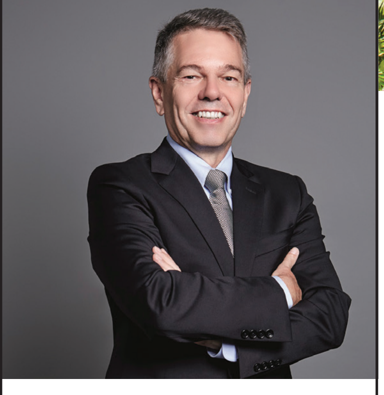
Building business resilience and monetising innovation

Beyond using palm wood for furniture, IOI Palm Wood has ventured into refineries and oleochemical industries to expand their revenue



Inspiring the next "material revolution" by creating sustainable and high-performance materials from oil palm waste, **Peter Fitch**, together with IOI, have set up IOI Palm Wood to commercialise this untapped potential.

Business resilience is a company's ability to adapt to disruptions: keeping operations running, while safeguarding resources and brand equity. How can we develop business resilience on profit orientation, customer loyalty orientation, and innovation?

Since COVID-19, there have been examples of companies filing for bankruptcy, spanning across countries and industry verticals. Businesses might initially blame demand that suddenly and severely broke away in these industries. However, there is one factor all these companies have in common: inadequate profit orientation. No company has ever gone bankrupt from making profits.

This crisis that then led to inflation is an ongoing stress-test for companies' economic model. Yet, despite tough times and dwindling demand, there will be successful companies that emerge as winners. The secret to success? Business resilience. Profit orientation is a core dimension of economic business resilience. Resilient companies not only have a loyal customer base, but their revenue model also extracts value and profitability from customers. Disruptive innovation is also another dimension.

Today, the economy is increasingly defined by a customer-led market. Therefore, it is crucial for companies to think through the customer lifecycle and provide value at every step.

Over-invested companies tend to be customer loyalty-oriented, but not profit-oriented. For example, large particleboard or medium-density fibreboard (MDF) companies can become over-invested from all angles. They invest in acquiring and retaining customers. But if you ask them about profit, you usually get the answer: "That's the next step for us."

Conversely, under-invested companies are profit-oriented, but not customer loyalty-oriented. These businesses tend to generate good profits with the heritage and quality of their products. But they still have a way to go in terms of locking their customers in.

There is a risk in being neither customer loyalty- nor profit-oriented, which is how some businesses assessed their company. Here, market share usually trumps profit. It can also be difficult to connect the loyalty dots if the business is built around one-time transactions and selling indirectly to the customer.

Resilient companies are the most successful and build a loyal customer base. They grow their margins with product innovation and new revenue models. The challenge is to stay there at the top.

LEARNING FROM PROFIT-ORIENTED COMPANIES

For all industries there are single companies positioned in a different way. Here are four key lessons from business-resilient companies:

They instill a profit mindset: That means focusing on profit over market share, emphasising cash flow, and managing costs. In my experience, companies lacking profit orientation typically focus on market share or volume growth. Meanwhile, resilient companies target specific profit KPIs, such as the net retention rate and recurring revenue rate. Effective business resilience can take place if top managers know the revenue targets and actuals. Sales people carefully consider profit impact when making a deal. Everyone at all levels always has a clear and current view on the company's profit situation.

They protect the core business: What steps are you taking to ensure your core offering is and remains attractive in the customer's eyes of the customer? Business resilience requires regular company investment and sensors on the market. This ensures building products around the price, and not the other way around. Managers should also be aware of low and unprofitable products and services. They should conduct constant reviews and discipline measures to cease any offerings that fail to meet profitability targets.

They protect their prices: Achieving price generates profits, defending price protects them, and cutting prices without costs damages them. That is why resilient businesses are equipped with data before any price move. Resilient businesses simulate the impact on customers, the market, and competitors. They understand cannibalisation effects, make differentiated price moves, and ensure price increases are properly enforced. Even when they have to give discounts or run promotions, they still defend profitability by first making "smart concessions".

They eliminate cross-subsidisation: Business resilience requires companies to be rigorous when it comes to cross-subsidisation between products and business units. To axe the unprofitable, the discipline must be strict. There may be strategic cases where they decide to go in at a loss with some customers or products. But they ensure the whole package is net positive and comes with a bottom line. Not every product or customer can be strategic; only maintain those on a clear pathway to profitability.

DEFINING MONETISING INNOVATION

Innovation can be one of the most powerful tools to ensure business resilience: Nothing ventured, nothing gained. Despite this, however, the failure rate for innovations is shockingly high. Seventy-two percent of innovations fail to meet their financial targets or fail entirely — which means companies are not quite sure how to monetise their innovations consistently. How can you make sure your innovations succeed?

Monetising innovation successfully is to meet or exceed the financial goals a company sets for its new product. In times of escalating downward pricing pressures, many companies decide that an innovative new product or service is the answer to that pressure. However, monetising it proves more difficult than ever. R&D is expensive, start-ups disrupt whole markets with their ideas since they are able to take more financial risks, and the overall rate of innovations is accelerating.

What causes innovations to miss their targets?

Feature shock: An over-engineered innovation with too many, often unwanted, features that do not stand out, crammed in a product that will not fully resonate with customers and is often overpriced.

Minivation: An innovation that, despite being the right product for the right market, is priced too low to achieve its full revenue potential. This is often because it is not enough of an innovation to warrant a higher price, which is caused by either a real or perceived lack of differentiation.

Hidden gem: A potential blockbuster product that is never properly brought to market, generally because it falls too far outside of the core competency of a company.

Undead: An innovation that customers do not want, but has nevertheless been brought to market either as the wrong answer to the right question or as the answer to a question no one was asking.

KNOWLEDGE IS POWER

There are a couple of prevailing myths around monetising innovations that have been difficult to shake — that customers are automatically willing to pay the value or at least the cost of a great new product, that an isolated working innovation team should be exclusively in control of a new product, that it is completely normal to have failures quite often when innovating, among others.

Although these statements seem to be common sense, they are actually myths to successfully monetising innovations. In fact, the majority of companies accepting these myths are what leads to the 72% failure rate for innovations. A more promising approach is to find out if customers are willing to pay for a new product — and how much — before committing resources to building and launching it.

Here are some rules for monetising innovations:

1. Have the “willingness-to-pay” talk early: To find out the price customers are willing to pay for a product, companies have to talk to them. We call it the “willingness-to-pay” talk.
2. Do not develop a one-size-fits-all solution: A general segmentation strategy should also help guide product development.
3. Decide on product configuration and bundling: Decide what features and functionality the new product should deliver.
4. Find the ideal monetisation model: How a company charges for a product often has a bigger impact on customer adoption and price perception than how much it is charging.
5. Pick the winning price strategy: This should consist of setting of clear goals, deciding how aggressive pricing should be, introducing price-setting principles, and defining promotional and competitive reaction principles.
6. Build an outside-in business case: Gather external input on value, price, cost, and volume to make the product design process useful.
7. Communicate the product’s value: Have a compelling story to drive customers to buy and use it.
8. Use psychological pricing: People make purchasing decisions based on both rational and emotional factors.
9. Maintain price integrity.

IOI PALM WOOD

A company that has achieved resilience is IOI Corporation. It has been a profitable plantation business for more than 50 years. Only in the last 25 years has the company moved toward property development. Even more recently it entered new business areas, which also meant new revenue models. These included refineries and oleochemical industries.

IOI’s combination of selling profitable, transactional plantation commodities plus even more profitable recurrent value added and specialty products has shaped its success story. Today, these new areas, often based on a recurrent revenue model, account for a big chunk of their sales. We believe that IOI Palm Wood will add to this business resilience and prove to be a valuable recurrent revenue stream for the company.

As IOI nears bringing our innovative ‘OnCore’ palm wood to market, we are mindful of the above and believe that the feedback “willingness-to-pay” conversations we have had with potential customers remains positive. We believe that our products are high performance materials able to complement the existing timber products in the market. What we will add to this value proposition is sustainability, consistency and enhanced properties such as fire resistance and light weight strength.

I am very excited to be bringing this innovative product to market, and looking forward to working with new customers to aid their business resilience. P

Palm wood can complement the existing timber products in the market