

# MFB **report**

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## TOPICS OF THIS ISSUE

Innovation: Mainspring of Growth

The Dimensions of Business Innovation

Strategic Management Innovation

MFB Experts on Innovation

## MFB

Manage Future Business

### **Main Topic:**

## **Innovation: Mainspring of Growth**

Faced with the prospects of slow growth and intense competition companies have begun to view innovation as critical to future success. What US giants like General Electric and Microsoft have dubbed "the innovation imperative" is true also for small and medium-size companies:

Innovation is central to the success of a company and the most important reason to invest in its future. Innovations are the best to create customer loyalty and help to keep competitors at bay.

But what exactly is innovation? Although the word innovation seems to be the new buzzword among managers, many companies seem to have a mistakenly narrow view of it. Usually innovation is seen only as synonymous with product development or traditional research. Yet, such misunderstanding can only lead to the typical search for "best practice" with all its consequences: Companies within the same industry fight for the same customers with the same or similar products. The result is "isomorphism", i.e. the tendency that firms within an industry are looking more and more similar over time. But companies who innovate along the same narrow dimensions risk an erosion of their competitive advantage.

### **Business Innovation: An Holistic Process of Renewing a Company**

Innovation is nothing less than the creation of substantial new value for customers and the company by creatively changing one or more dimensions of the business system. Thus, business innovation is not only about creating "new things". It describes a new holistic approach towards doing business because it can take place on any dimension of a business system. Sometimes it might be necessary to scrutinize all activities of a company, e.g. the role and responsibilities of the executive management, the performance and interests of the employees, the product pipeline, and customer loyalty. Consider, for example, the Internet powerhouse Google. How could a late nineties start-up become the fastest-growing tech company?





Monika Frick-Becker

*Dear readers,*

Confronted with slow growth and intense global competition companies have to systematically develop innovative products and services to keep their competitive advantage. Innovation is the key to generate new markets or reshape existing ones.

Companies that identify and pursue attractive innovation dimensions do not have to fear the prospects of low-wage competition and globalization. However, companies that neglect their innovation strategies will become blind to opportunities, thus leaving them vulnerable to competitors with broader perspectives.

Yours

Google did not invent the core benefit of providing information the net. However, with "paid search" the company allowed its customers to place advertisements precisely targeted at Internet searches.

After all, customers are the ones who decide the worth of an innovation by voting with their wallets.

Business innovation is a holistic, not a one-dimensional process. It can take place on any dimension of a business-

system, e.g. R&D, production, sales, or the organizational structure of a company.

Hence, successful business innovation requires the careful consideration of all aspects of a business. A great product with a lousy distribution channel will fail just as spectacularly as a new tech gadget that lacks a valuable consumer application.

### The Dimensions of Business Innovation

The Dimensions of Business Innovation		
<b>Offerings (Magic Square)</b>	Develop innovative products and services	Apples I-Pod and I-Tunes
<b>Solutions</b>	Customer-oriented products and services	UPS and FedEx
<b>Market Creation</b>	Discover unmet customer needs	Toyota's hybrid cars
<b>Organization</b>	Change form, function or activity of the company	General Electric: restructuring under Jack Welsh
<b>Supply Chain</b>	Think differently about sourcing and fulfilment	Zara: networks between suppliers and designers
<b>Processes</b>	Strengthen efficiency and effectiveness of core operating processes	Toyota: TPS
<b>Presence</b>	Create new distribution channels and innovative points of presence	Starbucks: coffee shops in trendy bookstores and posh department stores
<b>Networking</b>	Tap external sources for knowledge transfer	IDS Scheer: cooperation with universities
<b>Branding</b>	Leverage a brand into new domains	EasyGroup: EasyJet, easyCar, easyMoney, easyInternetCafe

Based on: M. Sawhney et al: The 12 Different Ways for Companies to Innovate

Consider the renaissance of tech icon Apple Computer Inc. Apple merged an external invention (MP-3) into a fancy and easy-to-use product (I-Pod), thereby offering an elegant solution for both, the purchase of as well as the listening to music (I-Tunes).

As a consequence, the I-Pod created substantial value not only for consumers but also for content providers (legal downloads) and for the manufacturer itself (establishing new growth markets). Moreover, I-Tunes allowed Apple to directly influence the purchase of its customers (downloads) and the portability of a consumer's entire collection of music, photos, and videos helped to spread the phenomenal presence of the I-Pod. Not surprisingly, the innovation power of the I-Pod helped to boost the branding of Apple's total product line.

**The Magic Square of Marketing:**

When are new products and services successful?

<p><b>Easy Seller</b></p> <p>Little product change, Little change of customer behaviour</p> <p>(Gillette shavers, Detergents)</p>	<p><b>Big Seller</b></p> <p>Great product change, Little change of customer behaviour</p> <p>Google, Toyota's hybrid cars)</p>
<p><b>Flop</b></p> <p>Little product change, Great change of customer behaviour</p> <p>(BMW Motorcycle C1, Reform of written German language)</p>	<p><b>Delayed Success</b></p> <p>Great product change, Great change of customer behaviour</p> <p>(PC, Mobile phones)</p>

Nach: John T. Gourville, HBM

**Management Innovation:  
The Heart of Change**

In times of great change and mounting challenges, management innovation has become the key to a company's success. Austrian economist J. Schumpeter viewed the process of management innovation as important to economic and social progress as technological innovation.

What makes management innovation a distinct progress in its own right is the significant role of external change agents. Often, consultants and management trainers provide the initial inspiration for a management innovation. They help to shape and legitimize the innovation as it takes hold.

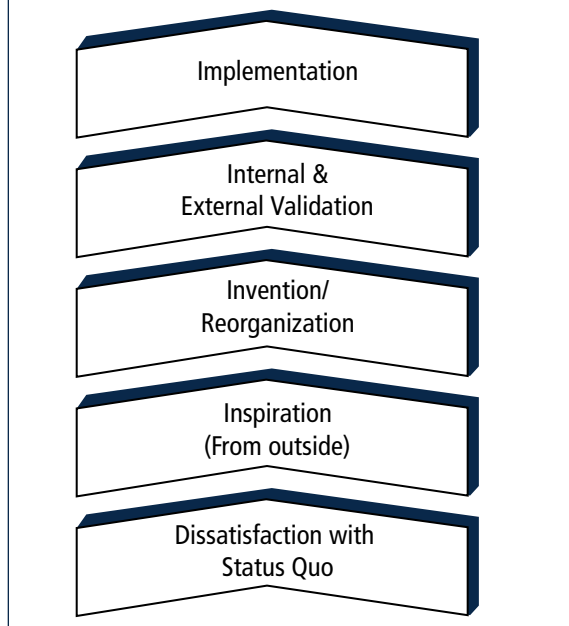
Management innovations are specific to the system (company) in which they are created. They are harder than technological innovations to justify vis-à-vis an often sceptical management and workforce. Also, the valuation of the process can become rather tricky since management innovations evolve gradually and involve risks and uncertain returns.

That is why the role of external agents is so important for the process of management innovations. External experts represent a source of new ideas and analogies from different settings, they help to sell the importance of management innovations to the organization, and they accompany and assist to fine-tune the implemented activities. With their expertise, they essentially offer a "stamp of approval" from an independent source which is an important argument vis-à-vis the company's management, employees, involved creditors and competitors.

Management innovation might also contribute to the creation of a questioning, problem-solving culture where employees are encouraged to examine the unexplored and to avoid easy answers. Building a capacity for low-risk experimentation helps to give ideas a chance to be implemented without crippling the functioning of the whole company.

For many companies management innovation is a key driver for their business success. Hence, companies that invest systematically in pursuing management innovations will have a great chance to become market leaders.

**The Management Innovation Process**



## MFB Experts on Innovation



*Kathrin Breuer*  
Expert for Strategic  
HR Management

Successful products are embedded in a professional service. Customers' perceptions of employee effort in delivering personal and enduring service have a strong impact on customer satisfaction and switching behaviour.

Successful service innovators invest in their employees' capability and willingness to professionally perform at high levels. These investments include careful hiring and ongoing training and education.

A company that invests in qualified and customer-oriented employees is attractive to promising talents and has the great potential to keep its competitors at bay.



*Ludwig Augustin*  
Expert for Corporate  
Management

Every successful innovation requires a champion, a mobilizer of resources, a master persuader and doer. The history of successful innovations typically is the history of persuasive and inveterate lone fighters.

Hence, establish a corporate culture that supports and compensates human performance and innovation and create the position of 'innovation champion' within the executive management.



*Dr. Christoph Gutknecht*  
Expert for Marketing and  
Sales

Reduce resistance.

Most companies cannot come up with revolutionary innovations. Their ability to wipe out customers' loyalty to the old and trusted is rather limited. Almost 50 percent of all innovations fail and have to be taken from the market, causing an unexpected loss of contribution margins.

These companies must try to reduce customer resistance by introducing products and services that require only a minimum change of consumer behaviour. If offerings create value to the customer without forcing him to radically change his behaviour, they will have the potential to become big sellers.

### Literature on Innovation

Many companies come up with new ideas, but only a few firms succeed in transforming these ideas into moneymaking products and services.

In their book **10 Rules for Strategic Innovators**, Harvard Business School Press, 2005, American Scholars **V. Govindarajan and C. Trimble** lay out a strategic approach to a process that often develops chaotic and at random.

In **The 12 Different Ways for Companies to Innovate**, in: MIT Sloan Management Review, Spring 2006, p. 75-88, **M. Sahney, R.C. Wolcott and I. Arroniz** show that successful innovation is a holistic process, which requires the careful consideration of all aspects and dimensions of a business system.

A must read for marketing professionals is the classic **Crossing the Chasm. Marketing and Selling Disruptive Products to Mainstream Customers**. Harper Collins, 2002, by **G.A. Moore**.

The American marketing coach makes the case that high-tech products require marketing strategies that differ from those in other industries. His chasm theory describes how high-tech products initially sell well, mainly to a technically literate customer base, but then hit a lull as marketing professionals try to cross the chasm to mainstream buyers.

### IMPRESSUM