



The Journey to Mastering Innovation

Let's consider for a moment the corporate journey to improve innovation that has taken place, and where we are now.

Productivity improvement was driven into logistics in the '70s and '80s, into manufacturing and operations in the '80s and '90s, and into the supply chain in the '90s and '00s. As a result of those efforts, companies that create and commercialize products achieved the lion's share of their improvement entitlements in the "downstream half" of the company. Improvements in R&D and product development, beginning in the 1980s and extending to the 2000s, similarly focused on productivity via improved execution by striving for faster time-to-market and speeding up product lifecycles. By the early '00s, companies could foresee that the opportunity for big improvements was also nearly exhausted. The only place to look for the next big opportunities was further upstream in the company.

Of course, industry leaders and visionaries could see this coming a decade earlier. Prahalad and Hamel first published on core competencies in the early 1990s. Moore crossed the chasm in the middle of the decade. Utterback created systematic models while Christensen was creating disruptive models by the late '90s. The tech boom gave industry confidence that innovation leads to great wealth. The train was on the tracks. Corporate demand for better innovation capabilities was predicted years in advance.

In the early 2000s, companies began focusing on pushing the best possible portfolio of products through their fairly well-optimized development and operations pipelines. Thus began the quest for higher-value, more-innovative portfolios.

Higher-value portfolios, except for merger and acquisition alternatives, could only be achieved through more innovative technology and product roadmaps that led to higher-value products. And, encouragingly, this future might actually be better than the past. Innovative products command price premiums that generate gross margins and brand values equal to or better than those stemming from well-thought-out cost-reduction efforts.

But alas, one commonality among the past three decades of improvement initiatives was that they primarily focused on improving the bottom line. Profit is no small thing, granted, but 30 years of corporate focus on the bottom line left many companies challenged to attack top-line initiatives with the same vigor and expertise.

It has been said by many that innovation takes a five-year hit after every recession. It was true after the downturn that ended the tech boom. In 2004, *Businessweek* and BCG published their first Top 100 innovative companies list and, ready or not, the race was on: tools, techniques, frameworks, matrices, portfolio/product/platform strategies, Internet casting, high-school and college competitions, enabling and tracking software, metrics, and reward and recognition systems.

All were developed to meet what was now clear and growing demand from every industry. The market would surely reach a critical size. And, it had legs. Money could be made in the years ahead. A new industry, with associated services and software, was born. Industry stayed this course for several years, well past the actual market crash.

Then came the realization that there was to be a prolonged duration of economic malaise, and the period was relabeled as the Great Recession. Top-line growth was hard to come by. Hope no longer sprang eternal for a timely recovery. R&D budgets shrank. Product portfolio strategy went totally conservative. Industry quickly returned to cost cutting and a bottom-line focus—the things it was confident it knew how to do.

In summary, just about every company is now expert at cutting costs and squeezing their supply chains. Where, then, will competitive advantage come from in the years ahead? Simple: The next great wave will come from mastering innovation. **md**

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