

CommBank Business Insights Report

Unlocking Everyday Innovation

National Report FY17





Contents

Key Insights	03
Measuring Innovation	07
The Oslo Manual	08
The CommBank Innovation Index	09
Innovation in Action – Proactiv Payroll	11
Innovation Nation	13
CommBank Innovation Curve	16
The Innovation Leaders	22
Innovation in Action – Hazeldenes Chickens	26
The Value of Innovation	28
Driving Innovation	31
Becoming Innovation Active	33
Innovation in Action – SeaLink	35
Talk to Us	37

Key Insights Harnessing the power of change

Australian businesses are at the beginning of an innovation journey that promises to deliver unprecedented benefits for business owners, the economy and the wider community.



Key Insights

About the CommBank Business Insights Report.

The findings in this edition of the CommBank Business Insights Report are based on a wide-ranging quantitative survey of 2,195 business owners, decision makers and managers, conducted on behalf of the Commonwealth Bank by DBM Consultants between August and September 2016. Participants were drawn from businesses across Australia with an annual turnover of over \$500,000 and at least two employees.

The survey was designed to benchmark the innovation performance of each business, identifying the key motivations and drivers influencing their performance, and highlighting best practice.

We also interviewed a number of customers to provide a qualitative perspective on innovation.

This is a pivotal moment for Australian businesses seeking to harness the power of innovation as the nation transitions away from a mining and resources-led economy to a knowledge and service-led economy. But how do 'everyday' businesses achieve their commercial objectives during this transition?

The digital revolution and unprecedented advancements in science and technology that have swept across the globe in recent years has ushered in products and services that have fundamentally changed the business landscape.

And while these disruptive forces can deliver immense economic and social benefits, they are often at the cutting edge of innovation, and only a small number of businesses can claim to be at the forefront of these radical changes — at least so far.

Meanwhile, the reality is that many leaders and managers are still at the stage of seeking to understand the innovation pathway most relevant to the growth or sustainability of their organisations. This includes those pursuing more practical ways to leverage innovation for the benefit of their business and customers.

No matter where a business sits along this innovation spectrum, several key questions remain: What does innovation truly mean? Why does it matter to my business? How do I implement it? How can I start innovating?

The CommBank Business Insights Report seeks to answer these and other questions, demystify innovation and help businesses take advantage of its enormous potential to create a foundation for sustainable growth. This report also provides a valuable snapshot of innovation in Australia today, allowing us to place an economic value on innovation, and identify the attitudes and behaviours that distinguish successful innovators from their peers.

But before measuring innovation success, we need to define it. In this report we have used a globally recognised OECD framework to interpret innovation data — the Oslo Manual. In essence, the Oslo Manual defines innovation as introducing something new or making a significant improvement in one or more of these four areas: business processes; products and services; organisational methods; and marketing practices.

The simple fact remains that for many businesses, innovation is elusive. This is in part because the concept of innovation has become ambiguous, as businesses, governments and consumers interpret and discuss innovation in different ways.

This has diminished its relevance for some businesses, and may have polarised others. In fact, we have found that while 82% of businesses in Australia claim to be innovating, only 44% are actually doing so when tested against the standard set out by the OECD.

The remaining 38% of businesses are simply improving, which still has the potential to create tremendous value within a business, but not at the level that true innovation does.

We have quantified the value of innovation that has been implemented, finding that innovative businesses generate an average estimated return of \$405,000 through cost savings, productivity gains and increased revenue. This accrues to a huge \$69bn boost to the economy. More importantly, this figure grows significantly as firms adopt innovation across all four of the key areas of their business.

Our research also tested 15 core elements of innovation, spanning a range of management capabilities and entrepreneurial behaviours, identified in leading innovation literature. We have combined these elements to produce a new index that benchmarks businesses' innovation performance: 'The CommBank Innovation Index'.

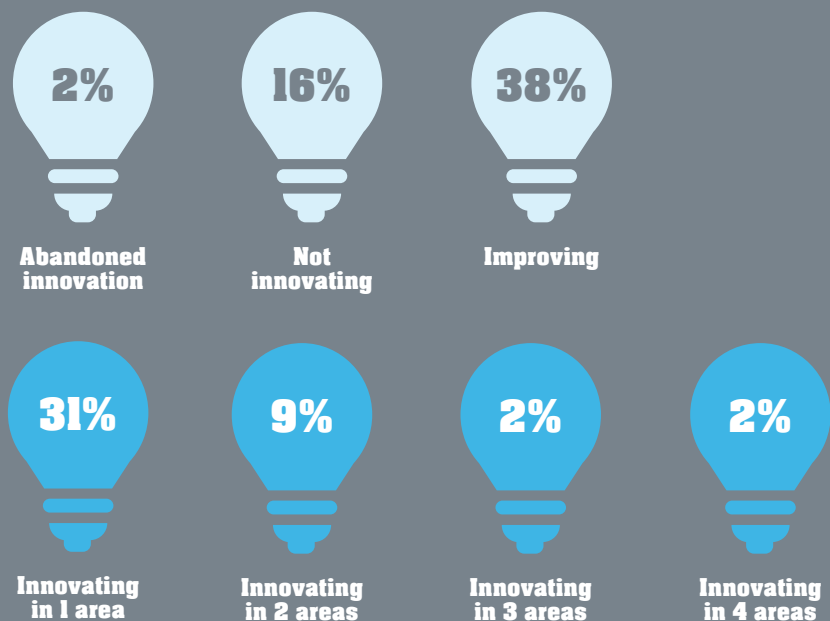
The CommBank Innovation Index shows that, overall, most Australian businesses are yet to move beyond improvement into the territory of true innovation. As a result, there are significant unrealised opportunities for businesses to grow their own revenue and boost the economy as a whole. That's because our findings show that as businesses move up what we call 'The Innovation Curve', the commercial benefits increase.

By encouraging more businesses to move up The Innovation Curve, we can help to bring these benefits to businesses across the country and the community as a whole. Through better understanding and embracing innovation, we have a significant opportunity to build on our enviable prosperity.

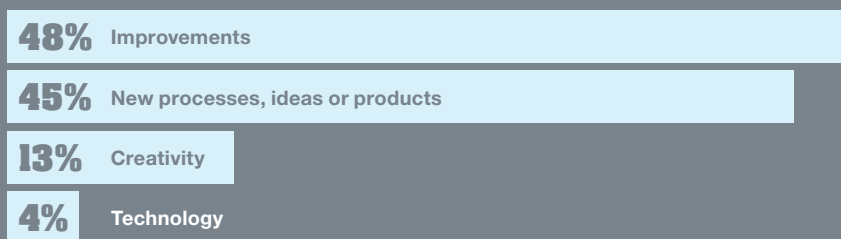
We hope this report acts as an important step in setting the course for the future by aligning the innovation conversation with the practical needs of businesses across the country.

Adam Bennett
Group Executive
Business and Private Banking
Commonwealth Bank of Australia

Rate of innovation



What innovation means for business



CommBank Innovation Index

National reading (Improving)

24

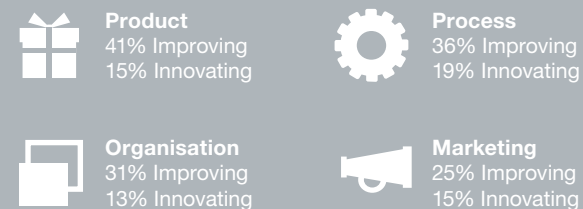
Highest performing industry: Information, media and telecommunications

37.1

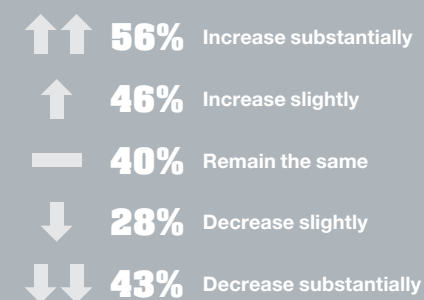
Estimated improvements in earnings through innovation

Innovating	Average improvement	Overall improvement*
Total innovating	\$405,000	\$69bn
Innovating in 1 area	\$386,000	\$49bn
Innovating in 2 areas	\$392,000	\$12bn
Innovating in 3-4 areas	\$763,000	\$8bn

Businesses innovating in key areas



Innovation rate by businesses' revenue outlook



*These figures have been calculated based on the estimated average value of innovation generated and then extrapolated to include all businesses

Breakthrough factors that kickstart innovation



Encouraging employees to ask questions that challenge the conventional way of doing things



Adapting products and services to make the most of opportunities



Running experiments and piloting new ideas

Portrait of an innovative business

Located in a **regional** area

From the **manufacturing, or wholesale trade** sectors

Medium sized, with an annual turnover between **\$2m** and **\$20m**

Actively **exporting**

Focused on **growth**

Planning to take on **more staff** in the year ahead

Measuring Innovation Constructing a best practice framework

To measure Australia's innovation performance, we adopted a globally recognised methodology, then expanded on it using literature on innovation to create the new CommBank Innovation Index.



The Oslo Manual

Innovation takes many forms — sometimes subtle, sometimes startlingly novel. So how do you quantify the impact and value of never-before-seen products and processes?

An obvious starting point is the Oslo Manual, a rigorous and globally recognised guide to collecting and interpreting innovation data. First published in 1992 by the Organisation for Economic Co-operation and Development (OECD), the Manual has been adopted by organisations around the world, including the Australian Bureau of Statistics. It sets out a measurement framework constructed around four key innovation areas (products, processes, marketing and organisational) and generally considers three levels of innovation (new to firm, new to market, and new to world).

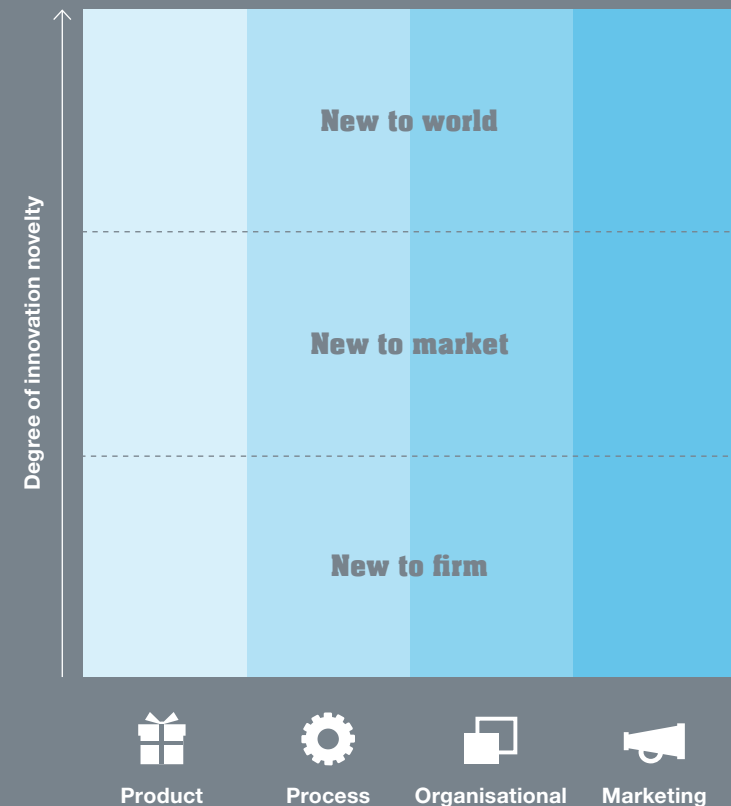
The Oslo Manual gives interpretative guidance to what does and does not constitute innovation in these areas.

We used the Oslo Manual criteria to test each innovation mentioned by the survey respondents, allowing us to determine whether their business improvements met the definition of innovation and the number of areas they were innovating in. We used this approach because we did not use the word 'innovation' in this part of the survey work so the results would be robust.

Definition of innovation under the Oslo Manual.

“A new or significant improvement in one or more of the following areas: product, process, marketing and organisational.”

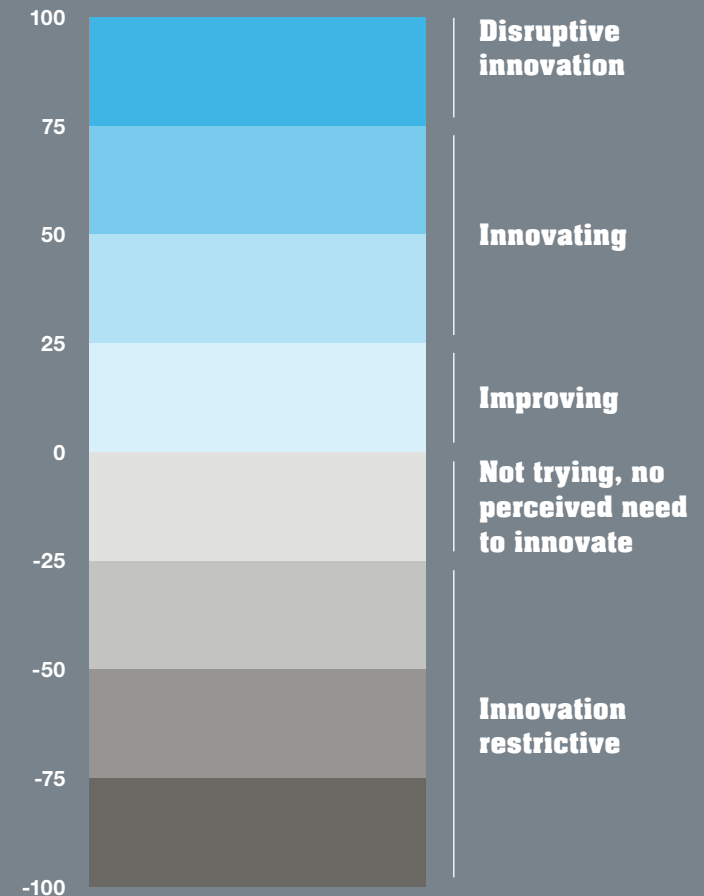
The Oslo Manual measurement framework



CommBank Innovation Index

In our survey, we tested 15 core elements of innovation across management capability and entrepreneurial behaviour. Together, they comprise the CommBank Innovation Index. The index combines the results into a single numerical indicator, enabling us to rank businesses on a scale from -100 (innovation restrictive) to +100 (disruptive innovation), thus creating the concept of an innovation curve or spectrum.

We also spoke to a number of businesses to understand their empirical experience in implementing innovation within their organisation. These form the basis for the case studies included in the report.



Measuring core drivers of innovation

15

The 15 management capabilities and entrepreneurship behaviours measured by the CommBank Innovation Index.

Management capabilities



Process¹

- **Ideation:** Brainstorm for new ideas
- **Challenge:** Encourage staff to ask questions
- **Discovery:** Give staff opportunities to observe customer experiences
- **Connect:** Experiment and pilot new ideas



People¹

- **Hire creativity:** Hire staff with creativity in mind
- **Reward creativity:** Evaluate staff with creativity in mind
- **Networking:** Facilitate networking outside of the business



Philosophy¹

- **Have a go:** Allow staff to take risks and fail
- **All hands:** Expect staff to give ideas for improvement

Entrepreneurship behaviours



Seizing opportunities²

- Look for new ways to benefit from market changes and technology
- Respond to attractive opportunities



Taking risks²

- Willing to take financial risks
- Invest time and capital in uncertain capital ventures



Focus²

- Limit focus to a small number of opportunities



Adapting²

- Adapt products and services to make the most of opportunities

¹ Source: Dyer et al., (2011) The Innovator's DNA, Harvard Business Review

² McGrath et al., (2000) The Entrepreneurial Mindset: Strategies for Continuously Creating Opportunity in an Age of Uncertainty, Harvard Business Review

Innovation in Action

Proactiv Payroll – Customer-centred software design

Key areas of innovation



Process



Product

Key drivers of innovation

Process	Experiment and test new ideas
Seizing opportunities	Look for new ways to benefit from market changes and tech
Taking risks	Invest time and capital in uncertain ventures
Product	Adapting products and services to make the most of opportunities





“The process was successful, because it was about the user.”

Roy Mellon
Managing Director
Proactiv Payroll

Towards the end of 2009, Roy Mellon founded RDM Consulting, a new business dedicated to providing high quality payroll software and supporting clients with tailored advice. A sole trader, he merged with a global payroll outsourcing provider, and took over as the Managing Director for Australia.

Soon after, Roy acquired the company's Australian operation via a reverse acquisition, rebranding it as *Proactiv Payroll*. So started what would soon become one of the fastest growing companies in the country.

In the first year of the business' new incarnation, Roy quickly grew the customer base from 80 to 130. That growing network of customer relationships gave him access to a diverse stream of industry insights, user feedback and new ideas.

“The growth in our customer base really opened my eyes — we were selling someone else's product, and then telling them how best to adapt it for different customers,” says Roy. “We were adding our own IP to these products and paying for the privilege.”

Proactiv Payroll customers were constantly coming to the company with requests for enhancements and new features, like a clock-in-clock-out function and work scheduling tools. The company engaged external partners to deliver the constant stream of updates his customers sought. Yet Roy and his team soon realised that it was their superior customer service that was driving new business, not the third-party software they were providing.

“Our service is what opened the door for us every time. Technology was just a means to deliver an outcome. When we partnered with third party providers, we also realised that we were reliant on their quality of service and this could impact our client relationships.”

The result was that *Proactiv Payroll* decided to build their own custom platform, giving them more control and allowing them to benefit from the IP they had so painstakingly developed.

At first, they put the job out to tender. But when they found out it would take 6–12 months to develop their platform externally, they quickly pivoted and hired their own developers to build the product in-house.

“We didn't know about technology — we were operational. We just knew it shouldn't be that hard to get the product right,” says Roy.

It was a decision that transformed the company. In February 2016, *Proactiv Payroll* launched its innovative new platform, *Definitiv*, specifically designed with customer needs in mind.

Roy says that *Proactiv Payroll* leveraged its diverse client base to design its platform, not only by using customer insights to identify and refine core requirements, but also by directly engaging key clients to co-develop the product.

“A lot of our product development was in collaboration with clients — we developed our vision and invited them to be part of the journey. Then we found developers that could deliver on our vision.”

“That's why the process was successful, because it was about the user.”

Roy says the software will “never come out of development”, with over 1,000 updates already delivered in just eight months. That reflects a passion for continued innovation and an agile approach that has delivered significant value over time.

Product and process innovations have given *Proactiv Payroll* the ability to scale up quickly while maintaining a premium product. This has put the company on the cusp of explosive growth, and redefined a market previously dominated by a few major players.

Innovation Nation

Measuring Australia's innovation performance

While some Australian businesses lead the world, most still have untapped opportunities to unlock value by pursuing innovation across the firm.



Australia's national innovation performance

Making the leap from improvement to innovation

Australia's innovation stars rank with the best in the world. Nonetheless, there are still enormous opportunities for most Australian businesses to improve their innovation performance. In fact, despite constant talk of innovation and its importance, there still seems to be widespread uncertainty about what constitutes genuine innovation and what is simply business improvement or smart entrepreneurship.

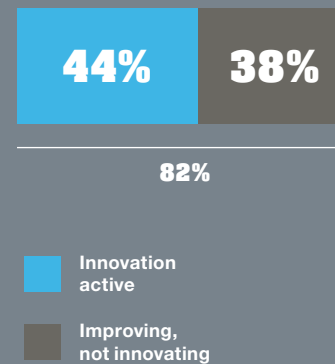
Our research reveals that, while 82% of Australian businesses believe they are innovating, only 44% are undertaking activities that meet the definition of innovation set out by the Oslo methodology. The remaining 38% who claim to innovate are clearly pursuing important business initiatives and realising genuine value, but they are nonetheless making improvements, rather than innovating.

Asked what innovation means to them, 48% described innovations as improvements, while 45% said it meant new processes, ideas or products — potentially neglecting the potential for innovation in areas like business model transformation, operational re-engineering or marketing.

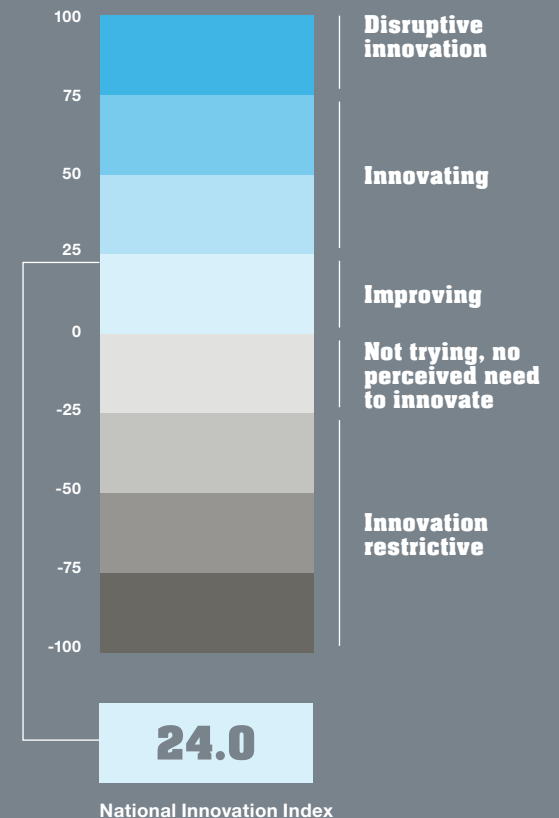
By mapping the dividing line between improvement and innovation, then overlaying the performance of businesses on the 15 core elements of innovation that make up the CommBank Innovation Index, we can determine where Australian businesses are positioned on an innovation curve.

The CommBank Innovation Index stands at 24 nationally, on the boundary between improvement and innovation. While some businesses scored in the upper ranges of the scale, only 24% scored 50 or more. When we plot the various scores across the categories of innovation, we see the innovation curve emerge on the scale from innovation restrictive to disruptive innovation, which is investigated further in this report.

Overall rate of innovation



CommBank Innovation Index



The four dimensions of innovation

Many businesses believe they are innovating, but are only improving.

Looking across the four innovation areas defined by the Oslo framework, Australian businesses are most active in product innovation, with 56% pursuing initiatives, but only 15% meeting the criteria for true innovation. Business leaders have achieved greater traction in process re-engineering, with 55% claiming to innovate and 19% succeeding.

In contrast, organisational innovation offers the greatest scope for improvement, with just 13% of businesses currently engaging in genuine innovation.

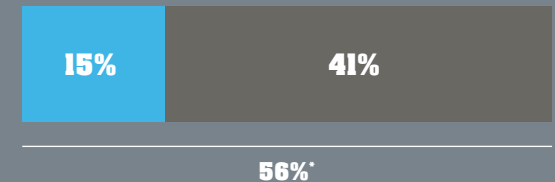
Even more striking are the significant opportunities for Australian businesses to unlock additional value by moving further up the innovation curve. While 44% are innovation active, only around one in 10 are active in more than one area, with just 2% active in all four areas.

The good news is that organisations that have made the step change from improvement to innovation are well positioned to expand their innovation activities into new areas of the business. Having achieved the management capabilities and cultural shift required to begin their innovation journey, moving beyond a single category typically doesn't call for radical change — simply a determined focus on introducing innovation across their business.

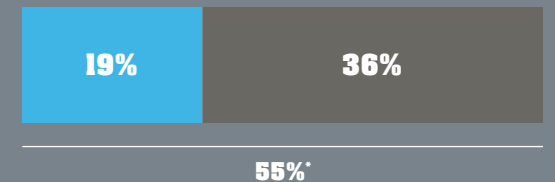
Innovation active Improving, not innovating



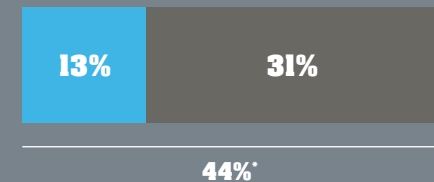
Product



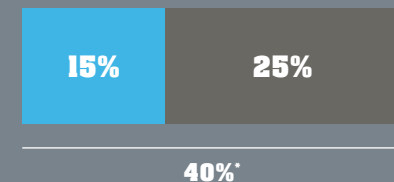
Process



Organisational

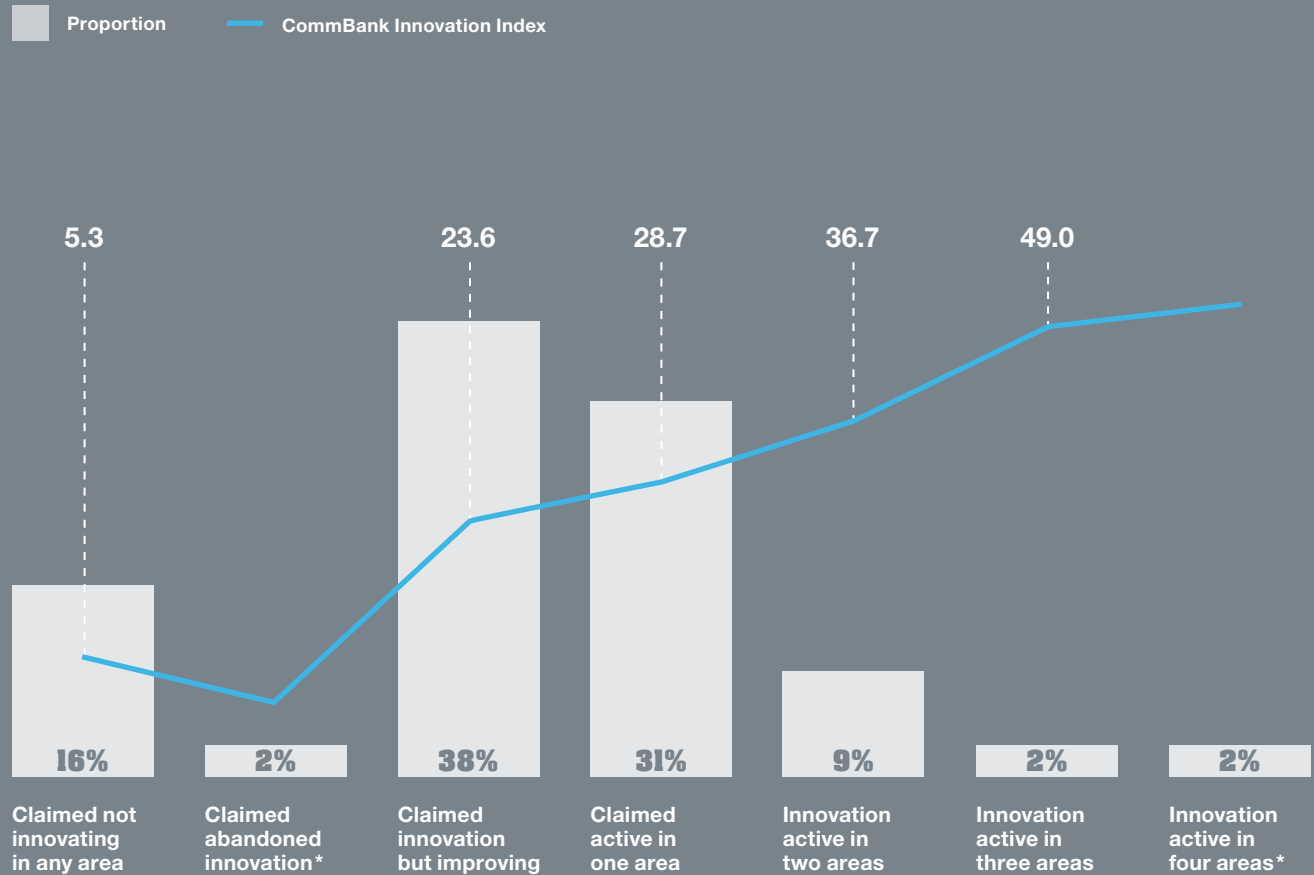


Marketing



*Proportion of Australian business that claim to innovate in the last 12 months

CommBank Innovation Curve



“Businesses are to be applauded for embedding continuous improvement within their operational activities. However, there is a need to leverage this foundation to propel them towards true innovation. By doing so, they stand to unlock real value.”





Adam Bennett
Group Executive
Business and Private Banking
Commonwealth Bank of Australia

When businesses were asked the reasons why they were not innovating, we found the sentiment demonstrated ‘no perceived need’ rather than the business lacking the capabilities to innovate. However, those who claimed to have ‘abandoned innovation’ could recognise they have the need, but do not have the capabilities required. Hence we see the Innovation Index score is lower amongst this group.

*Index not shown due to insufficient sample (n <50)

When does a business improvement become an innovation?

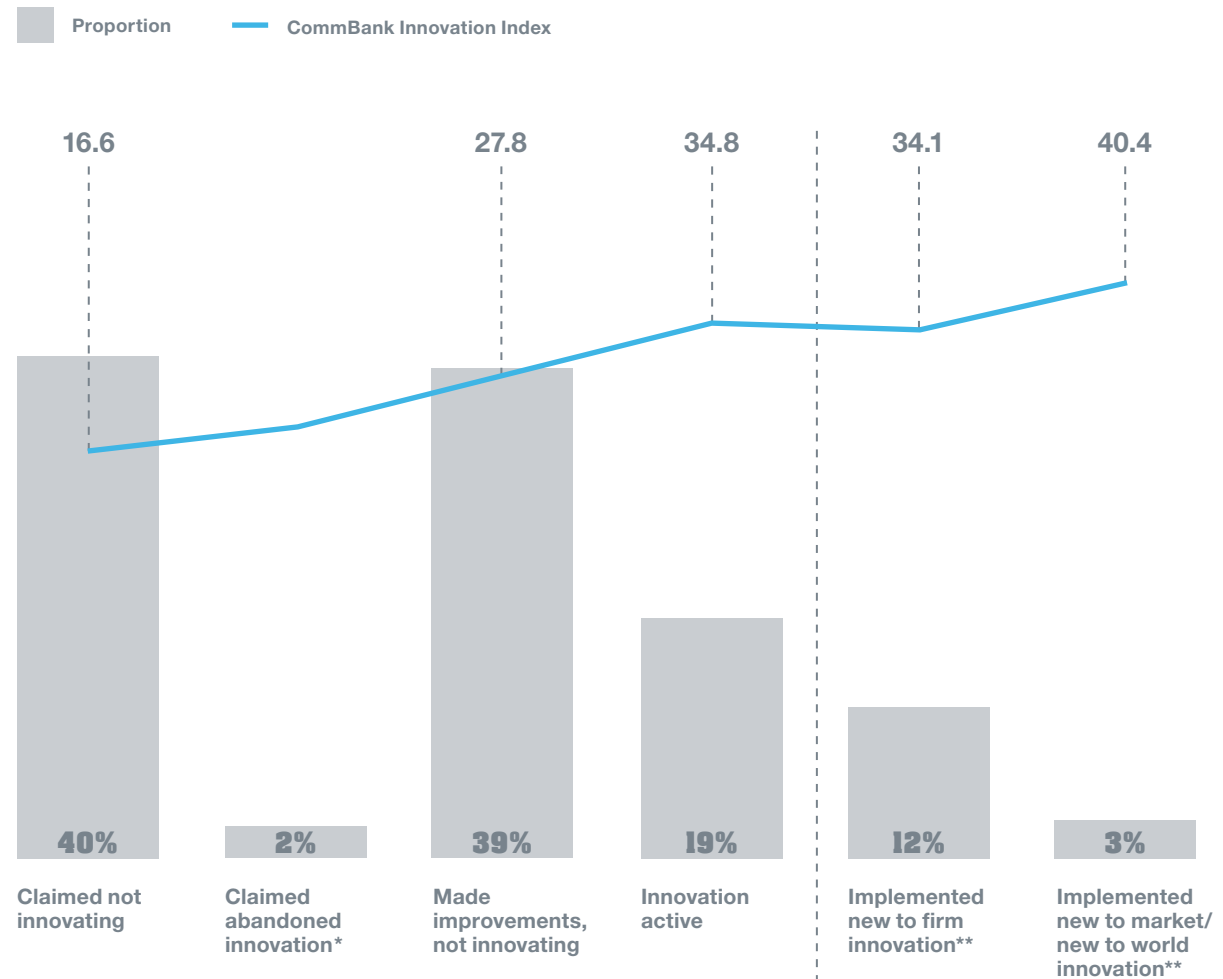
Improvement versus innovation

Innovation area	Improvement, but not an innovation	Innovation
 Product	Better offer, better product, more stock, quality customer service	New product lines, new products, use of different materials
 Process	Software updates, upgrading servers, IT security, simplifying systems	New ERP/CRM systems, automation, tracking systems
 Organisational	Hiring of more staff as well as mergers and acquisitions	Outsourcing, offshoring different business functions, strategic alliances, restructures, accreditation, training programs that have not been implemented before
 Marketing	Generic pricing reductions/increases, reintroducing a website, generic advertising, broader digital advertising	New pricing strategies (reflecting seasonality, wholesale rates etc), rebranding, entering new markets/sales channels, redesign of packaging

Process innovation

More businesses are pursuing process innovations than any other area.

This is the aspect of innovation that has been most directly transformed by digital technologies. Australian organisations have been quick to make use of them — moving critical infrastructure to the cloud, creating new IT systems, or simply automating and replacing manual processes with integrated digital equivalents. Businesses are using these technologies to meet the cost and efficiency challenges they are facing. As a result, 19% of businesses are innovation active in this area, — including 3% who implemented changes that were new to the Australian market or the globe.



*Index not shown due to insufficient sample (n < 50)

**Level of innovation novelty asked of those businesses that are innovation active only, 'don't know' is not shown in chart

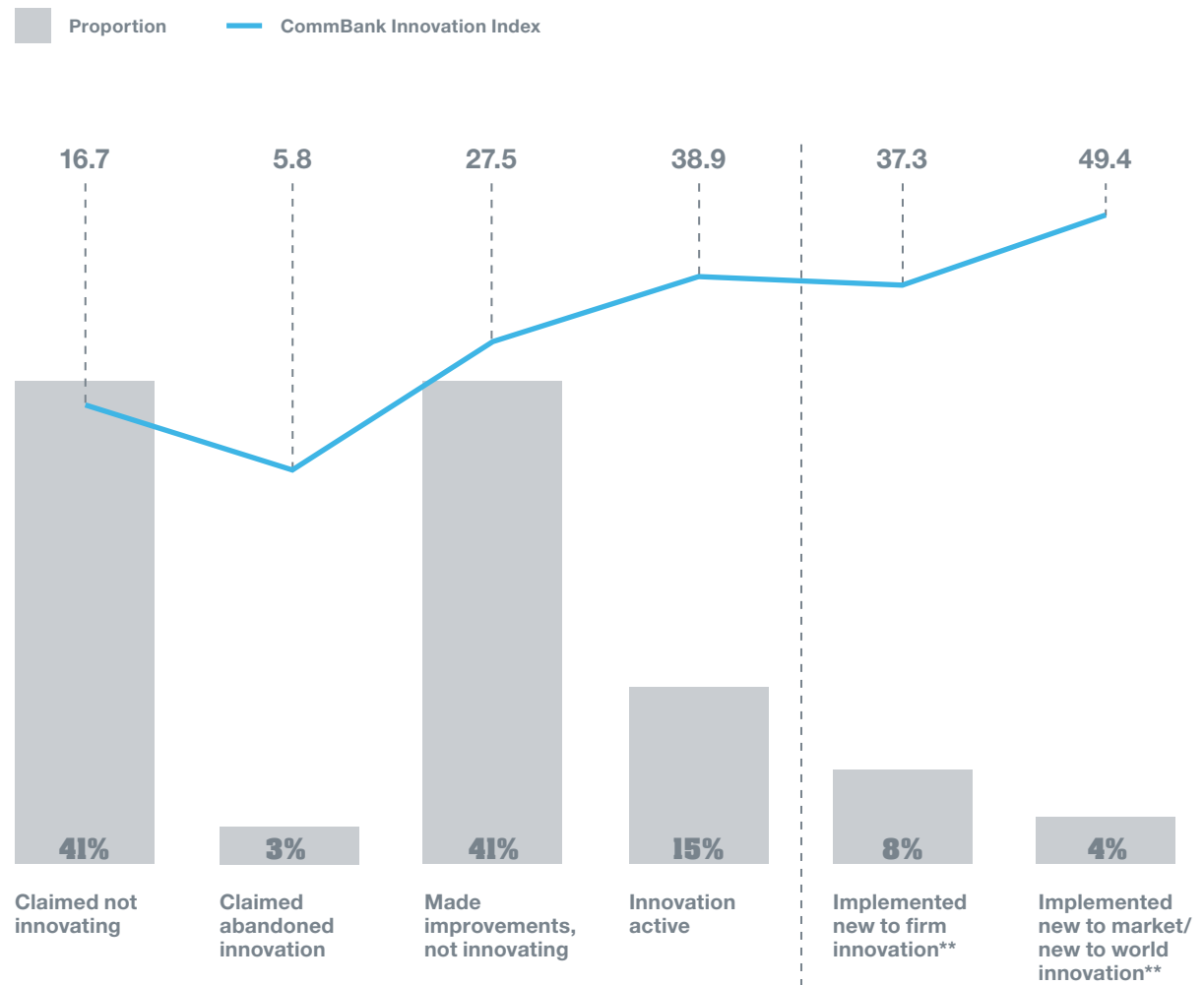
Product innovation

Product innovators score highly in the CommBank Innovation Index.

Product innovation is a key area of focus for Australian businesses, with more than one in two organisations claiming to implement new or significant improvements to their products; only around one in seven achieve genuine innovation. This relates to launching entirely new products and services, extending an existing product line, or transforming existing offerings through intensive redesign, often online.

Nonetheless, a small proportion have been highly successful, with 4% claiming that their product innovation is new to market or new to world. This group of businesses also scores more highly on the CommBank Innovation Index than any other.

A key contextual factor is that innovation in this area is more prominent for businesses operating in higher growth industries or where businesses are targeting niche segments of the market.



**Level of innovation novelty asked of those businesses that are innovation active only, 'don't know' is not shown in chart

Marketing innovation

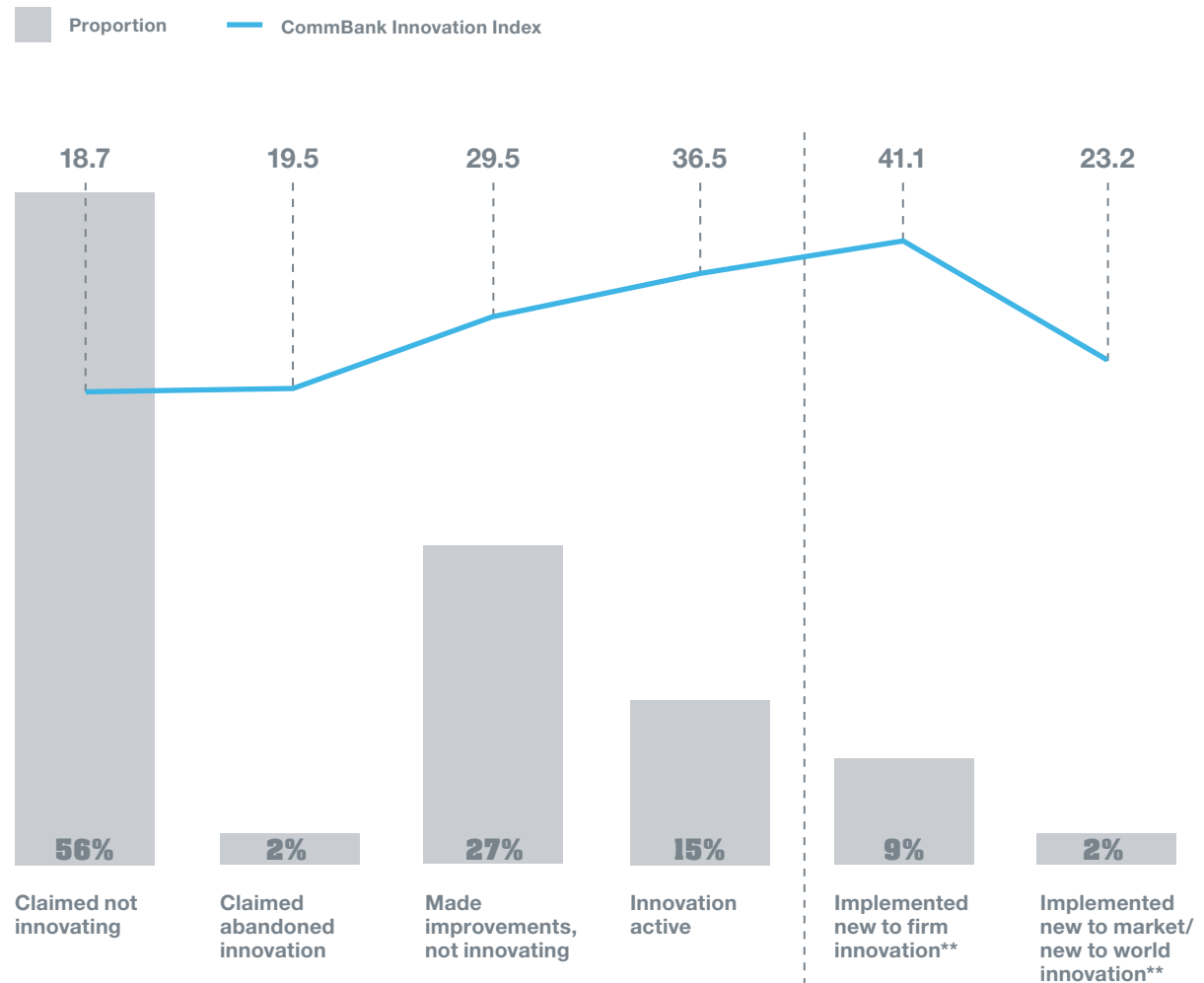
A majority of Australian businesses are not implementing innovation in marketing.

The age of big data and the growing tendency for businesses to interact with their customers through multiple channels have made marketing both more powerful and more complex.

Over the last 12 months, new marketing trends like these have seen a large number of businesses seek to transform the way they bring their products to market — whether by building and launching a new brand, creating novel pricing structures, harnessing social media or expanding into new markets offshore.

But while around one in 10 businesses claim to be implementing new to firm marketing innovations, only 2% claim to have launched new to market or new to world marketing techniques. Over half say they are not innovating in this area at all.

Even more interestingly, the businesses who perform best in implementing innovative marketing techniques tend to score relatively poorly on the overall CommBank Innovation Index, suggesting that success in marketing does not always translate strongly to success in other innovation areas.



**Level of innovation novelty asked of those businesses that are innovation active only, 'don't know' is not shown in chart

Organisational innovation

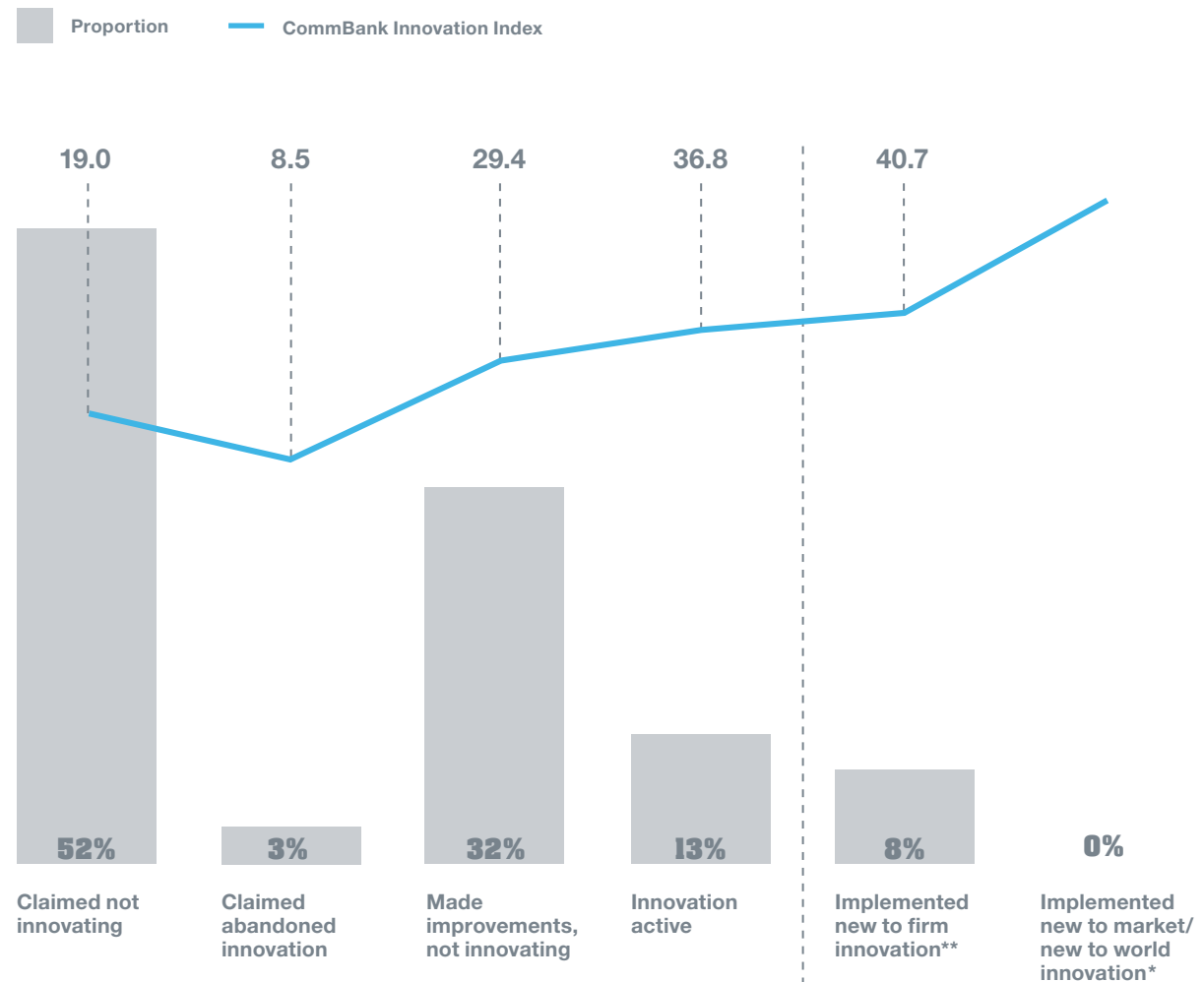


Fewer Australian businesses are implementing organisational innovation than any other area.

Far-reaching organisational transformation can be difficult to achieve, especially for larger and more established businesses. At the same time, our rapidly evolving business environment offers an increasing variety of opportunities for change, through outsourcing, strategic collaborations, agile teams or digitally powered operating models.

Nonetheless, this remains the area where Australian businesses are doing least, with just 13% innovation active during the last 12 months and very few businesses in our survey reporting a new to market or new to world initiative. Given the importance of organisational change as a foundation for other forms of innovation, it suggests that there are considerable unrealised opportunities for businesses to do more.

For some small businesses, organisational innovation can be more challenging, and it has been noted that Australia lags in areas such as collaboration. To overcome these challenges, collaboration across organisational boundaries, within supply chains or with industry associations and educational institutions can provide a strong source of organisational innovation.



*Index not shown due to insufficient sample (n <50)

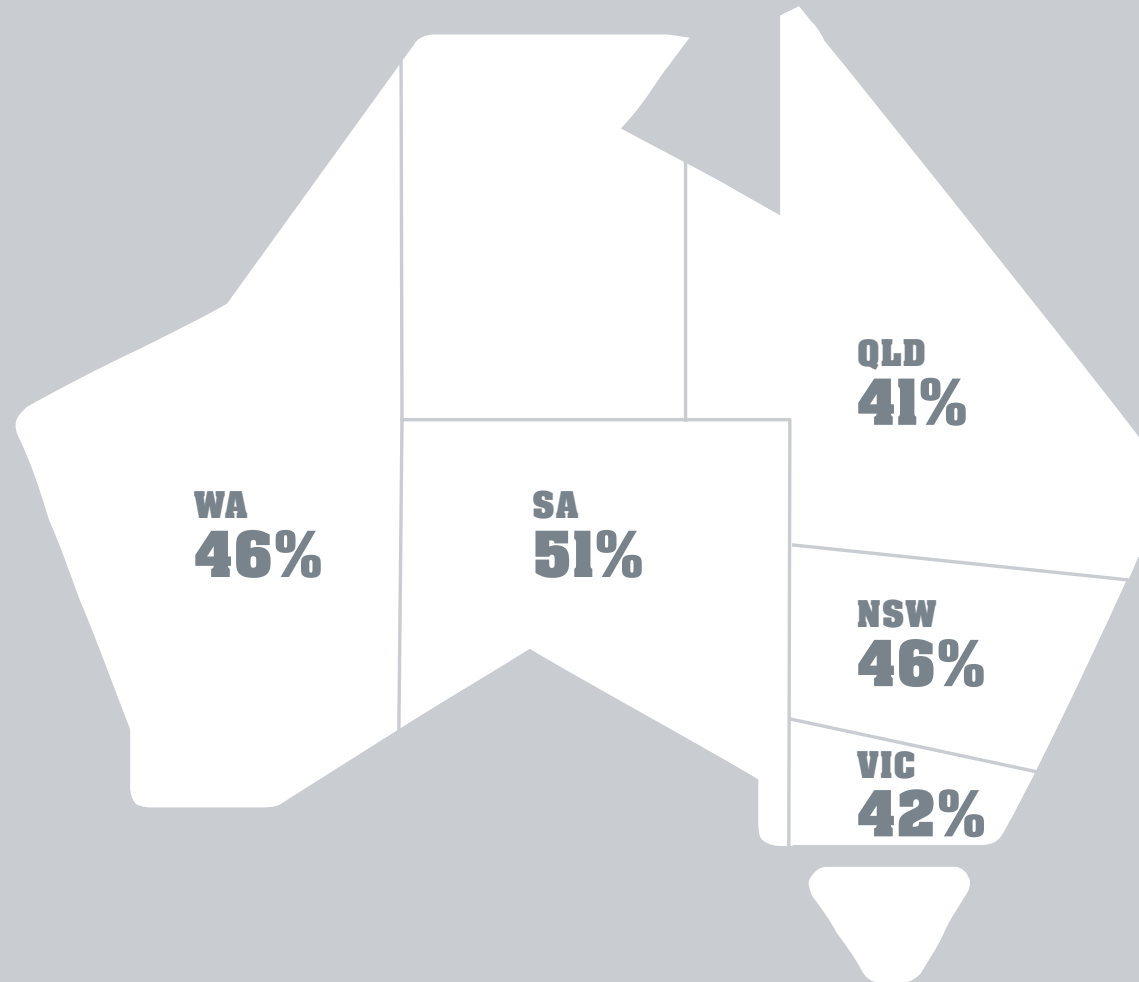
**Level of innovation novelty asked of those businesses that are innovation active only, 'don't know' is not shown in chart

The Innovation Leaders

“When you factor in the rise in consumers in Asia and associated consumption growth, there is real potential to change the dynamics of trade for Australian exporters and increase their appetite for bringing new products and services to market.”

Michael Blythe
Chief Economist
Commonwealth Bank of Australia

National state of innovation



Proportion of industry that is innovation active





What does a highly innovative business look like?

Is it more likely to be an agile startup or an established market leader with capital to invest? And how do regional businesses compare with their urban peers, or manufacturers with service industries?

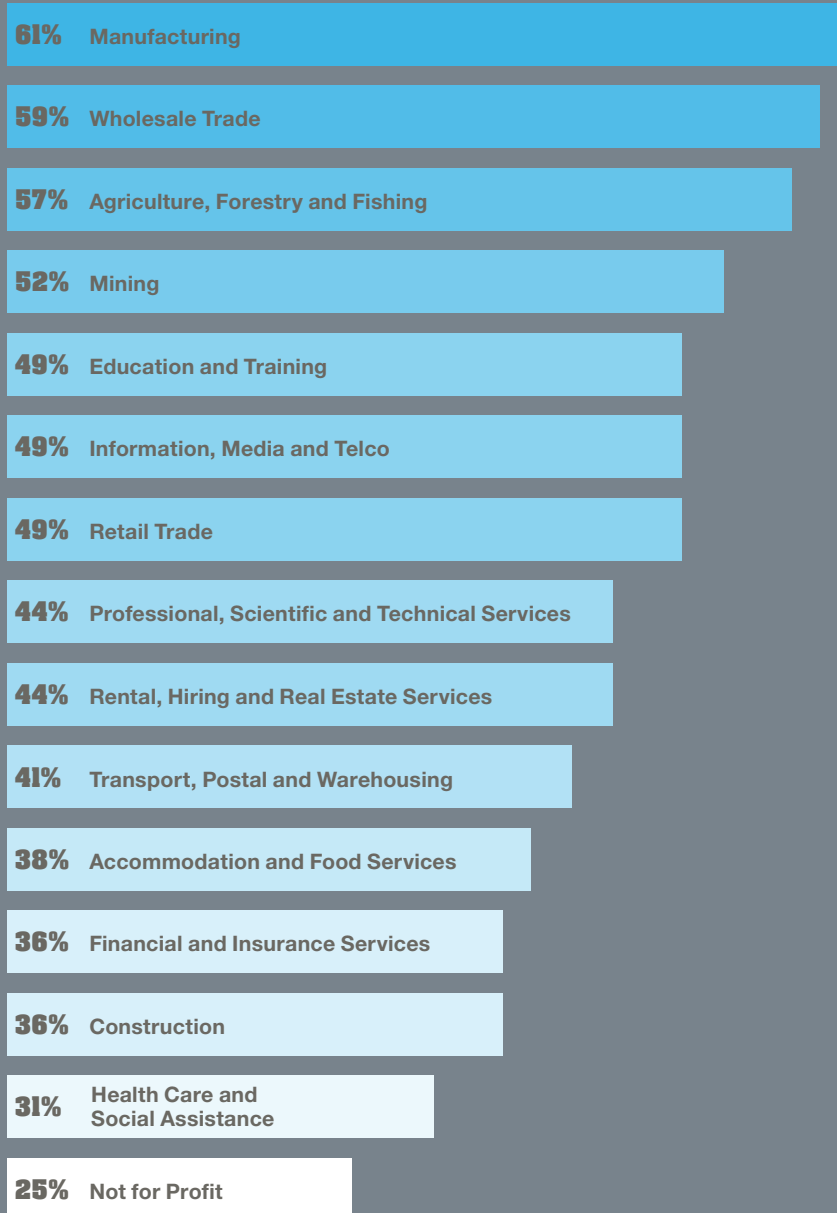
To answer these questions, we analysed innovation by location, industry, business size, growth outlook and export status. We found that businesses in Queensland and Victoria are less likely to be innovation active. We also found that regional businesses are more likely to innovate than businesses in metropolitan areas, and Manufacturing (61%) and Wholesale Trade (59%) are the most innovation active sectors.

In contrast, businesses in the Not for Profit, Healthcare and Social Assistance, and Construction sectors are among the least inclined to innovate. In addition, exporters are significantly more likely to be innovation active (54%) than other businesses — both because successful innovators are highly motivated to take their products to the world, and because exporters are exposed to more intense competition on the global stage.

These twin motives — innovating for growth and innovating to survive — are also reflected in the link between innovation activities and growth outlook. Fast growing businesses who expect substantial revenue growth are highly likely to be innovators, with 56% innovation active. Yet business are also relatively likely to innovate when they are under competitive pressure, with 43% of businesses who expect revenues to drop substantially, engaging in innovation.

When it comes to business age and size, the popular image of the nimble startup clearly holds true, with indicative results showing 65% of businesses less than one year old already innovating. Yet it's clear that financial strength counts. Businesses are most likely to innovate when their revenue is in the \$2m to \$20m bracket — large enough to invest, but small enough to achieve rapid change.

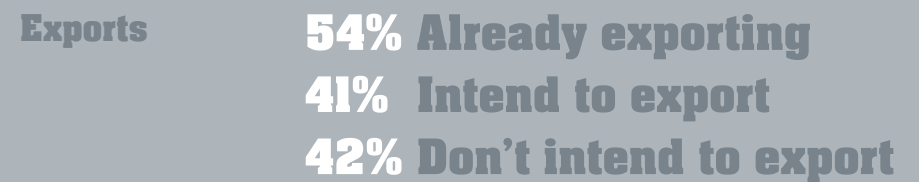
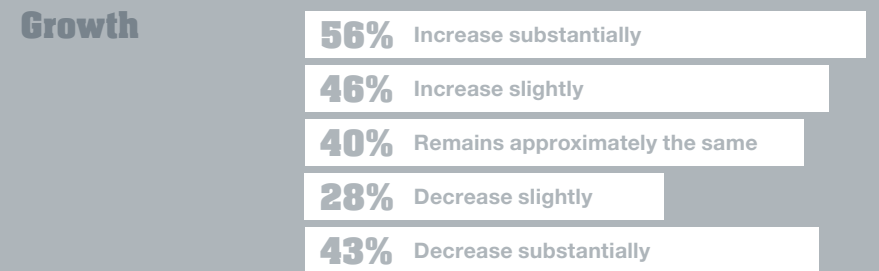
Proportion of industry that is innovation active



Proportion of industry that is innovation active



Business age	Years in operation	Proportion of innovation active
	< 1 year*	65%
1 to 3 years	35%	
3 to 5 years	39%	
5 to 10 years	42%	
10 to 20 years	50%	
20 years +	44%	



*Results are indicative due to low sample size

“Innovation has been an essential part of Australia’s success story. As a key input to productivity, it has the potential to lift incomes, create prosperity and generate ongoing revenue for businesses, governments and the economy.”

Michael Blythe
Chief Economist
Commonwealth Bank of Australia



Innovation in Action

Hazeldenes Chickens - Empowering staff and investing in skills

Key areas of innovation



Product



Organisational

Key drivers of innovation

Process	Encourage staff to ask questions
Philosophy	Allow staff to take risks and fail
Taking risks	Willing to take financial risks
Product	Adapting products and services to make the most of opportunities





“I encourage staff to admit their failures so we can learn from them and grow as a business.”

John Hazeldene
Executive Director
Hazeldenes Chickens

Poultry producer *Hazeldenes Chickens* boasts some of Australia's largest supermarket chains as customers and is the largest employer in Victoria's Bendigo region.

At the core of the company's remarkable growth is an inherent ability to adapt to change.

Hazeldenes Chickens Executive Director, John Hazeldene, has worked in the family owned business for 44 years, and his management style and focus on people has been a key driver behind the company's impressive success. Today, *Hazeldenes Chickens* has transformed itself into Australia's only fully integrated regional poultry processor with 20 farms and its own transport fleet.

For John, innovation has had a long and evolving history within his family's business. He says the real organisational step change occurred 13 years ago, when the company began encouraging staff to take part in key decisions and challenge established ways of doing business.

“When I took over from my father, we started to take the management culture in a new direction. I now don't make any decisions before talking to my people first, and I encourage staff to admit their failures so we can learn from them and grow as a business. This is the complete opposite to how we have operated in the past,” says John.

It was this focus on people, inclusion and collaboration that allowed John and his team to create a foundation for innovation across the business, leading to a number of important changes for the company.

As part of an unwavering commitment to the quality of their product, *Hazeldenes Chickens* set the goal of becoming the only Australian poultry producer not to use Antibiotic Growth Promotants (AGPs). As well as affecting quality, “AGPs”, are potentially damaging for overall community health, since they can adversely impact resistance to antibiotics among pathogens that affect humans. *Hazeldenes Chickens'* ultimate goal is to become 100% antibiotic free.

To achieve this, several things had to fall into place. *Hazeldenes Chickens* invested in developing and testing alternative feed for their livestock that didn't use AGPs, tightened biosecurity, and looked deeply at what equipment and facility upgrades could help them maintain their quality advantage.

And that wasn't *Hazeldenes Chickens'* only area of innovation. The growth and sustainability of the business also hinged on creating scale, in an industry experiencing oversupply and wholesale pricing pressures. About three years ago, *Hazeldenes Chickens* decided to make a very substantial investment in the latest primary processing technology, an initiative that ultimately led to an increase in sales to the major supermarkets.

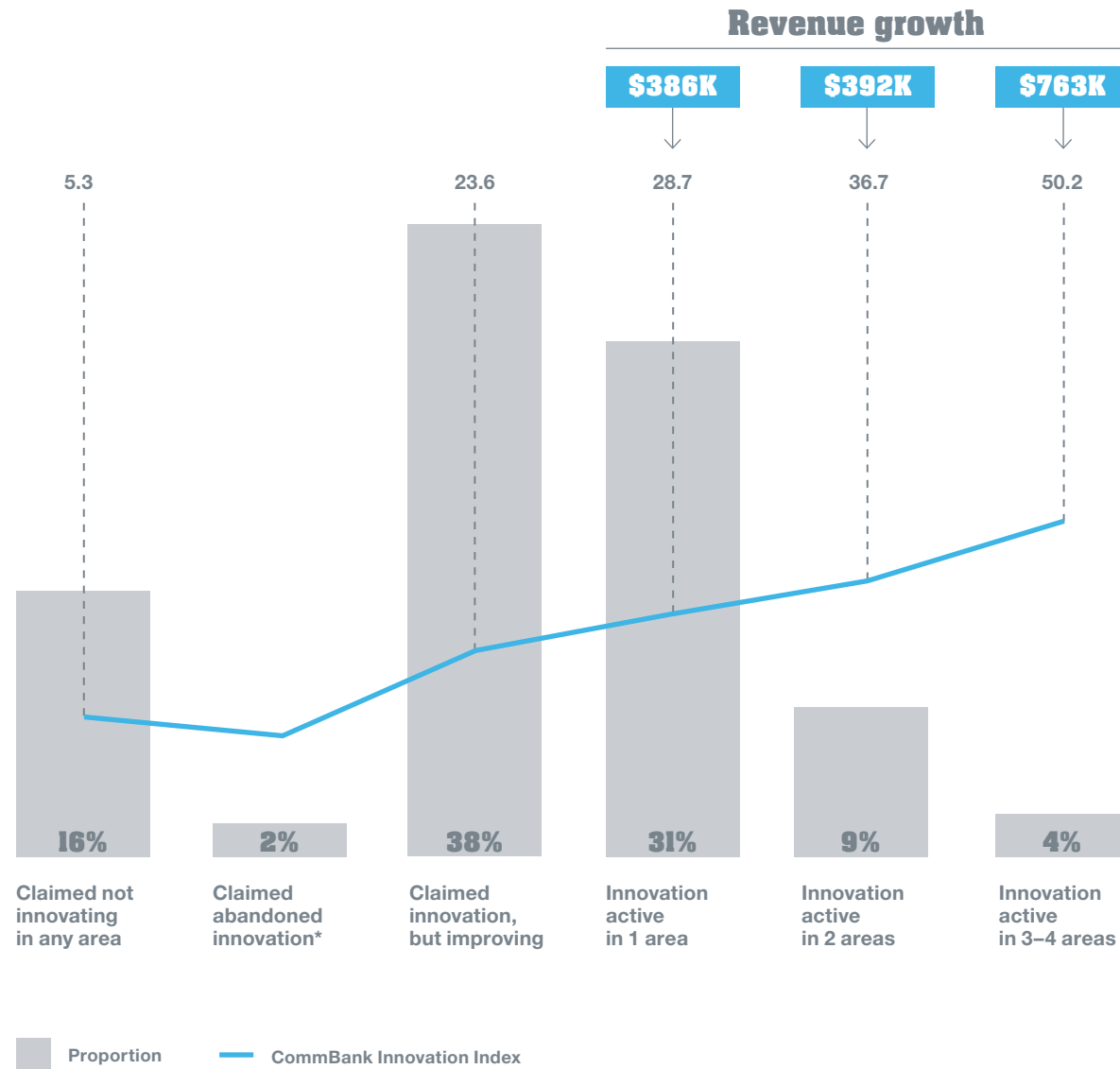
“A lot of people questioned such a significant investment, but our major customers saw that we were investing heavily in technology to increase quality and supply capacity, and really took notice,” says John.

In an industry under pressure, *Hazeldenes Chickens* is also conscious of managing costs to remain competitive. This includes looking at automation for certain parts of the production process to drive efficiencies.

But that doesn't mean that the company is leaving its staff behind. John and his team are seeking to upskill their staff to become an integral part of managing an increasingly technology-driven production line.

The Value of Innovation Driving economic growth through improved productivity

Our analysis shows that innovation not only delivers strong financial returns for individual businesses, it can also contribute significantly to the Australian economy.



*Index not shown due to insufficient sample (n <50)

Unlocking value for business and the Australian economy

	Total innovating	Innovating in one area	Innovating in two areas	Innovating in three to four areas
Average estimated improvement in business earnings	\$405,000	\$386,000	\$392,000	\$763,000
Estimated total of benefits already accrued	↑ \$69bn	\$49bn	\$12bn	\$8bn
Estimated benefit for the economy if all businesses are innovating	\$215bn	\$205bn	\$208bn	\$405bn

“Productivity isn’t everything, but in the long run it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.”

Paul Krugman
Winner of the Nobel Memorial Prize in Economic Sciences

Innovation benefits business and the economy through reduced costs and increased revenue

How much will be injected into the economy if all companies innovated at this level?

At a time when digital disruption is reshaping markets and overturning established business models, innovation can be the catalyst to capture an opportunity or an essential part of survival. But innovation isn’t only important for individual businesses. As a key driver of improved productivity and business efficiency, it also creates lasting benefits for the Australian economy as a whole.

Our research reveals that innovation is already delivering strong financial returns to many businesses. When asked to estimate the financial return on their investment in innovation, innovation active businesses that have already implemented an innovation cited an average of \$405,000 in higher revenues or reduced operating costs – a total realised value of \$69 billion for the Australian economy. If that same return were to be achieved by

the approximately 531,000 Australian businesses that had an annual turnover of over \$500,000 and two employees or more, it would inject \$215bn into the economy.

Yet that is only the beginning of the benefits a more innovative business ecosystem could create. To understand its full potential we applied the OECD’s Oslo innovation framework, measuring innovation performance across four key areas: products, processes, organisational and marketing. We found that the financial benefits of innovation increased exponentially when businesses moved from innovating in one or two areas, to innovating in three or four.

So, while businesses that innovated in just one area achieved an estimated average return of \$386,000, that figure rose to \$763,000 among those whose innovations embraced three or more areas. If those benefits were to be realised across the private sector, it would grow Australia’s economy by around \$405bn.

¹ Total number of Australian businesses with more than two employees and an annual turnover of more than \$500,000 (May 2016, DBM Consultants)

Achieving a sustainable competitive advantage

What results do you expect from the improvements you have implemented or developed?

56% increase in revenue

55% improve customer experience

38% reduce costs

38% gain competitive advantage

“Most businesses already understand that innovation is not just about technology. The next step is to embed a culture of innovation into your organisational DNA to move up the innovation curve.”

Adam Bennett
Group Executive
Business and Private Banking
Commonwealth Bank of Australia

Increasing revenue by focusing on the customer experience

Higher revenues and lower costs are not the only benefits of innovation. In a world where customers enjoy instant access to a global marketplace of goods and services, businesses are increasingly driven to innovate to build or maintain their competitive advantage by offering customers a higher level of personalised service.

When we asked businesses what results they expected from their innovation activities, most nominated multiple objectives, with an improved customer experience (55%) only marginally less popular than increased revenues (56%). Similarly, businesses were just as likely to say they aimed to gain a competitive advantage as to reduce costs (both 38%).

This reflects the fact that, for many businesses, a customer-led innovation strategy is an essential tool for responding rapidly to changing consumer preferences and maintaining a competitive edge.

For many people, the word innovation immediately brings to mind ground-breaking new products and technologies, from the Cochlear implant to the driverless car. However, our research underscores the value of less visible forms of innovation, from streamlined processes and re-engineered operating models, to best-practice management.

In fact, our research shows that respondents achieved the highest returns when they innovated across three or more areas of the business, creating a self-perpetuating ecosystem of optimised processes, products and marketing techniques.

This suggests that, to realise the full benefits of innovation, businesses need to move up the innovation curve — from incremental improvement, to innovation across an increasing range of business activities.

Driving Innovation From fear of failure to fast fail

Innovative companies encourage challenging questions, adapt their products and services and experiment with new ideas to survive and thrive in a competitive marketplace.



The innovation challenge

While there is no single pathway to innovation success, our analysis reveals several key environmental factors that frequently lead businesses to innovate:

Rapid industry growth.

Businesses in quickly expanding industries have both resources and strong incentives for product and service innovation, especially if that growth is powered by technological change.

Intense competition or challenging industry conditions.

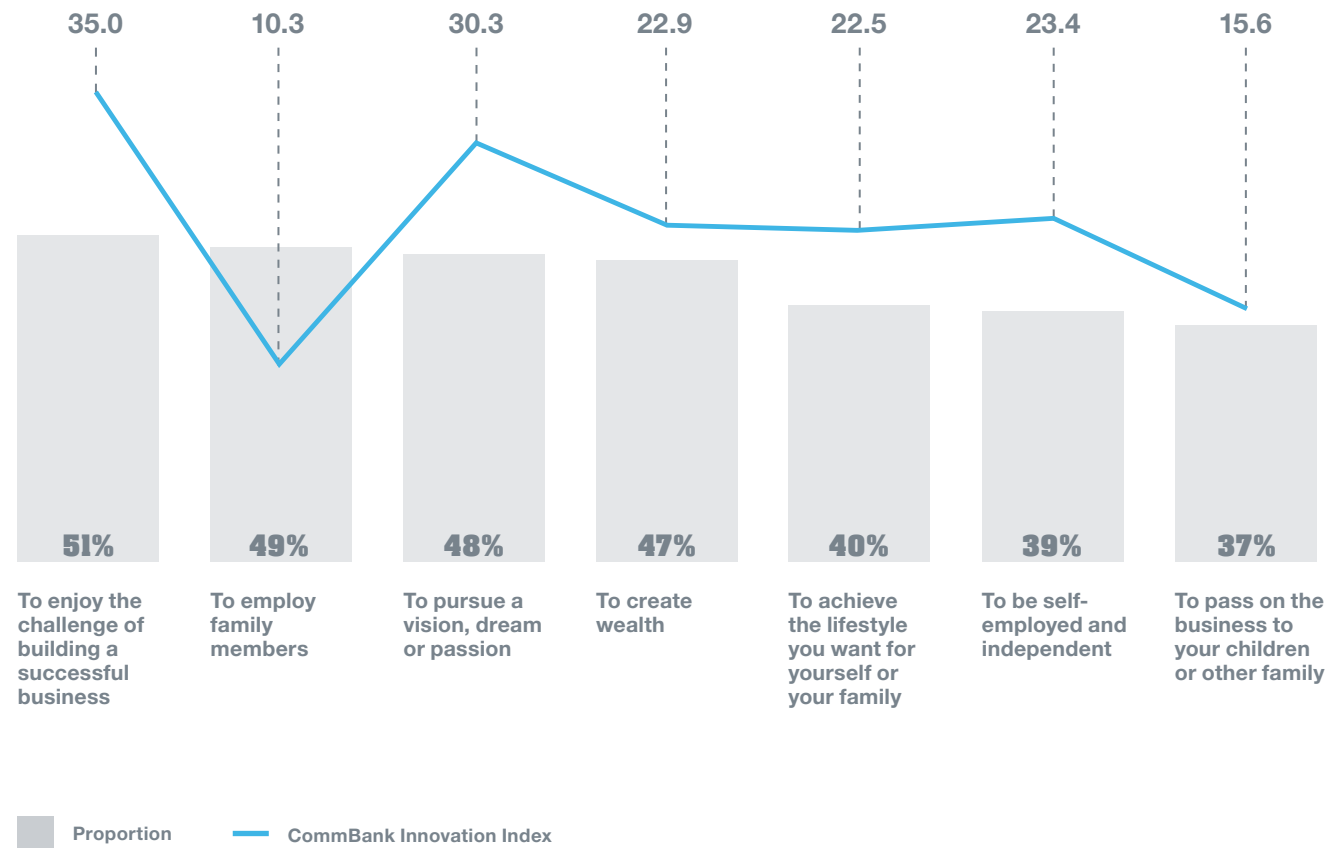
At the other end of the spectrum, industries and businesses under pressure have a strong incentive to seek new efficiencies and revenue opportunities — innovating to survive, rather than innovating to grow.

Highly motivated leadership.

The attitudes and motivations of business leaders also play a key role in kickstarting innovation. We found that the drive to innovate is strongest among business leaders who are motivated by aspirational factors, including the challenge of building a business (51%) or pursue a vision, dream or passion (48%). Not only were these businesses most likely to be innovating today, they also scored highest on the CommBank Innovation Index, indicating that they had successfully built a strong culture as the foundation for future innovations.

The greatest innovators enjoy the challenge of building a business

State of innovation by business motivation*



*Respondents include only Chief Executive Officers, Managing Directors, Owners, Major and Minor Shareholders

Becoming Innovation Active

Business improvement to innovation

So how can businesses achieve the step-change from business improvement to innovation?

Our investigation of the attitudes, behaviours and characteristics of successful innovators shows that there are three breakthrough factors that typically distinguish innovation active businesses from their peers that are only improving:

1. Encouraging employees to ask questions that challenge the conventional approach
2. Adapting products and services to make the most of opportunities, and
3. Running experiments and piloting new ideas to test new ways of doing things

These three factors work to kickstart innovation and generate the initial successes that drive businesses to pursue the benefits that moving up the innovation curve can provide.

One of the largest behavioural gaps between businesses who are innovating and those simply making improvements is their drive to adapt their products and services for a changing market. They also seek to build a culture of innovation and encouraging them to ask challenging questions.

This was evident in the case studies outlined in the report, where each business

has adopted innovation as part of their day-to-day operations, and across multiple areas – it is now an inherent part of these businesses. Moreover, it is evident that these breakthrough factors, when combined with the key environmental factors, has supported innovation within these organisations. This was evident across all three businesses:

– *Proactiv Payroll (page 11)*, questioned why they should continue to add value to the intellectual property of another company, and saw the opportunity to adapt the product themselves. Human resource outsourcing is also a growth sector providing abundant opportunity and to further mitigate the financial risk of innovation. The ability to collaborate with their clients in developing the product provided a fit-for-purpose application for the user.

– *Hazeldenes Chickens (page 26)*, now faced with an extremely competitive wholesale environment, saw the opportunity to adapt their product to the segment of anti-biotic free chicken and drive efficiencies in their production process through technology.

– For *SeaLink (page 35)*, it was the commitment to experimentation and testing new ideas that has seen the businesses grow in a number of diversified areas within the industries they operate.

Process

Encourage employees to ask questions that challenge	28%	36%	+8%
Run experiments/piloted for new ideas to test new ways of doing things	13%	21%	+8%

Adapting

Adapts your products and services to make the most of opportunities	24%	34%	+10%
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 Innovating in 1 area  Innovating in 3–4 areas

Moving up the innovation curve

As businesses move up the innovation curve, they seek to turn innovation into a repeatable process. By building a focus on the process of innovation, these businesses unleash the creative potential of their staff to build on their initial success.

Comparing businesses that are innovation active in three or four areas with those who are active in only one, we found that they are highly effective at building and reinforcing their innovation culture. These innovation outperformers encourage brain-storming, experimentation and challenging questions within the organisation, as well as actively seeking opportunities to benefit from technological change. Yet they are also more likely to focus their innovation efforts on a few, high value opportunities, and less willing invest time in doubtful activities or network with other organisations.

We see in all of our case studies, after the initial breakthrough to innovation, they commenced innovation in other areas within their businesses. For *Hazeldenes Chickens* (page 31), the company pursued investment in their process with automation and experimentation with their feed mix. For *SeaLink* (page 46), the development of their portable wharf saw the business continue to solidify its market position as a diversified tourism and transport business, rather than simply a vessel operator.

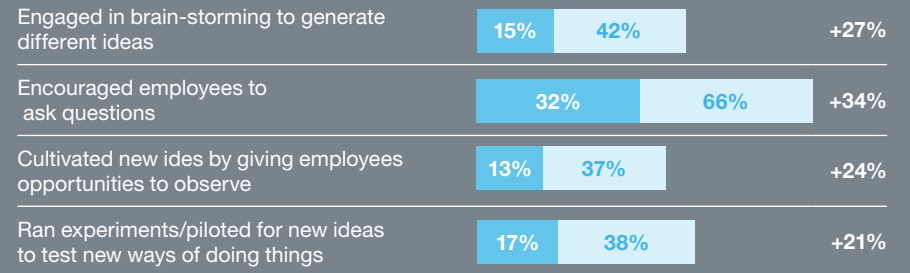
Overall, the picture that emerges is that of an organisation confident in its ability to foster and implement new ideas through a proven methodology, building on their record of success.

“Successful innovation is an ongoing process. That means building a strong innovation culture and a repeatable methodology, rather than relying on a few inspired individuals. Building on innovation success.”

Tiziana Bianco

Head of The CommBank Innovation Lab
Commonwealth Bank of Australia

Process



People



Seizing opportunities



Focus



Innovation in Action

SeaLink – Testing new markets and failing fast

Key areas of innovation



Product

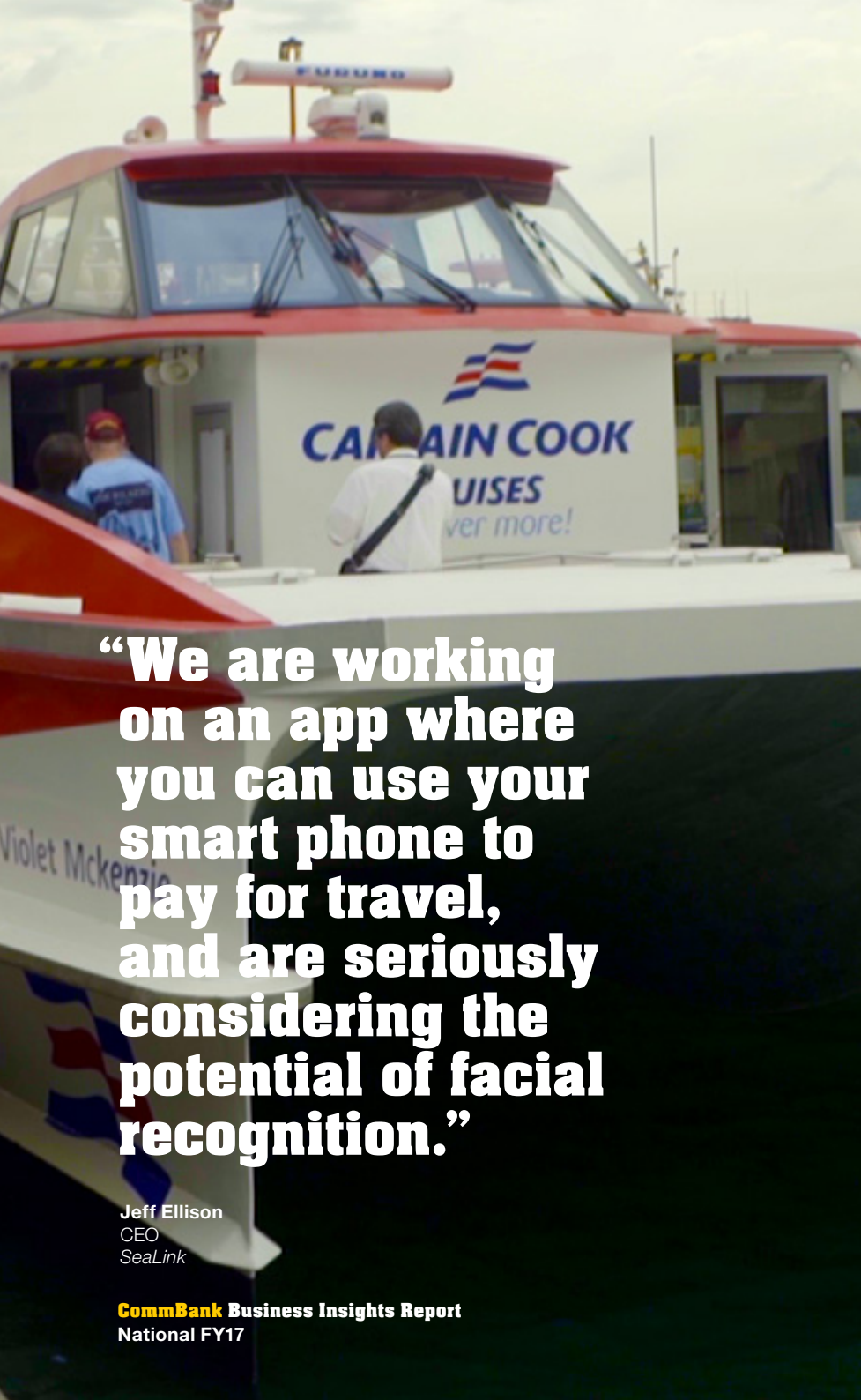


Organisational

Key drivers of innovation

Process	Experiment and test new ideas
Philosophy	Hire staff with creativity in mind
Seizing opportunities	Respond to attractive opportunities
Taking risks	Invest time and capital in uncertain ventures





“We are working on an app where you can use your smart phone to pay for travel, and are seriously considering the potential of facial recognition.”

Jeff Ellison
CEO
SeaLink

CommBank Business Insights Report
National FY17

As the CEO of transport and tourism operator, *SeaLink*, Jeff Ellison has seen the organisation grow from operating one vessel in 1989 to 72 vessels today. The fleet now services 6 million customers annually in all mainland Australian states. Jeff attributes this impressive growth in large part to the company’s culture of developing new ideas and seeing them through — whether they’re guaranteed to work or not.

Today, *SeaLink* operates a diversified business covering passenger and commuter travel, freight services and leisure travel, with craft ranging from a 120 passenger paddle wheel vessel on the Murray River, to sand barges in Queensland.

The business has grown through a combination of acquisitions and start-ups in key markets around the country. But Jeff says that it is management’s approach to doing things differently that has been a consistent and driving force behind the company’s growth.

He explains that the central factor connecting the company’s innovation across its products, processes and organisation is a commitment to experimenting and valuing new ideas within the business, then acting quickly to test them in the marketplace.

“We certainly do our due diligence, but we will give anything a go. If we have a new idea, we will go hard at it and if it doesn’t work we will change direction and try something else. It’s very much a fail fast mentality,” he says.

“I am a great believer that time kills enthusiasm, and if you have a good idea and the energy of your management and staff, you need to move quickly.”

This mindset has provided the foundation for innovation across the *SeaLink* business. Jeff cites a recent example — *SeaLink*’s move to supply an under serviced niche in one of Australia’s busiest harbours.

SeaLink was already a significant player in Sydney harbour, having built four high speed,

200 passenger, low-wash vessels specifically for that market. Now the company realised that increasing congestion on major transport routes had created further opportunities. They began developing two smaller vessels that could facilitate faster, more efficient transfer of passengers in Sydney’s inner harbour areas.

“Often we will approach these types of programs with a plan, but without a guaranteed marketplace. This has worked well for *SeaLink*, and we continue to stretch the Government’s thinking around transport routes,” says Jeff.

This is how Jeff and his team approach all areas of the business, seeking to apply new ideas and challenge established ways of doing things. For example, *SeaLink* has also recently developed and built its own hydraulic wharf, or ‘portable pontoon’ as Jeff describes it.

“No one else has developed a portable wharf that can be easily install virtually anywhere and has changed the way we consider passenger transfer points.”

In addition, *SeaLink* are working on a mobile app in partnership with CommBank, using Albert, CommBank’s smart EFTPOS tablet, to provide convenient mobile ticketing to passengers boarding a vessel.

“We used to have paper tickets, then Opal cards and the next step is for passengers to use their credit card to tap on and off. We are working on the next generation of ticketing; an app where you can use your smart phone to pay for travel, and are seriously considering the potential of facial recognition.”

Jeff believes that the right mindset is the key innovation, and that flexibility is critical for businesses to succeed.

“One area where businesses can fall down is if mistakes are made and they are not flexible enough to keep adapting — this will kill innovation within a business fairly quickly.”

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