Innovate This!

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Who invented the airplane? Depends what you mean by "invent."

"Birdmen," a new book by historian Lawrence Goldstone, describes how the Wright Brothers became so obsessed with litigating competitors, they neglected critical flight design improvements that would have ensured success. Others forged ahead with better models, draining the Wrights of their resources and sending Wilbur to an early grave.

Successful innovation isn't just about getting there first. It's about meeting market demand. History is replete with other examples-TV, the polio vaccine, the personal computer-of inventors failing to grasp basic business precepts and being overtaken by more nimble follow-on rivals.

Founder-led companies tend toward less bureaucracy, creating easier environments for new product launches. Once customer demand is established, however, sponsors or strategics can provide capital and processes for future growth.

But how do you fan the flame of innovation at those portfolio companies or corporate subsidiaries once they're part of more rigid hierarchies? One veteran PE partner, who specializes in consumer brands, told me he asks his management team two questions:

1. What problem are you trying to solve; and 2. Do consumers actually want it?

Can one product be a potential game changer? "We don't take existential risk," he said. "We prefer creating an umbrella brand to house different products. That stimulates ongoing innovation. Next, we ask our entrepreneurs, 'What's holding you back?' We take from their plates anything that distracts from the creative process."

Can innovation be measured? "We implement key performance indicators to track how each product is doing," the partner said. "That grounds innovation in reality, and the feedback drives continuous improvement. Innovation becomes an iterative process."

Another top investor agreed: "Find out what percent of revenue comes from new products," he suggested. "Too high a number creates too much volatility; too low risks lower growth." So what's the difference between true innovation and good old-fashioned product development? "Everyone innovates!" the investor said. "Otherwise they'd be left behind."

"Right now, the buzz word is 'tech-nabled,'" one IT-focused partner reported. "Anything with that label is getting higher multiples. But we look closer to see if that's really driving revenues, new customers or efficiencies. Otherwise, you're overpaying.

“Innovation isn’t always coming up with something new,” he continued. “Sometimes it’s looking at the obvious in a new way. How many apples fell in the history of the world before Isaac Newton had his aha moment? And he didn’t have to invent the apple!”

No, Steve Jobs did that.