

The Power of Constant Strategic Innovation

Strategic innovation is the lifeblood of business growth and lasting profitability. It enables you to push the envelope of customer value creation, positioning your company as the strategic partner of choice. It also allows you to price higher, grow faster, and leave your competitors in the dust.

On the other hand, companies that fail to innovate get stale fast – and they get left in the dust. The action question is how to manage constant strategic innovation in an aggressive but careful way.

There are two basic approaches to strategic innovation – one more common but less effective, the other less common but very effective.

The first features big occasional projects. Everyone has seen these. The project starts with a big, formal study, often with extensive customer surveys and very high visibility. It moves through the usual stages of analysis, and approval. Once management decides to go forward, the company launches a pilot. The objective of the pilot is to work out the implementation details. The process is generally formal and time-consuming, so the company needs to catch its breath for some time, often years, before the process starts again.

The alternative is to approach strategic innovation as an ongoing process. At the center of this process is a constant stream of showcase projects. A showcase project is an opportunity to engage a customer or supplier in a very limited-scale “learn by doing” project. There may be some hypotheses about what will work, but the project should be undertaken in an extremely open-minded way. Showcase projects are very effective because there is virtually no downside risk, and they create a very valuable opportunity to discover new ways to do business. Because they don’t require extensive analysis and formal approval in advance, they let managers be very innovative and creative.

A number of innovations that are now central to the way we do business grew out of showcase projects. For example, about twenty years ago, Baxter, the hospital supply company, entered into a “learn by doing” showcase project to discover whether there were new ways to partner with customers. It selected as a showcase partner a very small community hospital about a mile from its main distribution center. The hospital had just opened, and the hospital CEO was very interested in finding new and better ways to do things. Out of this showcase arose one of the first, and very widely followed, vendor-managed inventory systems.

Ironically, the more innovative the initiative, the less likely it would grow out of a big, formal study. Because Baxter’s showcase project had very low risk, it was possible to conceive, develop, and pilot the new vendor-managed inventory process – all without the need for formal review and prior approval. By the time executive approval was needed, the new system was already up and running on a demonstration basis, and the whole management team could come over and “kick the tires.” (Conversely, if the showcase had not yielded results, it would have simply and quietly ended.) At the time, this hospital became the most visited hospital in North

America, as major hospital CEOs came to see the operation and talk to the hospital's management.

Over the years, I've seen showcase projects produce amazing results in leading companies. Here are the key success factors:

- Developing showcase projects should be an ongoing process, not an occasional event. Every company should have at least one showcase project at all times, although it is much better to have several. Because showcases are very limited scale, they do not create significant risk or require significant resources.
- The definition of failure is not trying a showcase. A showcase offers the opportunity to see what works, and more importantly, to find out what doesn't work. In virtually all cases, the original hypothesis won't be the right one – but the process of exploring the initial thoughts will lead to the really powerful innovations. And these would not have been discovered had a showcase project not taken place.
- Resist the strong temptation to engage your most important customer or supplier. The best partner for a showcase is a relatively small, but highly innovative, customer or supplier – where the risk is very low, and the conditions for success are highest.
- Create a deliberate process to scale up the innovations that really work. Without an effective scaling process, a company winds up with a series of interesting innovations that sound good in a management interview – but that do not have a major impact on the company.

A management team that is adept at constant strategic innovation attracts the best customers and suppliers. They sprint ahead of the competition, and keep widening the gap. Showcase projects provide the building blocks of success.