

Innovation Update April 2010: Marginal to Mainstream

Small ideas can be worth your while

Have you ever been in a situation where someone comes up with an idea and the first response is "it's too niche, not worth the investment" or "this would never lead to any significant growth"? To generate meaningful growth, established corporations need big ideas. And, it's simply not worth their time to pursue ideas that won't move the needle. However, the organizations having vision and a process for innovation are best set up to take these seemingly insignificant niche concepts and turning them into the priceless seeds of future success.

The drive of every company is to identify opportunities ahead of everyone else, and turn them into profitable growth. How do you take an idea that seems to have traction and strong loyalty with a small core of customers to a mainstream market?

In addition to the obvious benefit of generating meaningful growth, seeding and nurturing niche concepts have additional benefits:

- You need not disrupt your existing business model
- You can identify early emerging consumer trends
- You can create relevance with and expand outside your current customer base

Over decades, there are numerous examples of businesses that recognised changes in society and consumer behaviour as well as shifts in the market place and were able to translate these into opportunities that started small but over time made significant impact. The market sees 'magic' or brilliance in these instances. The reality is not 'magic' but vision, dedication and planning. Sometimes it's the result of entrepreneurs starting up new businesses and allowing them to grow over time in parallel to the growing demand for their product or service. Sometimes it's the result of businesses that have had the foresight to invest in seemingly small ideas early on, taking the lead in specific opportunity areas and allowing the idea to grow and develop. In common, these successful organisations ensure a continuous influx of insight and create the capability to translate insight into opportunities. They also have a willingness to explore opportunities that do not immediately fall within core business operations but start small and grow over time to become mainstream.

Your Biggest Challenge is Internal

Established organisations have such a vested interest in their current business model that it is often the biggest inhibitor to nurturing ideas that cannot prove a significant and immediate impact in their current marketplace. It is difficult to predict demand for innovative products and services especially if

you are creating something completely new for which there is no historical data to analyse or extrapolate. In general traditional methods of market estimation aren't well suited for ideas at the early stage of the innovation process.

Where has this paid off?

Several leading organisations recognise the challenge and have taken the necessary precautions to allow new, small ideas to be taken on board, at least until they can be proven to have or lack the desired impact.

BASF has a process for nurturing new ideas. Opportunities for innovation are explored and commercialised within existing businesses or they are handed over to the BASF Future business and venture capital when they are outside of BASF's current capabilities and markets.

Or UPS, who has been pursuing a 'can fail fast' strategy with more entrepreneurial innovations and has also established a strategic enterprise fund that invests in such opportunities as tagging and fuel-cell technologies.

And while the ultimate impact is still a long way off, Shell, with its Technology Futures programme, identified algae as a source for renewable energy long before Virgin and KLM announced they planned to use it as a source for kerosene.

Mars' My M&M's is another example of an idea that didn't seem like a viable opportunity, meaning, there was no certainty whether the idea would ever have mass market impact. Luckily for Mars, when R&D presented their idea for customizable M&Ms, they had just launched an innovation initiative called PioneerWeek. This gave the team the freedom to develop the idea and test the concept internally, allowing them to demonstrate success on a small scale before taking a view whether or not to invest further and commercialise it. The iterative approach Mars adopted has paid off since its launch in 2004, and in 2006 was turned into a formal business unit called Mars Direct.

These examples and more prove there are ways to address new and 'small' opportunities having a certain 'appeal' to the organisation but fail to deliver a solid near-term case. They may well be your next big thing.

Ignore at your own peril

To illustrate the risk of missing out on the small idea that becomes the next big thing, look at how opportunities around sustainability have become mainstream. Sustainability is now on every company's radar after having lingered in the margins of business and society for decades. For a long time the challenges which most of society now recognise as incredibly important had been highlighted, debated and discussed. The depletion of easy oil reserves, environmental issues such as CO2 and pollution, the distribution of wealth and more recently access to water, etc., were not on the average consumer's or corporation's agenda; only visible to the minority who were attuned to the topics or somehow directly involved in the debate. It was only after we entered the new millennium that businesses seemed to make a transition from risk to reward. They began looking at sustainability as an

opportunity, even a need, rather than a liability or risk. Companies who took steps to explore sustainability early are being rewarded.

Organisations such as Walmart, IKEA, GE, IBM, Corus and Philips have had the foresight to address sustainability from a business perspective early on and developed innovation programmes around it. Their foresight resulted in a wide range of profitable products, services and in some cases completely new businesses. It is no surprise therefore that many of the Innovation Leaders (www.innovationleaders.org) are also considered leaders when it comes to addressing sustainability challenges.

Those that 'stuck' with it are now reaping the rewards. Ecovert and 7th Generation, for example, have been around for decades, in household products. Even with the economic downturn, they experienced double digit growth over the past couple of years. Manufacturers such as Danisco and Novozymes, innovate around substituting environmentally damaging ingredients whilst also providing similar or better performance. P&G, Clorox and many others have had a toe in the water for a long time and increasingly develop household products around sustainability challenges. Even with this recent growth, there are still challenges to 'convert more of the unconverted' and move from what some still consider to be a relatively small category to a much higher level of volume.

Seeding small ideas can move entire economies as well. A well known example is how Iqbal Quadir recognised that connectivity equals productivity and would thus increase a developing country's overall wellbeing and capability. His home country Bangladesh wasn't exactly considered an attractive market for mobile telecommunication companies in the early nineties so Quadir had a tough time 'selling' his idea. His insight was to innovate around the entire ecosystem, involving Telenor and Grameen bank, but equally important was to stimulate local entrepreneurs to buy a mobile handset and sell 'village calls' to others. This business model innovation enabled mobile communications to take off in Bangladesh, allowing it to become mainstream. A recent report by the Worldbank shows a direct link between mobile phone penetration and GDP growth and the Bangladesh Grameenphone model has since been replicated successfully in other developing countries.

All of these cases illustrate the point that at a time when sustainability wasn't a mainstream topic there were organisations and individuals recognising a consumer or customer need ahead of everyone else. These organisations followed an iterative approach; taking small steps, reducing their overall risk, exploring the opportunity and building up enabling capabilities. As concepts, such as sustainability, become mainstream, the opportunities become more valuable in every sense. Organisations ignoring ideas because they aren't immediately and obviously big enough risk missing the market and have a hard time catching up.

A practitioner's guide to nurturing small ideas

Companies adopt a wide variety of approaches to nurture and develop ideas that seem small or are considered ahead of a trend curve; skunk works, venturing, separate innovation and NPD processes for core and emerging business opportunities, portfolio strategies distributing resources across different focus areas etc. All approaches have track records with varying degrees of success. Whilst there is no

specific formula or blueprint that organisations can adopt, when looking at a variety of examples a number of significant commonalities appear to emerge.

Possibility

- Enabling technologies provide an important boost, so for example with my M&Ms it was the printing technology that could make the idea around personalisation really work

Passion

- Significant early adopters - a small group of loyal, and often vociferous supporters who develop a strong attachment to the product
- Ahead of trend - either serendipitously or by design the ideas hit on a consumer trend at its early stages, be it organic food, power drinks, or indeed become the catalyst that tips the market
- Clear positioning - each of the examples had a distinctive aspect that made it stand out from the competition

Presence

- Word of mouth - this is a critical element in getting the product/offer talked about, and is largely outside the control of the producer (though it can to some extent be stimulated)
- Underground - many of the consumer products have a hip/ underground positioning that adds to their appeal, particularly to the younger generation, for example the edgy appeal of Red Bull
- Unexpected catalysts - a common theme was the extent to which some unexpected event brought the product into prominence, so for example the role of women in digital camera growth - focus on overall ease and quality vs. technical specifics
- Underlying product quality - products moving mainstream provided some very obvious quality lacking in existing products which pushed the "word of mouth", so for example the health aspects of organic foods from Able & Cole

Permanence

- Adjacent sector support - evolution in other areas can create emergent opportunities, so for example the growth micro financing that enabled the model in Bangladesh
- Distribution/ access - how easily was the product available to people once awareness had picked up, so for 7th Generation it wasn't only selling through Whole Foods but equally through Target retail stores

For companies to identify and commercialise these types of ideas we see four key challenges that companies need to address:

1. Generating good quality foresight on a continuous basis
2. Taking foresight through a company 'lens' and identify opportunities around emerging trends
3. Recognising the opportunity doesn't necessarily fit the current business model

4. Creating the right environment to develop and test ideas

Niche opportunities don't have to be small forever. Many have evolved into the growth engines of small and large businesses. There is a systematic approach to innovation, which is to focus on the four key elements: possibility, passion, presence and permanence. Benefits for the corporation extend beyond just revenues/profits growth of these opportunities. They equally involve changing the DNA of an organization into one that is far more adept in identifying, recognizing and rewarding worthwhile opportunities for the future. So the next time someone comes up with an idea you want to dismiss as niche, consider these factors and think about the possibilities.

Authored by Michel van Hove, a Director at Innovaro's Strategic Services Division based in our Amsterdam office, The Netherlands.

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