CommBank Business Insights.

Navigating a changing market through innovation.

National Report: FY18
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Key insights

Continuing the upward innovation trajectory

Over the last year, Australian businesses have continued their innovation journey, with many reaping sizeable returns from an emerging innovation culture.
In FY17, we launched the inaugural edition of the Business Insights Report: Unlocking everyday innovation. The landmark report was designed to provide businesses with a practical definition of innovation, assess Australia's business innovation performance and quantify the value of innovation to firms and the broader economy.

Since then, we have seen a dramatic shift in the way businesses are utilising and implementing innovation in response to competitive, technological and market forces. While the 2016 report clearly highlighted that Australian businesses were in the earlier stages of developing their innovation culture today, innovation is firmly embedded in the mindset of most Australian enterprises.

In last year's report we again looked at 15 management capabilities and entrepreneurial behaviours that drive innovation – together forming the CommBank Innovation Index – and found that innovation performance had surged across the country. More importantly, this rise saw Australian businesses surpass a crucial threshold – collectively moving from a focus on day-to-day improvement into the realm of genuine innovation.

As business innovation increased, so too did the number of home-grown innovation superstars, a trend that is expected to continue as businesses face new challenges and take unique approaches to meeting changing customer needs.

For businesses aspiring to improve their innovation performance in the face of emerging opportunities and challenges, it is worth noting the uniform characteristics shared by Australia's most innovative organisations.

In this year's edition we have also built on our research and again examined the value that innovation can deliver to individual businesses and its contribution to greater productivity and national economic growth. The report has found that investment into business innovation remains healthy and that the value of innovation accrued by businesses in revenue gains and cost savings has risen substantially in the previous 12 months.

It is also clear that investing in innovation is paying off for many businesses. When comparing the average investment and accompanying return, the report found that for every dollar invested in innovation businesses are receiving almost two in return, and in some cases it has materialised in months, not years.

As businesses continue to leverage innovation to drive productivity within their own organisations, it can deliver a profound impact on the Australian economy. We found that across all Innovation Active businesses, implemented innovations have delivered a boost of billions of dollars to the economy, which can play a pivotal role in supporting Australia's global competitiveness and economic growth.

Australian businesses continue to advance significantly in their approach to innovation, an encouraging trend we expect to continue as innovation firms its place as integral to organisational culture and a standard operating practice.

We hope this report provides some useful and practical insights for your business and we look forward to the opportunity to discuss our findings with you further.

Adam Bennett
Group Executive
Business and Private Banking
Commonwealth Bank of Australia
CommBank Innovation Index

**Improving Mindset**
- National reading 2016: 24
- National reading 2017: 32

Innovation by state

- NSW/ACT: 29.4
- SA/NT: 30.8
- VIC/TAS: 34.7
- WA: 26.7
- QLD: 37.7

4 ways successful innovators empower their employees

1. Share a focused vision
2. Invest in people
3. Source new talent
4. Rethink work allocation

Benefits realised by innovative businesses

- Efficiencies and productivity
- Stakeholder engagement
- Staff engagement
- Market position
- Competitive advantage

Innovation mindsets

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Innovation Index</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disruptors</strong></td>
<td>75-100</td>
</tr>
<tr>
<td>• Visionary and agile, create change</td>
<td></td>
</tr>
<tr>
<td>• Fresh thinking</td>
<td></td>
</tr>
<tr>
<td>• Solution not problem focused</td>
<td></td>
</tr>
<tr>
<td>• Appetite for growth</td>
<td></td>
</tr>
<tr>
<td><strong>Harnessers</strong></td>
<td>50-74</td>
</tr>
<tr>
<td>• Proactive, positive, embraces change</td>
<td></td>
</tr>
<tr>
<td>• Eyes on the ball, radar is constantly on</td>
<td></td>
</tr>
<tr>
<td>• Harnessing what’s available to improve business</td>
<td></td>
</tr>
<tr>
<td>• Keep pushing to optimise</td>
<td></td>
</tr>
<tr>
<td><strong>Adopters</strong></td>
<td>25-49</td>
</tr>
<tr>
<td>• Cautious approach to changes and innovation</td>
<td></td>
</tr>
<tr>
<td>• Reluctant: need evidence and reassurance</td>
<td></td>
</tr>
<tr>
<td>• Will follow others once they understand the benefit</td>
<td></td>
</tr>
<tr>
<td><strong>Resistors</strong></td>
<td>-100-24</td>
</tr>
<tr>
<td>• Complacent</td>
<td></td>
</tr>
<tr>
<td>• Unlikely to understand new technology or methods</td>
<td></td>
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</tbody>
</table>
Innovation investment and value amongst Innovation Active businesses

Estimated additional earnings from having implemented innovation

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$592,000</td>
<td>$405,000</td>
</tr>
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Estimated injections into the economy

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
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<tbody>
<tr>
<td></td>
<td>$110bn</td>
<td>$69bn</td>
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</table>

Return on investment on having implemented innovation

<table>
<thead>
<tr>
<th></th>
<th>Investment amount</th>
<th>Additional earnings</th>
<th>ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation active businesses</td>
<td>$300,000</td>
<td>$592,000</td>
<td>1.97x</td>
</tr>
<tr>
<td>Disruptors</td>
<td>$257,000</td>
<td>$579,000</td>
<td>2.3x</td>
</tr>
<tr>
<td>Harnessers</td>
<td>$427,000</td>
<td>$756,000</td>
<td>1.8x</td>
</tr>
<tr>
<td>Adopters</td>
<td>$270,000</td>
<td>$681,000</td>
<td>2.5x</td>
</tr>
<tr>
<td>Resistors</td>
<td>$196,000</td>
<td>$336,000</td>
<td>1.7x</td>
</tr>
</tbody>
</table>

Payback period for investment in innovation

<table>
<thead>
<tr>
<th>Payback period</th>
<th>1-5 years</th>
<th>7-12 months</th>
<th>4-6 months</th>
<th>1-3 months</th>
<th>Immediate</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14%</td>
<td>23%</td>
<td>19%</td>
<td>22%</td>
<td>9%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Revenue outlook for innovation active businesses

<table>
<thead>
<tr>
<th>Revenue outlook</th>
<th>22%</th>
<th>33%</th>
<th>23%</th>
<th>18%</th>
<th>4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 10% growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6-10% growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-5% growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remain the same</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decline</td>
<td></td>
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</tbody>
</table>

Top areas of investment

<table>
<thead>
<tr>
<th>Top areas of investment</th>
<th>49%</th>
<th>48%</th>
<th>47%</th>
<th>40%</th>
<th>38%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff training and expertise</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational efficiencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment and machinery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Estimated value generated from having implemented innovation multiplied by the percentage of the number of businesses in the economy that have implemented an innovation. Number of businesses supplied by DBM.

* Amongst innovation active businesses that have already implemented innovation.
Measuring innovation

To measure Australia’s ongoing innovation performance we adopted a globally recognised methodology, then expanded on it, to form the CommBank Innovation Index.

The OECD innovation framework

To determine which business initiatives were truly innovative, we adopted the framework set out in the Organisation for Economic Co-operation and Development (OECD) Oslo Manual. Used by organisations around the world, including the Australian Federal Government and Bureau of Statistics, the manual is constructed around four key innovation areas: products, processes, marketing and organisational.

The CommBank Innovation Index

In our survey we tested 15 core elements of innovation across management capability and entrepreneurial behaviour. Together they comprise the CommBank Innovation Index. The Index combines the results into a single numerical indicator, enabling us to rank businesses on a scale from –100 (innovation restrictive) to +100 (disruptive innovation), thus creating the concept of an innovation curve or spectrum.

We also spoke to a range of businesses to understand their experience in implementing innovation within their organisation. This qualitative analysis forms the basis for accompanying observations, case studies and quotes included in the report.

By mapping the dividing line between improvement and innovation, then overlaying the performance of businesses on the 15 core elements of innovation that make up the CommBank Innovation Index, we can determine where Australian businesses are positioned on an innovation curve.

Measuring 15 core drivers of innovation

<table>
<thead>
<tr>
<th>Management capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process¹</td>
</tr>
<tr>
<td>• Brainstorm for new ideas</td>
</tr>
<tr>
<td>• Encourage staff to ask questions</td>
</tr>
<tr>
<td>• Give staff opportunities to observe customer experiences</td>
</tr>
<tr>
<td>• Experiment and test new ideas</td>
</tr>
<tr>
<td>People¹</td>
</tr>
<tr>
<td>• Hire staff with creativity in mind</td>
</tr>
<tr>
<td>• Evaluate staff with creativity in mind</td>
</tr>
<tr>
<td>• Formal networking outside of business</td>
</tr>
<tr>
<td>Philosophy²</td>
</tr>
<tr>
<td>• Allow staff to take risks and fail</td>
</tr>
<tr>
<td>• Expect staff to give ideas for improvement</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Entrepreneurship behaviours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seizing opportunities²</td>
</tr>
<tr>
<td>• Look for new ways to benefit from market changes and technology</td>
</tr>
<tr>
<td>• Respond to attractive opportunities</td>
</tr>
<tr>
<td>Taking risks²</td>
</tr>
<tr>
<td>• Willing to take financial risks</td>
</tr>
<tr>
<td>• Invest time and capital in uncertain ventures</td>
</tr>
<tr>
<td>Focus²</td>
</tr>
<tr>
<td>• Limit focus to a small number of opportunities</td>
</tr>
<tr>
<td>Adapting²</td>
</tr>
<tr>
<td>• Adapt products and services to make the most of opportunities</td>
</tr>
</tbody>
</table>

¹Source: Dyer et al (2011) The Innovator’s DNA.
Innovation breakthrough

Behavioural drivers lift nationwide innovation

Across Australia, businesses of all sizes improved their innovation performance over the past year, crossing the threshold separating genuine innovation from business improvements.
Making the leap from improvement to innovation

Over the last year, innovation in Australia has reached new heights, with measurable increases in both the proportion of businesses actively innovating and in their innovation capabilities and behaviours.

While 82% of businesses claimed to make significant changes, when we assessed the rate of Australian business innovation using the *Oslo Manual* criteria, we found 47% of businesses were innovation active in 2017, up from 44% a year earlier. At the same time, the proportion of businesses that claimed to be innovating, but were actually implementing business improvements (when assessed against the *Oslo Manual* guidelines), fell three percentage points to 35%.

Accompanying this shift was a much larger uplift in the capabilities and behaviours of innovative businesses. Using the CommBank Innovation Index as a measure of the average level of innovation among Australian businesses across states and industries, we found an eight point increase in 12 months — from 24.0 in 2016, to 32.0 in 2017. As a result, the CommBank Innovation Index has surpassed the crucial barrier separating genuine innovation from day-to-day improvement, marked by an index score of 25.0, to enter the zone of innovation. This positive result was driven both by a general rise in reported innovative behaviour and by a small but growing number of innovation superstars.

“The surge in innovation among Australian businesses arrives as the national economy continues to shift focus from mining to services, and as businesses are being called upon to improve productivity to underpin Australia’s economic growth while responding to rapidly changing customer demands.”

Adam Bennett, Group Executive, Business and Private Banking, Commonwealth Bank of Australia
Nationwide uplift

Every Australian state and territory improved its innovation performance between 2016 and 2017. Queensland-based businesses recorded the most significant increase, with the CommBank Innovation Index rising from 23.7 in 2016 to 37.7 in 2017, making Queensland the top national innovation hotspot.

Medium-sized businesses with annual turnover between $2 million and $20 million continued to outperform their peers, with the highest Index score of 35.2, compared to 31.1 for small businesses and 32.1 for large businesses.

Every state and territory saw the Innovation Index increase between 2016 and 2017
Innovative behaviours

Looking at the drivers behind this rise in innovation practices among Australian businesses, we found improvements in all but one of the 15 innovative behaviours that collectively comprise the Innovation Index. The largest increase was in the number of businesses incorporating innovation and creativity as a key part of staff evaluations — previously one of the lowest exhibited behaviours — which rose 10 percentage points between FY17 and FY18. There were also marked increases in the number of businesses engaging in brainstorming activities, actively looking for creativity and innovation skills in the hiring process, encouraging staff to ask challenging questions and spending time and money on uncertain ventures.

This rise in almost all innovation behaviours demonstrates that businesses are focusing on introducing innovation across multiple areas of their organisations, with many adopting the mindset required to take the next step in honing their competitive advantage through innovation. Nonetheless, behaviours related to people management, external collaboration and risk taking remained relatively underutilised, suggesting there are still opportunities for many businesses to do more.

“It’s a huge productivity bonus for us...We are covering four times the amount of ground we were before, with one less person. In other areas we have improved production times three or four-fold...it’s quite amazing.”

Construction business, South Australia
Innovation in action: Strive Health

Key areas of innovation: Process, organisation
Mindset: Harnesser

Key drivers of innovation:
- **Process**: Experiment and test new ideas
- **Seizing opportunities**: Look for new ways to benefit from market changes and technology
- **Philosophy**: Expect employees to offer creative ideas for how the business can improve
- **Adapting**: Adapting products and services to make the most of opportunities
The Australian healthcare sector is experiencing some of the most radical changes of any industry as an ageing population, rapid advances in technology and shifting consumer demand continue to shape the future of patient care.

For some practitioners the dynamic nature of the industry presents an opportunity for significant growth, a view firmly held by Townsville-based General Practitioner and owner of Strive Health, Dr Ron Malpas.

Ron has recently re-launched Strive Health, a fast-growing regional multi-disciplinary practice in the Townsville suburb of Kirwan that brings together general practice, physiotherapy and allied health providers in one leading-edge facility.

Since its 2017 July re-launch, Strive Health has experienced a surge in new patients and a positive reception from the local community. Pivotal to this success is Ron's vision to break with the tradition of cold, sterile practices and instead, design a facility where patients could feel comfortable and staff could do their best work.

"I wanted to create a team environment with good clinical workflows, within a visually appealing building that has great human spaces for patients and staff. We also wanted to be more visible within the community," Ron says.

To put this vision into practice, Ron set about establishing partnerships, leveraging technology to free up staff to better service patients and establish a culture where staff are empowered to contribute to improving themselves and the practice overall.

“We recognised the shortcomings of doctoring, and saw value in getting input from other individuals like nurses, physios and administration staff who play a critical role in delivering all aspects of quality care.”

For Ron, providing training and support was also important to enhance the patient experience in all areas, with some nurses retraining in specialised areas to meet demand, and having the administration team upskill in marketing to promote the practice.

To complement the collaborative culture, Ron partnered with an architect to design a new physical space that would allow him to optimise the work and patient care environment.

“I visited a number of different clinics and waiting rooms to get the patient's point of view, identified the best things our competitors were doing and sought to adopt them. We then worked with architects to design a space with a high cathedral feeling, wooden walls with comfortable chairs and screens.

"Ultimately we wanted to show people that clinics could be more like a home where you can feel comfortable and not just unwell. That was a big point of difference."

Ron also looked to technology to enhance the ease of booking appointments, manage workflows and ultimately free up staff to focus on patient care.

“We developed an app to submit and monitor bookings and are planning to provide access to patients’ MyHealth records and monitoring of medications, automatic check-in on arrival, and mobile payment solutions.

“We also use Best Practice, which is software to manage patient care and practice efficiencies. We were early adopters and are now seeing some competitors using similar tools.”

The facility was also designed to accommodate the expansion of services into other high-demand areas including physiotherapy, other allied health services such as pathology and a resident dietician.

When assessing the return on Strive Health’s investment in technology, staff training, service expansion and facility, Ron has looked at both traditional financial metrics and talent attraction as benchmarks for evaluating success.

“When we budgeted for the new clinic launch and looked to overcome limited financial resources, we used historical data and modelled the patient and doctor numbers we needed to realise a return.

“Much of the return has come through additional patients being cross-promoted from our other clinics. We also have several doctors asking to work with us, which increases our capabilities and allows us to manage costs.

“We set out to double our operations to justify our investment and since we opened in July we have had 600 new patients – an even greater number than we had anticipated,” Ron says.
Innovation mindset

Leading from the top

Leaders play a critical role in building a robust and creative innovation mindset.
Creating and embracing change

Despite the widespread improvement in key behavioural drivers, not all businesses performed equally well. Our survey identified a range of innovation mindsets based on their innovation scores. By combining their responses with qualitative interviews, we were able to compare businesses at various stages of innovation maturity, identifying four groups with distinctively different mindsets: Disruptors, Harnessers, Adopters and Resistors.

Since 2016, the proportion of businesses in each group has shifted markedly, revealing an overall upward movement as businesses make the transition from cautiously innovating to actively embracing change or even disrupting their chosen market. There has been movement at both ends of the CommBank Innovation Index spectrum: the proportion of Disruptors, Australia’s most visionary innovators (scoring 75 or above on the Index), more than doubled from 3% to 7% over the last 12 months, while the number of non-innovative businesses (the Resistors, scoring 25 or below on the Index) fell from 50% to 39%.

Encouragingly, more than 25% of businesses displayed a positive attitude to change and a willingness to capitalise on opportunities, qualifying as innovation Harnessers with Index scores between 50 and 75. These businesses are well on their way to becoming top innovators, capable of driving greater change within their industry.

“As innovation in Australia continues to take hold, the recent spike in the number of home-grown Disruptors will likely increase as businesses continue to face new challenges in a competitive environment. As we head towards one in 10 businesses displaying behaviours that support peak innovation performance, we expect this to lead to a positive impact for businesses’ bottom lines, and greater productivity at a macroeconomic level.”

Adam Bennett, Group Executive, Business and Private Banking, Commonwealth Bank of Australia
Profile of an innovator

Our research suggests that size and location are no barrier to innovation success, with innovation stars appearing in both metro and regional areas across the country and including businesses of every size. Overall, Disruptors were marginally more likely to be medium-sized businesses in New South Wales or the Australian Capital Territory, while Resistors were most likely to be small businesses outside the east coast. However, the differences were small and many small businesses in remote locations have proven that size and distance need not be a handicap.

A common theme among businesses sitting towards the top of the CommBank Innovation Index is the extent to which they collaborate with their employees, competitors and third parties. By developing new ways of working and forging partnerships, businesses can increase revenue and profitability more rapidly than if they were working on their own, while reducing costs and driving improved customer outcomes.

Benefits of collaborating with employees, third parties and competitors

- Employees
  - Greater sense of ownership for employees through empowerment and involvement
  - Formal process of sharing knowledge and information
  - Increases efficiency within the organisation

- Third parties
  - Work together to share expertise and deliver complementary functions to customers
  - Allows businesses to focus on their areas of specialisation
  - Reduces costs and produces better outcomes for customers

- Competitors
  - Strategic alliance to share risk and gain better market access
  - Increases market penetration and market share
  - Increase revenue and profitability

“We no longer worry about having competitors. Instead, we look at how we can possibly make money from them.”

Scientific & Technical Services business, New South Wales
Mindset Segments by Annual Turnover

- **Small** ($500k - less than $2M):
  - Resistors (-100-24): 76%
  - Adopters (25-49): 74%
  - Harnessers (50-74): 73%
  - Disruptors (75-100): 64%
  - Small (2-19 employees): 21%

- **Medium** ($2M - less than $20M):
  - Resistors (-100-24): 23%
  - Adopters (25-49): 23%
  - Harnessers (50-74): 32%
  - Disruptors (75-100): 3%
  - Medium (20-100 employees): 3%

- **Large** ($20M+):
  - Resistors (-100-24): 4%
  - Adopters (25-49): 4%
  - Harnessers (50-74): 4%
  - Disruptors (75-100): 4%
  - Large (100+ employees): 4%

Employee numbers by Mindset Segments

- **Small** (2-19 employees):
  - Resistors (-100-24): 80%
  - Adopters (25-49): 76%
  - Harnessers (50-74): 74%
  - Disruptors (75-100): 63%

- **Medium** (20-100 employees):
  - Resistors (-100-24): 15%
  - Adopters (25-49): 17%
  - Harnessers (50-74): 18%
  - Disruptors (75-100): 27%

- **Large** (100+ employees):
  - Resistors (-100-24): 5%
  - Adopters (25-49): 7%
  - Harnessers (50-74): 8%
  - Disruptors (75-100): 10%

Mindset segments by state

- **NSW/ACT**:
  - Resistors (-100-24): 40%
  - Adopters (25-49): 38%
  - Harnessers (50-74): 33%
  - Disruptors (75-100): 31%

- **QLD**:
  - Resistors (-100-24): 16%
  - Adopters (25-49): 15%
  - Harnessers (50-74): 25%
  - Disruptors (75-100): 26%

- **SA/NT**:
  - Resistors (-100-24): 7%
  - Adopters (25-49): 8%
  - Harnessers (50-74): 7%
  - Disruptors (75-100): 7%

- **VIC/TAS**:
  - Resistors (-100-24): 23%
  - Adopters (25-49): 25%
  - Harnessers (50-74): 25%
  - Disruptors (75-100): 30%

- **WA**:
  - Resistors (-100-24): 14%
  - Adopters (25-49): 14%
  - Harnessers (50-74): 10%
  - Disruptors (75-100): 6%

Regional/Metro location by Mindset Segments

- **Regional**:
  - Resistors (-100-24): 27%
  - Adopters (25-49): 16%
  - Harnessers (50-74): 24%
  - Disruptors (75-100): 32%

- **Metro**:
  - Resistors (-100-24): 73%
  - Adopters (25-49): 84%
  - Harnessers (50-74): 76%
  - Disruptors (75-100): 68%
Innovation in action: Bernadi's

Key areas of innovation: Process, organisation

Mindset: Harnesser

Key drivers of innovation:
- Process: Experiment and test new ideas
- Taking risks: Invest time and capital in uncertain ventures
- Seizing opportunities: Look for new ways to benefit from market changes and technology
- Philosophy: Have a go
“Fail fast” is something of an innovation mantra in business circles, but Joe Bernardi knows that taking risks that don’t pan out is no small thing – even if it does often deliver essential learnings and open the door to new opportunities.

Joe and his brothers, David and Peter, run Bernardi’s, a chain of independent supermarkets in central west NSW under the IGA umbrella, with their father Tony, who launched the business 60 years ago selling fruit and veg from the back of a truck.

While David focuses on buying and chasing down the best deals from suppliers, his brother Peter oversees operations and Joe is in charge of marketing. All three started on the shop floor and learnt the business from the bottom up.

“I was straight in at 16, carrying groceries for customers and sweeping the floor in the fruit and veg aisle,” Joe says, adding that despite their low-key entry to the operation, he and his brothers are intent on running a lean and process-driven business.

The supermarket business might seem like a daunting space for independent operators, but the Bernardis stay ahead of the curve through rigorous attention to product quality, keeping a close eye on their pricing and maintaining a large warehouse that allows them to make strategic bulk purchase decisions.

Today the family runs five independent supermarkets with over 400 staff. This includes a newly launched store in Wagga Wagga.

The Wagga Wagga store is the third to be opened in a major regional centre. The first was in Bathurst, which is the largest trading store in the network. The second, in Dubbo, was opened and closed in the space of a few years, bringing with it the painful lessons of the “fail fast” approach.

“It took us a couple of years to regroup. It was a very steep learning curve and led us to a major reflection on where we sit in the market,” Joe says.

Learning from their mistakes is nothing new to the Bernardis. As patriarch Tony puts it, “You don’t buy knowledge; you learn by making mistakes and you don’t make them twice.”

From their recent experience they learned that their stores do better in a standalone location and that it was time to step away from their existing operating model to an entirely independent model. These lessons have been implemented in the business and while it’s early days, the signs are positive for the new store and for the business.

All stores are now “running their own show” under the Bernardi’s banner and the family has adapted its customer offer through a new partnership model with a high-profile fruit and veg retailer, among other significant changes in their supply chain.

In addition to changing the organisational structure of the business, the Bernardis are innovating around their area of focus, too, shifting resources out of administration and into operational in-store execution.

“We’ve hired someone specifically to focus on team training to ensure we’re delivering the best experience in-store,” Joe says.

“We’re also getting really serious about IT, including upgrading our software with a powerful new system that will be a half million-dollar investment.”

The new system will improve efficiency by integrating a large range of functions including sales, purchasing, operations, accounting, payroll, customer relationship management, ecommerce and inventory.

With 60 years of challenges, successes and innovation behind them, Joe says the Bernardis are ready for the future.

“The past three years were a slog but in three years’ time it will be a different conversation. I’ll probably say Dubbo was the best thing to ever happen to us.”
Innovation benefits and barriers

Thriving or surviving?

Innovation can be both proactive and reactive, as businesses seek growth or simply work to survive in an increasingly competitive global marketplace.
Proactive or reactive forces: What’s driving innovation?

There are many reasons why a business might increase its focus on innovation and recognise a need to keep up with changes in its industry and the market. Sometimes this change may come from within the organisation — the desire to take the business in a new direction, or expand into new products or services. At other times, the change is prompted by a perceived need to adapt to an increasingly competitive market. And occasionally, the change is driven by the changing needs of a business’ customer base.

This year we found that, on average, businesses cited 4.1 drivers of innovative activity. Eighty-nine per cent of businesses cited proactive motivators, most commonly a desire “To improve efficiencies and productivity” (53%). In contrast, 61% listed reactive motivators, such as “Increasing competition or a changing competitive landscape” (27%). A further 44% of businesses saw customer-focused drivers as the key reasons for pursuing innovation, most frequently citing “Observed changes in customer needs” (30%) as their primary motivation.
Innovation in action: CountryNet Software

Flexibility is the secret to long-term sustainability

Mindset: Disruptor

Key areas of innovation: Product, process, marketing

Key drivers of innovation:

- **Adapting**: Adapt products and services to make the most of opportunities
- **Seizing opportunities**: Look for new ways to benefit from market changes and technology
- **Taking risks**: Invest time and capital in uncertain ventures
The pace of technological change, and its potential to shape the future of education, has spurred a new generation of businesses looking at ways to both enhance the student learning experience, and address the changing needs of administrators, teachers and parents.

One such business is New South Wales based software developer, CountryNet Software, which provides a single integrated online system, helping to ease the administrative burden for over 1,000 schools and eight million users worldwide.

Their current platform offers a full suite of online education management tools, from timetabling, subject selection and viewing student grades to booking parent teacher interviews - all in one place.

CountryNet Software's Chief Executive Officer, Simon Totonjian, explains that the business is focused on establishing Australia’s first shared community beyond the school fence, where students, parents, teachers and administrators operate in an interconnected digital community.

CountryNet Software is already setting the gold standard for user experience, for all parties involved in the education process, and is set to continue tackling the industry’s greatest management challenges with a pipeline of revolutionary solutions.

Simon attributes CountryNet Software's sustained growth to the way the team approaches product development, remaining flexible and agile in the face of rapid change, as well as its collaborative marketing model.

“The secret is you have to be flexible, and in our industry that means if you’re in the middle of doing something and there’s a change in the environment, you have to be able to respond quickly.”

For CountryNet Software, minimising the time to market for a product, and ensuring the business can adapt to change, requires a different approach to hiring and forming partnerships to drive productivity across the organisation.

“For us, the pace of newly introduced technology means that if we spend two years developing a product, there’s a risk it will be obsolete or superseded by the time we take it to market,” Simon says.

Simon explains that it’s more efficient for the business to have third party developers write their initial software and then have his team build out the end-use product with a focus on delivering a differentiated solution.

CountryNet Software are working on a new product release that Simon says is set to solve one of its customer’s greatest challenges – creating “one point of truth” by providing centralised access to live student, teacher and parent information.

“Our new product is about delivering the capability for real time information transfer. As your child has an exam or a task, results can be published within the system, a teacher can post a comment, and a parent can read it and respond. Why should you wait three months to find out if your child is having a problem?”

In developing this new product, CountryNet Software is working closely with its customers to refine and enhance the software in preparation of a commercial launch.

“We’re doing a lot of ‘pilot testing’ and it’s going beautifully. We’ve got five schools in Australia that use it at the moment, but our primary testing ground is offshore.”

While Simon has invested heavily in creating a platform that provides a seamless and simple customer experience, he is also planning to maximise the commercial return on his investment in product innovation through a number of avenues.

“We will actively promote iterations of our software to other businesses as a white label solution, where we receive a licensing fee. That way we can share technology and monetise from other similar service providers rather than spend time worrying about protecting market share.”

As the global education sector progresses rapidly, and breakthrough technologies such as virtual reality stand to change the delivery of education services, CountryNet Software is working tirelessly to ensure that their technology remains relevant over the long term.

“The ‘end of life’ for a product is so important because it’s very hard to sign up 1,000 schools when your product is relevant for only five years. You need a perpetual ‘end of life’ so you can keep the business growing without worrying,” Simon added.
Return on investment

Measuring the financial impact of innovation

Australian businesses are generating a substantial return on their investment in innovation – receiving an average of two dollars for every dollar they spend.
Investing in innovation

Since innovation takes many forms, it can be difficult for a business to place an exact dollar figure on their investment, and even more difficult to quantify the return that investment achieves. Nonetheless, our survey suggests Australian businesses have invested significantly in innovation initiatives, with an average estimated spend of $300,000 over the past 12 months among those who have already implemented an innovation. Much of that total spend came from a relatively small number of businesses, with 64% investing less than $500,000 over the same timeframe.

The top areas of investment among innovation active business were technology (49%), sales and marketing (48%) and staff training and expertise (47%), with Australia’s most innovative businesses investing significantly larger amounts in all three areas.

Estimated additional earnings from innovation* amongst innovative businesses that have implemented innovation

<table>
<thead>
<tr>
<th>Less than $50,000</th>
<th>19%</th>
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<tbody>
<tr>
<td>$50,000 to less than $100,000</td>
<td>19%</td>
</tr>
<tr>
<td>$100,000 to less than $500,000</td>
<td>27%</td>
</tr>
<tr>
<td>$500,000 to less than $1 million</td>
<td>11%</td>
</tr>
<tr>
<td>$1 million or more</td>
<td>11%</td>
</tr>
<tr>
<td>Don't know</td>
<td>13%</td>
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</tbody>
</table>

“Most western societies will face demographic challenges as the population ages. Australia looks better placed to deal with those because of our proportionately younger population. But to ensure our future remains prosperous an ongoing focus from businesses and government on innovation is required. On that score, the most recent trends in innovation across Australian businesses look encouraging. And they also look timely given the lift in global growth, which is providing opportunities for Australian exporters of goods and services.”

Gareth Aird, Director Economics, Institutional Banking & Markets, Commonwealth Bank of Australia

*Amongst innovative businesses that have implemented innovation.
Return on investment

When considering both the investment in innovation across Australian businesses and the average earnings realised as a result of these activities, it’s evident that businesses are generating a healthy and significant return on their investment. Overall, based on an average investment of $300,000 per Australian business and an average return of $592,000, businesses are realising close to a twofold return.

Innovation is also having a huge impact when you consider the collective financial benefit of implemented innovations across all businesses nation-wide. As an aggregated total, innovation has injected an estimated $102 billion into the economy. This extrapolated figure represents around 6% of Gross Domestic Product*

Interestingly, out of the four innovation mindsets, Harnessers are investing the highest amount in innovation, spending $427,000 on average. This is substantially higher than Disruptors’ average investment of $257,000 and Adopters’ spend of $270,000. Furthermore, Harnessers are seeing a lower return on this investment, reporting a multiple of 1.8 times, compared to Disruptors’ 2.3 times. This suggests that the more innovative a business is, the more effective they are at managing their investment in innovation. For businesses that may be frustrated with their current return on investment in innovation, it should be reassuring to note that if they continue to move higher up the CommBank Innovation Index, they may expect to spend less and achieve more from their investment.

Return on investment for businesses that have already implemented an innovation

<table>
<thead>
<tr>
<th></th>
<th>Disruptors</th>
<th>Harnessers</th>
<th>Adopters</th>
<th>Resistors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in innovation</td>
<td>$257,000</td>
<td>$427,000</td>
<td>$270,000</td>
<td>$196,000</td>
</tr>
<tr>
<td>Expected improvement in company earnings</td>
<td>$579,000</td>
<td>$756,000</td>
<td>$682,000</td>
<td>$336,000</td>
</tr>
<tr>
<td>Return on investment</td>
<td>2.3x</td>
<td>1.8x</td>
<td>2.5x</td>
<td>1.7x</td>
</tr>
<tr>
<td>Expect to receive a return on investment within 6 months</td>
<td>60%</td>
<td>53%</td>
<td>43%</td>
<td>47%</td>
</tr>
</tbody>
</table>

*When the aggregated estimated earnings and savings from innovation are extrapolated nation-wide, it amounts to a total output of $110 billion, or approximately 6 per cent of Australia’s Gross Domestic Product (GDP).
Cost savings and intangible benefits

While revenue growth may be the primary goal of innovation for most businesses, it only accounted for 60% of the total earnings uplift associated with innovation. Thirty-nine per cent of businesses told us they were also able to achieve significantly lower costs, enhancing their overall productivity. This number was highest for Disruptors, with more than one in two businesses realising cost savings.

Businesses also cited benefits that were positive but harder to quantify, such as:

- increased efficiency
- improved safety
- increased profitability
- better quality products and services
- higher job satisfaction and increased skill sets for employees
- a more competitive offering

For these reasons, it’s easy to underestimate the underlying value of innovation. New and significant improvements that are implemented successfully can bring long-term benefits to a business that extend well beyond their impact on the bottom line.

“With consumers able to buy goods whenever they want and wherever they are, businesses need to gain an advantage by working out their ‘uncommon offering’ or unique selling proposition. This may involve coming up with new ways of meeting customer needs, changing the ways the goods are marketed or sold, or focusing on differentiating the product or service offering. Successful innovators have identified something that they do better or more efficiently than their competitors and thus gain an advantage.”

Craig James, Chief Economist, CommSec, Commonwealth Bank of Australia
Timeframe to achieve a return on investment

For many businesses, the expected timeframe between investing in innovation and receiving a financial return from that investment is surprisingly short. Nearly three quarters of businesses expect to receive a return on their investment within 12 months and one in two expect a payback within six months. Nine percent of businesses anticipate an immediate return.

Unsurprisingly, there is a strong relationship between the amount of money invested and the time a business expects it will take to realise a return on their investment. Businesses that expect to receive a return within six months had an average investment amount of $239,000. On the other hand, businesses that aren't expecting to see a return on their investment for three years or more had an average investment amount of $1.4 million.

“The benefit may not be purely financial at the end of the day. It might be a quality benefit so there's no re-work involved.”

Professional, Scientific & Technical Services business, New South Wales
Innovation drives revenue growth

When we asked businesses that have implemented an innovation about their revenue growth forecasts for the year ahead, it was clear that those with a higher CommBank Innovation Index were consistently more positive than their less innovative peers.

Among the one in five businesses expecting revenue growth over 10%, 21% were Disruptors, followed by Harnessers (46%), Adopters (18%) and finally, Resistors (15%). The opposite was true among those expecting revenues to decline or stay the same, 43% of whom were Resistors, 22% Adopters, 29% Harnessers and 6% Disruptors. Overall it would appear that, while excellence in innovation is not a guarantee of growth, it does substantially increase the probability that revenues will rise.

Expected revenue growth for the next 12 months*

<table>
<thead>
<tr>
<th>Over 10% growth</th>
<th>6-10% growth</th>
<th>Remain approximately the same</th>
<th>1-5% growth</th>
<th>Decline in revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>18%</td>
<td>23%</td>
<td>33%</td>
<td>22%</td>
</tr>
</tbody>
</table>

*Amongst innovation active businesses that have already implemented innovation.
Reaping the rewards of innovation

Areas of investment for innovative businesses

Businesses that are achieving the highest return on their investment are investing in multiple areas, with a particular emphasis on training staff and significantly improving marketing approaches.
# Areas of investment for innovative Disruptors

## Innovating in multiple areas

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<thead>
<tr>
<th>Innovating in multiple areas</th>
<th>Innovating in multiple areas</th>
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<tbody>
<tr>
<td>The average number of investment areas for Disruptors who are innovation active was seven. This is substantially more than the average of 4.7 areas for all Innovation Active businesses and 3.7 areas for all organisations.</td>
<td>All organisations 3.7</td>
</tr>
<tr>
<td></td>
<td>Innovation Active 4.7</td>
</tr>
<tr>
<td></td>
<td>Innovation Active Disruptors 7.0</td>
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### Investing in staff and marketing

<table>
<thead>
<tr>
<th>Investing in staff and marketing</th>
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<tbody>
<tr>
<td>While Innovation Active Disruptors do invest in technology (including software, mobile technology and emerging technology) a far greater percentage invest in staff training, and sales and marketing approaches.</td>
<td>70% invest in staff training and expertise</td>
</tr>
<tr>
<td></td>
<td>66% invest in sales and marketing approaches</td>
</tr>
<tr>
<td></td>
<td>58% invest in technology</td>
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<tr>
<td></td>
<td>48% invest in their internal management structure</td>
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<td></td>
<td>47% invest in improving their organisational efficiency</td>
</tr>
<tr>
<td></td>
<td>45% invest in buying or renovating their premises</td>
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</table>

### Emerging technology

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<thead>
<tr>
<th>Emerging technology</th>
<th>Invest in emerging technology</th>
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<tbody>
<tr>
<td>Among all organisations that invest in technology, 39% invest in emerging technology such as intelligent personal assistants, drones and AI. For Disruptors, this number is much higher at 64% and is focused primarily on service-related technology, such as video assistance and servicing customers through online chat apps.</td>
<td>All organisations 39%</td>
</tr>
<tr>
<td></td>
<td>Innovation Active 42%</td>
</tr>
<tr>
<td></td>
<td>Innovation active disruptors 64%</td>
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</tbody>
</table>
Learnings from successful innovators

How to foster or increase innovation in your business
Empowered employees drive innovation

Our research highlights the importance of people and culture for the success of any innovation initiative. That means it’s imperative for innovative businesses to ensure employees are recruited and trained to have the right skills for the task ahead. Equally important is the need for leaders and decision makers to bring employees along with them on their innovation journey, so they feel empowered, engaged and confident in the future.

Innovative businesses share these four traits when it comes to employees:

1. **Share a focused vision:** Successful innovators encourage two-way dialogue with staff and seek their help to shape the new strategy and direction of the organisation. They empower staff to act independently while supporting the business’ overall goals.

2. **Invest in your people:** By spending time and money training their employees, innovative businesses can enhance skill sets and the organisational knowledge base for the benefit of the business. This can be expanded even further by encouraging staff to pursue and own an area of speciality, which can increase the business’ competitive advantage.

3. **Source new blood:** New employees bring fresh ideas and a renewed energy to a business. Successful innovators hire new talent at the top to drive change within their organisation.

4. **Rethink work allocation:** Innovative businesses understand that it’s often more cost-efficient to develop expertise in certain areas of the business and outsource non-core processes and functions to external parties. This allows them to create agile, project-based teams that can drive innovation within the organisation.

“The staff are more in touch with what we are doing and why we are doing it... there is an increased expectation for them to be involved and they generally rise to meet this.”

**Not-for-profit organisation, New South Wales**

“The guys are working with the latest equipment and technology. They love it... it’s hard to put a dollar value on that.”

**Construction business, New South Wales**
Areas of innovation

Highly innovative organisations implement changes across multiple areas of their business, but two areas stand out in our research: marketing and organisational changes.

Marketing innovation is dominated by organisations introducing new ways to promote their products and services. Nearly three quarters of successful innovators introduced new concepts, media or promotion techniques over the past 12 months. Thirty per cent introduced new marketing methods, which could include a change in packaging or product design.

Looking at organisational innovations, more than one in two successful innovators have changed their workplace organisation within the past 12 months (such as introducing new methods for distributing decision making among departments) and a similar number of businesses made changes to their business practices.

Organisational innovation is driving changes in the way companies make decisions and organise work activities. This is a point of differentiation for innovative organisations, helping them to attract and retain people with the right skills and attitude.

A focus on these areas is evident in the case of Townsville-based medical and healthcare practice, Strive Health, which successfully brought together an expanding number of specialist and allied health providers to meet changing customer needs. From an organisational perspective, Strive Health also empowered reception and nursing staff to acquire new skills to deliver better quality care and invested significantly in transforming their physical space to differentiate itself from the competition, attract patients and optimise clinical workflows.

New South Wales education sector software provider, CountryNet Software, is another example of a business that has benefited from an enhanced marketing approach, collaborating with their competitors through white labelled products to increase sales. In addition, through adapting its product development process to partner with external providers in the beginning stages of building new products, CountryNet has refocused its team on developing differentiated ways to meet customer needs.

### Areas of marketing innovation amongst Innovation Active Businesses

- Introduced new concepts, media or promotion techniques: 74%
- Introduced new marketing methods: 30%
- Changed product placement: 27%
- Entered a new market or established new positioning: 26%
- Introduced a new pricing strategy: 22%

### Areas of organisational innovation amongst Innovation Active Businesses

- Changed workplace organisation: 58%
- Changed business practice: 51%
- Introduced new concepts for structuring activities: 34%
- Significantly changed external relationships: 26%
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See your businesses’ CommBank Innovation Index at commbank.com.au/innovationindex

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