

## *Developing a Problem-Solving Product*

Many companies view innovation as a cost with uncertain payback. In spite of this, a recent PWC survey shows that CEOs across the country are starting to see innovation as a key to their business' success. Only 3% of CEOs responded that innovation was not a priority for their particular market. Conversely, 75% of respondents viewed innovation as being either as important as, or more important to their company's success than operational effectiveness.<sup>1</sup>

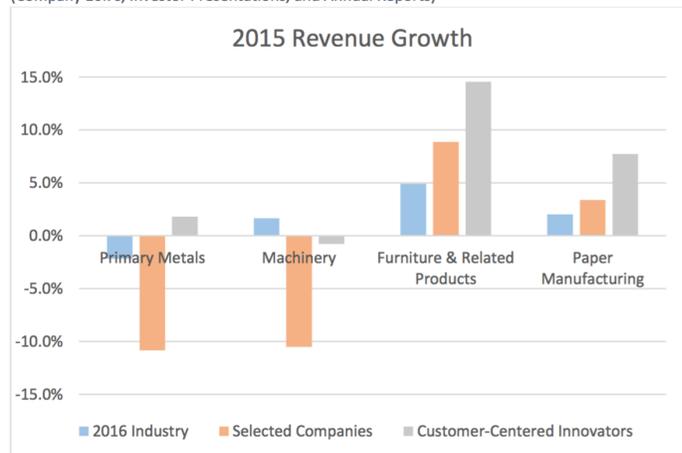
We wanted to test this emerging mental relationship between innovation and success. To do this we reviewed the 2015 financial results of the 15 manufacturing industries we explored in The Top-Line Growth Imperative viewpoint last year. We examined four specific industries: machinery, primary metals, paper products, and furniture. The analysis looked at 8 mid-cap and blue-chip companies within each of these four industries. We attempted to determine the top-line effects of how closely a company focuses on innovation by measuring where the company placed its attention and resources.

Our examination revealed no discernable relationship between a company's focus on innovation and actual revenue growth. This result reinforces the idea that Innovation is a gamble! There were standout examples of companies successfully innovating and reaping the rewards while others paid the cost with no benefit. Even still, most CEOs agree that innovation is a gamble that plays an increasing role in determining the winners and losers in business.

The question then becomes - how does one innovate successfully?

Outside of the various quantitative measures, we collected in our initial analysis we also noted various qualitative measures about each firm. Included in these qualitative data was the method of innovation each company used when developing a product. As seen in Exhibit 1, the companies that were most successful tended to innovate new and existing products to complete tasks discovered by close relationships with its customers.<sup>2</sup>

Exhibit 1  
**Revenue Growth of Customer Focused Innovators Compared to Their Peers and the Industry**  
(Company 10k's, Investor Presentations, and Annual Reports)



<sup>1</sup> Percival, David, Robert Shelton, and Huw Andrews. "Unleashing the Power of Innovation." [http://www.pwc.com/gx/en/innovationsurvey/files/innovation\\_full\\_report.pdf](http://www.pwc.com/gx/en/innovationsurvey/files/innovation_full_report.pdf).

<sup>2</sup> Select financial data from 32 studied firms

By focusing on customer needs these companies were able to develop products which completed the jobs that their customers needed done.<sup>3</sup> This customer-outward approach to innovation ensures that companies will not waste money developing a product that no one needs.

Many firms lack the resources to properly segment their market while continuing to focus on the customer. This inhibits them from maximizing the revenue potential of innovation investments. To successfully innovate problem-solving products a company must first understand the needs of potential midstream customers as well as the end consumer. By deploying this expertise beside data-driven analysis firms can create products that do the jobs that customers need done.

In today's market, it is not enough for a firm to simply place a focus on innovation. However, by understanding and solving the problems your customers face, your company can beat the field and begin to find consistent top-line success.

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<sup>3</sup> "Marketing Malpractice: The Cause and the Cure." *Harvard Business Review*. 2005.