

How to create *Innovation Flow* in your business model

The best way to lead innovation flow is to design it into the business model. This ensure a continuous flow of innovation aimed at the source of the firm's competitive advantage.



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We can't wait for serendipity!

The pressure for growth and competitive advantage is relentless. We know that innovation is a viable pathway for creating difference and providing competitive advantage. The Economist's research¹ suggests that a high proportion of senior managers see innovation as a source of competitive advantage, and a global IBM² study reveals that those firms that pursue business model innovation report higher operating margins than their competitors who don't.

But it isn't that straightforward in practice. Some leaders believe that they can't allocate sufficient resources to R&D, while others feel that they lack the creativity to lead innovative effort. And most of us can't afford to wait around until some creative initiative or invention has a big payoff. We can't wait for serendipity to provide an innovative solution to a pressing problem that exists right now!

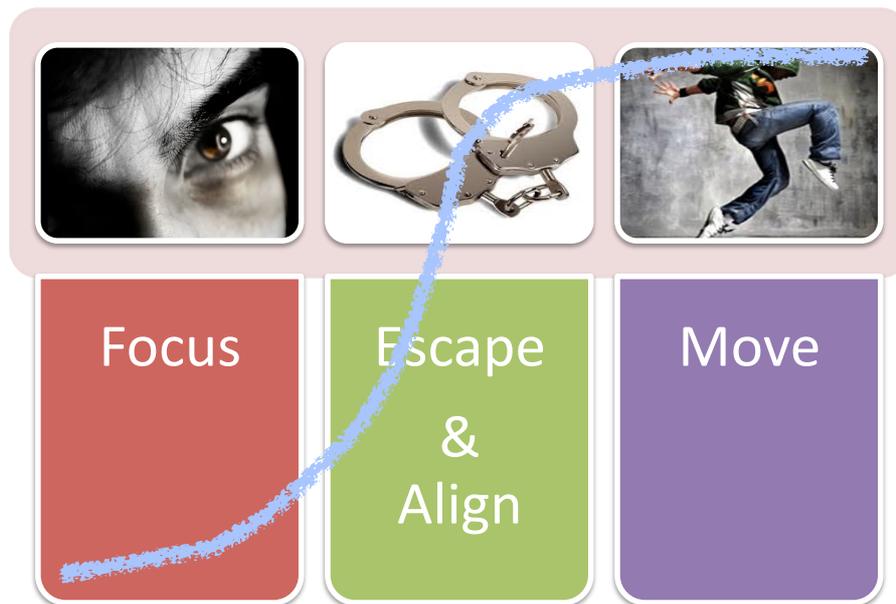
How to make *innovation flow* strategic

The concept of *innovation flow* describes the generation of ideas and their movement through to innovation. *Flow* implies that this transition from ideas to innovation is effective, effortless and has the involvement of those concerned. It has three key phases³ that are reflected in the diagram below:

¹ *Business 2010: Embracing the Challenge of Change*. Economist Intelligence Unit

² *IBM's Global CEO Report*. Strategy and Leadership, 2006

³ *Innovation Flow*. MV Shankar, August 2009



Focus

- what is the gap between the current and desired state?
- what ideas can be generated to close that gap?

Escape and Align

- what contradictions need to be resolved and in what other situations do these contradictions exist?
- what key ideas have been used to resolve such contradictions in the past?

Move

- how can we relate those ideas to our situation?
- how will the problem / idea evolve over time?

So what is **strategic innovation flow**? This is where the flow of innovation is directed in a purposeful and efficient manner to the important issues in the organisation. It is where the flow of innovation is directed on a continuous basis to generate competitive advantage for the business. And this is where the process of innovation flow does not have to be directly driven by senior management - but where it occurs as a natural consequence of the way the organisation's business model is designed and set up.

How can the business model drive **Strategic Innovation Flow**?

A **strategic** flow of innovation is the outcome of some deliberate design characteristics in the way we set up the business model of the organisation. The business model describes the set of interconnected and interdependent activities that determine the way the organisation does its business. This system of activity is designed to allow the organisation to serve the needs of its customers and market.

My work in the area of business model design has identified three key design features that are associated with a strategic flow of innovation.

Firstly, the business of the organisation is defined around the key markets it serves - and these markets (or segments) are in turn defined in terms of the key jobs to be done or problems to be solved for the customer.

Secondly, the organisation develops a series of value propositions that address each of these market segments. Importantly, the value propositions are defined in terms of the value to be added to these customer segments - ie in outcome terms.

Finally, these organisations set up an innovation ecology that address three key “seeds of innovation” - creative thinking, strategic thinking and transformational thinking.

1. Define the business around its markets

This may not sound like a radical idea, but it’s a design principle that is often overlooked. Most businesses define and organise themselves around the key functions in their organisation - grouping similar activities together. Or when they do organise around their key markets, these markets are often defined in demographic terms.

The objective here is to define your market according to the jobs that the customer needs to do or the problem that they are trying to address. For example, we would define a market segment as those customers whose warehouses have small footprints and who are continuously trying to operate under cramped conditions; rather than a segment of transport companies who operate warehouses in Melbourne.

This type of market definition allows the organisation to understand the behavioural and psychological drivers of the customer. It also means that the segments you derive would look very different to the traditional demographic segments.

2. Define the key value propositions for the business

A value proposition (VP) defines the value you seek to add to the customer - how you plan to solve their problem or make a difference to them. Moreover, it represents what the organisation stands for in that segment of the market.

A VP is constructed by outlining:

- who is the target market and what is the job to be done or problem to be solved
- what is the offering that you put to this target market - the product/service combination and how it will be delivered
- how this will add value to the customer - in terms of the outcomes you expect after the customer has purchased or used your offering.

By aligning the VPs with the different market segments you have identified, you set up two conditions necessary for *innovation flow*. The strategic alignment between a market segment and a VP gives staff a clear line of sight on the outcomes they are trying to achieve. It frames the process of innovation flow and provides the important strategic context for any ideas or potential solutions.

3. Set up the innovation ecology

The ecology of innovation is represented by the three seeds of innovation - creative thinking, strategic thinking and transformational thinking.

- Creative thinking sets up the processes and practices by which people can make connections and generate ideas (the process of *innovation flow*). This involves setting up structured sessions that move beyond simple brainstorming. These sessions would have a clear process, skilled facilitators, rules for participation, clear definitions of the problem and the use of appropriate stimuli.
- Strategic thinking is about seeing the big picture and the use of systems thinking. This is where the organisation clarifies its goals and ambitions for the future. A powerful tool in this space is scenario planning where the organisation develops alternative views of the future. Importantly, this promotes an understanding that the future can be influenced by the organisation's own behaviour and actions.
- Transformational thinking recognises that monarchies seldom foment their own overthrow. Incumbent leaders are not well placed to envisage futures radically different to the present. So they bring in outsiders - people closer to the customer and technology, who can imagine new possibilities and new futures. These "pathfinder groups" need aircover from the prevailing prejudices within the organisation, and indeed the whole innovation process needs protection and nurturing from senior management.

Leading *Innovation Flow*

The best way to lead a flow of innovation is to design it into the business model.

This way it is likely to flow continuously and be directed at the source of competitive advantage for the organisation.

Leaders *can* influence the strategic flow of innovation. But not by seeking to control it or by trying to be the Chief Innovation Officer. Instead, they have a more indirect, but ultimately more effective way of facilitating this - ***by designing an appropriate business model for the organisation.*** A business model that:

- defines the business around its key market segments
- develops value propositions that solve problems or do a job for the customer
- sets up a viable innovation ecology within the organisation.

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