

## The Right Innovation Investments for Tough Economic Times

Most will agree that an economic downturn can be an opportunity, if you continue innovate as your competitors retreat.

Here is more wise advice...

- If you want to lose weight, eat less and exercise more
- Buy low. Sell high
- Stop smoking, and you will live longer

You get the point. Easier said than done.

Rather than repeating the often heard “Keep investing in innovation...because it will pay off in the long run,” a more pragmatic message is “There are three paths to successfully investing in innovation that you can take, even when budgets are tight.”

One path pays off right away. With a two or three year time horizon, another path leads to developing new big hit products on a budget. And if you are fortunate enough to have some cash, a third path reveals how to invest in the right acquisitions...and get a bargain.

We have seen our share of bad times and have had success with limited resources. This paper is the first of a four part series that will examine how to turn economic crisis to profit by:

1. Optimizing technology and product portfolios for immediate pay-off
2. Building a big hit product pipeline with low investment cost by exploiting external technologies already developed for other purposes
3. Adding a new business that capitalizes on structural market shifts created by new customer needs resulting from the economic turmoil... at bargain prices

### History shows that downturns can provide enormous business opportunities

The first order of the day is to survive the downturn. The best way of doing this is to find new market patterns that will emerge as structural change takes hold during periods of economic turmoil. Tough times are an indication that old patterns of doing business have been pushed to their limits, creating structural market discontinuity – the moment of change when old factors of competitive advantage weaken and new factors appear.

The right way forward is to use economic turmoil to strengthen your competitive position. The wrong way forward is to try more of the same. This is a time when upstarts can leap ahead of seemingly entrenched players.

Our recent survey of executives from around the world indicates that leading innovators are finding opportunity in turmoil – even when budgets are tight.

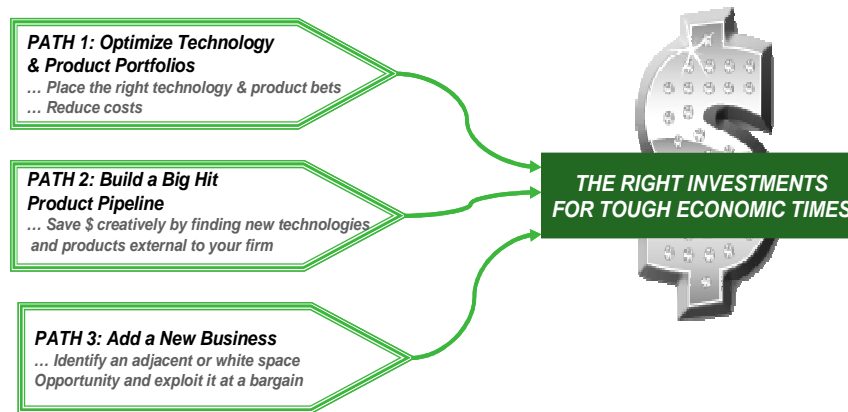
**Insights**  
Crisis or Opportunity?

**Three paths to profit from innovation when budgets are tight...**

Business Innovation Consulting (BIC) maintains a broad network of executives from over 300 firms in the consumer products, healthcare, and high-tech sectors which we refer to as BIC Nation. Our discussions with members of BIC Nation reveal that leading firms are acting to take advantage of the current economic downturn to improve their competitive position through innovation as new market and competitive patterns evolve.

The following innovation based strategies most frequently being employed by our clients are:

1. Optimizing existing technology and product/service portfolios to focus resources on reduced funding and high impact efforts
2. Building big hit product pipelines from creative external technologies that can be acquired cost effectively
3. Building new businesses in white space generated by structural market discontinuity



So what is the right path? The typical reasons why business executives select paths 1, 2, or 3 are given in the table below.

Typical Business Needs	Urgency	Path
Select the right technology & product projects – and reduce development costs	Immediate	1. Optimize Technology and Product Portfolio
Maintain or enhance commitment to new products – with reduced resources	1-2 years	2. Build a Big Hit Product Pipeline
Adapt and grow business to take advantage of changing conditions	2-3 years	3. Add a New Business

**PATH 1: Optimizing technology and product portfolios**

Investing in the right technologies and products among a portfolio of ideas and capabilities is fundamental. The goal is to objectively select technologies and products that merit current investment while simultaneously identifying those shelf and those to cut. Since all technology and product development projects have their internal champions, it is crucial to objectively and consistently apply a proven selection process that employs credible input data, optimizing the portfolio based upon a clear set of financial, strategic, and competitive criteria.

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Guiding principles for successful portfolio optimization are:

**Market Needs:**

Determine the ability of new products to meet emerging customer needs and wants at the future time of launch.

**Technology Feasibility:**

Strike an appropriate balance between experimental projects and technologies that translate into products and revenue over the short term.

**Competitive Impact:**

*Threats:* Account for technologies and actions of competitors, sometimes from entirely different industries that could threaten a new product or service making the investment irrelevant.

*Success Factors:* The “Law of the Vital Few” typically applies, where 80% of the effects come from 20% of the causes. Determine the few critical factors that will drive success.

**Future Value of New Products:**

Calculate the current value of future revenues and profits of new products using a consistent methodology that facilitates ranking.

**PATH 2: Building a big hit product pipeline from external technologies (Open Innovation)**

For executives responsible for innovation, creating and investing in Big Hit products at the lowest possible development costs is the key to driving growth. The most creative and cost effective new technologies and product ideas are often found outside the boundaries of the firm. The secret of consistently successful innovation based on external technologies, or “open innovation”, is a credible process at the front-end of product development coupled with a wide ranging external technology network that extends beyond a firm’s natural technology set.

The benefits are compelling. A consistently applied methodology can take the “fuzziness’ out of the “fuzzy front-end,” making innovation more predictable and timely. Technologies are captured from a wide-range of disciplines, even from non-traditional sources. The creative component becomes grounded to science, the focus expands beyond incremental innovation, and product development costs are typically reduced.

Four guiding principles are:

**Technology Dimensions of Opportunities:**

Technology objectives are established to meet or exceed priority customer and market needs.

**Seed Technologies:**

Technologies are collected from searching and networking that address the technology objectives and can serve as the building blocks for new big hit products.

**Technology Platforms:**

Technologies are bundled into platforms that offer a range of solutions at various levels of complexity (cost/benefit) and stages of maturity (time to market) that can enable a specific product requirement, capability, or feature.

**Portfolio Optimization:**

Product concepts created from the technology platforms are evaluated and ranked to maximize value against multiple risk parameters. Portfolio optimization leads to project selection and development of a business case for top candidates.

**PATH 3: Add a new Business in white space generated by structural market discontinuities**

The present economic environment presents some unique opportunities to executives responsible for business development. Firms may enter new markets with existing products or services because competitors have faltered. Companies can also pursue M&A opportunities available at bargain prices to capture white space created by structural market discontinuities.

The guiding principles for investing in the right business opportunities are embodied in three strategic questions:

**What is the opportunity?**

Identify large and growing market segments with:

- Unmet customer needs
- High intensity of technology & business activity
- High revenue potential
- Presence of a critical mass of potential deals.

**What is the strategic fit?**

Before you proceed, determine that your firm brings strategic competencies to the new business that can create a sustainable competitive advantage, including:

- Ability to leverage your firm's assets and capabilities
- Capabilities within your firm that can accelerate the new business

**What is the path to successful implementation?**

Define a suite of acquisitions and businesses holding the potential to deliver:

- Financial objectives
- Strategic values
- Sustained technical advantage

It is clear that in a tough economic environment fraught by turmoil, there is less margin of error. By following the appropriate path, firms can be assured that errors will be minimized, investments will be maximized, and opportunities captured.

In future articles in this series we will focus on how to successfully implement the three paths to innovation outlined here.

The BIC Value...

Business Innovation Consulting (BIC) operates at the intersection of business and technology, finding new opportunities and developing new big hits (acquisitions and products) based on winning technologies.

As a business and technology firm that combines market research with external innovation to find new business opportunities, our approach bridges the gap between marketing and R&D to:

- **Quantify structural and market discontinuities**
- **Extend technology reach**
- **Grow horizontally into adjacent business segments**