



DON'T STRESS:

**WHEN DOING AND SPENDING LESS
CAN HELP YOUR BUSINESS GET AHEAD**

Stephen Wunker & Jennifer Luo Law

We're always talking about innovation that does more. But what about innovative new solutions that excel with their simplicity?

When it comes to fancy innovations, we are like moths drawn to a light. Space rockets? Flying cars? Cryptocurrency? Drone pizza delivery? Sweet, bring on the future!

Never mind that many of those creations are fanciful—years if not decades away from mainstream usage and regulatory approval. And don't even get us started on mass affordability—it will be a long while before the average Joe takes a self-driving car to work. But still, it's fun to dream and imagine the possibilities. Will having pizza delivered by drone mean we'll never have to scramble around for a tip for the delivery guy ever again?

As a result of our fascination with the latest and the greatest, the word “innovation” is often used as a synonym for technological advancement, bringing with it imagination-capturing glory... as well as its less savory reputation for being expensive and fickle.



But that's just one dimension of innovation. In our combined decades of experience working in this field, we've seen that there are many ways to innovate that don't take as much time, or require as much money and investment, as a moonshot initiative. And they're less overwhelming to get started with, to boot.

Innovation doesn't always have to be more—more flavors, more horsepower, more memory space, more bells and whistles. In some cases, customers don't want more. They just want us to do the job they've hired us to do, and for us to do it very, very well. New solutions can excel in their simplicity, earning customer love and saving money along the way—and, yes, that is just as deserving of being called “innovative” as a new blockchain game or genetic therapy.

How can we innovate in this way? Here are 6 approaches to cost-cutting innovation—or what we call costovation—to implement now, no massive R&D budget required.

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1. First, stop! Know when not to do anything.

Seeking customer feedback is always a good idea. But implementing every single suggestion? That'll have you running in circles.

No matter your business or industry, you can't have a business that is all things to all people. Attempting to win at everything waters down your ability to win where it matters; juggling is exhausting, and you'll eventually drop a ball.

The key to a strong, lean business is to be absolutely clear about why you are innovating and what your tactical priorities are. Planet Fitness—a wildly growing gym franchise that just welcomed its 10 millionth member—is insanely cheap at \$10 a month, a feat made possible because it chooses not to offer “traditional” gym elements like extensive free weights and a legion of personal trainers. Even as other gyms soar to new levels of luxury (chilled eucalyptus towels, complimentary clothes steaming services, premium hair products, oh my!), Planet Fitness pushes steadily on, knowing that its target customer—first-time or casual exercisers—don't want to be intimidated by equipment they don't know how to use. Their target customers just want to pay for what they use—which in this case is cardio equipment, not 100-pound weights.

Over time, businesses tend to add things, not subtract them. This strategy of continually one-upping your competitors may have payoffs in the short term, but over time has the tendency to create a competitive field where each player looks strikingly similar to the last. It only takes one smart company to unseat them all with a low-cost offering that satisfies the customer's core needs.

Don't get distracted. Keep your eye on what matters, take pride in the tradeoffs you make, and deliver only what your customer needs—not what the rest of the industry is fixated on.

2. Drink more water. You're still not customer-centric enough.

When organizations set out to cut costs, they have a tendency to become myopically company-centric. Cost-cutting is hard, and it can feel like the fastest way to clean house is to gaze inward. The problem is that, too often, the company then loses sight of the customer. Not intentionally, of course. But it happens as naturally as evolution: in the pursuit of fat to trim, the attention once lavished on customer needs falters, and the customer experience becomes brittle. Unfortunately, trust once broken is hard to rebuild.

It doesn't have to be that way. Low-cost innovation doesn't mean cheaping out on your customer. Do this by committing to learning about and serving your customer, especially if you are interested in cost management. If you understand them deeply, you'll know what matters most to them. And you'll know what they can live without. Cost reduction often naturally follows.

Consumer Cellular, one of Oregon's fastest growing companies, excels at this. Consumer Cellular is a cell network where the average customer is 63 years old. They do a terrific job of looking at phone technology through a senior's eyes. The company offers simple pricing: a no-contract plan, with no peak pricing or out-of-network charges. To ensure accessibility, the company works with phone manufacturers to pare down the preloaded apps, simplify instructions, and offer senior-friendly phones with larger buttons and hearing-aid compatibility. Instead of just

focusing on cutting costs aggressively, it designed a new kind of cellular company for seniors from the ground up, where the customer's unique needs were always prioritized.

Even if you think you are already quite customer-centric, push yourself to become more so. It's like remembering to drink more water: most of us don't do it enough, and all of us benefit from having another sip.

3. Don't be afraid of strangers. They may be the jolt you need.

You don't need to be a creative genius or a brilliant coder to create the next big innovation. Rather than technical skills, breakthrough innovation starts with having a breakthrough perspective. If you see the market in the same way that your competitors do, then you will solve problems in the same way that they do too. You'll go with the herd. But if you can break out of that and develop a new perspective on the market, then you can discover seedlings of new opportunities that have only just broken ground—processes that are redundant, segments that are underserved, weak points ripe for disruption.

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There is no one way of operating a business. Doing things “the way everyone does things” should set off your alarms. Even a concept as seemingly basic as “paying the rent” can be refreshed, questioned, and seen in new light. For example, in South Korea, it is customary for landlords to demand not monthly rent payments, but rather “jeonse”: a single lump-sum deposit averaging \$300,000 USD, which the landlords borrow for the length of the lease. It’s a rental system that doubles as an informal lending scheme.

Take a step back from your industry and product. If you were to explain it to someone from a different industry (or even from the same industry, just in a different country), what would you say is funny or unexpected about the way it works? Thinking through your industry’s basic structure and assumptions can be fertile ground for new ideas.

4. Don’t go it alone. Turn vendor acquaintances into friends.

We’ve said this before, but it’s important enough to say it again: Customer needs should always be prioritized. Championing them will ensure that your cost-cutting doesn’t devolve into arbitrary cheapness.

Once you’ve got the hang of that, consider applying some of the same logic to your partners—the suppliers, manufacturers, and deliverers that are sometimes treated as “just another vendor.” These partners could hold the keys to unusual ways of differentiating and streamlining your business.

Here's a carb-heavy example. For decades, bread arrived at stores prepared and ready to sell. Grocers would take the bread straight from the loading dock to their bakery shelves, and that would be the end of the bread journey. In the 20th century, savvy bread manufacturers created a new kind of bread technique called parbaking, where half-baked loaves traveled hundreds of miles in refrigerated trucks to grocery stores. There, employees would do the final bake and package them.

On the surface, it seems counterintuitive that grocery stores would agree to take on this new work, not to mention invest in ovens and hire special bakery staff. But what made parbaked bread stand out is that it offered a unique value proposition for grocers thirsting for ways to differentiate themselves: freshly baked bread in their stores, all throughout the day, and without the labor costs of artisan bakers. Sometimes, the bread-baking would create delectable smells that would waft throughout the bakery. It turned out to be a great proposition for the grocers. Bread manufacturers won as well, since longer shelf life allows for less frequent deliveries and produces less waste.

The kind of innovation that we usually think of when we think of “innovation” is just the tip of the iceberg.

Pay attention to your traditional vendor partnerships. Instead of thinking about how they can serve you, ask: how can you help your value chain become more productive? Helping them solve their own business problems means they can better serve you. Very few companies even remotely consider these possibilities.

5. Innovations aren't always flashy. Look behind the curtain for the quietly impactful ones.

For many companies, innovation is product-oriented. This means that innovation efforts almost always result in a shiny new offering that we can see and touch, like new menu offerings or next generation car models. But the reality is that many of these new products are unlikely to materially change a company's growth trajectory: for every 10 new products that are launched into the world every year, four fail to become a commercial success.

The kind of innovation that we usually think of when we think of "innovation" is just the tip of the iceberg. Underneath, there are enormous opportunities for operational innovation that can have profound and lasting impacts on the bottom line. For example, here are a few parts of the business to keep in mind as candidates for innovation initiatives:

How your product is made. Trader Joe's collaborates with its manufacturers and suppliers to create private label products—which shifts a portion of R&D costs to its partners, while also harnessing their creativity and market insight. Trader Joe's wins in the speed department as well, since supplier-led innovation often makes product development faster and more cost-efficient.

How your product is delivered. Warby Parker disrupted the eyewear industry with its vertically integrated business model. Instead of relying on retail partners to sell its products, Warby Parker distributes glasses by mail at great savings for its customers.

How your product is sold. Software industry disrupter Atlassian grew to a \$5 billion valuation—without any sales department at all. Instead, all information was made easily accessible on its website. Developers actually preferred this low-pressure, hands-off sales approach, and were excited to share the software with their friends and colleagues.

6. It's all about timing. Learn how to spot early signs of disruption.

Innovation isn't just something you work on once a year during a 2-day off-site when you're surrounded by white boards and colorful Post-It notes. It should be a daily habit, engrained into the company culture and the way you think. And you should always have an eye out for signs that an industry or category is ready to be disrupted, such as:

- A few really expensive features are forcing prices up for the entire product—but not everyone uses them.
- A few high-touch clients are driving up costs for everyone else.
- The cost of selling a product is disproportionately high compared to the value of the product itself.

- The product is hyper-standardized, but customers have very specialized needs—meaning they are doing lots of workarounds to MacGyver the product into what they need.
- The offering is sold the same way to all customers—but not all customers require or desire the same level of service.
- The revenue for certain activities is not proportional to their costs.
- The system is built to cover all conceivable use cases, even those that are rare.

If one or more of the above applies to your industry or category, buckle up. Change is coming, to be led by you or one of your competitors.

Companies don't deliberately set out to make things complicated. But more often than not, they find themselves grappling with convoluted solutions to pressing problems that don't quite get them where they want to go. The mindset that "success is a function of doing more" so dominates how companies do business that going simple is rarely treated as a viable option.

Fight that. Declutter how you think, the way you do things, and what you offer. Offer exactly what your customers need—and nothing more. **Remember: tectonic shifts can happen when innovation and cost-cutting unite.** 📌



Info

cost·o·vation

1. / innovation that gives your customers exactly what they want—and nothing more /

2. / Stephen Wunker and Jennifer Luo Law /

3. / Cost-cutting and innovation often end up on opposite ends of the corporate wedge: when one goes up, the other goes down. But it doesn't have to be that way. Costovation is a type of innovation that sees while significantly compressing

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