

The Creative Dilemma follow-up paper

Remarkable Thinking

Our recent paper, *The Creative Dilemma: Successful innovation in fast-changing markets*, looked at the challenges organisations face in creating successful innovations. For most businesses innovation has become essential to survival, yet many are struggling to make it work.

Although there are numerous definitions and theories about innovation, our paper puts forward the view that innovation occurs in three zones:

Zone 1

Basic innovation - Minor product or service enhancements (e.g. new VW Golf, Coke with lemon).

Zone 2

Relative innovation - Innovations that build on existing products/services, taking existing products to new markets (e.g. Sensor Woman, Carphone Warehouse).

Zone 3

Concept innovation - Breakthrough value propositions and business models (e.g. easyJet, IKEA).

Whilst all are capable of delivering profits, it is in the concept innovation zone that the biggest gains can be made and the most value created. According to INSEAD business professors W. Chan Kim and Renée Mauborgne, the 14% of business launches that created new market space led to 38% of total revenues, yet 61% of profits. In contrast, the 86% of business launches that were line extensions or incremental improvements, led to 62% of total revenues – but a mere 39% of total profits.¹

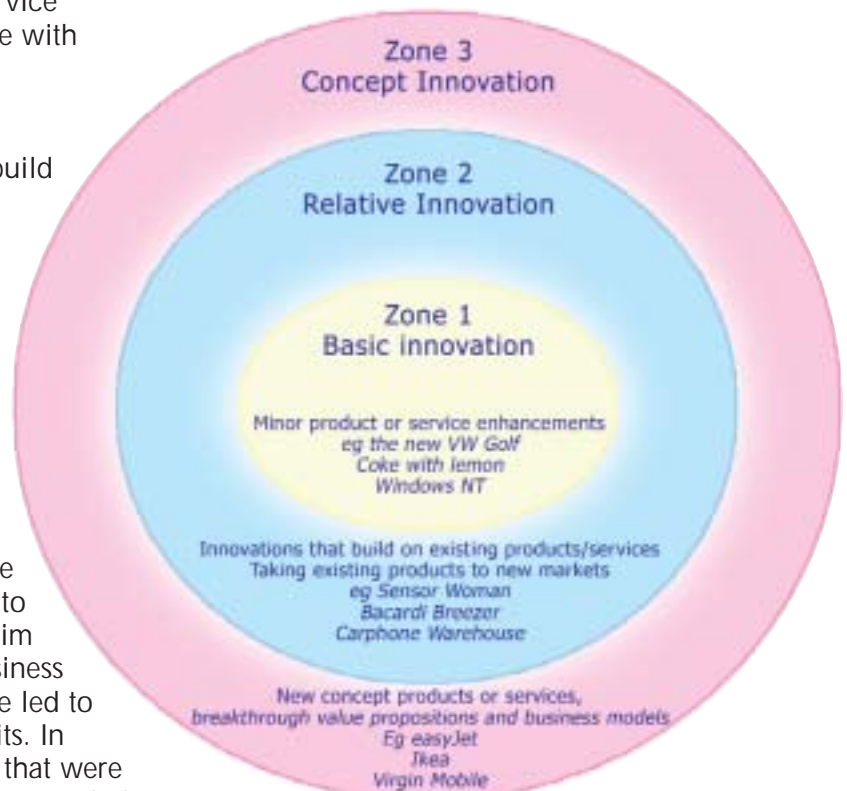


Diagram 1
The three zones of innovation

With 80% of new products failing, it is clear there is something wrong with the incremental approach adopted by most companies. The statistics strike a chord with Judith Cork, a Strategic Marketing Consultant specialising in marketing to the over-50s market. Writing in response to the paper, she says that the paper 'clearly gets to grips with the challenges of innovation, i.e. most "innovations" fall within Level 1 basic innovation (minor product or service enhancement), which usually become non-differentiating factors for the consumer pretty quickly.'

She believes consumer cynicism lies behind the high failure rate of incremental innovations.

'The real creative dilemma to me is that by the time you reach the fine age of 50, you've probably already experienced at least three "new improved" washing powders, so you're not likely to be impressed with the latest version unless it really is "new" and "improved" and **relevant** to the way you want to live your life. There is no doubt that the growing cynicism commonly associated with getting older is in part due to the "been there, seen it, done it, **seen through it**" experience, and marketing campaigns, in the main, compound this. So my creative challenge to businesses is to focus on innovations that will make the growing number of over-50s stop and say, "Wow! That's really new, different and **relevant** to my life." I'm pretty confident that if they do they will find a big, new and lucrative market opening up to them.'

The point is one Seth Godin picks up on in his latest book, *Purple Cow*. Most new products remain invisible, lost in the crowd. It is only the remarkable products that are worthy of consumers' attention.

Something that certainly appears to have grabbed consumers' attention is Apple's iPod. As our paper discussed, the iPod is an example of a Zone 3 concept innovation. Apple announced recently that 807,000 iPods were sold in the first quarter of 2004, helping the company to more than triple its profits (\$46 million net profit for the first quarter of 2004, compared with net profits of \$14 million for the first quarter of 2003). Revenue from iPod sales was \$264million for the first quarter of 2004, up from \$31 million for the same period last year. Apple's Chief Financial Officer, Fred Anderson, said that the iPod probably accounted for half of the company's revenue growth.

Consumer cynicism lies behind the high failure rate of incremental innovations

The trouble with Zone 3 concept innovations is that they are considerably harder to achieve than Zone 1 incremental improvements.

This is a theme *The Economist* magazine took up recently in a special report on business innovation (24th April, 2004). 'Rather than chasing wonder new products, big companies should focus on making lots of small improvements.' The report argues that 'Companies need to resist the feeling that it is not worth getting out of bed for anything other than a potential blockbuster... Firms have to innovate continuously and incrementally these days to lift products out of the slough of commoditisation.'

This would appear to contradict the main thrust of our paper, which urges firms to seek Zone 3 concept innovations.

However, although *The Economist* report tackles the subject differently, highlighting three “less glamorous” areas which management thinkers have identified as having rich potential for innovation, these areas actually have much in common with our Zone 3 concept innovations.

The three areas are:

1. Information Technology innovation.
2. Strategic innovation.
3. “Demand” innovation.

With regard to IT, the report says that it is the use of IT across the business that lies behind the surge in productivity in the US. ‘Good companies are using IT “to reinvent their business processes from top to bottom.”’ Wal-Mart is cited as an example. ‘While superficially mundane, Wal-Mart’s pioneering system of “cross-docking” (shifting goods off trucks from suppliers and straight onto trucks heading for the company’s stores, without them ever hitting the ground at a distribution centre) has been fundamental to the company’s ability to offer lower prices, the platform for its outstanding success.’

Writing in the April issue of the *Harvard Business Review*, Michael Hammer, formerly a professor of computer science at the Massachusetts Institute of Technology, powerfully puts forward the view that “operational innovation” can deliver significant benefits to both company and consumer. In today’s highly competitive markets, ‘Mere operational improvement is not enough to win the game. Excellence in execution can win a close game, but it can’t break a game wide open and turn it into a rout. The only way to get and stay ahead of competitors is by executing in a totally different way – that is, through operational innovation.’ Hammer is surprised more companies have not sought to follow the example of Dell, Toyota and Wal-Mart. ‘None of them has come up with a string of revolutionary new products. Where they have been creative is in their business processes.’

The second area identified in *The Economist* report is “Strategic Innovation”. The examples given are Southwest Airlines, the low-cost US regional airline, and the Swedish firm Tetra Pak.

‘Tetra Pak’s strategic innovation involved moving from the production of packages for its customers to the design of packaging **solutions** for them. Instead of delivering ready-made containers, the company increasingly provides the machinery for its customers to make their own packages: the fishing rod not the fish. But customers can then only use Tetra Pak’s own aseptic materials to make their containers. This strips out all sorts of transport and inventory costs from the production process, for both Tetra Pak and its customer. It also makes it very difficult for the customer to switch suppliers.’

Marketers have a key role to play in spotting new market opportunities and making the company aware of the real needs of consumers

The final area identified is “Demand Innovation”. This calls for a shift from product innovation and meeting existing demand in a new way, to discovering new forms of demand and meeting those. This seems perilously akin to the solutions-based research approach put forward in our paper. Behind both is the notion of truly listening to your customers, and understanding what their real needs are, rather than what you perceive their needs to be.

It seems clear that our Zone 3 concept innovation, the three areas outlined in *The Economist* article, and the operational innovation advocated by Michael Hammer in the *Harvard Business Review*, share much common ground. It is at this level that innovation sets a company apart from its competition, and enables it to reap the rewards. Marketers have a key role to play in spotting new market opportunities and making the company aware of the real needs of consumers.

No matter how innovation is approached and defined, the core issue remains this – how do you go about generating innovative solutions?

Each business is unique, and it is not our place to tell you how you can improve your operational processes, your IT systems, or new uses or markets for your services or goods. Only you and your colleagues can do that.

‘Customers too are inventive – look at texting. Which companies allow potential customers to configure their inventions before going to market? There are a few. I run Super Groups with several organisations all of whom are astonished by how different both the process is and the results are [with the Breakthrough Methods]. These Super Group experiences allow ordinary people to educate themselves, and then invent their hearts out with the companies that are sponsoring them.’

No matter how innovation is approached and defined, the core issue remains this – how do you go about generating innovative solutions?

However, our paper does outline several ways in which you can gain a deeper understanding of what customers really want. Much market research focuses on how existing products or services can be improved, which whilst perfect for incremental improvements, it will rarely lead to concept innovation. Ethnography and solutions-based research are two methods that go beyond traditional market research techniques, and instead focus on gaining a deep understanding of customers, their relationship with your product or service, and the problems they are looking for solutions to. With this understanding, marketers can generate concept innovations that truly meet consumers’ needs.

Someone who has worked in this area for the last decade is Mac Andrews, co-founder of the Institute for Creativity (UK), and co-author of the *Breakthrough Zone*. Together with Roy Langmaid, who invented the Breakthrough Method, they have helped companies work with their customers to discover the solutions customers are looking for. Their techniques, described in detail in the book, involve training employees and customers together to explore issues around the product or service and think creatively of ways to meet the needs identified (the Arrivals Lounge at London Heathrow is a result of their work with British Airways customers). We asked Mac for his views on innovation and our paper.

‘Innovation comes from compulsion – either looming disaster (comfy businesses don’t innovate on the whole) or the natural desire to be up to something more than managing a business model.’

‘What you say about focus groups is so true. The discussion guide rules. It is an industry standard exercise that has somehow hypnotised everyone. Over the years I have seen countless fantastic ideas get pulled apart and examined in such reductive detail that the heart has inevitably been excised, cut to ribbons and discarded. How do you evaluate a rose? Can it be appreciated for its beauty by pulling off its petals, stamen, anthers, leaves etc. and opinionating about each of its components? Allowing people to have a creative relationship with whatever is being evaluated or researched makes all the difference – a little creativity in providing bespoke encounters with new ideas, concepts and prototypes is harder work, but far richer.’

Innovation is often perceived narrowly as just ‘product launches’, or is seen to be something only large companies with big budgets indulge in. Yet listening to and involving the customer in creating solutions to usually unarticulated needs is something all marketers can do, regardless of company size. Again, rethinking operational processes or market models is not the preserve of those with multi-million R&D budgets. They are things any company can do. As outlined in our paper and the articles in the *Harvard Business Review* and *The Economist*, it is these ‘less glamorous’ areas of concept innovation and operational innovation, rather than the showy and occasionally spectacular product innovation, which can transform a company’s performance.

Once you’ve generated your innovative idea or solution, the next challenge awaits... implementing it.

What now?

CIM will shortly be producing a follow-up paper on implementing innovation.

Resources

The following resources are available to help you explore the issue of innovation further.

Books: Purple Cow, Seth Godin

Breakthrough Zone, Roy Langmaid and Mac Andrews

Available from www.cim.co.uk/shop
or on +44 (0)1628 427427

Articles: Don't laugh at gilded butterflies, Special Report: Business Innovation, The Economist, 24th April, 2004.

Deep Change: How operational innovation can transform your company, Harvard Business Review, April 2004.

CIM Members can access the above articles through the Knowledge Hub, which can be accessed from the CIM's home page.

Training: Details of relevant training courses CIM run can be found either on CIM's home page www.cim.co.uk or on www.shapetheagenda.com

References

[1] Chan Kim, W. and Mauborgne, Renée (1999) Strategy, value innovation and the knowledge economy. Sloan Management Review, Spring, pp. 41-54. (p.43)