

## Knowledge Base

### Innovation is the Differentiator

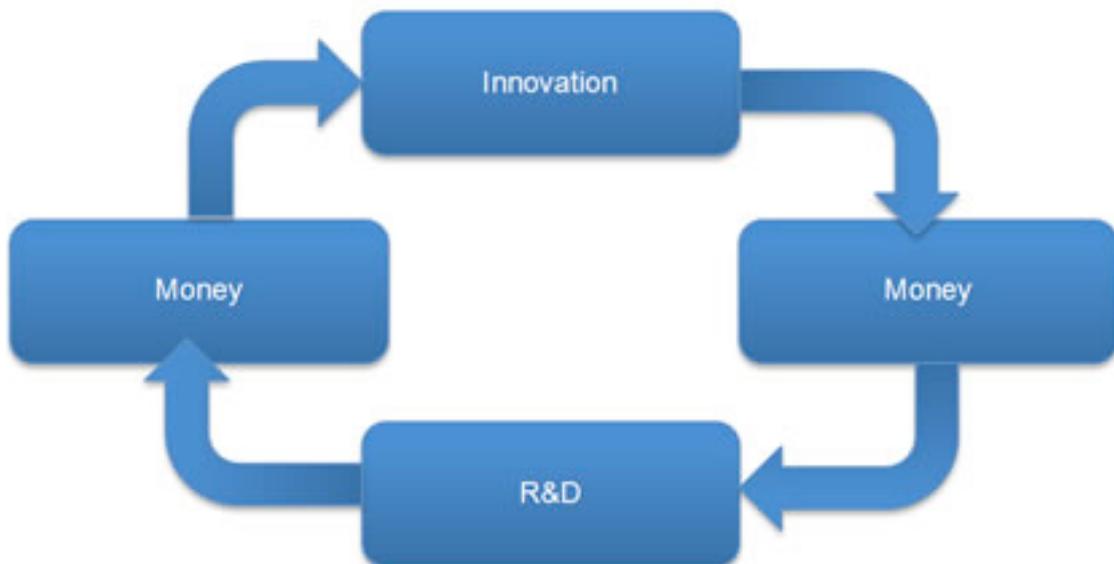
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**Innovation is the differentiator, and why so many get it wrong.**

Innovation, everybody talks about it, few understand it and even fewer are actively doing something about it. It is something that everybody can talk about but I have been involved in discussion where it was clear that the participants talked about different things. What I have learned is the following:

**Innovation is the art of turning ideas into money, whereas R&D is the art of turning Money into ideas.**



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Lets just think about this for a little while and why this is important. It is important for at least two reasons:

First of all in all the Companies that I have worked with/for have a part of their budget allocated to R&D. It is prominently placed as a cost. In fact I find it quit remarkable that today many companies are still talking about how much money they spent on R&D, they try to use this as proof that they are innovative. I always found it a lot more interesting measuring how much turnover or profit I got from new product, system, service and/or business model. Keeping R&D prominently as a cost also triggers a certain human behaviour. It is a cost and as such we treat it.

A great many studies into human behaviour have shown that we act and behave in accordance with what we hear/see. This has something to do with what Psychologist calls behaviourism. Most people today are familiar with arguable the founder of behaviourism, Pavlov and his dog. Fewer people are familiar with S.E. Asch book from 1956 “Studies of independence and conformity: A minority of one against a unanimous majority”.

What his studies are showing that we will be influence in our decision making, by what other people are saying BEFORE we speak out our decision. A very simple test where people alone are asked to compare the length of three different stick 99% of all participants get the answer right. However if 2 People give a wrong answer first 13% of the people in the group would agree that this is correct. What does that mean for people in R&D? It means that they clearly understand that what they do is spent money since it is a cost.

Another effect that further spurs this is that in many organisations you need to request for the R&D Budget, and after through examination a budget will be released, and you will need to account monthly for the money spent. All of these actions are focus on the money you spent, and not the results you achieve.

The other factor that is generally overlooked is research and studies carried out by Austrian born Economist Joseph Schumpeter. He is famous for what he called creative destruction when he talked about Innovation. What he also found out was that the majority of really creative result to: economy, technology and science were done by people between the age of 20 and 30!!!!!! In most R&D departments the average age is well above 30 because “we need experts”.

And the third mistake that I have experience is that R&D or Innovation is being departmentalised. An organisation is responsible for bringing new ideas to the market. I recently worked with a company and I invited the CTO of the company to spend an afternoon together with 20 people from around the company. None of them worked within the CTO organisation/department. The only instruction for the afternoon was “all ideas are good”. Afterwards he told me “I would never have thought that we have so many ideas in our company”. I offered him to think about the innovation power of his company if it was no limited to the 70 people with the CTO organisation but instead utilized the 10000 people working for the company worldwide!!!!!!!!!!!!!!

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*Take a couple of minutes to PAUSE!!!!!!!!!!!!!! REFLECT!!!!!!!!!!!!!!*

*What does that mean for you?*

*Now CONTINUE*

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We are still in the biggest financial crises the world has ever seen. This crisis has turned more or less everything we thought we knew about financial market upside down. Currently students and scholars are busy studying what happened during the crises, and are rewriting the books. Most think needs rewriting, the one thing the crises did confirm, and that might arguably be the only financial fact that has stood the test of time is, that innovation equals growth, sustainability and profit. The true innovators continue to prosper during the crisis and it.

Knowingly or unknowingly they are using the result of both Asch and Schumpeter research. And the results they create are incredible. They have a few things in common.

The innovation companies is not waiting until the customer is reacting, they act before this happens and come up with new ideas that enhances the service they provide, which actually leads to value for both customer and suppliers.

They understand that the innovation cycles are different from business to business and from market to market, AND these cycles are getting shorter as I am writing this and by the time you have read it, it has become shorter again.

And finally another undeniable fact is that changing the business model as opposed to improving the technology creates the most value. Some of you will not, at first agree to this; however think about the following examples.

Starbucks: They have created a business model, where we the customer is buying lifestyle, while they sell coffee. What does that mean? My version is the following.

I arrived late afternoon in Atlanta, got to my hotel, and had a lovely dinner with my team where we also talked about the next day's schedule. It was agreed that I would be picked up at 0830 and I was asked "Should I bring you Starbucks for tomorrow morning"!!!!!!!!!!!! Not would you like me to bring coffee no "should I bring you Starbucks" At this time Starbucks has long been known, and there were a number of other businesses that were trying to get into this market, so the person could just as easily have asked me "should I bring you Coffee Bean". Starbucks have managed to create something special and attractive. Is it innovative? Yes it is, because it has turned ideas into money a lot of money, by creating a value for the customers. They have single handily revolutionised the entire industry. The big question is, what`s next?

It means that I encourage you to start thinking different and more importantly acting different. It is about getting the entire organisation to understand that Innovation is about creating value, it is about creating output as opposed to spending R&D money, it is about turning ideas into money. Break down the barriers between your R&D organisation and the rest of the organisation and allowing all the people you have in the organisation to participate AND especially listen to the people below the age of 30. It is about allowing our fantasy to come to life, for as Albert Einstein once said "fantasy is more important than science, because science is limited"

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