



INNOVATION: THE BRAVE NEW WORLD

INNOVATION IS A WORD THAT GETS BANDIED ABOUT REGULARLY IN THE BUSINESS WORLD—NOT ALWAYS CORRECTLY—TO DESCRIBE INVENTIONS IN TECHNOLOGY AND BUSINESS. **CAMILLE HOWARD** FINDS THERE'S MUCH MORE TO IT, AND ASKS SOME OF AUSTRALIA'S INNOVATION LEADERS TO SHED LIGHT ON WHAT IT MEANS FOR SMALL AND MEDIUM BUSINESS, AND HOW TO MAKE BUSINESS TRULY INNOVATIVE AT HOME AND IN THE GLOBAL MARKETPLACE

THE PANEL:

- **Colin Graham, CEO, Innovation Centre Sunshine Coast:** incubation support for start-up businesses
- **Thomas Murrell, managing director, 8M Media and Communications:** encourages new thinking in media and communications solutions for business
- **Patrick Coleman, director of policy, Business Council of Australia:** BCA collaborates to explore & test new ideas
- **Rowan Gilmore, CEO, Australian Institute for Commercialisation:** AIC helps business, research organisations and governments convert ideas into successful outcomes
- **Julia Bickerstaff, partner, Deloitte Growth Solutions:** Deloitte has a program to encourage people to explore innovative ways of thinking and apply different perspectives to solving business issues
- **Leo Hyde, research and development manager, DuPont Australia:** creates sustainable solutions essential to a better, safer, healthier life for people everywhere
- **Joss Evans, CEO, INNOVIC:** provides assistance, skills development & support to innovators, inventors & SMEs
- **Phil Ruthven, CEO, IBISWorld:** As part of the online business information industry IBISWorld monitors products that are refined, added and deleted virtually daily across the world

WHAT IS INNOVATION?

Colin Graham:

It's about coming up with new ideas, new products, and new ways of doing things that add value, and then making them happen. The term is sometimes a bit confused in Australia where it seems to be just a polite alternative to 'entrepreneurship'. Innovation should be part of the culture of any good business. It's really about understanding the marketplace and what's going on, and coming up with new ideas that someone will pay for.

Patrick Coleman:

The Business Council of Australia's (BCA) definition of innovation is creating or doing new things or doing things in new or better ways, drawing on knowledge, creativity and collaboration to add value to products, services and processes. Increasingly, innovative businesses are looking to people in all parts of the business to contribute to putting new ideas in place and improving the performance of the organisation. One of the most important traits that supports innovation is good leadership that allows people the opportunity to put forward ideas and collaborate.

Rowan Gilmore:

There are many definitions of innovation. The one I like best is that innovation is the 'successful exploitation of a new idea to create an outcome of value'. That implies innovation is a process, it involves novelty, and that it's value creating. There are numerous characteristics and traits that help a business to be innovative. Some of these include: management that is committed to positive innovation; a clear, articulate



Dynamic Business
April, 2007
Page: 34
Section: General News
Region: National Circulation: 31,339
Type: Magazines Business
Size: 2,377.70 sq.cms.
Published: Monthly

Brief: 8M(P)
Page 2 of 7



strategy for innovation, including a process for recording and evaluating ideas; free and open communication channels; continuous learning through experience; and the ability to adapt to new ways of thinking.

Leo Hyde:

Innovation is the generation of new knowledge or products that meet consumer needs. An innovative organisation is one that allocates funds and people to investigate new areas of interest and novel products in a structured way.

Joss Evans:

There are many definitions of innovation. Broadly, it is about doing things differently and doing things smarter and better. Or, more specifically, innovation is the application of knowledge and

introduction of changes that create value. Innovation is not only about new products and services, it can also be used to identify improvements in processes and systems and, of course, it is a continual process. Innovative companies invariably have leaders and managers with vision and a plan for the future. Most importantly, good innovative companies tap their most important asset—their people. First and foremost they involve their staff in the innovation process, but smart companies also collaborate with their clients, distributors, members and associates.

Phil Ruthven:

Innovation is a cocktail of skills and actions that make a business unique (or more singular) in products and delivery, methods of operation or productivity and, all the above, equips a business with unique intellectual property. The traits that make businesses innovative include pride, competitiveness, fear of failure, inducements (such as R&D tax incentives), and even patriotism.

INNOVATION AND SMEs

Colin Graham:

Small firms are the biggest source of innovation, they can move quicker and think clearer than many large established organisations. Most businesses operate in tough competitive markets and really need to be smart and innovate to survive and succeed. In many cases, competition is not just coming from the guy down the road but from overseas, particularly India and China.

Patrick Coleman:

Innovation allows businesses to increase their productivity and achieve stronger growth and be prosperous and sustainable over the medium to longer term. It also allows them to proactively meet customer needs and to add value to their business in new ways.



“ BE OPEN-MINDED, AND QUESTION HOW OR WHY YOU DO THINGS, SO YOU’RE NOT JUST DOING IT ONE WAY BECAUSE THAT’S THE WAY YOU’VE ALWAYS DONE IT ”

—Leo Hyde, DuPont Australia

Rowan Gilmore:

ABS survey data shows that barely more than one-third of Australian businesses report any innovation activity. If this is indicative of the innovation truly occurring, it is perilously low. Innovative firms are more likely to export as well, with 65 percent of small and 85 percent of large exporters undertaking innovative activity. Innovative firms are the motor of the modern economy.

Julia Bickerstaff:

In a Deloitte/Australian Business Foundation study of SMEs in Australia—The Reality of Innovation Unzipped—businesses agreed they can no longer get by competing on cost or price or even just on quality, to survive they have to innovate. This goes for Australia as a nation to take its rightful place in the global economy, because it too needs to ‘innovate or evaporate’.

MAKING BUSINESSES MORE INNOVATIVE

Rowan Gilmore:

Most innovation is incremental, and can be observed in evolutionary changes to products or processes—for example, when a car-rental company moves to a new process of wireless check-in for processing its returning cars. Activities such as new design, adoption of new business models, increasing functionality and applying technology, may all be innovative. These often emerge from simply being open to new ideas, flexible organisation within the business and, frequently, cross-disciplinary thinking.

For larger breakthrough innovation, business investment is usually required to develop, adopt and execute the ‘good’ and novel idea. The first step in becoming an innovative company is to systematically seek and formalise the required investment needed, through a business plan that models and launches the innovation process.

Julia Bickerstaff:

Five general steps to becoming innovative:

1. Look at the behaviours of your customers, competitors, and suppliers with fresh eyes
2. Listen to your customers with new ears
3. Explore what other industries are doing
4. Surf the internet and check out the environment/market locally and globally
5. Learn from your new information and see how you can adapt these fresh findings to your business

Leo Hyde:

Be open-minded, and question how or why you do things, so you’re not just doing it one way because that’s the way you’ve always done it.

Joss Evans:

Start by identifying what you want to achieve and why, and do an audit of the business to determine what works and what doesn’t. Is the purpose to get more customers, identify new products, services and opportunities, or improve the current processes and systems? Different objectives require different approaches.

BEYOND INVENTIONS AND R&D

Thomas Murrell:

Innovation is way beyond R&D (research and development). It is about leadership, moving from command and control to creating an environment where people can shine. Innovation is a skill learned from others, observation, books, and by going to seminars. It is not about what you say but what you do.

Even when you do make mistakes—and innovation is all about learning from mistakes—people are more forgiving when they have an emotional connection to your brand. This is why people and a strong internal culture are so important. Ask the question: what are we good at? Then implement a mentor and coaching program to share this sense of belonging, direction and identity. I call this creating opportunity-centric innovation through mentoring.

Rowan Gilmore:

Innovation is often associated with R&D, since research produces a lot of original, novel ideas. However, new business ideas originate





Dynamic Business
April, 2007
Page: 34
Section: General News
Region: National Circulation: 31,339
Type: Magazines Business
Size: 2,377.70 sq.cms.
Published: Monthly

Brief: 8M(P)
Page 4 of 7



more frequently from customers or suppliers than from research. But exploiting those ideas may often require R&D. Innovation can apply equally to products or services, processes, or even business models. Sometimes innovation is organised according to product, process, marketing, and management/organisational innovation.

Product innovation refers to new products or services—your more typical inventions and R&D. Process innovation is about improving processes within the organisation, such as HR, finance, communication, and focusing on improving organisational effectiveness and efficiency. Marketing innovation deals with creating new markets for an existing product. Management/organisational innovation involves the way an organisation is managed, for example organisational structure, leadership, work environment and culture.

I have some reservations about broadening innovation to such a degree. There's a risk that it could encompass almost anything. For example, a business might justify any business strategy as innovation simply because it's new. If that's the case, corporate downsizing would qualify as innovation! That would definitely send the wrong signals. We need to remember, the key is that innovation creates new outcomes of value.

Julia Bickerstaff:

Current measures of innovation by R&D and patents are too narrow. Investment in innovation should not be restricted to research and development but extend to training and skill development, market research, design, use of advanced machinery and equipment, engineering development, and knowledge drawn from licences

and patents. Of the total expenditure on innovation in Australia in recent years, only one-third actually consisted of direct spending on research and development. Deloitte believes that innovation needs to be a core component of an organisation's growth strategy.

Phil Ruthven:

Innovation goes beyond traditional R&D, inventions, patents and trade marks in the New Age (1960s–2040s) that displaced the Industrial Age. Laboratories and pilot plants would contribute less than a third of a nation's total innovation these days, given the fact that 72 percent of GDP is in service industries.

CURRENT TRENDS

Patrick Coleman:

Innovation is taking place in all sectors and in many different forms. A new or improved set of processes can be as valuable in one sector





Dynamic Business

April, 2007

Page: 34

Section: General News

Region: National Circulation: 31,339

Type: Magazines Business

Size: 2,377.70 sq.cms.

Published: Monthly

Brief: 8M(P)

Page 5 of 7



“ WE NEED TO INVEST MORE HEAVILY IN EDUCATION AND TRAINING, TO ENSURE THAT WE HAVE THE APPROPRIATE SKILLS AND CAPABILITIES FOR THE FUTURE, AND THAT WE CREATE A NEW GENERATION OF INNOVATIVE PEOPLE”

—Joss Evans, INNOVIC

as technological innovation is in another. The major challenge for Australia is to improve our overall performance in order to make certain that our businesses continue to be globally competitive.

Rowan Gilmore:

We need to remember that Australia is strong in mining and agriculture not only because these are traditional industries, they are also strongly innovative. Think of the wine industry for example, which has introduced revolutionary processes and techniques to beat the French at their own game!

With more offshoring of manufacturing, there is great emphasis on increasing innovation in Australia's manufacturing sector in order for our firms to remain globally competitive. It's imperative, and there's some good benchmarking on manufacturing processes underway to ensure our firms compete on criteria other than cost.

Innovation in the services sector (like tourism, finance or professional services) is less documented and understood. We would like to see the knowledge intensity of our services industries grow faster. For example, the financial services sector is now embracing innovation, particularly through the adoption of IT to change their processes and ways of interacting with customers. That type of innovation should be the basis of new service industry sectors for Australia.

Joss Evans:

Social innovation has gained some currency in recent years. For example, there are projects in UK schools where children are encouraged to come up with innovative solutions to address particular problems in their immediate environment, such as bullying or litter in the playground.

Other social innovation projects have more of an entrepreneurial focus and create employment and growth by seeding micro enterprises that ultimately become self-sustaining.

Another growing trend in the innovation landscape is towards open and collaborative innovation. This may involve collaborating with other companies in a particular distribution chain, or working more closely with customers or suppliers to develop new products and/or more efficient processes. Societal changes and new priorities are strong influences on innovation trends.

Phil Ruthven:

Australia is generally considered the leader in world best practice (WBP) in mining, some agriculture (for example, cotton, vineyards, aquaculture), some manufacturing (such as, bionic ear technology) and construction. In the service industry sectors, which now

dominate our economy, there is a growing number of outstanding innovations. In finance, infrastructure funds (pioneered by Macquarie Bank) are easily WBP. Some of our databases are world leaders. Our health industry is considered one of the most efficient in terms of service delivery per percent of GDP allocated.

HOW OUR SMEs PERFORM

Colin Graham:

Some are a little complacent and will not respond well to increasing competition from new businesses and international competition. The quality of management teams is the single biggest issue holding back the growth and development of many businesses. A significant number of owners find it difficult or almost impossible to divorce themselves from the business—everything is too personal, it's their baby and they can't delegate. That's a recipe for disaster.

Rowan Gilmore:

ABS data shows that the larger the SME (in terms of employment), the greater the proportion of business that reports innovation





activity. So, certainly, smaller businesses under-innovate. AiGroup survey data suggests that Australian businesses rank in the bottom half of the OECD (Organisation for Economic Cooperation and Development) in the development of new products and processes.

The one area where we think there could be much greater returns is for SMEs to collaborate more, with their customers, suppliers, and research organisations. Collaborations bring new ideas, spread risk, and allow resources to be pooled. Programs like the AIC's TechFast program, which create and then implement collaborations between SMEs and research organisations, provide both the intellectual firepower and business know-how needed for SMEs to innovate.

Julia Bickerstaff:

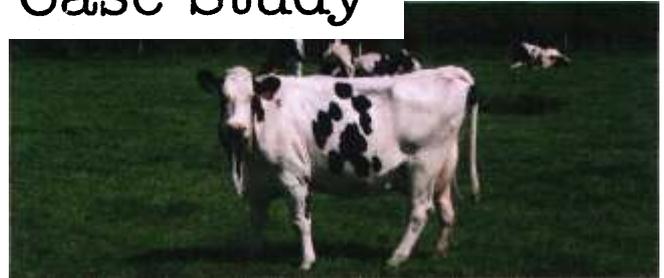
Australia has a very healthy rate of new fast-growing businesses. SMEs in Australia start up their businesses as entrepreneurs, so they are intrinsically innovative. They build on their own knowledge base and intellectual property (IP), and share well and leverage their own activities. SMEs have great technology, great funds and great ideas. They need funds to sustain new processes and systems and to attract and retain the right people.

INNOVATION CHECKLIST

We asked our panel for their top 10 tips to help SMEs become more innovative. And while all agree there is no formula, the consensus came up with the following advice:

1. Innovation starts from the top. Providing good leadership that allows individuals and teams to search out or to come up with new ideas.
2. Involve your staff, develop their skills and knowledge, and build a culture of collaboration that enables experimentation, learning, and managed risk.
3. Look for imaginative business models and consider ways to energise business growth. Can you emulate or, better still, improve upon them?
4. Do background research on the idea, the market, the competition.
5. Innovative ideas need support. Seek new ideas both inside and outside the organisation.
6. Obtain and respond to feedback from customers, they are a great source of innovative ideas.
7. Write a business plan to set out the market, the cost of development, likely revenues and a commercialisation strategy.
8. If an idea is really valuable, consider how it can be protected through patenting, trade marks, or keeping the details secret.
9. Allocate time and money. Determine how the innovation will be financed, and action it.
10. Celebrate successes and remember that failure is not a mistake but a learning experience. But remember to call it quits when the writing is on the wall, and move on to the next idea.

Case Study



INNOVATION IN ACTION

How do you compete with the multinationals? Innovation can make the difference.

Helped by AusIndustry innovation grants, the Saurin Group of Companies has developed two products that significantly improve mixing and drying methods in the Australian and overseas milk-processing and pharmaceutical industries.

When it received its first grant in 1999, Saurin's annual turnover was \$300,000. By 2005–06 that had grown to \$20 million. Between 1999 and 2001, Saurin was awarded more than \$1.1 million in innovation grants to develop two innovative products: a twin-fluid nozzle for spraying and a pulse combination for spray-drying. The twin-fluid nozzle, which achieves the same result as high-pressure pumps in atomisation, is now being sold in Australia and overseas.

One key to Saurin's growth has been its investment in technology to develop cheaper and more accessible services for dehydration, mixing, and processing goods. The company has also built pilot plants for research and development.

The twin-fluid nozzle was developed to spray-dry a diversity of products including milk, detergents and cosmetics. The nozzle produces a wide-angle spray at low pressure, ensuring a variation of flow rate and control over particle size, distribution, and spray angle. This allows the fluid to dry more efficiently.

"We realised that the only way forward for us in competing with the large multinationals was to be innovative," says Saurin's managing director, Rakesh Aggarwal. "Our technology is cost effective, saves space, reduces effluent and prevents wastage. The energy savings in a year pay for the equipment."

Saurin's technology has contributed to the efficiency, competitiveness and productivity of the processed-milk industry in Australia. "By developing the first Australian spray dryer, we have replaced previously imported equipment," Aggarwal says. The Soliquid mixer and dryer are now being sold overseas, and while Saurin currently derives half of its income from exports, this is expected to grow to 80 percent during the next few years.

Saurin's reputation for cutting-edge research and development is being sought by other industries and research institutions for projects. These include developing equipment to extract residual grape juice for the wine industry, and to pasteurise high protein breast-milk for premature babies. Saurin has also built a food park in Longwarry in regional Victoria where it processes milk into milk powder.

—AusIndustry



GOVERNMENT INITIATIVES

Colin Graham:

From a policy perspective there is a lot that government can do. The existing financial incentives to support R&D are reasonably good and can be built upon. The Federal Government needs to do a lot more to provide incentives—such as tax incentives—to encourage people to invest in small growth companies. It should be possible to double or even treble the amount of private investment going in to innovative growth-oriented businesses if the tax incentives are right.

Thomas Murrell:

Government should do more to support innovation, such as greater tax breaks for investment and making childcare tax deductible.

Patrick Coleman:

The federal and state governments have research and development and industry programs in place. These are important but don't go far enough in preparing Australia for future challenges and opportunities, nor do they go far enough in supporting the broad nature of innovation. The BCA is urging federal, state and territory governments to work together to implement a National Innovation Framework and establish a new central structure—'Innovation Australia'—to take responsibility for providing policy coordination across governments and public sector institutions. Given the relatively small size of Australia's domestic market, we need to prioritise and coordinate innovation policy on a national basis. In putting a new innovation policy in place, governments need to be looking to economic and other challenges and opportunities Australia will be facing over the next decade and beyond.

Julia Bickerstaff:

Business and government need to work together to pursue new opportunities and manage the risks and uncertainties inherent in any innovation. Government also needs to minimise the bureaucracy around grant applications.

Rowan Gilmore:

A number of state governments are very active in the innovation space, and although others have been quite laissez-faire we're beginning to see change as governments recognise that innovation is the fount of competitiveness. We also look forward to welcoming the federal government's industry statement. The key role



governments can play is to address market failure—for example, in high risk, early stage funding—and they can foster catalyst activity in areas such as increasing collaboration between research organisations and SMEs. The other role is to ensure the infrastructure is in place. By that I mean, not only research infrastructure but also educational infrastructure to ensure that human capital is properly developed. Australia desperately needs more scientists and engineers to remain competitive.

Joss Evans:

The various AusIndustry programs that provide financial assistance to help with aspects of the commercialisation process have been particularly useful to INNOVIC's clients, and there are other good programs. Of course, more can always be done but a clear vision and long-term strategy for how Australia can position itself to capitalise on a changing global economy and the emergence of new industries and technologies, is vital. In my view, we need to invest more heavily in education and training, to ensure that we have the appropriate skills and capabilities for the future, and that we create a new generation of innovative people. ●



“CURRENT MEASURES OF INNOVATION BY R&D AND PATENTS ARE TOO NARROW. INNOVATION NEEDS TO BE A CORE COMPONENT OF AN ORGANISATION'S GROWTH STRATEGY”

—Julia Bickerstaff, Deloitte Growth Solutions