



A Distinct Approach to Innovation

At L.E.K. Consulting, our work with clients has given us a distinct point of view on the process of innovation. We believe that innovation is a structured process. Companies that are leading-edge innovators are able to apply a structured and sustainable process to innovating, and the few companies who do this well have a sustainable advantage.

A good analogy for this process is in rowing, where a crew sits single file in a narrow boat and each tries to pull simultaneously, at the exact same time. If they all catch the water at exactly the same time, their energy is combined, lifting the boat and propelling it down the course. However, if one of the rowers is off by even the smallest margin, then that rower sets the rate-limiting speed.

In the process of innovation, an organization or a team is also only as effective as the weakest part of the process. To be effective, every step needs to be performed in a coordinated fashion. We have found in our work that most companies struggle to maintain the discipline of completing every step with precision.

The L.E.K. Innovation Process

At L.E.K., we define the innovation process as comprising six steps, targeted at the goal of creating value.

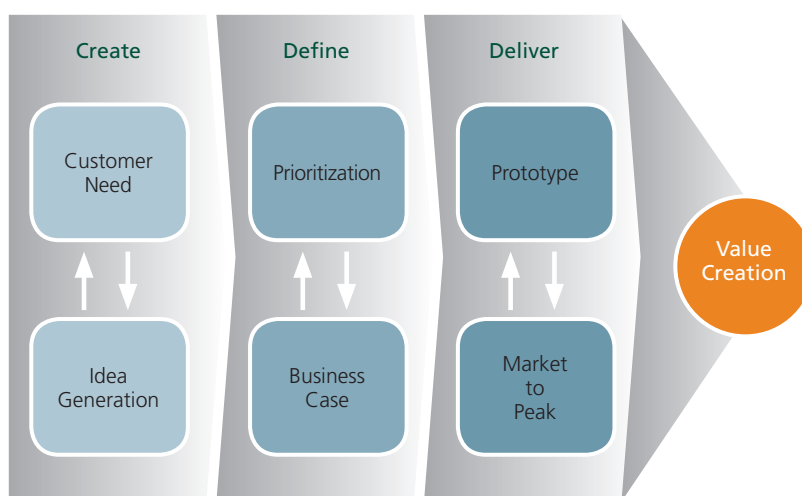
This may be counterintuitive, but we don't believe that ideas (or inventions) are innovative in and of themselves.

Figure 1 shows that ideas have an important role in the "create" phase

of the innovation process. However, great ideas are most often generated to meet a specific need either an entirely unmet customer need or an existing need but in a new or better way.

However, L.E.K. has found that discipline most often wanes after new ideas are generated. Our experience has proven that executing well on the "define" and "deliver" steps is what sets the consistent winners in innovation apart.

Figure 1
Six Steps in the Innovation Process



Source: L.E.K. proprietary research

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Measuring Innovation Success

L.E.K. believes that the best measure of innovation success is the direct impact on long-term shareholder value. L.E.K. has defined two key value levers to measure success:

1. "Innovation Volume" is the number of product ideas that are launched in the market.
2. "Innovation Efficiency" is the proportion of those product launches that are successful, as defined by meeting their net present value (NPV) goals for value creation.

In addition to the end measurements of profit impact and shareholder value, consistent and ongoing filtering and screening throughout the process is critical to maintaining focus on the highest potential innovations. L.E.K. has found that with our clients the best approach combines customer feedback with financial analysis to build a defensible investment case. L.E.K. has seen two ways in which companies often make missteps in this area:

1. A company allows too many projects – or an executive's favorite projects – to survive for too long.
2. A company allows these projects to get mired in excessive and onerous assessments, only to miss the market opportunity.

*"Measure what is measurable,
and make measurable what is not so."
– Galileo Galilei*

Prototyping as a Calibration Tool

Today more than ever the best practitioners employ prototyping to test and refine concepts. Technology enables us to test concepts with better specificity and with greater speed. Customer engagement is a powerful tool for prototype testing. Clients often balk at the expense or defer because of a fear of failure going into the field and trialing a product, preferring the "hit and hope" of a fast-track launch; however, L.E.K. has found that simplified local trials of concepts are powerful tools to calibrate features and operations.

Only when an innovation creates its maximum potential value can it be called successful. Therefore, execution of the delivery phase is key to reaching peak market penetration. Depending on the industry, a new product typically takes up to two years to reach its maximum market share. During this time, L.E.K. has found that the innovation winners are closely assessing customer reaction, investing in optimizing the product – its marketing, positioning, and pricing – to ensure that success is realized. Successful innovation depends on closely managing the create, define, and deliver phases of the process.

Conclusion

The best innovators use a disciplined process and make it the centerpiece of their organization. They foster a culture that aligns with it and provides support from senior leadership to give it credibility and priority.

"Necessity" is a key for innovation; L.E.K. will even go so far as to say that inventions are inevitable once a need exists. Value is created with even modest solutions, providing that they are the best at addressing the need. The goal of a successful innovation strategy should start with identifying needs quicker or more accurately or more insightfully than the competition; then find the best, quickest available option you have to address (disrupt) the need and take it to the peak of the market.

The current recession is longer than any in recent memory, and its impact on most markets will undoubtedly outlive its official end. Rather than view these times as daunting, L.E.K. thinks that now, more than ever, is a great opportunity to capture and solidify a new winning position and platform for value creation by putting innovation at the center of your business.

An L.E.K. Innovation Case Study

Piper Aircraft is an iconic figure in personal aircraft manufacturing. Four years ago it was struggling with a product line that had been surpassed by the competition in many of its product customer segments. Eighteen months later, the first product to have come through Piper's new innovation process was being described in the press as...

"The best 'new' airplane I've flown in ages, and when looked at rightly, it's one of the most innovative ideas to come down the pike in a good long time."

How did they do it?

Lots of product ideas were circling inside the company, and most were options to copy or emulate newer competing models. With long development

timelines, the company was eager to pick a winner and start development. To solve this challenge for the company, L.E.K. had to go back to the beginning of our process: with a blank-sheet view of the market.

1. Customer Need.

L.E.K. surveyed over 1,000 owner-pilots to build a comprehensive understanding of the needs of customers across each aircraft segment.

The work indicated that satisfaction with the new competitors' products was high: those opportunities were already missed. The work further identified a gap in the market – an unmet need. Rather than attempt to compete with the most successful, and now established new product, the gap identified actually offered the competitors' customers a compelling option to trade up and back to Piper.

Once this opportunity was identified, in-house engineers quickly spotted a way to meet it by de-rating an existing model. While up-rating existing models is an established tactic in the market, de-rating a plane is counterintuitive.

2. & 3. Prioritization and Business Case.

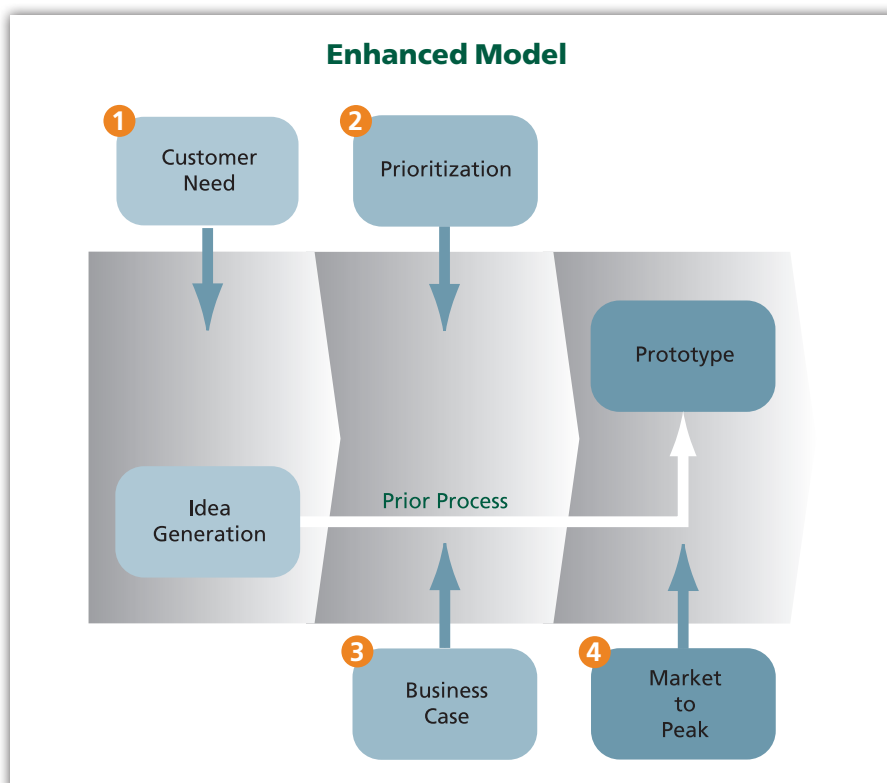
Matching an unmet need to a product idea was a start. To progress, the innovation needed to stack up against rigorous financial modeling. A key metric for Piper was the cash flow required for development, and so L.E.K. built business cases for each opportunity. This produced the financial insight so a decision could be made. The new concept proved a better business case than the more conventional "me too" options despite their market potential appearing more proven. So the innovation got the green light.

4. Prototyping and Marketing.

Testing proved trouble free since the base design was familiar, but marketing presented more of a challenge. How would the market react to what was on the face of an "inferior" version of an old plane? This was where the innovation process's performance was really put to the test.

Since the product was specifically targeted to meet an identified unmet need in the market, once customers and critics actually tried the product, they immediately saw its benefit and word of mouth quickly spread: a category killer was born.

This case shows that successful innovation can appear visionary when a product succeeds. But the reality is that great innovation is more often built on the model of diligent process discipline.



L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns. For more information, go to www.lek.com.

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