Innovation in small business

A guide for business operators in South Australia

01 Overview

Innovation, research and development are essential to the long-term survival of your business. Customers today are demanding more for their dollar. Businesses are having to do more with less. There are much higher expectations for increased service and greater productivity. Those businesses that are content to ‘do it the way they have always done it’ put their long-term survival at risk.

In business you must constantly be on the lookout for new and better products and services, more efficient processes, new ways of delivering services and other innovative strategies to get ahead of the competition.

This guide looks at practical ways to manage innovation, research and development in your business to obtain that elusive competitive edge.

Readers are advised:

- The purpose of this guide is to provide general introductory information.
- The guide does not purport to contain all the information that would be relevant to any particular business opportunity.
- The guide is provided to interested persons on the basis that they will be responsible for making their own assessment of that opportunity with the assistance of the information provided.
- All figures contained in the guide should be regarded as estimates only based on general samples and may be subject to error.
- The information in the guide should not be relied upon in substitution for professional advice and individual investigation.
- Persons interested in pursuing any particular business opportunity are strongly advised to fully inform themselves by taking professional advice as to the extent of their rights and obligations—particularly in relation to any proposed investment.
- The guide is provided subject to the terms of the formal disclaimer, which appears on the last page.
02 What is innovation?

Innovation is the implementation of discoveries and inventions. It is the process of doing and using new things. It is closely linked to creativity, which is about finding, thinking up and making new things. In business, the term ‘innovation’ is often used to refer to the commercialisation of new ideas, inventions, products, designs and resources.

Competitive benefits from innovation include increased quality, greater customer satisfaction, extended product range, increased profits, reduced costs and improved production techniques. Surveys indicate that you are most likely to derive ideas for innovation from internal sources such as management, marketing, finance and production. Externally, surveys suggest that customers are likely to be your most significant source of ideas, followed by competitors.
03 What is research and development?

Research and development (R&D) is the process of creating new and improved products. It is a prime example of innovation.

In small businesses, research and development tends to focus on product improvement, mainly due to budget limitations and associated cost factors. In most cases, innovation leading to new products is transferred to large corporations through sale, licence or other contractual arrangements.
## CHECKPOINT

The following checklist describes the barriers you may encounter and offers practical tips for breaking them down.

<table>
<thead>
<tr>
<th>How can I:</th>
<th>Actions to take</th>
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<tbody>
<tr>
<td>Make it safer?</td>
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<td>Make it cleaner?</td>
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<td>Make it slower or faster?</td>
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<tr>
<td>Make it more convenient to use?</td>
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<td>Make it easier to package, store or transport?</td>
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<tr>
<td>Make it less expensive to replace, repair or re-use?</td>
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<td>Make it easier to clean or maintain?</td>
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<td>Make it less noisy?</td>
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<td>Add new features?</td>
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<td>Improve its design?</td>
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<td>Make it more attractive and appealing?</td>
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<tr>
<td>Reduce labour costs?</td>
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<td>Minimise the cost of materials?</td>
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<tr>
<td>Improve its availability or distribution?</td>
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<td>Improve its promotion?</td>
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</table>

Be aware that each question will not apply to all situations. Other questions may need to be added, tailored to your specific business circumstances.
05 How to encourage innovation in your business

Innovation in a business is something on which you need to work. While you and some of your employees may be creative people with a natural flair and drive to introduce and use new things, sustained efforts to innovate need to be planned, encouraged, supported and rewarded.

So what can you do to foster an innovative culture in your business?

CHECKPOINT

The following action checklist offers a number of practical tips:

<table>
<thead>
<tr>
<th>Action</th>
<th>Practical tips</th>
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<tbody>
<tr>
<td>Provide top-down support</td>
<td>Indicate that, as business owner, you expect innovation. Be vigilant for any tendency by you or employees to put innovative ideas in the “too-hard” basket or on the backburner without just cause.</td>
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<td>Reduce resistance to change</td>
<td>Foster a business culture that supports risk-taking and questioning. Identify and make the need for change well-known throughout the business.</td>
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<td>Encourage improvements in your business, no matter what form they may take, their size or impact</td>
<td>Involve employees in planning implementation of the change so as to create ownership. Have genuine regard for employees’ concerns and likely resistance. Implement and monitor the effects of change.</td>
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<tr>
<td>Link innovation approaches to your SWOT analysis from business planning</td>
<td>Let it be known that suggestions or ideas for minor change are welcome—many small innovations can have a positive cumulative effect on productivity and often carry less risk. Be prepared to listen to all suggestions and ideas put forward. Use identified opportunities to point the way to new products, services or markets. Develop solutions to minimise the impact of weaknesses.</td>
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</table>
## 05 How to encourage innovation in your business

### CHECKPOINT…CONTINUED

<table>
<thead>
<tr>
<th>Action</th>
<th>Practical tips</th>
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<tbody>
<tr>
<td><strong>Identify problems and creative ideas that will solve them</strong></td>
<td>Encourage an active awareness and recognition of problems as opportunities.</td>
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<td><strong>Encourage experimental attitudes where initiative is expected, recognised and rewarded</strong></td>
<td>Establish a business environment which experiments with new ideas rather than prejudging on rational grounds.</td>
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<td>Recognise contributions made by employees at all levels, whether adopted or not. Identify appropriate financial and non-financial rewards.</td>
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<td><strong>Tolerate failure</strong></td>
<td>Accept that time and resources will be invested in experimenting with new ideas that will not work.</td>
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<td>Avoid assigning blame and penalising employees.</td>
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<td><strong>Promote the role of champion, that is, someone who has suggested successful innovations</strong></td>
<td>Wherever possible, give the creator of the innovation project the responsibility and authority for leading and coordinating its development.</td>
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<td><strong>Create an open, decentralised organisation structure for your business</strong></td>
<td>Encourage open channels of communication.</td>
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<td>Encourage people to be open-minded.</td>
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<td>Many good ideas can be lost by early ridicule.</td>
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<td></td>
<td>Encourage contact with outside sources.</td>
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<tr>
<td><strong>Follow up on ideas from customers and suppliers</strong></td>
<td>Talk over problems and issues with customers with a view to sourcing new ideas and benefits.</td>
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<tr>
<td></td>
<td>Talk to suppliers to help identify sources of complaints that can lead to improvements in operations.</td>
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06 What makes an opportunity commercial?

Simply put, an idea is not a business - businesses need continual revenue streams and a competitive advantage. Most experts agree that the idea or invention is the easy part; the hard part is successfully commercialising it — which is why most new ideas and inventions never make it to market.

An idea can be the basis for a business, but it must stand up to commercial development and rigorous scrutiny before taking any commercial steps. It therefore becomes obvious that the idea itself will benefit greatly from early consideration of both commercial potential and from building in some commercial appeal.

WHAT ARE THE COMMERCIAL CONSIDERATIONS? IN OTHER WORDS, WHAT IS AN IDEAL BUSINESS CASE?

To understand what makes something commercial, it is useful to try and imagine the best business possible. Set out below are the criteria of an ideal business. It requires:

- No money up-front.
- Low advertising costs (high new value or other source of promotion).
- No people costs.
- Repetition of purchase (continual purchases by the consumer.)
- IP rights — clear and clean (and owned by the company or individual).
- Known receptive and established distribution network (who are they?).
- A completed marketing plan targeting a specific group.
- Requires other business partners to deal with you.
- No government regulation.
- Favourable tax treatment — better than others.
- No competition.
- No product/service risk.
- 100% gross margin.
- No obsolescence.
- Impervious to weather, fashion trends and other forces.
- Workable and feasible.
- Customers pay in advance.
- Ability to exit.

It can be an interesting exercise to run an idea past these points and see how it “shapes up”. Which of the criteria does your idea meet?
06 What makes an opportunity commercial?

COMMON PROBLEMS
Many problems become evident through assessing the opportunity against the screening comments provided below:

- It does not scale up to commercial application (who would want it and how much will they pay for it?).
- Inadequate testing of assumptions.
- It does not work all the time (not tested properly and verified by an expert).
- The need is yours, not the market’s.
- Customers have changed their attitudes.
- Barriers to entry — competitors (what is the competitive advantage of the product?).
- Other research has made this obsolete (IT area especially true).
- Unidentified partners.
- Relies on someone else’s technology/already patented (relies on someone taking risk to get it to market) “Everyone should have one” or “once the market understands this, they will all want one” or “there are more than 20M people in Australia so I have a ready-made market”.
- No money to get a working prototype in production.
- No idea of cost to produce and sell (is it a commercial proposition for the market distribution?).
- Marketing not clearly understood and segmented.
- What does the “inventor” want to get out of the whole exercise?
- Technical verification — who says your product is good — who are they?

OTHER OPTIONS?
Your great idea may not be suitable as the basis for a new business but it may be something that:

- Could be sold to an existing business (this could be done either as an outright sale, or as a licensing agreement in return for royalty payments - professional advice is recommended in either case).
- Could have other aspects added to it to make it feasible as a business.
- Might be a profitable hobby in addition to other income.

In summary, it is worth examining ideas to see how you can best exploit them.

PROVEN STEPS TOWARDS COMMERCIALISATION:
For those who are committed to their idea or invention, however, there are proven steps towards commercialisation, including:

- Intellectual property (IP) protection.
- Product design and development.
06 What makes an opportunity commercial?

- Business plan, including company structure.
- Marketing strategy.
- Financing the business.
- Government assistance programs.

This guide will now briefly outline these steps to commercialisation:

INTELLECTUAL PROPERTY (IP) PROTECTION
If your idea or invention is genuinely new and original, you need to protect your intellectual property (IP) to prevent your competitors from copying it.

This should be done before your idea is released to anyone in the public.

Intellectual property protection can include:

- Patents
- Trade Marks
- Designs
- Copyright

A **Patent** may be granted to a technological innovation that is genuinely novel and inventive. It provides exclusive rights for 20-years, after which the technology can be used by anyone.

A **TradeMark** is a “sign” that distinguishes the goods or services of one person or company against their competitors.

A **Registered Design** is a narrower form of protection than a patent. It applies to the shape, configuration, pattern or ornamentation of a product - i.e. the visual rather than technological aspects of the product.

**Copyright** provides protection for literary, artistic, dramatic and musical works.

**IP Australia** (website: [www.ipaustralia.gov.au](http://www.ipaustralia.gov.au) / Tel: 1300 65 1010) is the Australian Government agency that administers intellectual property (IP) rights and legislation relating to patents, trademarks, designs and plant breeder’s rights.

Professional advice from a **Patent & Trade Mark Attorney** is recommended, although it is possible to apply for and register the appropriate intellectual property protection yourself.

06 What makes an opportunity commercial?

The Professional Standards Board for Patent & Trade Mark Attorneys (website: www.psb.gov.au / Tel: (02) 6283 2345) will receive any complaints about professional service delivery.

You should consider asking your advisers to sign a confidentiality agreement before telling them about your idea or product.

PRODUCT DESIGN & DEVELOPMENT
Most inventions undergo significant development from initial idea to final product.

How developed is your idea? Is it just an idea, or do you have detailed design drawings, even a working prototype?

If it is just an idea, how do you know it will actually work? If you have a prototype, how extensively has it been tested? Can it be improved or made more efficient? What further innovation is possible and what other applications could the product be used for? What method of manufacturing and what materials should be used?

If you don’t have the expertise or resources to address these issues, specialised design and engineering firms can help.

PREPARING A BUSINESS PLAN
If your idea or invention cannot be produced profitably, then you do not have a business. The time to find that out is before you start, not after you have invested your life savings. It is important to prepare a business plan.

The business plan should include:

- Executive summary.
- Business structure and background.
- Product/service description.
- Competitor analysis.
- Research and development status.
- Manufacturing.
- Marketing.
- Management.
- Financials.
- Appendices, as applicable.

A business plan is particularly important if you intend to raise finance or external capital for your venture.

Professional advice from an Accountant or Business Consultant is recommended, although do-it-yourself books and software programs are available.
MARKETING STRATEGY
Marketing is arguably the most important part of the business plan and should therefore also be addressed separately.

- Is there a market for your product or service?
- Who will buy it?
- At what price?
- How will it be distributed and sold?
- What benefits does it offer compared with its competitors?
- How will it be packaged, promoted and advertised?
- Is there any market data available, for example the size of the market and the market shares of your competitors?
- What market share can your product or service capture and why?
- Should you commission your own market research?

It doesn’t matter how good your product or service is, if it cannot be sold your business will fail. So marketing is also important.

Export marketing should also be analysed, although this also introduces new pitfalls, including cultural differences, exchange rate and freight costs, import controls and international competition. You might also choose a different distribution strategy for export markets.

In these days, however, of an increasingly global economy, export offers opportunities that the Australian market simply cannot offer because of its limited size.

FINANCE AND CAPITAL RAISING
The business plan will identify the capital required to launch the business. Sources of capital include:

- **Your own equity**—your and/or your family’s savings.
- **Debt**—bank or other external finance, for which you would usually have to provide security, typically the family home.
- **Seed and/or venture capital**—capital provided by external investors in return for equity in the business.

This is the “moment of truth”—are you prepared to risk your own financial position, and/or are you prepared to give up (some) control to external investors? The detailed planning process recommended will assist you to make these important decisions.

**For further information consult a business adviser, accountant and a lawyer.**
07 Identify Innovation of a new product or service Checklist

Many great businesses have been started by people with an idea. It might be a new way of doing something, a new product or new technology.

If you have a great idea, use the Checklist overleaf to test out whether it is good enough to be the basis of a new business.
## Identify Innovation of a new product or service Checklist

<table>
<thead>
<tr>
<th>TEST</th>
<th>MEANING</th>
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<tbody>
<tr>
<td>1. Valuable benefits test</td>
<td>Does the new product, service, technology or process provide benefits in a manner that is clearly superior to existing services or methods? Can you articulate the 'value proposition' of what is new and why it is better in value terms that customers or clients can appreciate?</td>
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<tr>
<td>2. Scale up test</td>
<td>Can the concept be mass-produced in volumes and with the consistent quality to its specification in order to satisfy the market need? There have been many ideas that made it to the prototype stage, but when it came to time to scale up, they failed to be 'mass-producible' or production proved to be prohibitive from a cost perspective.</td>
</tr>
<tr>
<td>3. Marketing test</td>
<td>Have you determined or assessed demand, and do you have a channel to the client or consumer base? Many inventors end up with a garage or warehouse full of their products, because they did not do their homework on the marketing test. The whole marketing mix must be planned as part of the commercialisation process. This includes design, branding, pricing, distribution, sales, and other factors.</td>
</tr>
<tr>
<td>4. Leadership (team) test</td>
<td>Do the key people involved in this initiative have the knowledge, skills, experience and courage to take it through to fruition?</td>
</tr>
<tr>
<td>5. Intellectual Property (IP) control test</td>
<td>You have to make decisions around your IP, and either buy, own or licence-in the core technologies and other elements of IP involved in the innovation.</td>
</tr>
<tr>
<td>6. ROI (return on investment) test</td>
<td>This represents the financial bottom line of the innovation. Will it pay? The new concept must generate enough profit to make it worthwhile, including accounting for risk and the time discounted value of money.</td>
</tr>
<tr>
<td>7. Corporate social responsibility test</td>
<td>This is also sometimes referred to as the sustainable development or sustainability test, and refers to the environmental sustainability of the initiative and also the social/community outcomes. Products, services and technologies must now at least not harm the environment and community, or do so minimally, and where possible are advantaged by producing positive bottom line outcomes on all these dimensions. Leading companies often find a way to make progress on all three dimensions of value creation outcomes (financial, environmental, and social), with their inventions and innovations.</td>
</tr>
<tr>
<td>8. Strategic fit test</td>
<td>Is the new initiative (product, service, process, technology, business model), consistent and aligned with our firm’s overall business strategy?</td>
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## 08 Summary

1. **Innovation is the process of doing and using new things.**

2. **Research and development is the process of creating new and improved products and services and is an example of innovation at work.**

3. **Key ways to encourage innovation in your business include creating an open business environment, supporting experimental attitudes, making resources available for new initiatives, ensuring new ideas are not easily lost, promoting a culture which supports risk-taking and questioning and highlighting the role of the champion.**

4. **To identify opportunities for improving business performance and profitability, ask questions continually.**

5. **There is always a better way. Your challenge is to find it.**
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