The Innovation Adopters Guide

BPF

Why this guide?

The Political Scientist Ted Lowi said 'policy makes politics', referring to the fact that who does what, when and how creates unique barriers and opportunities. It's unsurprising that the same is true of innovation. There is much general innovation literature available and much can be learnt from this. However, real estate as an industry does have specific characteristics that mean direct application is more difficult. The purpose of this guide is to identify the main issues to consider once you have decided to engage with digital transformation of your business, and to avoid the pitfalls that may lie in seeking to apply out-of-box, general methodologies to real estate without first considering the context.

More and more real estate companies are launching digital transformation initiatives from various angles, motivated by:

• The growing number of solutions in PropTech and real estate technology

• Growing evidence of the benefits that real estate can gain from the adoption of such technologies

• Greater awareness and understanding of technology overall with real estate businesses

• Pressure from competitors, clients and other stakeholders, including employees

• Opportunities to provide new products and services to differentiate the business

• An acknowledgement that traditional models need to evolve to stay relevant in fast changing times

• Medium term risk of automation, disintermediation and unbundling of services by technology and technology firms

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What do we mean by innovation?

Definitions

Clayton Christensen coined the term 'disruptive innovation' and this lecture at Said Business School gives a great overview and includes an overview of different types of innovations. To note that this is only an introductory piece. There is much more written about innovation and what it is (and importantly, how to manage it). The key thing is that your company's context will be critical in determining what model to adopt, how important innovation is, and what it entails.

In Practice

Innovation requires reframing what you do and why. It is often easier for those with existing domain knowledge to apply that thinking from within. For those that are curious to learn more about how to think about what you do differently and to develop opportunities as a result, the following are a good starting point:

• Everett M. Rogers (1995), Diffusion of Innovation, Free Press; 4th Edition
• Barry O' Reilly (2018), Unlearn, McGraw Hill Education; 1st Edition
• James H. Gilmore and B. Joseph Pine (2019), The Experience Economy, Harvard Review Press; Revised Edition
• David L. Rogers (2016), The Digital Transformation Playbook, Columbia University Press, Illustrated Edition

A consistent theme from the above is to try and look at what you do with a greater level of objectivity, rising above the day to day and within the context of why and for whom. There are several areas where real estate has particular characteristics that innovators in the industry need to be aware of and operate within. We explore some of these below along the process for innovation projects.

Planning Innovation Projects

Obtaining Buy-in for Innovation Projects

In the experience of members, obtaining senior executive level buy-in is seen as being vital for the success of an innovation program. The role of the person or team with which innovation sits is perhaps less important than a) placing it where it needs to be depending on what business functions you would like to adapt or change and b) ensuring that the person or team can obtain buy-in from colleagues and customers where they need to.

Real estate is a dense market in terms of stakeholders and intermediaries. In every decision there are many stakeholders involved and several projects that won't progress without the support of, as any solution has to work for all of them in order to scale/generate value. Real estate can be guilty of having silo'd job functions and an overly decentralised approach to decision making. Bringing together interdisciplinary teams to examine an existing way of doing things can help to overcome obstruction and help others to see how firm goals might be achieved another way.

Innovation can sometimes conjure images of great leaps forward or substantial changes. However, most innovation typically involves relatively modest improvements to existing products, processes and policies.

Indeed, it may be that a few innovation projects that have low risk and modest reward will add up to a whole greater than the sum of the parts, and can help to de-risk more daring projects.

Organisations are not unitary actors, and innovation involves coordination from within as well as outside the organisation. Obtaining buy-in internally can be a fine art but there are methodologies which permit you to consider how best to go about so doing. Many of these involve thinking about what's in it for the target audience. This can involve a mix of asking the right questions and also putting yourself in the target audience's shoes. Some materials that are great for this include:

- Rob Fitzpatrick (2013), The Mom Test: How to Talk to Customers and Learn if Your Business is a Good Idea When Everyone is Lying to You, CreateSpace Independent Publishing Platform; 1st Edition

- Michael Lewrick, Patrick Link, Larry Leifer (2018), The Design Thinking Playbook: Mindful Digital Transformation of Teams, Products and Services, Wiley; 1st Edition

A key point that derives from the above materials is the need to ensure the consideration of how what you propose solves others' problems, and the need to verify that without imprinting your own conceptions on others.

Return on Investment and KPIs

If improving the investment performance is the ultimate aim, real estate's slow velocity of turnover (long leases and hold periods) can present a challenge, as there are not always leasing or transactions in the near future at every asset. Real estate as an asset class has historically been purposely designed to generate bond like returns from long leases. This is changing, but a large proportion of the stock remains of this type. In addition, it is hard to calculate return on investment for innovation projects using conventional notions of value and accompanying metrics in real estate. It is likely that return on investment will be easier to review where it relates to improving processes that already exist where there are KPIs that show efficiency increase, reduced wastage or other material improvement. Similarly, there may be a risk of regulatory obsolescence or functional obsolescence which demands innovation.

More can be found on agreeing and setting KPIs in:

- Alexander Osterwalder and Yves Pigneur (2020), The Invincible Company: How to Constantly Reinvent Your Organisation with Inspiration from the World's Best Business Models, Wiley; 1st Edition

Adopting Innovation Projects

Testing and Trialling

A culture of testing and trialling, a common feature of innovation processes, is not rooted in real estate yet – partly because of the slow velocity of turnover in leases and hold periods (if something 'doesn't work' for a transaction, it is stuck that way for a long time). The idea of a minimum viable product (a conventional device of lean methodologies) which might have bugs being used in a real estate context remains a bit of a taboo. This means that technology companies typically have to develop a more developed (and expensive) minimum product in order to engage and test ideas in a real estate context.

However, testing is often how companies that are seeking to change business models, policies, processes

and procedures find their way toward a proposition. It is a way of breaking down what may be a sizeable bet into more manageable chunks that can be validated so the overall risk of innovation is managed and to avoid spending valuable time and capital building a solution for something that is not properly defined.

A lot of innovation literature uses failure a learning experience that helps with future products and services. However, this approach of 'failing fast' or 'failing forward' as a learning experience is more difficult in a real estate context given contractual obligations and the deep root of real estate as a reputation and trusted industry.

Instead of retrospective failure analysis, it may be helpful to engage in more forward looking methodologies (e.g. carrying out pre-mortems to envisage success and failure and how each might be accommodated in an if-then mode). Finding ways to structure projects where the risk of failure is much more manageable for example, running an innovation in parallel with the existing solution is another good way to learn.

Getting reliable results from testing can also be difficult since real estate is inherently heterogeneous (every tenant, building, market is different). Therefore, relatively simple trials and business experiments such as A/B testing may need more thought in order to arrive at both a fair sample and one that represents the population about which you are hoping to make inferences. However, there are some forms of experiment that do not require large samples. Good materials on this are:

*   David J. Bland and Alexander Osterwalder (2019), Testing Business Ideas, Wiley; 1st Edition (for general business experiments to test propositions)

*   Various (2019), A Compendium of Innovation Methods, Nesta; London (includes methods for testing and trialling but a much broader set of innovation methods and when they apply best)

*   Steve Krug (2009), Rocket Surgery Made Easy, New Riders; 1st Edition (for testing around usability and how to fix a number of usability issues)

Conclusion

This Guide is introductory, and there is more depth to be found for those who wish to find it in other materials. Our intention though was to provide an introduction, and most importantly a compass to orientate when starting out. It is best to try to deploy the tools and techniques described in the materials listed on a scenario with which you are familiar; thereafter, you can search for additional tools and techniques to supplement the means at your disposal to tackle the matter at hand.

It should be noted that this guide does not only cover a linear process, but it should be evident that it can also be deployed in an iterative loop.