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Product and Service Innovation Drives Transformation

Change and thrive: how innovation is driving transformation.

Incumbents in industries as diverse as banking, retail and auto manufacturing are being left behind by disrupters whose innovative products and services are making life better for customers.

Such innovation needs a response, and is a key driver of business transformation. But next-generation products and services are not summoned out of thin air: companies must first address their cost and margins in order to free up cash to invest in development, then make sure investment is directed effectively.

In the auto industry, disrupters such as ride-hailing service Uber and electric vehicle maker Tesla have stolen a march on rivals. Governments are encouraging the switch to electric vehicles and car-sharing services through regulation, in order to meet emissions targets.

“If you’re a maker of parts for diesel or petrol engines, you’ve got a big challenge ahead,” says [Roger Bayly](#), Managing Director at Alvarez & Marsal (A&M) in London.

A&M is currently working with an industrial client that is seeking to radically improve profitability to release cash to invest in products and service innovation. This will help the company keep up with digital changes in its market, while maintaining its returns to shareholders.

“The idea is to cut hard enough to release cash, maintain the program and increase the investment in certain markets,” says Bayly. “In this case, there was a need to take action early while they’re making money and could afford it.” In cases where revenue and profits are shrinking, the first goal of the transformation must be to cut costs hard, creating time and capacity for investment in growth, he adds.

BlackBerry CEO John Chen has [gathered plaudits for his turnaround](#) of the one-time smartphone giant, which lost billions failing to keep up with rivals Apple and Samsung. Under his leadership, the company has slimmed down, pulled back from making phones and focused on software and services, returning to profitability albeit with a fraction of the revenue it once had.

Companies which are underperforming because they have not kept up with product and service innovation in their market may become the focus of activist investor attention, but only if there is potential for improvement.

“Activists try and get the business to focus on where it’s going to be successful – pretty much every intervention involves selling a part of the company that is not core,” says Bayly. “Around big conglomerates, activists are saying ‘you cannot do all of these diverse things and be really good at them.’ It’s slightly self-serving for the activist because it frees up cash to return, but it does also free up cash to invest.”

Smart shareholders and boards are also looking to improve the conversion rate of money invested in product development to revenue, something that is part of A&M’s transformation work with its industrial client – making the products more modular so they can be configured for a wider range of customer requirements without having to make substantial changes.

When companies find themselves overtaken, or about to be, by product and service innovation in their market, the need for change is urgent. However, acting decisively to control costs and push forward development creates a true transformation that leaves a company able to compete in the future.



CORPORATE TRANSFORMATION SERVICES

FROM THE INSIDE OUT

“There has never been a truly successful transformation that hasn’t delivered a product and revenue improvement component as well as cost cutting,” says Bayly.

Stay informed about the key issues driving companies to seek meaningful, lasting change in [From the Inside Out](#), our corporate transformation newsletter.

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