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NAB LABS BUSINESS INNOVATION INDEX 2017

Insights into Australian business
behaviours that drive innovation

September 2017





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FOREWORDS



ALAN OSTER
NAB Chief Economist

Australia's next phase of growth must be defined by ideas, creativity and execution. Our future lies in our ability to foster a culture of innovation. But how do we measure innovation across all sizes and types of business?

Measures such as the level of R&D spending, patent filings, the number of start-ups and collaborations between business and higher education, are commonly used. But, they are often not very meaningful for some businesses.

Many businesses innovate continuously to survive and prosper. But, few call this "innovation". Instead they talk about "improvements", "changes" and "adjustments" to their everyday processes, products or services. The NAB Labs Business Innovation Index measures innovation based on what a business does "differently", "more quickly" and "more cost efficiently" - behaviours at the very heart of innovation.

This report is our second edition of the series which we launched last year and provides a timely update on how business innovation behaviours have been tracking in Australia over the past 12 months. Around 1,500 Australian businesses were once again asked to assess their innovation behaviour as well as the "culture of innovation" (their perception of innovation) within their own firm, industry, and Australia as a whole.

In terms of business perceptions of innovation, little has changed from last year. Once again, Australian business did not view our country very favourably in terms of the culture of innovation. But, when asked to self-assess their own level of organisational innovation, a much greater number of firms considered their own business to be "highly" innovative (and at a similar level to last year).

While businesses do not believe that the culture of innovation has changed, when measured against their actual behaviours, innovation appears to have declined over the past 12 months, irrespective of business size.

However, importantly, the research also showed that when innovation is encouraged by the leaders within an organisation, innovation behaviours follow.

It is telling us that business leaders encourage innovation because of the value it can create in higher productivity, new processes, competitive advantage, adaptation to changing circumstances and differentiation.

Research like this helps us ensure we have a finger on the pulse of how businesses are innovating, how well it is being done, and where and why there are barriers and hotspots.



DANNY SAMSON
Professor of Management,
University of Melbourne

While innovation levels recorded in Australian businesses from 2016 to 2017 has seen a slip, perceptions of the culture of innovation across business were virtually unchanged.

The declines in overall innovation levels are reflective of declines and uncertainties in specific sectors (mining, construction, retail, transport/storage). Pleasingly however, innovation culture perceptions remained largely stable and the relationship between leadership encouragement and innovation efforts and benefits was proven as strong.

Implications for policy makers and business leaders clearly emanate from this survey, of the need to create sound top-down encouragement, and of the impact of general business conditions on innovation attitudes and behaviours.

The 2017 evidence of stronger emphasis on customer satisfaction and productivity, relative to that of new products and services, presents ongoing challenges, and opportunities to do even better going forward.

Many case studies we have conducted, including those reported herein, demonstrate that for those who create new products and services effectively, whether it is goods or services, the prize can be great.

In all the case studies we conducted of companies that have been successful due to their innovation, the mindset of innovation is deeply embedded throughout the organisation due to the sound, hands-on leadership and resourcing of it.

This has led to a 'front of mind' attitude to innovation, stimulating problem solving and creativity as a systematic capability, rather than innovation being a set of 'lucky breaks'.

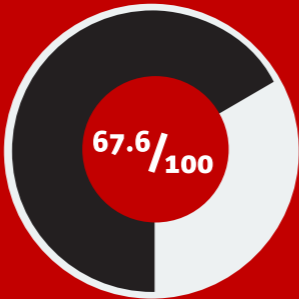
These factors of company-wide systematic innovation applied to both large and small firms in our study set, in all industries.

They showed that innovation can be much more than just the province of executives or technical specialists, but rather a 'full court press', being included in organisational goal-setting, measurement and reporting, strategic priority statements, and ultimately in behaviour and culture

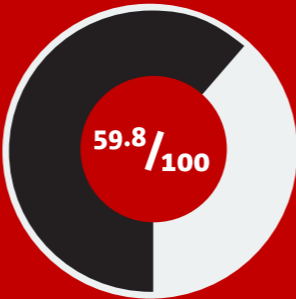
Danny Samson is Professor of Management at the University of Melbourne and is director of the Foundation for Sustainable Economic Development at the university.

KEY FINDINGS

THE NAB LABS
BUSINESS INNOVATION
INDEX HAS DIPPED
FROM A YEAR AGO.



2016



2017

COST EFFICIENCY CONTINUES TO BE THE BIGGEST DRIVER OF INNOVATION,
JUST AHEAD OF DOING THINGS DIFFERENTLY



COST EFFICIENCY

DIFFERENTLY

MORE QUICKLY

THE GAP BETWEEN PERCEPTION AND REALITY

2016

2017

2016

2017

The perception of our business innovation culture is unchanged 2016 v 2017

But the reality shows actual innovation behaviours are lower in 2017

TOP BENEFITS OF INNOVATION

#1



Improve customer satisfaction

#2



Productivity

THE INDEX SHOWS THAT WHEN INNOVATION IS ENCOURAGED BY LEADERS, INNOVATION BEHAVIOURS FOLLOW:

BUSINESS LEADERS “MODERATELY” ENCOURAGE INNOVATION

59.8 / 100

BUSINESS LEADERS “HIGHLY” ENCOURAGE INNOVATION

73.3 / 100

NAB LABS BUSINESS INNOVATION INDEX OVERVIEW

Are Australian businesses innovating?

The NAB Labs Business Innovation Index provides a measure of innovation that is intuitive and easily applicable to all business, regardless of size, type, industry or location.

The Index is based on the extent to which firms' have "tweaked", "adjusted", "improved" or "changed" anything in their business that allowed them in the past year to do things:

- Do thing differently
- Do things more quickly
- Do things more cost effeciently

Overall, the NAB Labs Business Innovation Index fell to 59.8 points in Q2 2017, from 67.6 points a year ago (out of 100, where 0 is "not at all" and 100 is "extensive").

All three components of the Index also fell. Cost efficiency (68.3) continues to be the biggest driver of innovation, marginally ahead of doing things differently (60.3).

"While businesses do not believe that the culture of innovation has changed, when measured against their actual behaviours, innovation appears to have declined over the past 12 months, irrespective of business size"

– Alan Oster, NAB Chief Economist

Download the full NAB Labs Business Innovation Index from:
business.nab.com.au



**NAB Labs Business
Innovation Index**



**Do things
differently**



**Do things
quickly**



**Do things
efficiently**



Q2 2016



Q2 2017

0 = not at all innovative; 100 = extensive

CULTURE OF INNOVATION

Do Australian businesses feel they have a culture of innovation in their organisation?

One way to measure innovation culture is to simply ask businesses how they see the level of innovation across Australian business as a whole, within their industry and their own business.

Australian businesses overall view innovation in Australia “moderately”, scoring 6.0 points out of 10 (10 is “extremely” innovative) and marginally lower than a year ago (6.1 points). Only 15 per cent of all firms rated the culture of innovation in Australia “highly”.

By size, most firms rated the culture of innovation in Australia the same as last year. Large businesses were the exception, scoring just 5.4 points (6.5 in Q2 2016).

They also rated the culture of innovation in Australia lowest of all business sizes, with only 1 in 20 rating it “highly”.

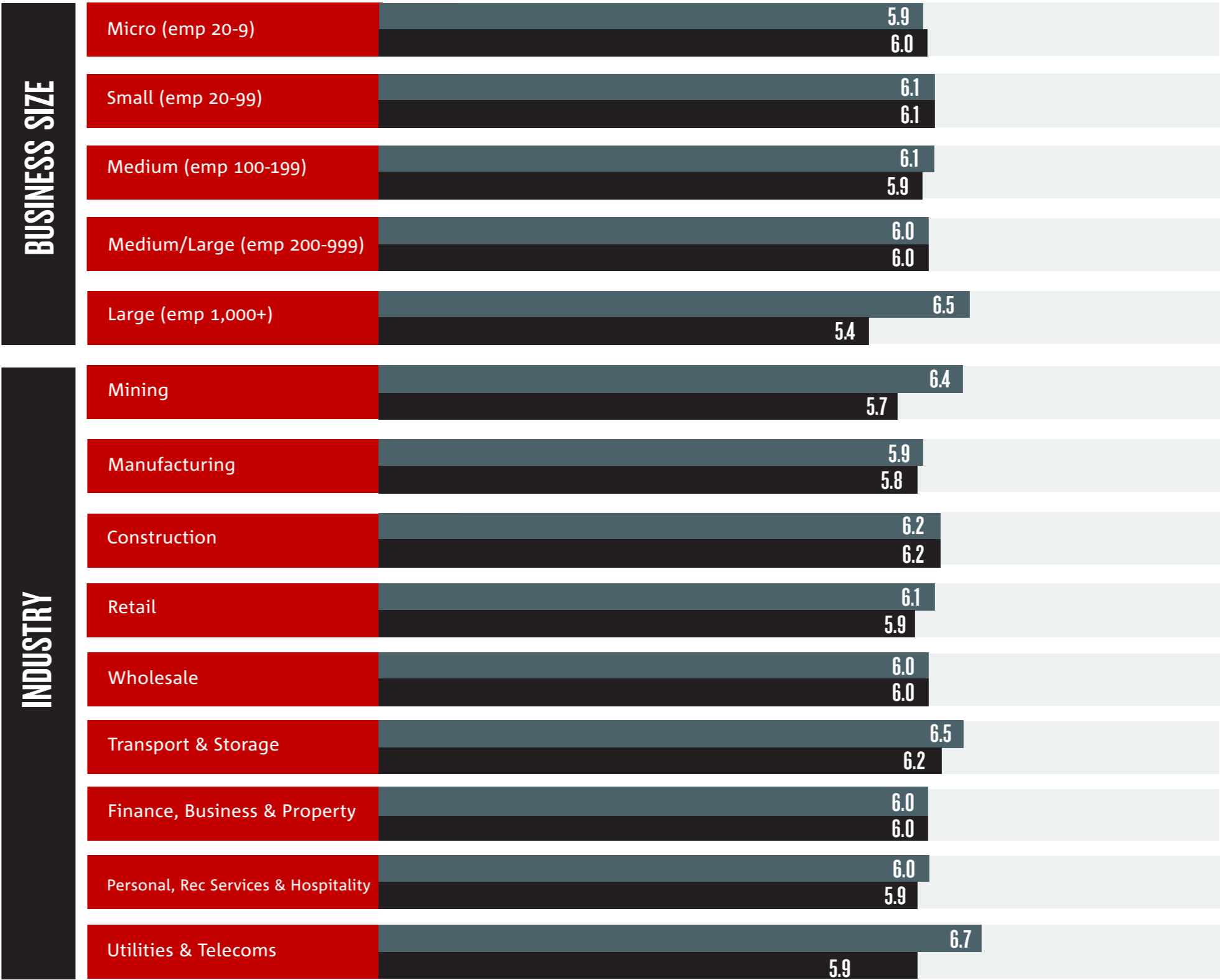
By industry, Utilities & Telecoms and Mining firms were also much less positive about the culture of innovation across Australian businesses relative to last year.

These results highlight somewhat of a disconnect between how a business perceives a culture of innovation and their actual innovation behaviors (see Overall Index results) over the past 12 months, perhaps reflecting a less conducive economic environment over the past year and more cautious business behaviours.

OVERALL

6.1

6.0



Q2 2016 Q2 2017

0 = not at all innovative; 10 = extremely innovative

INNOVATION INDUSTRY BY INDUSTRY

The Telecommunications industry is changing the way they do things to drive innovation

By industry, Utilities & Telecoms scored highest for innovation by some margin. This sector reported much higher levels of innovation in regards to doing things differently and more quickly.

Mining, Manufacturing, Finance, Business & Property were the next most innovative sectors with Transport & Storage and Retail showing as the the least innovative, after having been the two most innovative sectors last year.

Cost efficiency was the biggest driver of innovation in all industries, except Transport & Storage, Finance, Business & Property and Utilities & Telecoms where doing things differently came through as most important to them.

The survey also noted that the three innovation behaviours impacted different industries to varying degrees. For example, Mining was the most innovative for doing things cost efficiently, but among the least innovative when it came to doing things more quickly. Transport & Storage under-performed across all sub-components (except doing things differently).

Key:



Mining



Construction



Wholesale



Finance, Business & Property



Utilities & Telecoms



Manufacturing



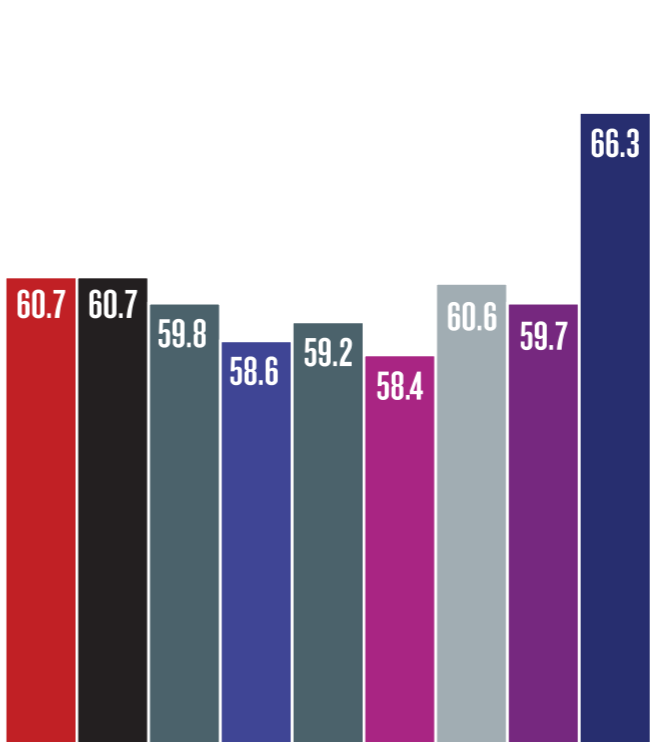
Retail



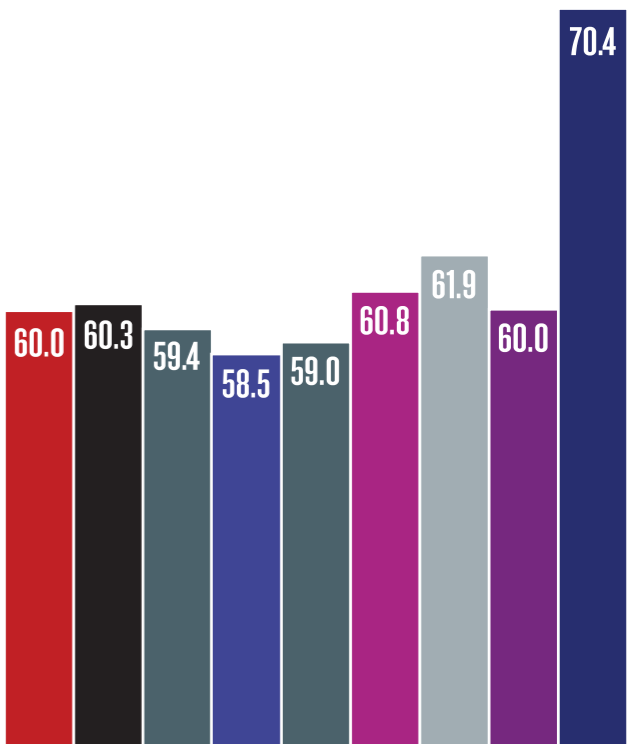
Transport & Storage



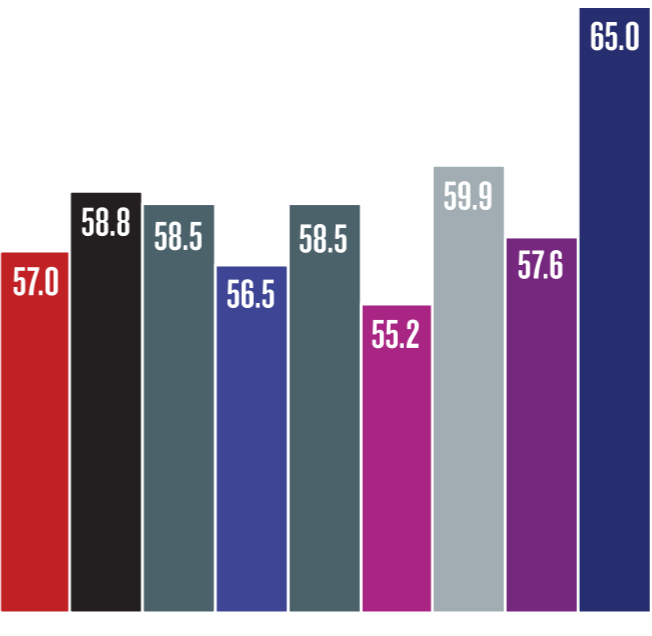
Personal, Rec Services & Hospitality



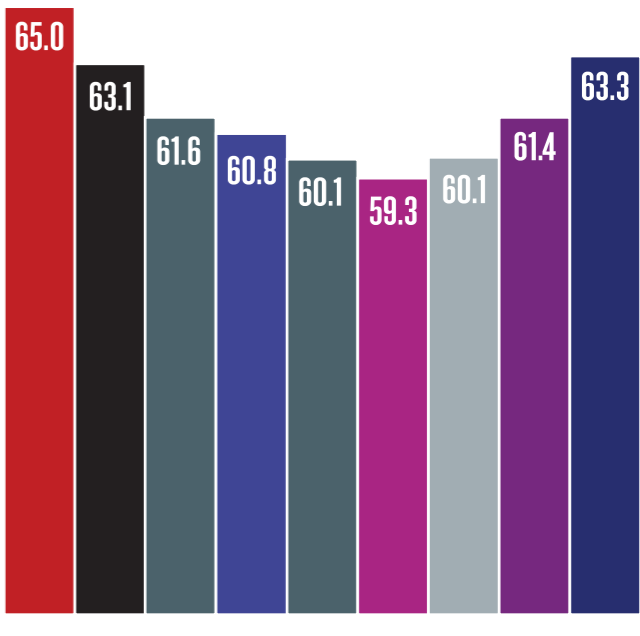
NAB Labs Business Innovation Index



Doing things differently



Doing things more quickly



Doing things more cost efficiently

0 = not at all; 100 = extensive

TELSTRA: TRANSFORMING FROM 'TELCO' TO 'TECHCO'

The NAB Labs Business Innovation Index showed the telecommunications industry as a leader in driving innovation behaviours.

By **Professor Danny Samson**
University of Melbourne

Telstra has embarked on a journey of transitioning from being a provider of telecommunication services, to a highly innovative technology company.

The company has articulated and implemented four pillars to its innovation agenda, including tapping into new tech innovations, collaboration with a range of partners, developing and using new methods and capabilities, and people development.

One of its significant investments has been into Telstra Labs, which is set up to generate and accelerate new business opportunities for Telstra, assess new technologies and contribute to the culture of innovation and corporate environment that brings and grows valuable new ideas to fruition.

The Telstra approach has been to use modern methodologies such as Design Thinking, Lean Start-up and customer-focused Innovation Environment, to achieve its desired outcomes. Telstra strives to discover customer needs and

problems, create opportunities and then build solutions for the market that respond to or lead customer requirements.

In transitioning from its history as a 'Telco' towards being a 'TechCo', Telstra has employed a portfolio of strategies including a series of investments in technology oriented initiatives and companies.

This has included investment in start-ups, early stage and late stage businesses, an

in-house start-up accelerator as well as minority investments in over 40 businesses through Telstra Ventures.

Within its Telstra Labs organisation, they run 'innovation engagements' through a structured process and framework for taking promising innovations forward.

This includes fast prototyping and MVP (minimum viable product) development. External engagement of its innovation activities

(Imagery courtesy of Telstra)



(Imagery courtesy of Telstra)

has led Telstra to work collaboratively with universities and Silicon Valley businesses, in its form of ‘open innovation’.

Telstra uses a portfolio approach to manage a balance of incremental and radical innovation projects, explicitly applying the ‘Three Horizons’ approach to achieving this balance between short term, medium term and longer term capability developments. Whilst in the broader business the majority of the efforts

and projects are in Horizon One, the labs activity is more skewed towards the assessment of medium term Horizon Two and long term Horizon Three opportunities.

With its long history of being a traditional telco in Australia, consistent leadership has been required to guide and support the innovation orientation and strategies. This has included creating and applying a modern approach to risk tolerance, supporting start-

ups, and moving away from the traditional approach of extrapolating from the past into the future.

The approach in Telstra Labs can be characterised as ‘Think big, start small, move fast’ and this includes embracing experimentation. While there is clearly not a single silver bullet in pursuing the journey of becoming a leading ‘TechCo’, the aim is

to attract talented people, motivate them to create new forms of value for customers, and to become a fast mover on implementing innovation initiatives.

It is an exciting learning journey as Telstra builds on its traditional telco structure into a leadership role of the digital age.

How important is leadership in fostering innovation?

Business leaders encourage innovation because of the value it can capture through higher productivity, new processes, competitive advantage, adaptation to changing circumstances and differentiation.

When Australian businesses were asked to rate the extent to which their own organisation's leaders encouraged innovation, it was clear that in some firms, leaders were more encouraging of innovation than others.

Moreover, when comparing the extent to which organisations' leaders encourage innovation and the Innovation Index, the relationship was positive; clearly showing that when innovation is encouraged from the top, innovation behaviours follow.

Overall, business leaders in Australia were seen as being "moderately" encouraging, scoring 6.6 points out of 10 (10 is strongly encouraged).

There was great variation by industry. The report showed leaders in Utilities & Telecom firms were the most encouraging of innovation by some margin (7.7 points), followed by Manufacturing (6.9) and Finance, Business & Property (6.8).

Overall, business leaders in Australia were seen as being "moderately" encouraging, scoring 6.6 points out of 10 (10 is strongly encouraged).

There was great variation by industry. The report showed leaders in Utilities & Telecom firms were the most encouraging of innovation by some margin (7.7 points), followed by Manufacturing (6.9) and Finance, Business & Property (6.8).

OVERALL 6.6

Business leaders "moderately" encouraging innovation

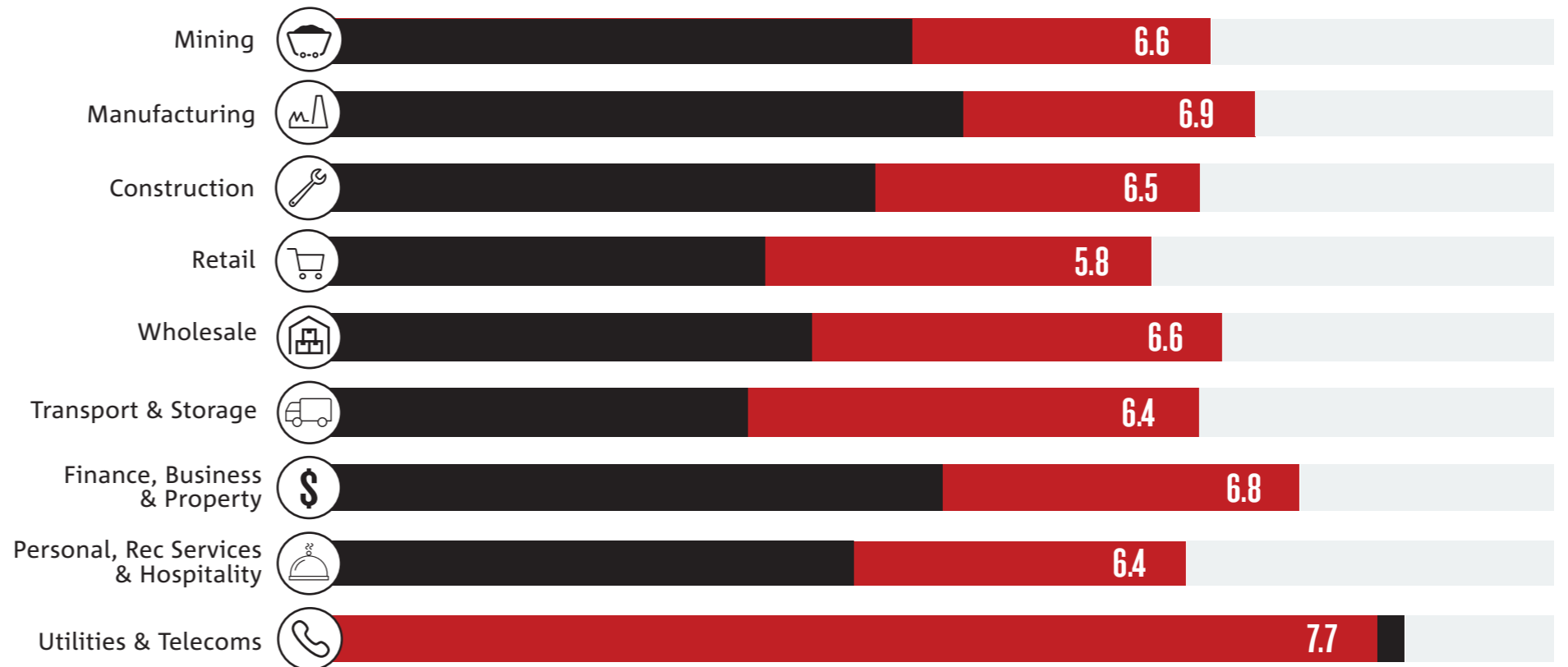
59.8

Business leaders "highly" encouraging innovation

73.3

0 = not at all innovative; 100 = extensively

INDUSTRY



Encourage Innovation Innovation Index

0 = not at all innovative; 10 = strongly encouraged

YUMBAH AQUACULTURE: USING INNOVATION TO ‘RE-CREATE THE SEA ON LAND’ FOR ITS ABALONE

When it comes to leadership embracing innovation, Yumbah is a shining example.

By **Professor Danny Samson**
University of Melbourne

While the price of abalone is high and demand significantly exceeds supply, the approach taken by Yumbah has been to not just chase short term financial goals, but is founded on a passion of ethics and preservation of the pristine environment in which it operates.

Innovation has been continuous in pursuing the building of what is now the biggest abalone operation in the southern hemisphere, with four land-based farms in three southern Australia states.

These farms nurture the abalone from birth through to maturity in conditions that replicate natural sea-bed environments, including the use of artificial waves to cleanse the operating environment.

Major shareholder and Director Anthony Hall continues to invest in growth after 18 years of successful operation to date, with plans to expand from current production of some 600 tonnes per year to triple that amount within three years.

Like most successful food exporters, the business model starts with clear and close understanding of customers’ requirements, and this is particularly important in markets such as Japan where quality standards are exacting. Yumbah exports some 70 per cent of its product to Japan, Hong Kong, USA and Canada.

Employing nearly 100 people in its four farms, feed production facility and a packing plant in Adelaide, the Yumbah Board guards against

complacency by asking all employees to contribute to innovations in all aspects of the operation.

This includes reducing energy consumption, improved abalone genetics and operations, and other drivers of efficiency, quality and effectiveness in all corners of the business.

To ensure that both radical and incremental innovations will be pursued, a company goal



(Imagery courtesy of Yumbah)



Yumbah Director of Anthony Hall (Imagery courtesy of Yumbah Aquaculture)

The Yumbah Board guards against complacency by asking all employees to contribute to innovations in all aspects of the operation.

 **CLICK TO
PLAY VIDEO**

of 30 per cent performance improvement has been set, which cannot be achieved by incremental innovations alone.

While the Yumbah abalone are in high demand and prices high (averaging \$40/kg and up to \$85/kg in China at peak), it would be tempting to simply ramp up production volume of these, but the strategy is to grow and innovate while carefully managing risks. To do this, initiatives have included ensuring that there are multiple sites, careful biosecurity measures in place, strict quality control over water, feed and other

inputs and operating parameters, and plans for diversification into other lines of shellfish such as oysters, mussels and lobster.

Innovation and sustainability as core values go all the way from the first steps in the process to the packing process, supply chain and the market, with ‘agile’ packing occurring, in which individual abalone are weighed to give exact weight in the frozen 1kg packs that are shipped to Japan and elsewhere, seawater use innovations, and marketing innovations in B2C space being considered.

Having invented its basic process design, gained control over its feed and packing processes, and with strong leadership of a value system that emphasises sustainable development and differentiation through quality and uniqueness of its brand position, Yumbah is executing a sustainable future of carefully planned profitable growth.

At the same time, it continues to innovate with its focus on serving customer requirements with the highest possible levels of quality and service.

Radical innovations in this business such as in farm bed design and genetics optimisation choices are balanced with a host of smaller improvements in every corner of the organisation.

Yumbah Aquaculture is a showcase example of Australian business not just being a ‘supermarket to Asia’ but rather a high-end delicatessen for Asia and beyond.

BENEFITS OF INNOVATING

What’s to gain from innovating in your workplace?

According to surveyed Australian businesses, the biggest benefits they gained from their innovative activities came from improved customer satisfaction and productivity.

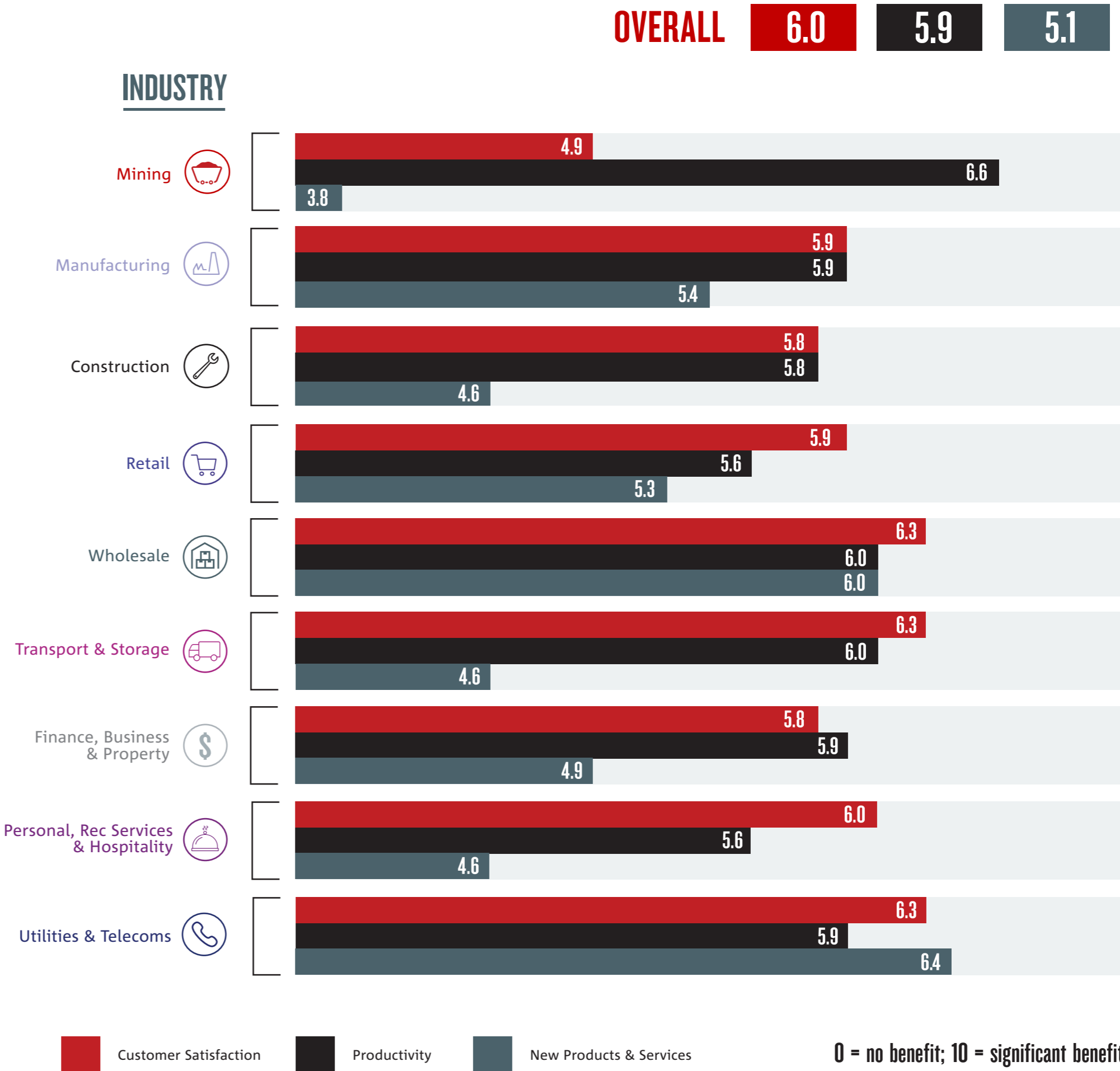
The benefits of innovation were widespread by industry.

Firms operating in Wholesale, Transport & Storage, Personal, Recreational Services & Hospitality, and Retail industries derived the most benefit from their innovative activities in customer satisfaction.

Utilities & Telecoms firms were the only group who identified the greatest benefit from their organisation’s innovative activities coming from new products and services.

“It is telling us that business leaders encourage innovation because of the value it can create in higher productivity, new processes, competitive advantage, adaptation to changing circumstances and differentiation.”

– Alan Oster, NAB Chief Economist





By Professor Danny Samson
University of Melbourne

(Imagery courtesy of Knog)

Industrial designer Hugo Davidson and partner Malcolm McKechnie built Knog over a 15-year period into a highly innovative global product brand.

As co-founder, CEO, and lead designer, Hugo and Malcolm (Product Engineer and COO) quickly recognised the need to employ and partner with engineers and marketers to provide design-led products with unique style and performance for the growing group of people in Australia and the world who engage in recreational cycling.

Their first breakthrough product was a simple bicycle light which was completely unique in form and function. This design driven approach led to 200 per cent growth in revenue per annum for the first few years of existence, in a market that grew at 16 per cent p.a.

It was a radical innovation in what was a previously uninspiring product category, and was followed by a number of incremental innovations.

Knog’s “silicone” range of lights and later the “Blinder” USB rechargeable safety lights – known in the industry as “Be Seen” lights – led to today’s broad range of front and rear mountain and urban bike lights.

Large scale production takes place in China with three major production partners supporting sales of many millions of units, in some 300 different designs, colours, and sizes. New materials for such applications such as silicone and titanium are often sought and used.

Knog was essentially ‘born global’ in market terms, with only 4 per cent of its revenue coming from Australia early on, with distribution both online and in bike shops in over 50 countries being handled by a range of distribution partners and customers. In Switzerland, where biking is very popular, there are three Knog products per household on average! Whereas independent bicycle shops accounted for 80 per cent of sales some years ago, online sales have increased to take up some 60 per cent of revenue today.



(Imagery courtesy of Knog)



CLICK TO LISTEN TO PODCAST
WITH KNOG'S HUGO DAVIDSON TALKING ABOUT
HOW HIS BUSINESS DRIVES INNOVATION

Knog has 20 full time employees and operates a very flat structure, with its co-founders, still with day-to-day engagement with design and engineering teams and activities, working along with the marketing, logistics, production and finance teams.

Marketing is a key activity for Knog, and the team of four marketers prepare for trade fairs, provide sales tools for distribution partners, and position Knog in the eyes of the consumer as a brand that is always 'unboring things'.

With design-led innovation in the DNA of this company and its founder, Knog is much more than a one-hit wonder.

Knog's design flair has led it to patent a number of its designs and products, and it has resorted to defending those designs where necessary. Knog exercises careful quality control in its factories, as quality is key to its point of differentiation and pricing, while product development processes are stringent and quite formalised.

Like all other innovative businesses, not everything that Knog does leads to great success. There have been ventures into new categories and also local market restrictions, such as "StVZO" accreditation in Germany, which have taken longer to grapple with. But grapple they do, now with Germany being a top three market once again for Knog.

Knog's culture and workplace environment are set up to foster high levels of creativity, being open plan and flexible, even including provision for the founders' dogs to come to work on most

days. Yet the focus and 'buzz' of determination to continually create superior products is intense, and has so far been very successful.

The core capabilities of design-led innovation and market-led supply chain management have a long way to run in this business and its markets, and the team is managing a range of development projects for the outdoor sector: bike-packing, camping, hiking, running and more, which keeps this company and its employees excited about their future, and profitability.

LEGALVISION: DOING LEGAL SERVICES VERY DIFFERENTLY

When you think of innovation you don't necessarily think of a need for legal services companies to innovate, but LegalVision is not resting on its laurels.

By **Professor Danny Samson**
University of Melbourne

How does a start-up in the traditional and generally conservative business of providing corporate legal services grow at 5 per cent month-on-month across four years, from three co-founders to over 70 team members?

The answer is to embrace radical innovation in its business model, service offering and internal processes and structure, and even its leadership approach and culture.

In just four years, LegalVision has grown from a start-up to 'Innovator of the Year' at the Australian Law Awards. Co-founders Lachlan

McKnight, Ursula Hogben and Evan Tait-Styles built a firm that has won numerous awards for excellence in innovation and client service, based on their disruptive approach to legal services provision and innovative application of technologies. It's a radical process approach to an age-old service industry.

From its beginning in 2013, LegalVision has offered a focus that is almost unheard of in its industry, of cost-effective, efficient, fixed-fee legal services, with a strong focus on client-oriented problem solving, opposite to a traditional adversarial approach.

This is accomplished with a large investment in new technologies and systems disciplines that provide scalable, efficient services. This business has divisional areas of marketing, growth and innovation legal and technology, which is very different from most traditional partner-focussed law firms.

Most clients are attracted to the company by its online presence, in which it invests significantly in Search Engine Optimisation and paid advertising, from which it achieves 5000 unique users per day, and offers over 3,600 free articles and legal documents, often leading to fee based work.

It operates a Customer Relationship Management System to track all client interface activities, from email contact through to the legal project.

The employed technologies and approach to standardisation allow the company to efficiently scale its services, for example doing a franchise agreement or lease for a franchisor very quickly provides an efficient basis for doing all franchisees in the business.

High productivity and technology-based efficiency provide a basis for cost certainty that LegalVision translates into fixed fees, which are

(Imagery courtesy of LegalVision)



(Imagery courtesy of LegalVision)

often 40 per cent less than those of traditional firms, as well as subscription pricing for clients with recurring needs.

LegalVision's innovative model is now catching the attention of Australia's largest companies, who want to leverage LegalVision's unique mix of legal and tech capabilities - for example, by using artificial intelligence to review high volumes of contracts.

Internally, the culture is of a truly modern workplace and culture. LegalVision is proud

of having a diverse team, including more than 50 per cent female lawyers and practice leaders, offering flexible work arrangements, facilitated by its technologies, such as remote work. Much of its lawyers' work can be done anytime and anywhere.

The open plan offices are intensely rich in technology and break out areas, and this is a key aspect of investment for the company.

Innovation is strongly encouraged through workshops, design jams, teamwork and

cross-team collaborations. Technologists are partners in creating and enhancing work processes, not merely IT service providers, such that the company engages actively in learning through knowledge management.

LegalVision's expertise, technology, affordability and fee and timeline certainty has attracted over 4000 clients, who clearly like what they see and get: the Net Promoter Score of LegalVision is 58, almost double the industry average of 30.6. This company is a classic case of industry disruption, of a preparedness by leaders to rethink and redo

everything that was traditional to this sector. It has taken advantage of new technologies and is creating its own wave of innovation in this industry. And its three founders and core staff are not resting on their laurels: indeed, they see significant scope for further innovation, and for scaling up their service offerings, building client relationships and recently opening offices in Melbourne, and Brisbane, as well as expanding the Sydney base.

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