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IBM Index Viewpoint – Health & Community Services Industry

Innovation and health – get it right and the dividends for society are enormous. Reduced costs, increased productivity and efficiency, and most importantly, better health outcomes. It sounds obvious, but in recent years innovative activity in health has been erratic – the spike we saw in 2005 is perhaps case in point.

There's no doubt technology has delivered innovation. For example, much has been done to provide medical staff with better access to clinical information at the point of care – the Vocera solution, which is an innovation that enables clinicians to communicate in a hands-free environment is one such example. It enables staff to treat patients at the bedside or complete other life saving tasks whilst communicating with others at the same time, thus increasing the ability of the clinician to accurately describe the patient's condition.

But this is only one part of the story. Too often innovation is hampered by competing priorities across the spectrum of medical services, when what's needed is a greater alignment responsibility with different healthcare service delivery stakeholders. Solutions abound that are ready to transform health care provision in Australia. The development of the health avatar, uniting disparate health information repositories through a single 3D human interface, and using a standard taxonomy is but one example. Then there's the use of health portals– integrated, one-stop online resources enabling patients to manage their health records, and access the necessary information to create a more accountable, patient-centric system.

There are other, more targeted advances to be leveraged too, in the areas of mobility tele-health, which assist with management of chronic conditions outside the hospital. There are also wellness programs to promote preventative healthcare and enable GP's to provide improved patient care. But for these types of innovation to embed in Australia, it's vital we align accountability across all players – healthcare providers, payers, the layers of government, clinicians, and of course patients themselves. No doubt all agree we can make better use of technology to transform the healthcare industry, but only through a shared responsibility, and leadership from each the stakeholders, can innovation flourish across the entire healthcare system.

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IBM Index Viewpoint – Utilities Industry

The second IBM-Melbourne Institute Innovation Index indicates the utilities sector experienced a major decline in innovation in 2006. The index is down 18.5 percent overall on last year's index, with falls across the board: R&D, patent, trademark, design and organisational innovation as well as productivity are all lower than in 2005.

However, the utilities sector is largely based on a five-year transmission and distribution planning cycle. Whilst innovation can dip at the end of a cycle, the current cycle includes provisions for an intelligent utility network roll-out, and considerable network rejuvenation, so you would expect to see innovation increase. So does this year's index indicate we have come to the end of one of these cycles, before we have fully recognised the advent of new technologies and engineering initiatives?

If we look at more recent events, the energy industry has been very active on innovation. For example, utilities are restructuring their business models. Some have chosen to outsource entire back office and IT operations. Others have unbundled their retail businesses on the back of privatisation.

There has also been operational innovation. We've seen some organisations replace multiple billing and customer relationship management systems with a single integrated system, with significant savings claimed as a result.

There is strong evidence of growing technological innovation, with pilot smart meter rollouts underway in Victoria and NSW, as well as environmental innovation in support of the growing push towards renewable energy. Investments in solar projects by utilities are becoming more commonplace.

The slide in innovation seen in this year's index is likely to reverse with the Index climbing for 2007 and beyond. We can expect it to reflect further investment in intelligent utility networks, which incorporate smart meters, automation and analytics. Its likely we'll also see greater focus on network rejuvenation and transformation of customer operations.

However, the road won't be without obstacles. Energy companies still have to consider how much they're prepared to commit to renewable energy and clean power generation, and how they'll balance these with traditional power generation. They need to look at demand management programs if they're to understand what impact intelligent networks will have on their business, particularly if the idea of self-generation of power in the home gets off the ground. On top of these, there are regulatory barriers, the shortage of skilled labour and the knowledge loss as older workers retire.

Of course, barriers to innovation are surmountable. A sustainable intelligent network roadmap is crucial for energy companies in consultation with regulators. An increased awareness of carbon footprints may improve business efficiency, and a greater emphasis on analytics can save companies from drowning in data produced by intelligent network devices and smart meters. If all goes to plan, it's likely we'll see a flush of innovation in R&D, trademark and design in the next few years, followed by a lift in productivity as companies work through implementation to full deployment.

David Murray, General Manager for Communications Sector, IBM Australia & New Zealand

IBM Index Viewpoint – Finance & Insurance Industry

Australia should be the envy of the world when it comes to innovation in the finance and banking sector. We've seen innovation in how banks use technology and, encouraged by R&D tax credits, in how the industry designs and develops in-house, bespoke software applications.

Australia has also been highly innovative in financial products and services, which is reflected in the 6 percent rise in this year's Innovation Index. The concept of reverse mortgages was created here. Until recently, another local innovation – fixed and variable rate mortgages – was unknown in the United States. The introduction of an infrastructure asset class for investments was something else Australia can take credit for.

Banks have had to be highly innovative to generate the growth in revenue, profit and shareholder returns they have, year in and year out. The four-pillar policy has forced banks to grow organically, unlike the US, Europe or Asia where banks have expanded by swallowing other banks.

Our major banks have been particularly innovative in moving from simple banking products to taking a portfolio view of financial services. They have in turn led the world in integrating financial services such as banking and wealth management.

The majors have also been innovative in managing the awkward relationship between fee income and interest income, and in how they've balanced retail business, such as credit cards and mortgages, with meeting the needs of small business.

New entrants and smaller banks have shown the way too. We have seen the arrival of direct banking with high interest Internet savings accounts, launched by smaller players and copied by the majors. Some smaller banks have opted for end-to-end services like the Big Four, while others have got into the white-label ATM business. We've also seen the rise of the community-banking program. All have been extraordinarily creative in finding new markets and growth.

Banking supervision in Australia has been very innovative as well. The Australian Prudential Regulation Authority, or APRA, was created as a supervisor for all financial institutions, in part to address the universal financial services approach of the majors. The Reserve Bank of Australia has led the world in the supervision of payments systems, especially on card based payments instruments. The Reserve Bank is the only central bank to have two boards: one for the bank overall, and one for payments.

Going forward, however, the major banks need to continue differentiating from one another if they're to continue growing and they need to specialise more. They must be more innovative with customer services. More than being customer-focused, they must find new ways for customers to feel happier about them and to convince them they're receiving better service. But how do banks do that? That's the big challenge. Innovation, once again, holds the key.

Michael Aaron, Director of Banking & Finance Management, IBM Asia Pacific

Index Viewpoint – Innovation and Business Size

Working in Australia our business landscape mainly consists of small to medium businesses who have the unique challenge of competing with both large organisations, and the global business community. Perhaps because of this challenge, Australian organisations of all sizes constantly demonstrate innovation in their products, services and business models.

Fast-growing SMBs often use product or service innovation to gain a competitive foothold nationally or to break into a global market. It enables them to create a point of difference, or to appear fresh and new. However this form of market innovation only takes an organisation so far. As the Index results show, in order to increase the level of innovation activity and success, SMBs must collaborate more. This is evidenced in the research through the challenges in finding skills, sources of new ideas, and an internal focus on innovation.

While the current shortage of skilled labour has struck companies across the board, this year's Innovation Index clearly shows the small-to-medium business (SMB) sector believes it has been hit harder.

Two of the most intriguing findings of the Innovation Index is that businesses believe that innovation is best developed in-house rather than through external means, and that smaller businesses are collaborating less in generating new ideas. The danger is if SMBs don't collaborate or build relationships with their business partners, they're less likely to receive the

stimulus and input they need, to create or reinvigorate the systems and process required for sustainable, consistent growth in the future.

Through collaboration what we see are SMBs – particularly of mid-market size of between 100 and 1,000 employees – changing the way they do business. They are adopting new practices to leapfrog competitors burdened by legacy systems and entrenched ways of running their operations.

The best of these mid-sized companies are investing in financial, HR and supply chain systems and people who analyse business data to improve delivery times, service quality and operational consistency for customers.

The flipside is that SMBs will inhibit their growth if they under invest in systems and resources. However, understanding how to invest and what to invest in is one of the greater challenges for any growing business.

If you look at the Innovation Index, it is curious revenue has weakened as a driver for innovation while price competition has strengthened – although there is strong correlation between the two. This is fine as long as the drivers aren't focusing overly on product innovation at the expense of innovation in systems and processes crucial to creating a sustainable business.

Through greater collaboration, SMBs will not only ensure that the level of innovation increases in Australia, but that they remain competitive and sustainable in this new globally integrated landscape.

Charles Bligh, Vice President, Commercial Sector, IBM Australia & New Zealand