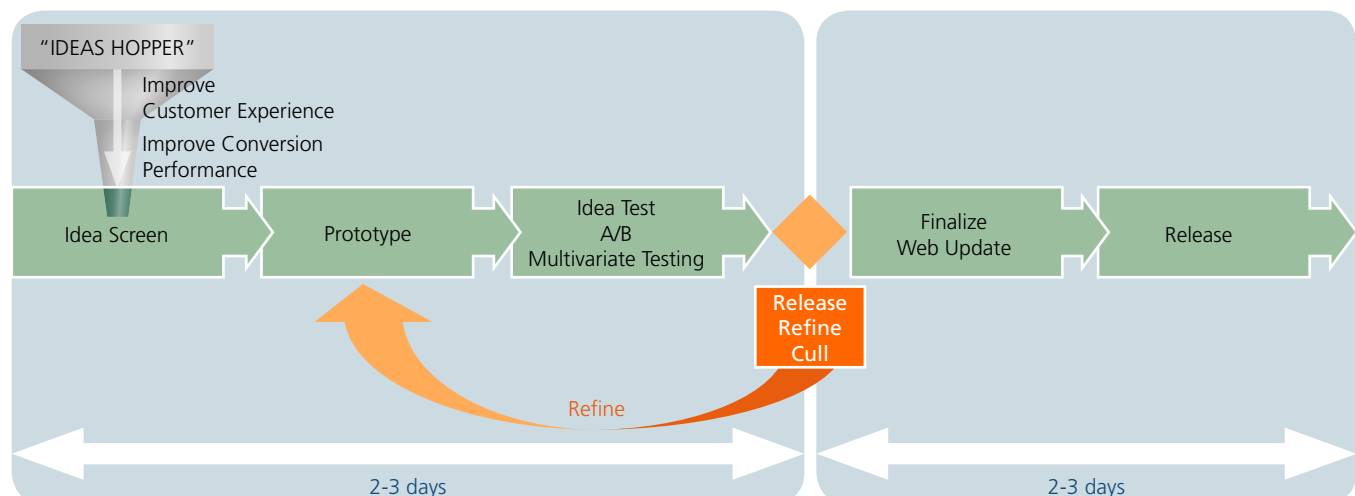
Source: L.E.K. Consulting analysis

Twists to Established Business Models

The leading digital specialists have typically opted to apply a clever twist to an existing business model, rather than to simply copy one and seek to apply it more efficiently in the digital world.

We highlight two examples, among many, of business model modifications that have been used by such companies:

- **Create a superior platform** – Kobalt has redefined the music publishing industry model, which previously involved a long chain from the original copyright owner through regional and domestic publishers, to the eventual end user. The company created an automated platform to operate directly between the copyright owner and the end user or collection society. Not only is the process leaner, with more money reaching the copyright owner more quickly and with far greater transparency, the platform also enables much faster innovation and therefore sustainable competitive advantage.

- **Embrace the next technology**
  - **Mobile first** start-ups realized that the mobile app experience and usage was fundamentally different to that of the PC, so they designed services primarily for mobile from the beginning. Services such as Instagram's photo-sharing and Foursquare's location-based check-in were the result, examples of mobile first design leapfrogging established web-based competitors. Even the mighty Facebook was at first caught out by mobile first competitors and needed to reengineer the whole company in order to compete (and in its race to catch up bought Instagram for $1bn).

  - Asos, the online fashion retailer, goes well beyond standard digital marketing to integrate with **social networks** at every stage. Understanding that the fashion zeitgeist can change very quickly, it uses social networks to garner real-time customer feedback, which shapes how products are ranked and promoted, influences pricing and production volumes, and provides input to designer guidelines.

The Organization: Capabilities, Structures and Processes

Google is a prominent example of a corporate culture that emphasizes innovation. For many years they employed a 70/20/10 principle that, "…everyone should spend 70% of their time on their core job, 20% as part of another team, and 10% on something blue sky," according to Eric Schmidt, Google chairman. At Google, the test-and-learn process is institutionalized – teams present ideas to an audience of colleagues (similar to the concept practiced in the television series "Dragon's Den") or test prototype products in internal 'demo days,' both of which enable product weaknesses to be identified and rectified early on. The company also goes out of its way to encourage bold thinking and to systematize learning from mistakes. For example, it offers a "brave penguin" award for the team that has tried hard but failed to get new product ideas off the ground.

If companies don't have innovation in their core DNA like Google, they can still foster innovation by creating the right organizational framework, which itself depends on the nature of the problem that the company is trying to solve. Is there a shortage of innovative ideas? Are there plenty of innovation initiatives but the entity struggles to execute and ideas run out of steam? Does the business lack real 'break-out' ideas? Each of these problems suggests different organizational solutions.

The skills and working culture needed to produce true 'break-out' innovation are typically very different from those that may improve performance incrementally in an established business. In these circumstances companies may need a dedicated team with the necessary time, skills, culture and senior-level sponsorship to conceive and develop new ideas.

However, innovation also relies on the capabilities and subject matter expertise residing in the main business. The actual innovation team is therefore a combination of dedicated innovation resources, together with shared resources from the main business, devoting an agreed proportion of their time to a particular project. In this way, companies can create

an innovation engine alongside the high performance machine of the main business.

Innovation initiatives, such as new product development, are typically run on a project basis and an organization's approach to project management can play a significant role in its speed of innovation. Technology specialists commonly use Agile methods, of which Scrum is the best known example, and which have a number of defining characteristics:

- A single product owner who defines requirements, prioritizes the product backlog of work required and defines 'done'

- Cross-functional, self-organizing teams to undertake the work

- A "Scrum Master" who removes barriers to the team's work and facilitates adoption of the Agile method

- "Sprints," which are time-boxed efforts, of typically a month or less, during which the next useable product increment is created and accepted as 'done' by the product owner

- Discipline – during the Sprint the end date and deliverable do not change

Agile methodology is not strictly choreographed and is more like rugby than ballet. There is a rough game plan where everyone knows their role and position and the team surges forward. When a problem arises there is a scrum down, the team takes responsibility to find a solution, then play moves on.

> **"If everything seems under control you are not going fast enough"**
> *Mario Andretti*

While this approach was first developed for complex IT projects, it is applicable to most types of innovation. We have seen it applied successfully in a number of product, pricing and customer service innovations.

Finally, companies must take care not to rely solely on ideas generated from within. Digital specialists have typically sought to create an external network, enabling them to gain access to many other innovation sources. This may mean partnering with companies with complementary capabilities, links to academic institutions, or sharing ideas on themes of common interest with companies in the supply chain or from non-competing sectors. APIs are a powerful way of leveraging owned content, under rules that the company controls, in order to access the innovation ideas of entrepreneurs and third parties. Crowdsourcing and social networks can also be drawn on, as companies seek to elicit new ideas from customers and enthusiasts on a particular issue or problem.

The Need for Speed

Driven by new technology and changing customer behavior, digital specialists have been at the very forefront of innovation, delivering innovation cycles many times faster than their established competitors. Large companies competing against them urgently need to grasp how to generate and implement new ideas in this fast, efficient and profitable way.

A new model for innovation is already out there for all to see. Now the lessons just need to be extracted, adapted and acted upon. A simple first step is an Innovation Health Check against these themes.

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