

Framing an Innovation Process for the Building Industry

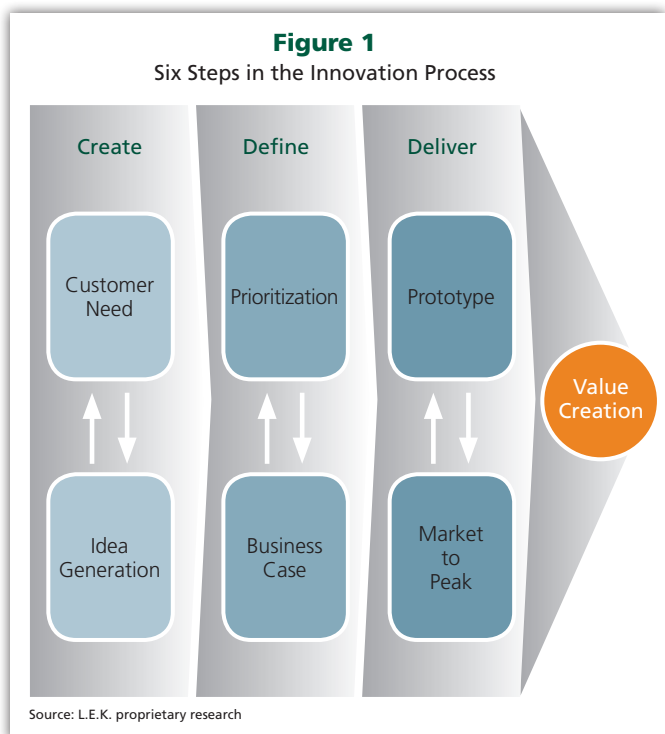
As the building industry begins to show signs of stabilization and modest recovery in many parts of the country, products and materials manufacturers, and service providers are anticipating some level of modest growth in residential and remodel sectors for the first time in more than three years. Growth should have a tremendously positive impact on corporate profits in the sector. As the market improves, L.E.K. Consulting believes that the industry's cost position during the economic downturn will now allow companies to realize unprecedented levels of margin expansion through growth-driven operating leverage.

Therefore, the quest for growth is acute. However, it is also an atrophying skill set in many organizations as corporate focus has been shifted to cost position, capital structures and efficiency. This L.E.K. *Executive Insights* focuses on the process of innovation; one of the key levers of growth that enables organizations to outperform the competition, gain market share and create tremendous value for shareholders and employees.

Innovation success, our research has demonstrated, is driven more by an organization's culture and processes rather than serendipitously stumbling upon a new "game-changer" – at least over the long term. There are many high-profile organizations that epitomize this focus – from Apple in consumer electronics and services to Dyson in vacuums. Yet for every innovation success, there are many costly failures and even more programs that don't meet expectations. Then how does an organization tilt scales in its favor? We believe that the best companies follow a similar process – they focus on unmet market needs.

The L.E.K. Innovation Process

At L.E.K., we define the innovation process in six steps that are all aligned to create value. This may be counter-intuitive, 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. Importantly, great ideas are most often generated to meet specific needs, either filling market voids or addressing existing needs in new or better ways.



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However, the discipline required to transform ideas into viable products often wanes after new ideas are generated. Our experience has proven that executing well on the “define” and “deliver” phases is what sets the consistent winners in innovation apart from the industry also-rans.

To help drive better outcomes in the “define” and “deliver” phases, organizations benefit from a systemic process that continually screens ideas and uses objective, data-driven evaluation throughout the R&D process. It is critical to maintain focus on the highest potential innovations.

L.E.K.’s clients with the best innovation strategies combine customer feedback with financial analysis to build defensible investment cases for proposed new offerings. L.E.K. has identified two common ways in which companies often make missteps in this area:

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

Blueprint for Innovation in the Building Industry

New products in the building industry can take many years to reach their maximum adoption share as contractors are often conservative, building codes are slow to change and channels are fragmented. During this time, L.E.K. has found that the innovation winners are closely assessing customer feedback and using market insight to optimize the product – its marketing, positioning and pricing – to realize long-term success.

Equally important, the best organizations are closely monitoring and measuring overall progress through two key types of metrics:

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

Conclusion

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

L.E.K. believes 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 more rapidly, accurately and insightfully than the competition; then finding the most effective option 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 viewing 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

IdeaPaint Covers New Ground with Dry-Erase Paint

IdeaPaint is a manufacturer of novel dry-erase paint products used in environments as diverse as kindergartens and the C.I.A. to create interactive, colorful work surfaces for stimulating communication, interaction and creativity. The company operates in more than 20 countries worldwide.

The IdeaPaint management team asked L.E.K. Consulting to help them develop their process for building innovation excellence and capability within the company. L.E.K. helped the IdeaPaint team define metrics and a scoring methodology for each phase of the innovation process to make effective decisions on where to focus investment dollars. Key requirements included:

- Establishing metrics for filtering and screening to cover the right breadth of topics – and also be quantifiable so that different opportunities could be directly comparable
- Ensuring that the right mix of financial metrics were being used to focus outcomes on value creation

L.E.K. also helped design a new organizational structure that focused on fostering the right innovation culture of accountability, ownership, leadership and reward for performance.

Specifically, we worked with the IdeaPaint team to initiate the following:

- Defined new roles that gave clear accountability for the new product development process, commercial implementation in channels and operational performance
- L.E.K. also helped refine the role of senior leadership for the company, helping to define the president's responsibilities: mixing operational focus with an emphasis on fostering the right culture for growth and innovation
- Finally, L.E.K. helped to map out the stages of a migration plan to transition the current organization to the new model in a manageable, staggered way

Change of this kind is difficult and challenges the entire organization. To guide the company's implementation, we worked with IdeaPaint to map out a three-month action plan to make measurable progress in the company's evolution.

Following our engagement IdeaPaint has seen an acceleration of its growth and product launches, successfully staying focused on the right opportunities as well as identifying, developing and commercializing key new products and line extensions. For example, the company developed and launched a new water-based product line to stay responsive to evolving market needs.

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 in 1983, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas, and Asia-Pacific. Global clients include Fortune 500, FTSE 100, Eurotop 300, and many of the largest firms in Asia-Pacific. With a reputation for solving the most complex issues, L.E.K. collaborates with business leaders to accelerate the pace and precision of strategic decision-making.

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