HINDIN HEALTHCARE ADVISORS LLC

SIMPLE BUT POWERFUL SOLUTIONS THAT PRODUCE RESULTS

Number 108 March 2007

How do you integrate innovation into your business development strategies?

Dear Colleague,

Continuing with our central theme: FOCUS + EXECUTION + LEADERSHIP = RESULTS, in this issue of *Simple but Powerful Solutions That Produce Results* we ask: ***How do you integrate innovation into your business development strategies?***

Innovation as a source of growth is getting lots of play in the business press. What can healthcare executives learn from the business world about the systematic application of innovation in the development of sustainable growth? Which strategies or combination of strategies should healthcare executives employ? What should a portfolio integrating innovation and growth strategies look like?

The Strategies

The four approaches to using innovation to create and sustain growth are:

* Continuous improvement (Wal-Mart)
* Creating distinct value within existing product or services (Apple's IPOD)
* Creating the new markets, products or services in the future (Google)
* Combining these strategies to create a continuous pipeline of innovative products and services (GE)

Incremental Gain or the Big Bet

Which strategies do businesses actually use? According to George S. Day, a consultant and co-director of the Mack Center for Technology Innovation at Wharton:

- 80% of U.S. chief executive officers rely on continuous incremental improvement. Yet, only 29% of their operating unit managers were confident they could reach their growth targets through incremental or organic growth.
- The "big bets" produce the payoffs. 14% of business launches accounted for 61% of profits.
- Despite global competition, the proportion of investments in innovative "new to the world" solutions in development budgets dropped from 20% in 1990 to

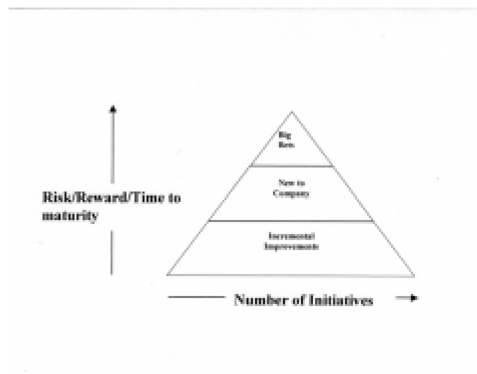
11.5% in 2004. The more modest "new to the company" investments dropped by one third.

Current preference for shorter-term incremental change could be a function of normal business maturation cycles, tunnel vision, changes in risk tolerance, more competitive markets, or shareholder demands for enhanced short-term stock value. It could also be a result of a deliberate balancing of investments.

A Portfolio of Growth / Innovation is Required

How do you balance, investments, and risk to foster growth? Harvard Professor and consultant, Rosabeth Moss Kanter, offers a simple strategic tool, the Innovation Pyramid, to establish and manage a portfolio of business growth initiatives carefully aimed at the entire range of the business cycle.

The *continuous improvement initiatives* at the base of the pyramid:



- many in number
- operational rather than strategic and produce short-term payoff.
- focused on improvements in exiting products, services or processes.
- low risk, use few resources

They contribute to growth by producing regular incremental improvements either in operating performance, customer retention or acquisition. Continuous quality improvement, length of stay initiatives, and customer service programs are familiar examples in healthcare.

The *new to the company or market* middle segment:

- new ideas, programs, services or initiatives not new to the industry
- fewer projects that require greater resources and time for planning and implementation
- longer maturation period (2-3 years)

These initiatives contribute to growth by offering a better product or service or value than the competition. Examples include centers of excellence, ambulatory centers convenient to physicians and patients, and physician support services.

The *big strategic bets or new to the world* pyramid tip:

- few in number
- radically new or different products or services, changes in the way services are delivered, and/or major changes in business models or business relationships
- require significant investments in planning and development

- lengthy in implementation

These initiatives create growth by offering new products or services or altering the delivery of existing products and services. Examples include single specialty hospitals, retail clinics and electronic linkages.

As a Healthcare Executive How Do You Create Your Portfolio? If growth is critical to success, organizations must make certain that "continuous incremental improvement," "new to the company" and "big bet" initiatives mature and deliver as planned. Here are some simple rules to consider in creating your innovation portfolio:

1. Create specific quantified growth goals and time specific targets (income and volume) for the periods covered by your plan.
2. Define what you can achieve through continuous improvement and the gap that must be filled by other strategies.
3. Create a time specific Innovation profile specifying targets and required actions and investments for:
    - continuous improvement initiatives
    - "new to the company"
    - "big bet" initiatives
4. Identify and apply the dedicated resources (people and capital) required to identify, develop and launch the required initiatives. Make 'big bet" initiatives important and unencumbered by day-to-day operations and supporters of the status quo.
5. Be aggressive. Create, find or "steal," and adapt new ideas from others for "new to the company or market" ideas.
6. Collaborate with consumers, vendors, physicians, research centers and/or university to find, incubate, and pilot "big bet."
7. Review the portfolio regularly and make necessary adjustments in your investment strategy.
8. Make sure your organization understands and supports the need to invest in all three segments of your innovation/growth portfolio.

Like To Explore These Ideas Further?
Call us at 201 656 1004 or send an email to ehindin@hhadvisors.com and we'll schedule a time to talk at your convenience. And we invite you to visit our website for additional resources and case studies that may be of interest and welcome your comments and suggestions about this publication, our point of view or topics you would like to see explored.

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