

Business Innovation

- Assignment 1

Author: Vikas Sanil

Business Innovation in the construction industry: Practicing Einstein's thinking.

Innovation is a product, service, business model, or strategy that's both novel and useful.

Innovations don't have to be major breakthroughs in technology or new business models; they can be as simple as upgrades to a company's customer service or features added to an existing product. (Boyles)

Business innovation is when companies implement new processes, ideas, services, or products with the goal of boosting the bottom line. It could mean launching new and improved products or services (which can lead to higher revenue), making an existing process more efficient, or solving a current business problem (both of which cut down on costs and save time). A business focus on brainstorming, design thinking, or the establishment of an innovation lab can drive business innovations. The key element of innovation is that it drives revenue for the company. (Green)

Hilti was selling construction power tools till year 2000 as its counterparts and was one of the major global players. As more competitors entered the market with competitive pricing Hilti started observing a dip in its share in the market. It took notice of this and brainstormed to come up with a solution which will improve their position in the market. The change Hilti did to improve its position in the market was to move from selling power tools to leasing them as a service. The introduction of the new business model contributed significantly to the success of Hilti, since it sustainably differentiated the company from its competitors.(Casadesus-Masanell et al.)

The eight essentials for innovation(per McKinsey survey of 2500 global executives(de Jong et al.)) are: Aspire, Choose, Discover, Evolve, Accelerate, Scale, Extend, Mobilize.

Aspire:

President John F. Kennedy's bold aspiration, in 1962, to "go to the moon in this decade" motivated a nation to unprecedented levels of innovation. A far-reaching vision can be a compelling catalyst, provided it's realistic enough to stimulate action today. (de Jong et al.)

Hilti wanted to serve its core customers better and resolve the challenges customers face to use their tools.

Choose:

Fresh, creative insights are invaluable, but many companies run into difficulty less from a scarcity of new ideas than from the struggle to determine *which* ideas to support and scale. At bigger companies, this can be particularly problematic during market discontinuities, when supporting the next wave of growth may seem too risky, at least until competitive dynamics force painful changes. (de Jong et al.)

Hilti had a choice of continuing the existing business model of selling power tools and competing with competitors in sale and after service or choose a new path which would differentiate them from their competitors.

Discover:

Innovation also requires actionable and differentiated insights—the kind that excite customers and bring new categories and markets into being. How do companies develop them? Genius is always an appealing approach, if you have or can get it. Fortunately, innovation yields to other approaches besides exceptional creativity. (de Jong et al.)

Hilti discovered from its market research that customers loved using their tool but had a hard time transporting it to the work site without any damage. Hence they were opting for cheaper construction power tools as it was causing less financial burden if the tool is damaged during transportation from the work site. (Innovation)

Evolve:

Business-model innovations—which change the economics of the value chain, diversify profit streams, and/or modify delivery models—have always been a vital part of a strong innovation portfolio. As smartphones and mobile apps threaten to upend old line industries, business-model innovation has become all the more urgent: established companies must reinvent their businesses before technology-driven upstarts do. Why, then, do most innovation systems so squarely emphasize new products? The reason, of course, is that most big companies are reluctant to risk tampering with their core business model until it's visibly under threat. At that point, they can only hope it's not too late. (de Jong et al.)

Hilti thought through the issue at hand and tried to see how it can solve the issue innovatively. So it adopted a fleet management system to transport its tools to the construction sites and lease the

tools for the Construction companies. The fleet management idea at Hilti is derived from the automotive industry and comes as a one-stop package. (Wurzer) This business model resulted in customer loyalty levels increasing five times higher than under the dominant business model Hilti had formerly employed and over-proportioned profit contribution at Hilti.

(Casadesus-Masanell et al.)

Accelerate:

Virulent antibodies undermine innovation at many large companies. Cautious governance processes make it easy for stifling bureaucracies in marketing, legal, IT, and other functions to find reasons to halt or slow approvals. Too often, companies simply get in the way of their own attempts to innovate. A surprising number of impressive innovations from companies were actually the fruit of their mavericks, who succeeded in bypassing their early-approval processes.

(de Jong et al.)

Scale:

Some ideas, such as luxury goods and many smartphone apps, are destined for niche markets. Others, like social networks, work at global scale. Explicitly considering the appropriate magnitude and reach of a given idea is important to ensuring that the right resources and risks are involved in pursuing it. The seemingly safer option of scaling up over time can be a death sentence. Resources and capabilities must be marshaled to make sure a new product or service can be delivered quickly at the desired volume and quality. Manufacturing facilities, suppliers, distributors, and others must be prepared to execute a rapid and full rollout.

Hilti's Fleet Management means that the company is no longer selling drills but holes. This business model aims at establishing a long-term maintenance system with leasing contracts, and to enable long-term, sustainable, and stable customer relationships. Customers, and especially economically-savvy business customers, appreciate a one-stop service which is tailored to their individual needs and optimizes their own productivity. In return, they are prepared to pay a significantly higher price. (Wurzer)

Extend:

In the space of only a few years, companies in nearly every sector have conceded that innovation requires external collaborators. Flows of talent and knowledge increasingly transcend company and geographic boundaries. Successful innovators achieve significant multiples for every dollar invested in innovation by accessing the skills and talents of others. In this way, they speed up innovation and uncover new ways to create value for their customers and ecosystem partners.

Hilti now provides one stop solution for all scenarios a Construction company may run into while using their power tools. They cover tool inventory management, theft & damage insurance, regular replacement or upgrade of tools for Construction companies. This has satisfied its customers immensely and they are very loyal to the company. (Wurzer)

Mobilize:

How do leading companies stimulate, encourage, support, and reward innovative behavior and thinking among the right groups of people? The best companies find ways to embed innovation into the fibers of their culture, from the core to the periphery.

With advancement in technologies Hilti is also changing the way it does business. It's adding technical expertise to its service other than leasing its tools. Now it provides Technical advice, Engineering judgements, Software training, Accredited training, Engineering design and drawing services.

Conclusion: When challenged to improve their Business model Hilti didn't follow the conventional norms of doing business in a construction industry. It looked into the core issue which was challenging their business model and evolved itself to address the root issue. This is one of the best examples of Einstein thinking - understanding the system as it is and imagining an innovation which works well in the future of the company without impacting the value of the company.

Hilti maintained the high standards of its tools but at the same time introduced product service which matched it.

Works Cited

- Boyles, Michael. "Innovation in Business: What It Is & Why It's So Important." *HBS Online*, 8 March 2022, <https://online.hbs.edu/blog/post/importance-of-innovation-in-business>. Accessed 14 September 2022.
- Casadesus-Masanell, Ramon, et al. "Hilti Fleet Management (A): Turning a Successful Business Model on Its Head - Case - Faculty & Research." *Harvard Business School*, <https://www.hbs.edu/faculty/Pages/item.aspx?num=52550>. Accessed 14 September 2022.
- de Jong, Marc, et al. "The eight essentials of innovation." *McKinsey*, 1 April 2015, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-eight-essentials-of-innovation>. Accessed 14 September 2022.
- Green, Noushka. "What is business innovation and why is it important?" *WeWork*, 11 October 2019, <https://www.wework.com/ideas/professional-development/creativity-culture/what-is-business-innovation>. Accessed 14 September 2022.
- Innovation, MFE. "7.1. Hilti business model innovation part 1." *YouTube*, 27 January 2019, <https://www.youtube.com/watch?v=8EJ3FSARuvM>. Accessed 14 September 2022.
- Wurzer, Alexander J. "Digital business model transformation in the construction industry – the success story of Hilti." *IP Business Academy*, 8 January 2019, <https://ipbusinessacademy.org/digital-business-model-transformation-in-the-construction-industry-the-success-story-of-hilti>. Accessed 14 September 2022.