

Innovation

Creating wealth through business improvements.

Innovation that helps create wealth for American business owners only requires business leadership and motivation, a supportive circle of family, associates and employees, and a desire to improve.

For American private business owners, innovation in their businesses may be defined as “executing an idea which addresses a specific challenge and achieves value for both the company and customer.”¹

Peter Drucker, famed management consultant and author, described innovation as “the specific instrument of entrepreneurship, the act that endows resources with a new capacity to create wealth”² in his ground-breaking 1985 book *Innovation and Entrepreneurship: Practice and Principles*.³

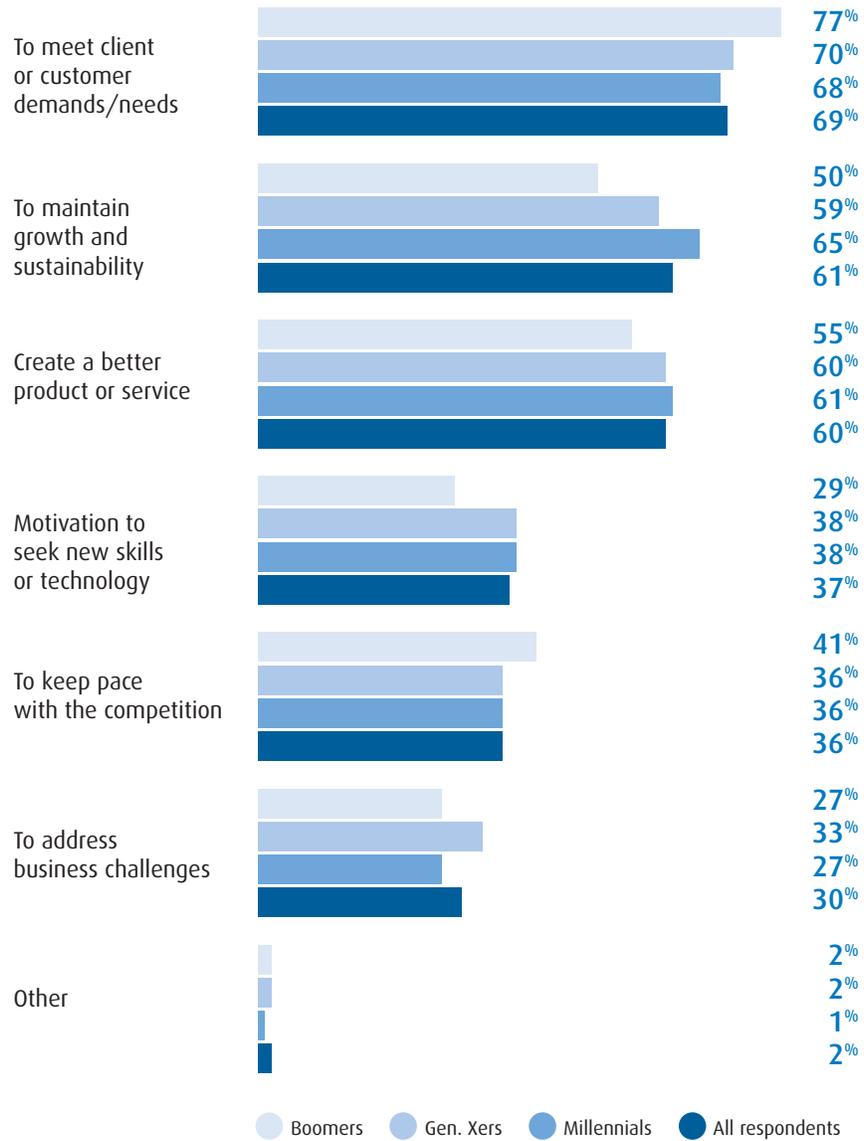
Innovation is different from invention and does not necessarily depend on technology. Drucker’s description predates the development of technological advances like smart phones, apps, artificial intelligence and social media that are so widely used and relied upon today.

Innovative and profitable business changes do not necessarily require significant financial investments, specialized personnel with computer science degrees, engineers, or other technical people. Innovation that helps create wealth for American business owners only requires business leadership and motivation, a supportive circle of family, associates and employees, and a desire to improve. Sometimes simple, low-tech innovations can help to keep things “fresh” for customers, employees and the business.⁴

A survey was commissioned by BMO Wealth Management to learn more about how American small business owners view innovation and how it can help their businesses.⁵ Small business owners were asked to name their top three reasons for implementing innovations. Meeting client needs was the most important reason (cited by 69% of respondents), followed by maintaining growth and sustainability of the business (61%), creating a better product or service (60%). Older entrepreneurs were more client centric, and while younger business owners had a higher focus on creating better products or services.

Meeting client needs is the most popular reason for implementing innovation.

Drivers for innovation implementation among business owners, by generation⁶



Source: BMO Wealth Management survey by Validatelt Technologies Inc., December 2017⁵

American business demographics and innovation

There are over 4.9 million small businesses in the U.S. employing less than 50 employees.⁷ These businesses employ more than one-third of all working Americans.⁸ About half of small businesses fail in their first five years⁹, and businesses that innovate quickly are more likely to survive.

Many younger business owners (aged 18-34) are changing this dynamic because they focus their innovative efforts to create better products or services. Business owners over 55, by contrast, are much more focused on customer demands (77%) than on creating better products or services (55%).

Innovation happens in all business sectors and in every aspect of business. These innovations have not only created new products and services, but also new ways of marketing and selling existing products, as well as engaging internal team members to be more productive.

Innovation drives financial success

Many small business owners can learn a valuable lesson in measuring the success of the innovations they introduce by looking at the management performance indicators used by larger American enterprises. Enterprises that believe innovation will help them gain market share, introduce new products, and become more profitable measure more than just financial ratios such as profitability and profit growth. Leading edge companies develop their own combination of metrics that include more subjective and behavioral-based factors that include leadership, employee and customer inputs.¹⁰ Innovation should be a never-ending process.

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Costs of innovation

Innovation in business requires a business owner to have an open mind, curiosity and a desire to do both big and little things better, all for the purpose of driving the business forward profitably. For many innovations to be implemented, it also takes money.

Business owners can fund innovation from a variety of sources:

- Ongoing cash flow
- Business loans from commercial or private sources
- Government grants
- The business owner's own resources, or financial support from family and friends

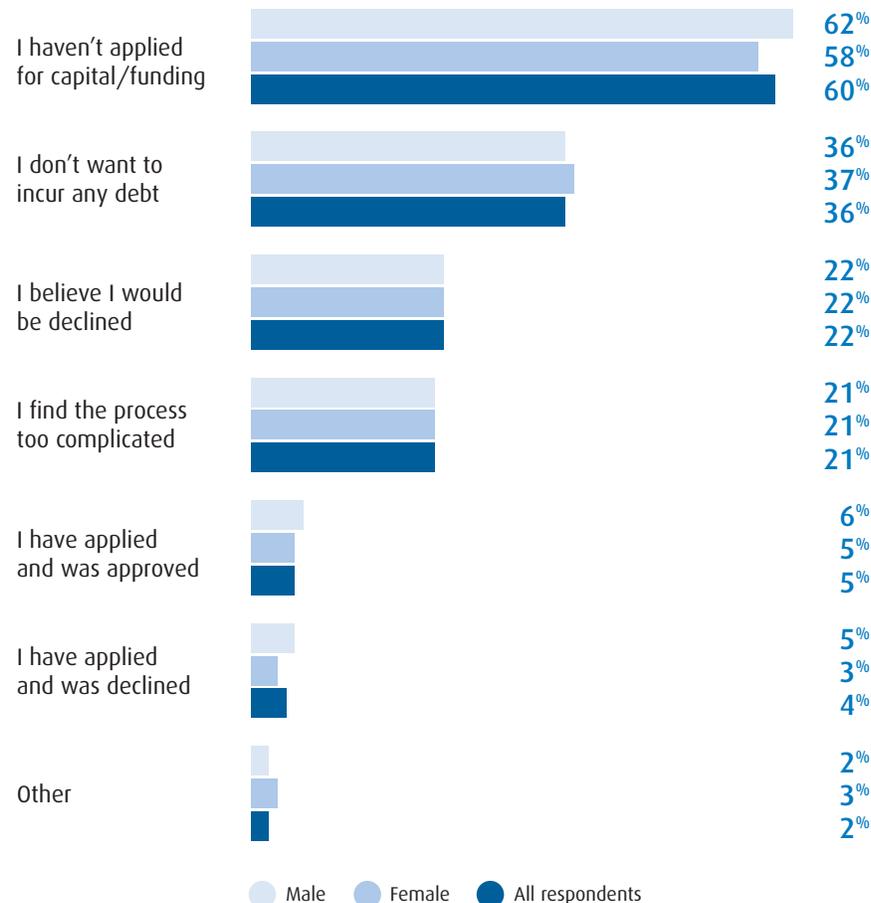
A lack of investment capital can hinder innovation, or may require it to be done on a smaller scale. Implementing innovation on any scale can be a positive move in the right direction to improve products and services, increase efficiency, and most importantly profitability.

60%
of small business owners in America have never applied for funding to support innovation.

Business loans and government grants

According to the survey, the majority of small business owners in the U.S. (60%) have never applied for funding to support innovation. Other barriers to seeking funding include not wanting to incur debt (36%), a fear of being turned down (22%), and a belief that the process of acquiring funding was too complicated (21%).

Applying for capital to fund innovation among business owners, by gender⁶



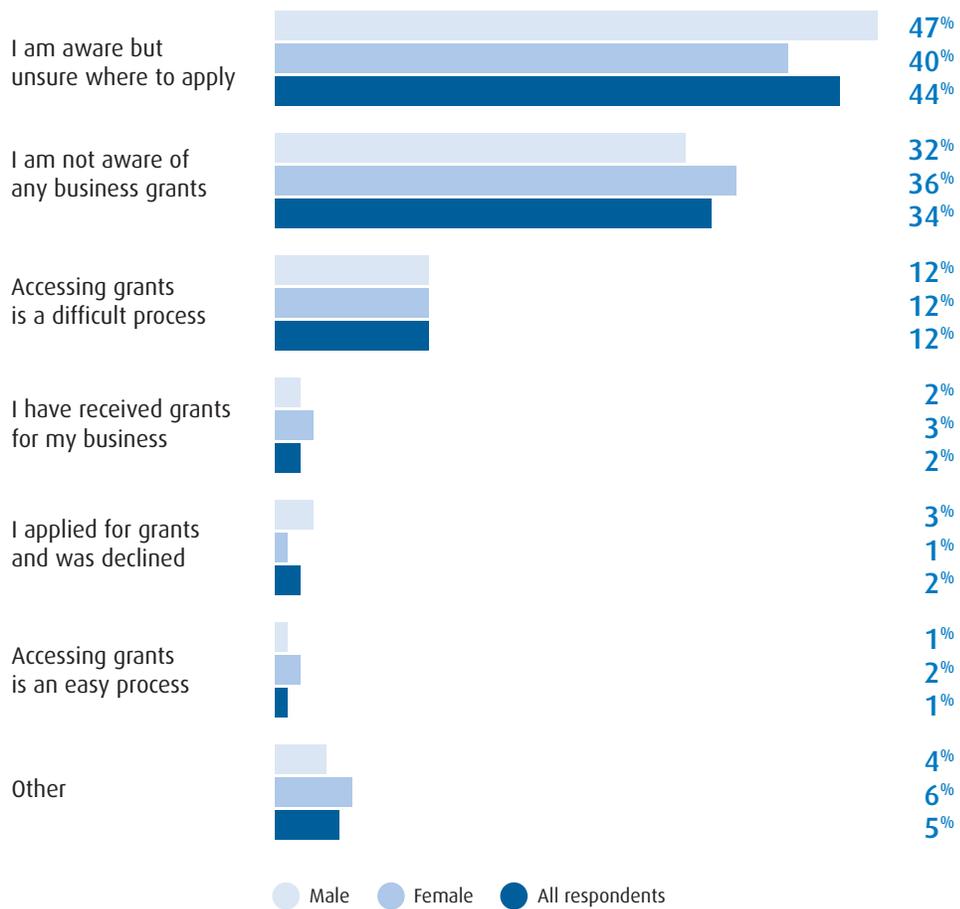
Source: BMO Wealth Management survey by Validatelt Technologies Inc., December 2017.⁵

Another interesting result from the survey was the sizeable gap between the number of small business owners that have applied for funding (5% approved and 4% declined) versus the much higher proportion of small business owners that has never applied for funding (60%), and even furthermore the (21%) who found the process too complicated to apply or to not apply. The survey also found that younger entrepreneurs are much less comfortable with debt than older entrepreneurs. There is far more opportunity for business owners that do apply.

The majority of American small business owners have not pursued government grants to support business innovation.

The vast majority of American small business owners have not pursued government grants to support business innovation. Only 5% of those surveyed have either applied for government grants or considered the process easy to work through. In contrast, 44% had some knowledge of government grants but were unsure how to apply, 34% were not even aware of the availability of grants, and 12% felt that the process was too difficult. The survey also found that more men (47%) than women (40%) were aware of the grants but did not know where to apply for them.

Experiences of government grants to support business growth and innovation among business owners, by gender



Source: BMO Wealth Management survey by Validatell Technologies Inc., December 2017⁵

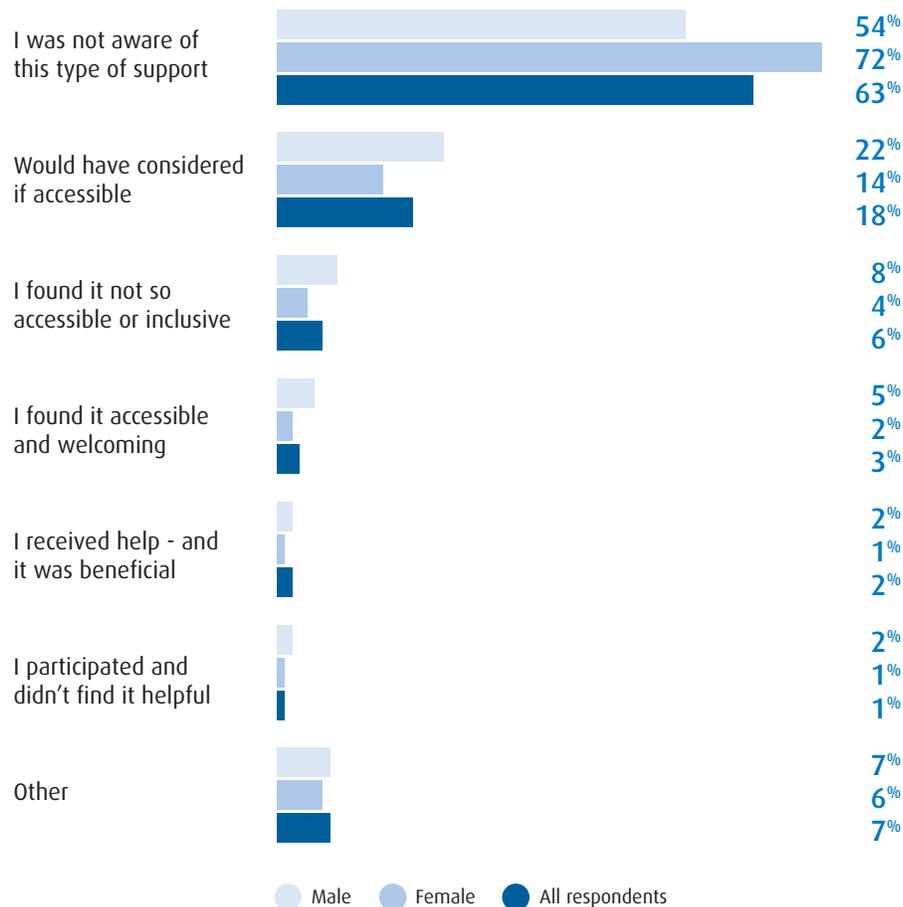
Business accelerators and support networks

In the technology realm in particular, there is a network of accelerators, incubators and hubs that allows entrepreneurs to work with experienced mentors in supportive environments, and can also assist to attract funding. The Silicon Valley is widely recognized for technological innovation in the U.S. and the world, but there is considerable expertise - and many innovative businesses are being nurtured - across the country.

Outside of technology companies, the majority of American entrepreneurs are not aware (63%) that this type of support is available to help them innovate. Only 2% have received help and found it beneficial, and 3% found the environment in accelerators and incubators welcoming. What was most striking in the survey was the fact that many more women were unaware of the support available (72%) than men (54%).

The majority of American entrepreneurs are not aware that support is available to help them innovate.

Participation in accelerators and incubators among business owners, by gender



Source: BMO Wealth Management survey by Validatelt Technologies Inc., December 2017.⁵

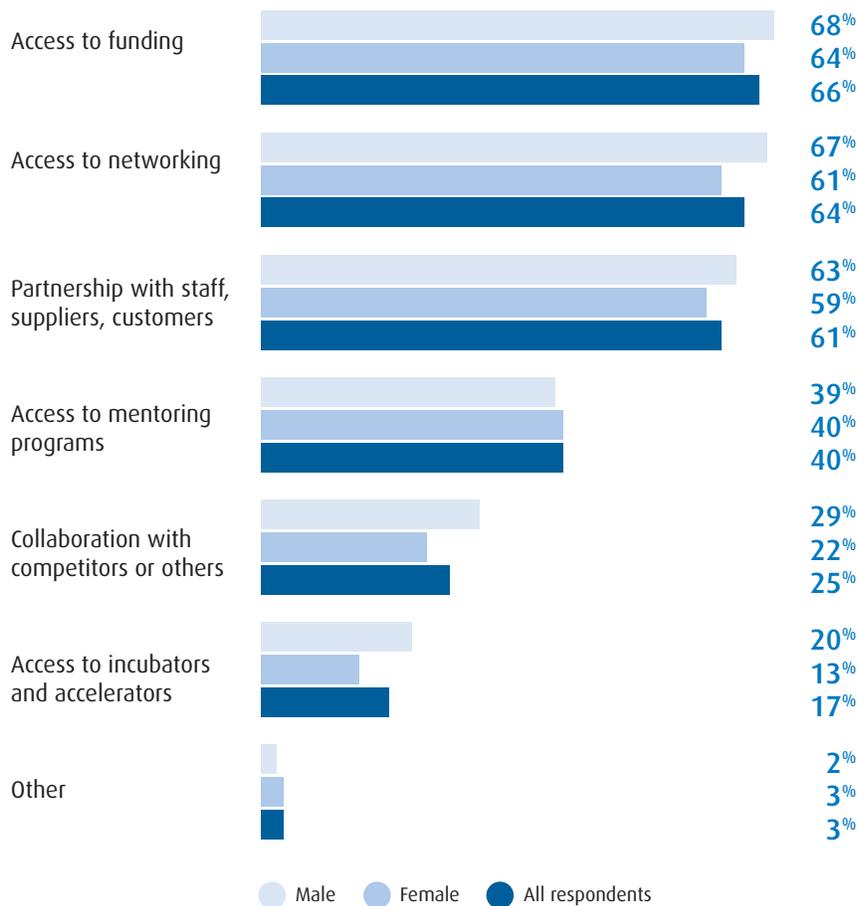
The support available from accelerators, incubators and hubs goes far beyond helping to launch new technology businesses. There are many sources of support for innovation for non-technology business¹¹:

- Chambers of Commerce to meet local business owners
- Industry related groups to gain access to expertise and partners in the same business lines
- Demographic or interest focused business networking groups

The importance of these resources was emphasized by the small business owners that participated in the survey. When asked to identify the top three keys to innovation for a successful entrepreneur, access to funding was cited most frequently (66%), followed by access to networking (64%), partnerships with staff, suppliers and customers (61%), and access to mentoring programs (40%). Access to incubators and accelerators was cited by just 17% of the survey respondents.

The majority of business owners identified access to networks, access to funding, and partnerships as the top three keys to innovation success.

Top three keys to innovation success among business owners, by gender⁶



Source: BMO Wealth Management survey by Validateit Technologies Inc., December 2017.⁵

These external resources are available to most entrepreneurs, but it takes the business owner's own resources – time in particular – to take advantage of them.

American small business owners should think beyond accelerators, incubators and hubs. Joining a business group, finding a mentor, and surrounding yourself with similar business professionals can provide both short and long-term benefits to help innovate and grow.

Getting involved

When asked why they became a small business owner, with all of the challenges and stresses involved, most respondents in the BMO Wealth Management survey (60%) indicated that it was by choice. Nearly half (42%) needed a new challenge, and 15% were serial business owners looking for further purpose after a previous business venture. Male and younger business owners were most likely to have cited these reasons.

Collaboration and partnerships are key to innovation. Build partnerships, get involved, and be prepared to both learn and to share your experiences. You will not only receive good advice, but will also be able to offer advice to other business owners.

Innovation works best when business owners with different opinions and different backgrounds collaborate. It is better to be challenged, because surrounding yourself with like-thinking individuals can sometimes stifle innovation.¹²

Profitability, personal wealth and risk

American small business owners often take on personal financial risk when running their business. It is important to balance this by not being overly aggressive in a personal wealth plan. While entrepreneurs often have considerable expertise in their area of business, it can be risky to invest personal funds and retirement funds in these same industries. Excessive wealth concentration in one industry can have very negative effects if that industry falters. A balanced approach that includes investing personal and retirement funds in other industries and regions can help mitigate risk.¹³

While many entrepreneurs hope to sell their business to fund their future retirement, it may not be that easy. Only a small percentage of businesses are ultimately sold when a business owner chooses to retire. Instead, implement a plan to put money away for the future every year. These funds should be invested in a diversified way to fund long-term goals such as retirement. Professional advice is key when making investment, diversification, retirement and wealth planning decisions.

Another risk that small business owners may face is their health. Personal insurance is important to mitigate the risks of events that limit the ability to work in the business. Insurance can help pay bills, keep the business running and pay staff until the business owner recovers.

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Seek out and take advantage of all that is out there to help you build your business.

Conclusion

Learn from your setbacks. Don't just look for the best people in your industry to help your business, make sure they are also the right people to help you grow and innovate. Seek out and take advantage of all that is out there to help you build your business. This should encompass not only funding sources, but the invaluable knowledge and learning from experienced business owners that have been there before. Accept the challenge to grow, innovate and evolve your own way of thinking and your business at the same time.

Working together with BMO financial professionals can help American small business owners with both their business and personal situations to achieve greater financial know-how and peace of mind.

Footnotes

- ¹ What is innovation? 15 experts share their innovation definition. Idea to value, 2016. <https://www.ideatovalue.com/inno/nickskillcorn/2016/03/innovation-15-experts-share-innovation-definition/>
- ² Thoughts on the business of life. Drucker, P. Forbes. <https://www.forbes.com/quotes/11396/>
- ³ Innovation and Entrepreneurship: Practice and Principles. Drucker, P. Routledge, 1984 <https://books.google.ca/books?hl=en&lr=&id=NyqDBAAQBAJ&oi=fnd&pg=PP1&dq=innovation+and+entrepreneurship+wiki+%2Bdrucker&ots=BLlVlnA629&sig=xSl4i9bpyPBq0WnBt1og9t2okP8#v=onepage&q&f=false>
- ⁴ Entrepreneurs answer the questions: “Why is innovation important”. Brooks, C., Business News Daily. September 23, 2013. <https://www.businessnewsdaily.com/5167-innovation.html>
- ⁵ BMO Wealth Management survey conducted by ValidateIt Technologies Inc. for the BMO Wealth Institute between November 30, 2017 and December 2, 2017 with an online sample size of 1,021 American small business owners. The overall probability results for a sample of this size would be accurate to within +/- 2.99% at the 95% confidence level.
- ⁶ Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.
- ⁷ Table G. Distribution of private sector firms by size class: 1993/Q1 through 2017/Q1, not seasonally adjusted. Bureau of Labor Statistics. https://www.bls.gov/web/cewbd/table_g.txt
- ⁸ Table F. Distribution of private sector employment by firm size class: 1993/Q1 through 2017/Q1, not seasonally adjusted. Bureau of Labor Statistics. https://www.bls.gov/web/cewbd/table_f.txt
- ⁹ Entrepreneurship and the U.S. Economy. Chart 3. Survival rate of establishments, by year started and number of years since starting, 1994-2015, in percent. Bureau of Labor Statistics. https://www.bls.gov/bdm/entrepreneurship/bdm_chart3.htm
- ¹⁰ How to measure innovation (To get real results). Kaplan, S., Fast Company. June 16, 2014. <https://www.fastcodesign.com/3031788/how-to-measure-innovation-to-get-real-results>
- ¹¹ Here’s a super-easy way to grow your small business. Abrams, R., USA Today. July 5, 2017. <https://www.usatoday.com/story/money/columnist/abrams/2017/07/05/networking-easy-way-grow-your-small-business/453575001/>
- ¹² Why innovation is crucial to your organization’s long-term success. Henderson, T., Forbes. May 8, 2017. <https://www.forbes.com/sites/forbescoachescouncil/2017/05/08/why-innovation-is-crucial-to-your-organizations-long-term-success/#1006f03f3098>
- ¹³ Entrepreneurs shouldn’t be too entrepreneurial with their own wealth planning. Carter, M., Entrepreneur. July 27, 2017. <https://www.entrepreneur.com/article/297664>

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