

Navigating Innovation Success

A guide to overcoming the pitfalls of new proposition development



cognosis

Innovate to survive

New proposition development is not merely a choice but a necessity for long-term growth and relevance. Every market is being impacted by new regulations, technological breakthroughs, disruptive business models and rapidly evolving customer expectations. It is often stated that the only constant is change, but that underplays the risk for businesses. Disruptive changes are happening more frequently, having a greater impact, and businesses are having to work harder than ever to keep pace.

NOW, MORE THAN EVER, INNOVATION IS A PREREQUISITE TO BUSINESS SURVIVAL

AVERAGE TENURE ON THE S&P 500

FROM
30-35
YEARS

15-20
YEARS

PREDICTED DECREASE
WITHIN THIS DECADE

AVERAGE LIFESPAN OF A NEW BUSINESS MODEL

FROM
15
YEARS

<5
YEARS

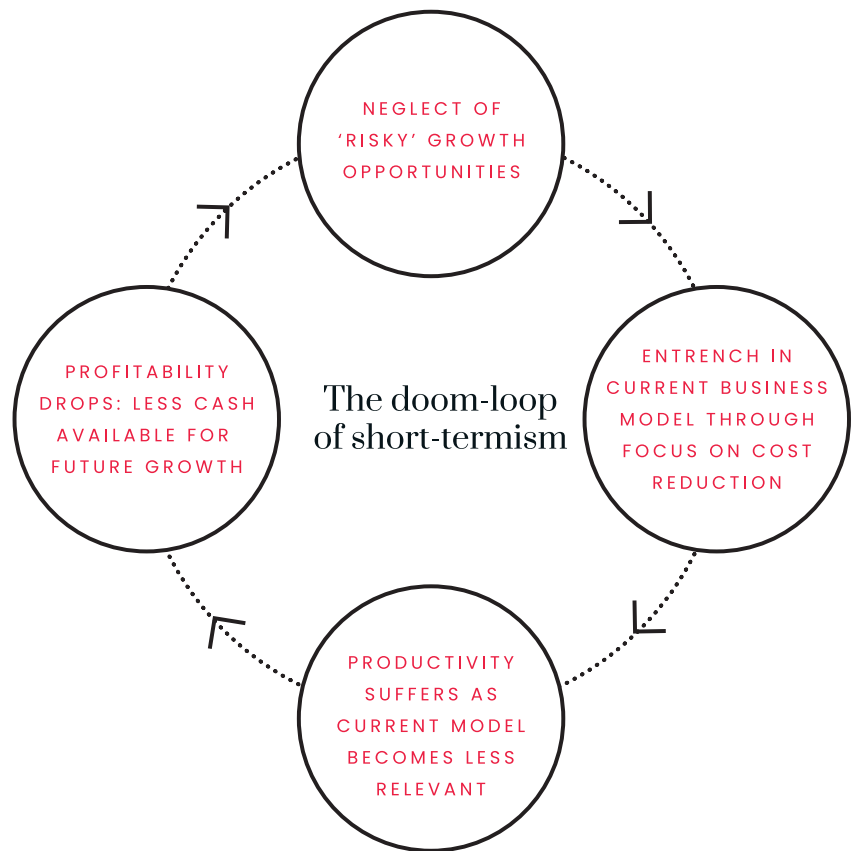
FALLEN IN THE LAST
HALF CENTURY

1. https://www.innosight.com/insight/createdestruction/?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axios_markets&stream=business#_ga=2.257314699.1406242346.1696411950-1084445926.1696411950

2. <https://www.bcg.com/capabilities/innovation-strategy-delivery/business-model-innovation>

A high-stakes game

Long-term behaviours drive greater value creation, but the system demands a short-term focus. This can push good businesses into a loop of short-term behaviours.



INNOVATION IS INHERENTLY RISKY AND EXPENSIVE

Already 70% of all new business models, product and service innovations are destined to fail. This hit rate will only worsen as the pace with which leaders need to create new growth engines increases in response to increasingly frequent waves of disruption. This is a worrying problem.

Investments that misfire result in costly failures. Furthermore, failed endeavours can deter subsequent innovation efforts by increasing risk aversion. Lack of confidence in riskier growth options leads to a greater focus on the current business model as businesses try and maintain profitability. Erosion of relevance and differentiation pushes business towards cost cutting, reducing capital for investment in innovation.

This ultimately can lead to businesses falling into a short-termism loop, where scars from previous failures result in the business backing away from development of new growth engines entirely. While this may maintain profitability in the short-term it is highly likely to lead to long-term failure.

HOW TO OVERCOME THE ODDS

For over 25 years, Cognosis has been helping businesses across a variety of sectors develop new business models and propositions.

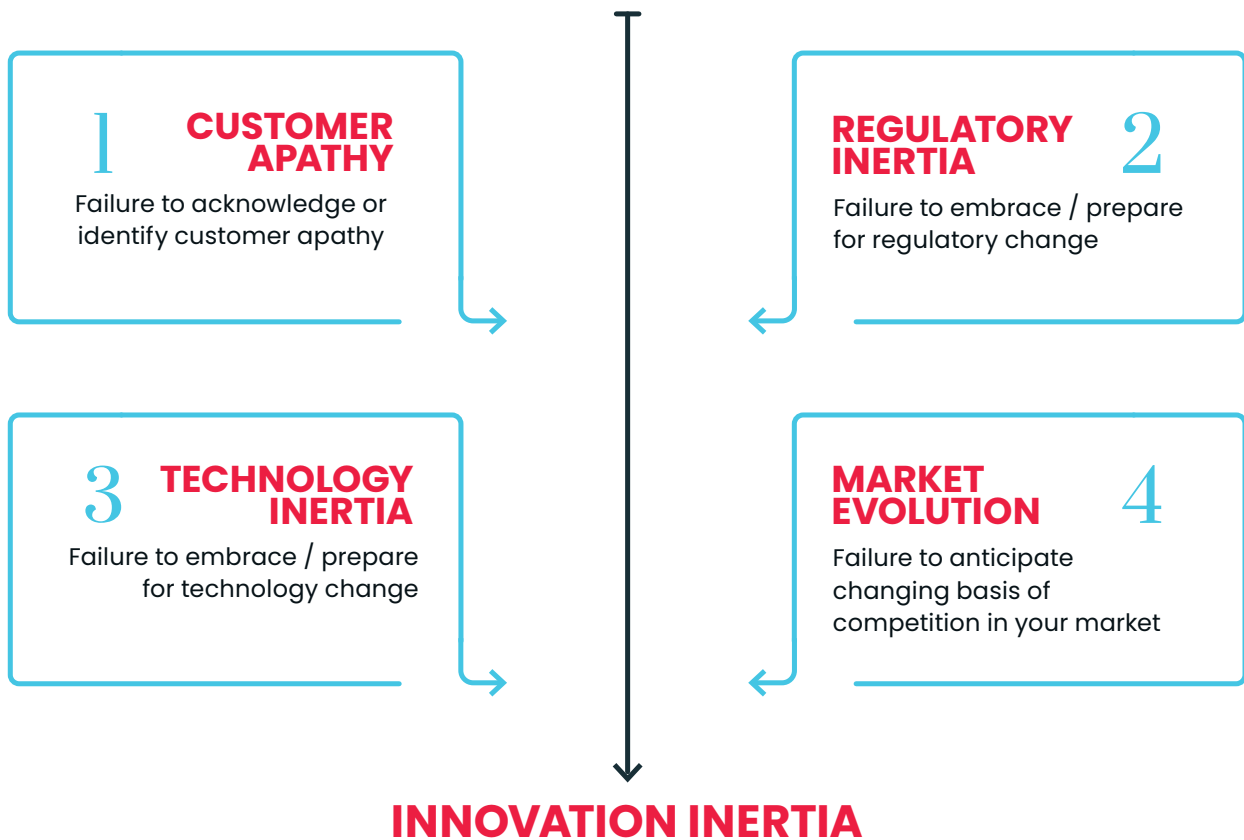
In doing so, we have identified the common pitfalls that organisations frequently face when building new growth engines. In this guide, we will share our learnings with those who have an interest in, or responsibility for, developing new growth engines. Over the coming chapters we will discuss how to:

1. Recognise the risk of Innovation Inertia
2. Understand and overcome the five common pitfalls of successful proposition development
3. Embed the right process, systems and culture to drive success

Does your business suffer from **innovation inertia**?

In an ever-changing world, every company must adapt to avoid stagnation, or worse, decline. There is no exception to this rule. Recognising the signs that indicate the need for a new business proposition can make the difference between thriving and fading into obscurity. To do this, a business must be consistently outward-looking, but more importantly, brutally honest. Many large businesses have built healthy balance sheets and significant scale, but this can mask underlying issues, smother innovation and fuel inertia.

FOUR FACTORS THAT IF IGNORED CAN SLOWLY DRAIN YOUR BUSINESS OF THE CAPACITY FOR CHANGE:



While these factors may seem obvious, it is surprising how often large, sophisticated businesses full of very smart people fail to truly acknowledge issues and react fast enough.



1. FAILURE TO ACKNOWLEDGE OR IDENTIFY CUSTOMER APATHY

When customers' perception of value in your service or product erodes you may have a problem. Customers start to view you as a mere transaction devoid of distinction, innovation becomes imperative.

Customer apathy is a clear signal that new growth engines need to be ignited or your current products / services require substantial reinvention. The problem? Customer apathy can sneak up on us slowly, a gradual erosion of customer engagement over time that we fail to fully acknowledge. In addition, customer apathy can be masked. Favourable market conditions and effective cost control can help maintain profits, bonuses and investor confidence, but they can hide the true scale of customer apathy. The only way to understand if you have a customer apathy problem is truly effective customer insight and understanding, underpinned by robustly benchmarked measures such as NPS.



2. FAILURE TO EMBRACE / PREPARE FOR REGULATORY CHANGE

We all know regulation drives change, but often companies focus all their energy on fighting / shaping regulation rather than preparing for it.

Our ability to manage and shape our operating environment is critical, but it is common for this endeavour to preclude or block development of new capabilities or innovation. This is especially true when the future regulatory environment is likely to be less profitable than today's market.

It is very tricky to judge the right time to shift focus, but in every strategy cycle this should be a critical discussion. Is our desire to protect our core business today, damaging our ability to create a healthy business tomorrow? We use regulatory war-gaming as a tool to help clients explore how both established and disruptive competition will react to new regulations



3. FAILURE TO EMBRACE / PREPARE FOR TECHNOLOGY CHANGE

The recent arrival of generative AI into our popular and commercial consciousness represents the latest wave in technology change.

Generative AI will no doubt have a transformative effect on many sectors, as has digital transformation over the last 20 years. Of course, the need to embrace technological change is obvious, but all too often businesses act too late or struggle to extract value from their investment in technology.

In addition, those businesses who have been slow to adopt digital business models and scale their digital investment are already playing catch up and carry greater risk of falling behind as the next wave of technology change arrives. Understanding and benchmarking your levels of technology investment, digital maturity and innovation is critical to overcoming innovation inertia.



4. FAILURE TO ANTICIPATE CHANGING BASIS OF COMPETITION IN YOUR MARKET

As markets mature so does the basis of competition.

In most new markets, companies meet new customer needs with functionally different offerings: "We offer a different solution". As markets mature and products converge, the basis of competition moves to quality or convenience "We do it better". Finally markets mature further and the basis for competition becomes more focused on price: "We are the cheapest".

The key to success is understanding when your basis of competition is shifting and ensuring you innovate effectively. Failing to create new growth engines will result in having to compete on price alone. Competing on price can be effective if you have scale and a low-cost DNA, but many businesses are just not set up to compete in this way, resulting in erosion of value over time.

What can I practically do about this?

Every business is in a unique position and faces many different and interconnected drivers of change. We use the following framework with clients during their annual planning process. It is a simple structure to help sense check the “innovation inertia” risk facing your business at any given time.

INNOVATION INERTIA RISK ASSESSMENT FRAMEWORK

DRIVER / MEASURE(S)	ASSESSING RISK / OPPORTUNITY	CURRENT SITUATION
 Level of consumer apathy? <ul style="list-style-type: none"> Customer Satisfaction Score (CSAT) Customer Effort Score (CES) Net Promoter Score® (NPS) Customer churn and retention 	Above market customer satisfaction	1
	Average customer satisfaction	2
	Below market customer satisfaction	3
 Level of regulatory change? <ul style="list-style-type: none"> Climate & sustainability Consumer harm / protection Data / cyber security / privacy 	No significant market regulation (just ongoing regulatory evolution)	1
	Significant market regulation in in the mid-term	2
	Significant market regulation, directly impacting core product in in the short-term	3
 Level of technology change? <ul style="list-style-type: none"> AI disruption risk Cybersecurity disruption risk VR / AR disruption risk General digital disruption risk 	Low risk of technological disruption or well positioned with tech capabilities and IP	1
	Significant technological disruption in the mid-term likely	2
	Core business model is at risk of near-term technology disruption	3
 Basis of competition in your market <ul style="list-style-type: none"> Functionality differentiated market Reliability / convenience / speed market Commoditised market 	Market competes based on clear functionality differences	1
	Market competes through improved reliability, speed or customer experience	2
	Commoditised market competes primarily on cost	3

LOWER RISK
3-5

MID-LEVEL RISK
5-9

SIGNIFICANT RISK
9-12

If your risk factor is above 9, you need to be having a serious conversation about your level of investment and focus on new growth engines.

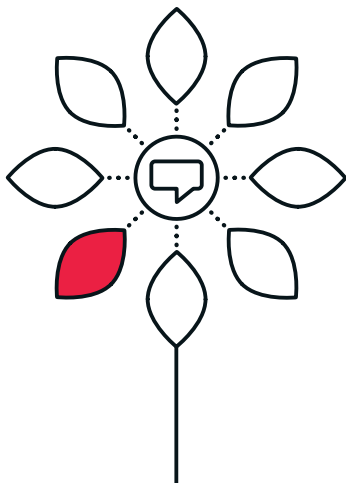
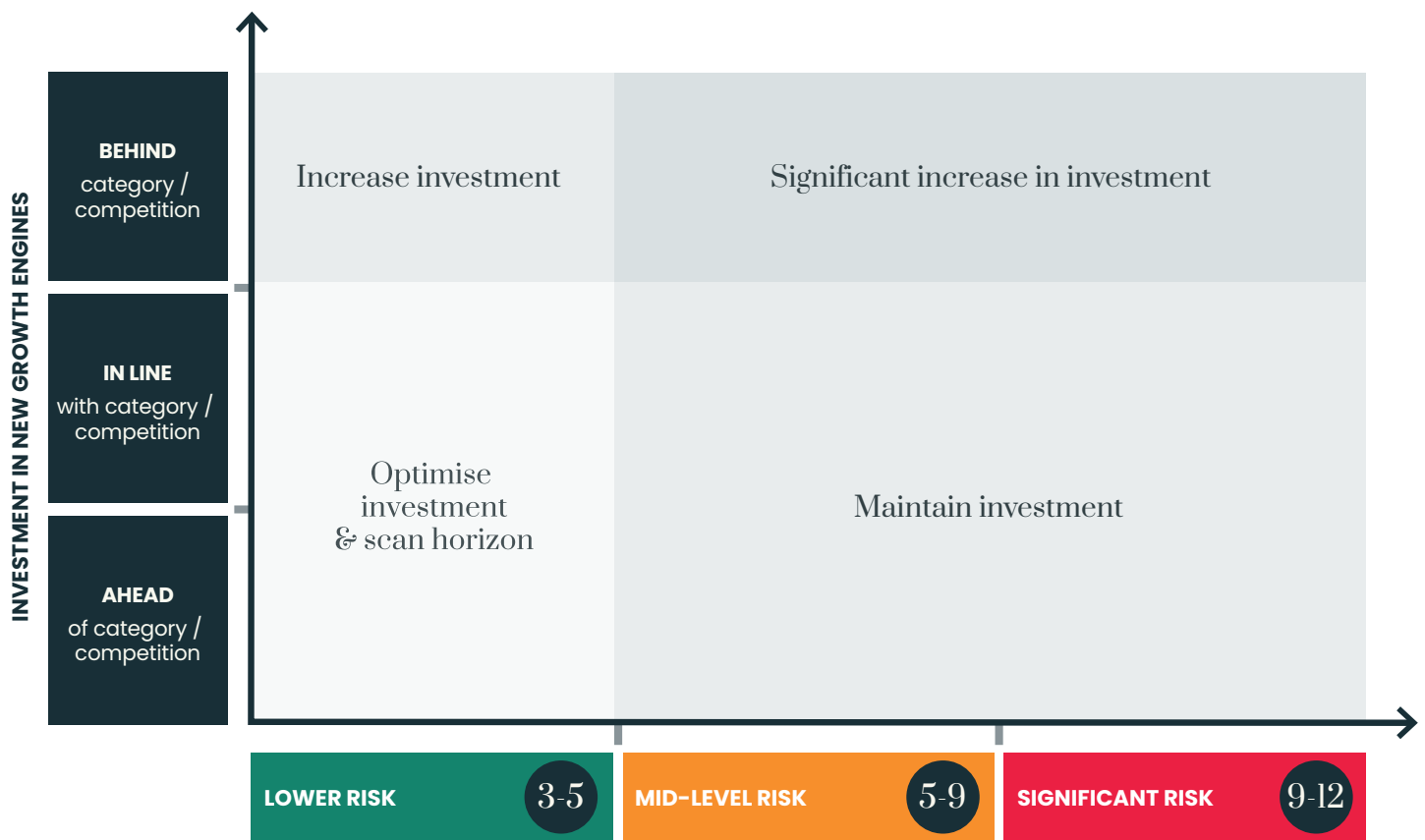
INNOVATION INERTIA RISK ASSESSMENT FRAMEWORK

Once you have scored your Innovation Inertia risk, you can then plot this versus the level of investment in innovation, new business model innovation or M&A.

The aim here is not to accurately and forensically benchmark every action or cost, but to provide a broad framework that stimulates a conversation about the appropriate levels of innovation and change investment in your business.

Innovation Inertia is not unusual and can often be a cyclical symptom suffered by many successful businesses.

If you have been through a phase of Innovation Inertia and have identified the need for business model innovation, you will be starting to think about where to focus this resource / effort.



The next chapter looks at the common pitfalls encountered by businesses who are trying to launch new propositions and some simple things you can do to mitigate these risks.

The 5 cultural pitfalls

Once you have decided to put more focus and effort into business model innovation, the arduous journey towards launching a new product, service or business commences.

However, this path is fraught with challenges, as only 30% of these endeavours ultimately succeed, leaving a staggering 70% destined for failure.

We've distilled the five most common pitfalls that businesses regularly encounter as they embark on the path of innovation. Surprisingly, many of these pitfalls appear regularly simple and obvious, yet it is

astonishing how frequently even the most seasoned businesses fall into these traps. While this list of pitfalls is not exhaustive, arming yourself with the knowledge of these potential risks can help guide your business towards success. We hope that by learning from the missteps of others you can maximise the chance of success when developing new growth engines.

1

LACK OF INTERNAL BELIEF, ALIGNMENT AND PURPOSE

2

POOR CUSTOMER EMPATHY AND UNDERSTANDING

3

BAD COMMERCIAL ASSUMPTIONS

4

UNDERESTIMATING CAPABILITY STRETCH

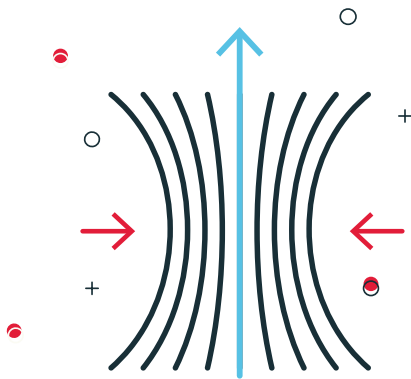
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OPTIMISM BIAS & AVERSION TO CHALLENGE

1 LACK OF INTERNAL BELIEF, ALIGNMENT AND PURPOSE

All too often key stakeholders have very different levels of belief, sense of purpose or understanding of what the business is trying to achieve.

This disconnect can lead to the creation of propositions that lack clarity, focus and a unified direction. This can then drive uncollaborative and obstructive behaviours. If left unaddressed, even the most promising ideas can be de-railed, or ideas that need to be killed soldier on and consume resources and cash.



We believe passionately that every new proposition you develop should be articulated using three key elements:

- 1. Why we need to change:**
A clear, data-led articulation of the burning platform.
- 2. The customer opportunity:**
The customer need and commercial scale of the opportunity.
- 3. A business model canvas:**
An articulation of the fundamentals of the new proposition on one page.

These elements should regularly be updated with insights and learnings as you develop your new proposition. This provides a simple tool to constantly update and align with key stakeholders, reminding them of the imperative for change, the commercial opportunity and latest thinking on the business model design.

2 POOR CUSTOMER EMPATHY AND UNDERSTANDING

Outdated or inadequate customer insights, will often lead to the development of propositions that fail to meet customer needs.

Many promising ideas have been poorly executed due to a lack of tangible customer engagement and input. Conversely, bad ideas have been brought to market based on flawed insights, resulting in wasted resources and missed opportunities.

Some businesses limit themselves to internal data. Others work with stale information, failing to recognise the rapidly evolving customer landscape – and many build new ideas based on assumptions and organisational myths about the customer. To create effective propositions, you must have a deep understanding of the customer jobs-to-be-done, which requires involving customers at every step of the development journey.

To counter this customer disconnect you need to ask yourself 3 questions about your new proposition development or innovation approach:

- 1.** Do you consistently **engage potential customers** throughout development process?
- 2.** Is this engagement based on **real customers interacting with tangible MVPs**?
- 3.** Are you brave in adapting and pivoting based on credible and consistent **customer feedback**?

If you can answer yes to all three questions you will significantly increase your chances of success and reduce wasted investment on ideas that should not be progressed.

3 BAD COMMERCIAL ASSUMPTIONS

Businesses often fall into the trap of taking commercial assumptions from their core business and applying these to new innovations.

We all have an ingrained set of assumptions about what success looks like based on our experiences. These include assumptions about acceptable levels of revenue, margin, profit, customer acquisition, retention and satisfaction.

It is critical to set the right performance expectations based on real benchmarks from similar new enterprises or start-ups.

For example, many successful new business models have taken much longer to establish scale than we realise. We see explosive growth, but miss the 3-4 years of graft, low growth and near failure.

We use external benchmarks to help clients set the right level of expectation and give new business models the right amount of time and investment to maximise chances of success.

Build realistic KPIs based on external benchmarks:

- 1. Realistic growth trajectory**
From startup date to growth inflection point, to scale
- 2. Realistic path to profit**
Benchmarks on annual losses and break-even point
- 3. Realistic cost base**
Benchmarks on P&L structure and costs
- 4. Realistic customer KPIs**
Benchmarks on customer acquisition and retention rates

The last point to note, we believe you should focus on customer KPIs at the initial stages and less on commercials. This enables you to understand the degree to which you are meeting consumer or customer needs. If consumer metrics start to look positive, then you can focus onto making the model scalable and profitable.

4 UNDERESTIMATING CAPABILITY STRETCH

DVF is a well-established framework, and we use it regularly. But we found it critical to allocate most effort to feasibility.

All too often businesses can identify the opportunity and build a financial model to prove it could be profitable. However, the feasibility element of any new business model assessment should warrant much greater focus, up to 70% of your effort.

Once you have identified the key capabilities needed it is critical that you get all your assumptions scrutinised by people who have been there and done it. And these people are not consultants! We leverage our expert network to speak to the commercial directors, factory managers, start-up owners, behavioural experts, technology implementers and front-line customer service specialists to understand feasibility.

We try to speak to those that succeeded and those that failed. It is only by doing this that you build a true picture on feasibility; creating an in-depth feasibility assessment can save millions by guiding teams away from those tantalising but unachievable ideas.

Ultimately there is no substitute to getting an MVP out in the market and iterating from there, but before you do that do not neglect due diligence on capability and feasibility.

DVF Framework:

- 1. Desirability**
Does it meet customers' needs?
Is it useful?
(Guide – put 15% of your assessment effort here)
- 2. Viability**
Is it financially sustainable?
Can we make money?
(Guide – put 15% of your assessment effort here)
- 3. Feasibility**
Is it technically possible to deliver?
Can we deliver?
(Guide – put 70% of your assessment effort here)

5

OPTIMISM BIAS & AVERSION TO CHALLENGE

Many new propositions fail because they should never have been launched.

Teams involved in the development of the proposition become too emotionally invested and an optimism bias arises. This tendency to overestimate the likelihood of positive outcomes can cloud judgement and lead to the approval of investment for ideas that are not robust enough.

To mitigate this bias, it is essential to maintain a data-driven approach and to rely on evidence rather than assumptions. Furthermore, organisations should nurture a culture of healthy challenge throughout the development process. Evidence based judgement and constructive challenge are crucial ingredients in improving your chances of successful business model innovation.

Four Principles to Avoid Optimism Bias:**1. Build the right team**

- a. Ensure the team is cross functional with strong commercial experience
- b. Ensure the right balance of critical thinker vs. can-do personality types
- c. Be brave in swapping out team members to keep this balance right

2. Gather as many real-world insights and benchmarks from people who have been there and done it, use these insights to robustly challenge all assumptions

3. Run challenging “go-no-go” sessions to try and break the new proposition and really explore the question if we should take forward

4. Consistently remind stakeholders that a “no go” is just as good as a “go” decision



What are the 30% of businesses who successfully build new growth engines doing right?

CHAMPIONING AN INNOVATIVE, AGILE AND HONEST CULTURE

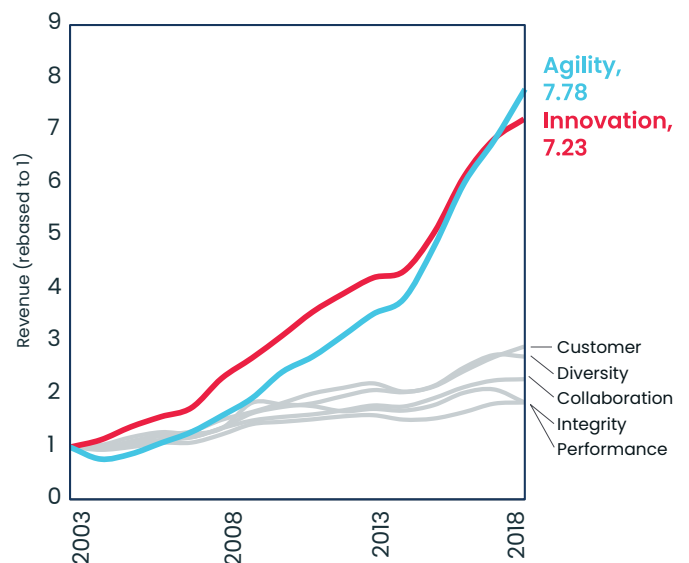
Nurturing an innovative culture is paramount to the success of new growth engines.

This culture should foster exploration, encourage learning from setbacks, and promote a growth mindset. It also demands ambidextrous leadership that values both business creation and business operation. Empowering employees to venture into uncharted territories and challenge the status quo rather than solely focusing on performance metrics. If your organisation lacks this innovative spirit, carefully consider how to cultivate the right environment, governance, empowerment, and talent to support your new ventures.

You cannot change an organisational culture overnight and nor should you try. But you can create small agile teams that are empowered to operate differently and drive change. It is also critical to remember that you are going to fail as you develop new propositions. So prepare the organisation for some failures and make sure these are seen as necessary events to help us learn and improve. Develop a draft proposition canvas built on sound customer insight to drive fast stakeholder alignment. Then, conduct a comprehensive assessment against benchmarks to critically evaluate the desirability, viability and feasibility of the proposition using rigorous commercial modelling and in-depth capability audits.

Our Horizon Research series correlated long-term revenue and ROIC performance of large, listed businesses (2003 – 2018) with organisational culture. Agility and Innovation stood apart as the biggest cultural drivers of revenue growth. This indicates that putting greater focus on Agility and Innovation within your organisational culture is critical for driving long-term sustainable growth

SGI 100: AVERAGE REVENUE OVER TIME segmented by their strongest cultural attribute

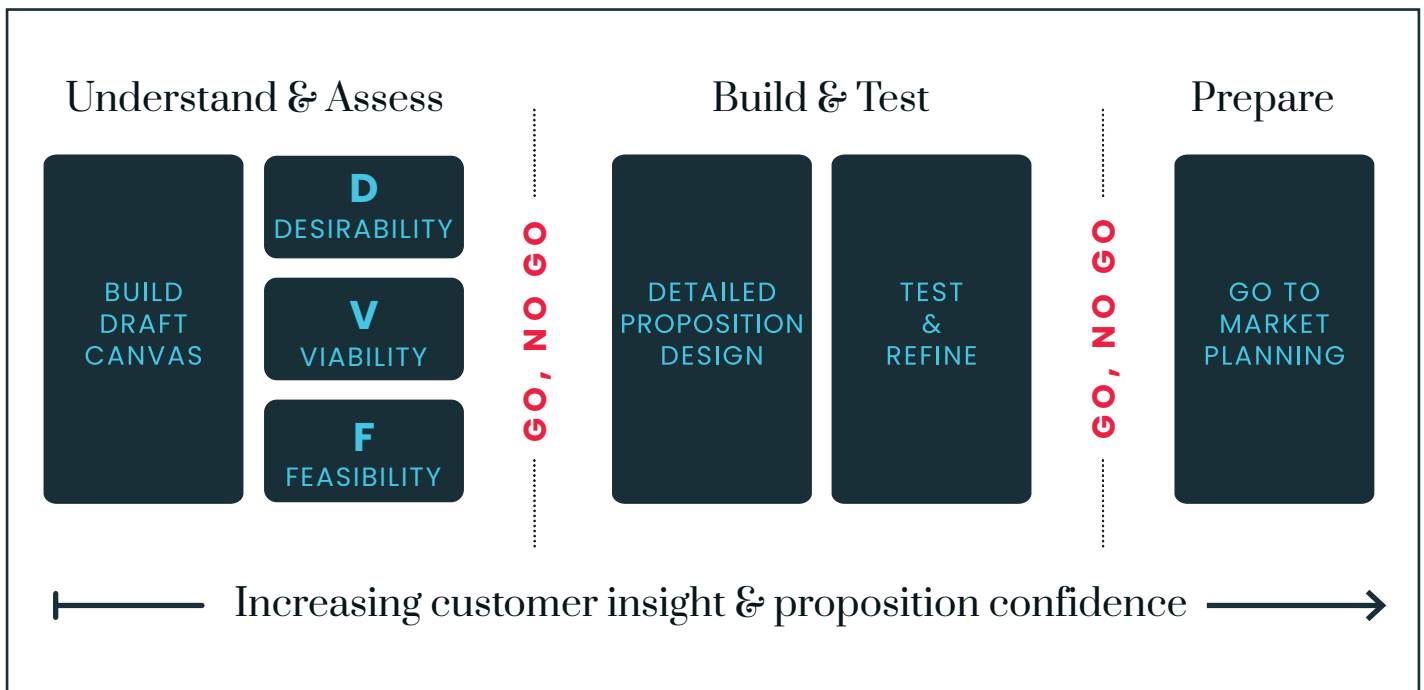


ADOPTING THE RIGHT PROPOSITION DEVELOPMENT PROCESS

Cognosis's approach to new growth engine development has been tried and tested by businesses around the world. Designed to mitigate the typical pitfalls that organisations face when developing new propositions, our process provides rigour, insight and confidence in the proposition.

It is worth noting that the customer or consumer is heavily involved at every step of the process.

3 KEY PHASES TO EFFECTIVE PROPOSITION DEVELOPMENT



1. Understand & Assess

Develop a draft proposition canvas built on sound customer insight to drive fast stakeholder alignment. Then, conduct a comprehensive assessment against benchmarks to critically evaluate the desirability, viability and feasibility of the proposition using rigorous commercial modelling and in-depth capability audits.

2. Build & Test

Once initial consensus has been reached, detailed proposition design commences. This involves testing and refining the proposition in response to new insights surfaced throughout the process, culminating into challenging and transparent Go/No-Go sessions in which the green light for launch is either given, or not.

3. Prepare for Launch

If the new product/ service/ business model survives the rigorous challenge and testing process and is deemed worthy of investment, Go to Market planning is initiated. Using a clear GTM framework and launch OKRs, we will help hardwire the principles of implementation success within business operations.

The final word

In an ever-evolving world, innovation is not a choice but a necessity for businesses to thrive. It is not a one-time event but an ongoing process that requires a relentless pursuit of new growth engines.

While many succumb to the pitfalls of innovation, those who can master the art of developing new business models, products, and services can reap substantial rewards.

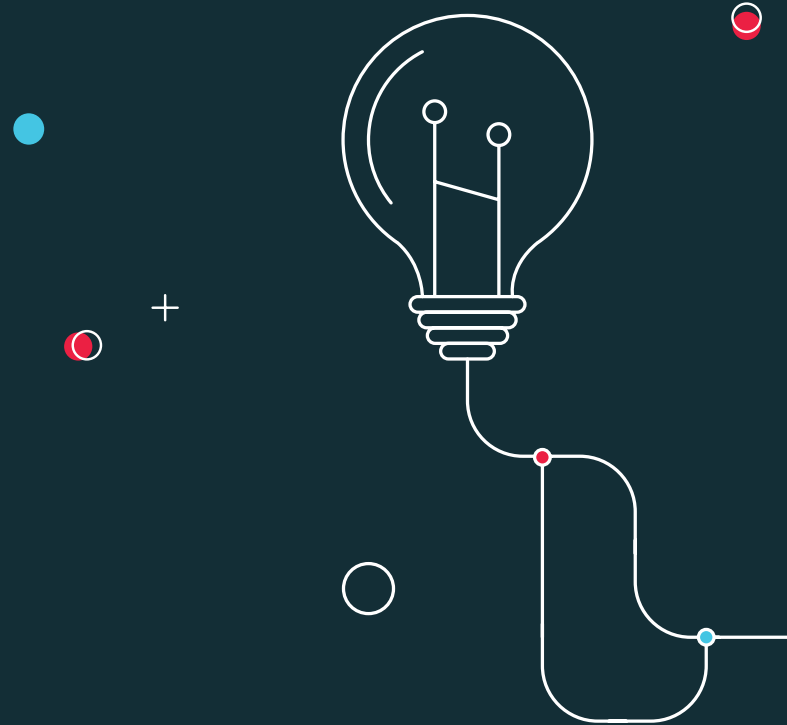
By embracing experimentation, learning from failure, and maintaining a data-driven approach, businesses can navigate the innovation landscape with confidence, turning disruption into opportunity.

Innovation is not a lottery but a strategic imperative for enduring business success. It requires a future-focused mindset, a willingness to heed the signals that demand innovation, and a commitment to avoiding the common traps. By embracing these principles, businesses can turn disruption into their greatest competitive advantage.

READY TO IGNITE YOUR NEXT GROWTH ENGINE?

Without a clear, customer-centric, and differentiated value proposition, even the best ideas will fail to gain traction. We help businesses explore and implement winning new business models, products, and services, empowering them to navigate the dynamic market landscape with confidence. Our robust and collaborative approach provides strategic rigour and objectivity, resulting in highly actionable outcomes. It is the reason we have such enduring relationships with some of the world's biggest brands.

At Cognosis, we believe that value proposition development is the key to achieving long-term growth and relevance. By adopting a future focus and reaching beyond your current business model, you can embrace changing customer needs with more speed and precision than the competition.



About Cognosis

For over 25 years, Cognosis has been igniting sustainable growth for some of the world's most ambitious businesses across 60 countries. Our award-winning approach to proposition development underpinned successful programs with some of the world's most trusted brands including AB InBev, AkzoNobel, McCormick & Company, Diageo, Hiscox, Three Mobile, DS Smith amongst many others.

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