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Redefining innovation.

Innovation doesn't necessarily have to mean bigger and better, writes **Chris Grannell**. It's all about finding a strategy that fits.

Everyone loves innovation. This is particularly true of marketers who tend to believe they have a stronger claim over it than anybody else. Most people think they can recognise innovation. They can point to iPod, sliced bread and Skype. And when asked to describe innovation they use words like creativity or enhancement. But it turns out that this is only part of the story.

Innovation is universally accepted to be a good thing, and as marketers we seem to spend much of our time discussing it. But for something so important there are a lot of misconceptions about it. First, it is commonly assumed that innovation is, to a dominant extent, a creative exercise. Second, many of us are inclined also to assume that innovation is about product enhancement or new products based on souped-up old products. It isn't. At least not all of the time.

As an example, Aldi supermarkets are currently moving into second-tier city centre locations across Australia. But Aldi's strategy isn't about increasing options or improving on the range or service provided by competitors. Rather it's about scaling back these features and undercutting conventional supermarkets as a result. In terms of doing things differently, it's certainly innovative. It isn't glamorous or sexy, but you wouldn't want to underestimate its significance.

Innovation, it turns out, is a pretty simple concept. It's about doing things differently, for the commercial gain of the customer or the supplier – or both. In management economics terms, successful innovation should give rise to increased added value for the vendor or the purchaser when compared to existing alternatives.

Why is innovation important to marketers? It seems that many marketers are unsure about the answer to this question. The reason for its importance is twofold. First, innovation plays a key role in product life cycle management – both in extending the lifespan of products and, in some cases, responding to the inevitable demise of others by preparing their replacements. Second, innovation can allow you to create or enter new markets – enabling a business to grow even when its primary market is static. Either way, innovation is critical to business longevity and long-term viability.

TYPES OF INNOVATION

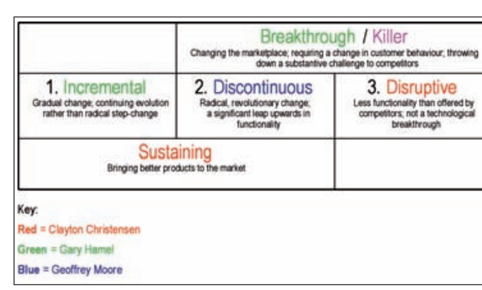
There are many different types of innovation, but there are also many different ways of talking about it – with the result that there is little consistency across academic texts on the subject.

For instance, Clayton Christensen contrasts 'disruptive' with 'sustaining' innovation, while Gary Hamel talks about the distinction between 'breakthrough' and 'incremental' innovation. Other observers such as Geoffrey Moore prefer to think in terms of 'discontinuous' versus 'continuous' (or continuing) innovation, while other practitioners present another slant with other descriptions. For example, Phil McKinney (head of innovation at HP and author of the Killer Innovations podcast) chooses to focus on what he calls 'killer' innovation – useful because it captures the sense of a 'killer app': something which is both different and impactful to what is around it.

Confused? There are good reasons for all of these subtle differences in terminology. Different writers and observers have used different language because they have different points to make. But at the heart of the work of all of these thinkers are some common themes.

I suggest there are three uniquely different kinds of innovation: incremental, discontinuous and disruptive. Managers and marketers need to understand the difference between these types – and where and why each is appropriate – if they are to plan effectively.

The following diagram indicates the three main types of innovation:



In terms of terminology, perhaps the most confusing aspect of all is the way that the term 'disruptive' is used inconsistently by different observers. Clayton Christensen, widely regarded as the father of the term and chief commentator on it, uses the term exclusively for innovations that provide less functionality than their competitors or substitutes. This is the meaning I will adopt in this article.

INCREMENTAL INNOVATION

Incremental or continuous innovation is typical of companies with R&D departments. It

delivers gradual improvements like enhancing software, improving battery life, miniaturising hardware or increasing brightness, and is a result of spending time on the systems, processes and technologies involved. It's about gradual evolution rather than a revolutionary step-change. Ultimately, it enables firms to keep up-to-date with the market and, ideally, to edge ahead. This notion has given rise to the term 'sustaining innovation', which may sound like a contradiction, but in fact acknowledges that the rest of the market is changing too. Firms like Sony have historically been very strong in this area.

OTHER TYPES OF INNOVATION

Innovation that is not incremental is either discontinuous or disruptive. Academic Garry Hamel uses the term 'breakthrough' to encompass both types of innovation as a means of 'moving beyond the incremental'. He notes that such types of innovation will:

- produce a shift in customer expectations
- change the relationships that you have with competitors, and
- change the economics of your marketplace.

I will look at both types of breakthrough innovation – disruptive and discontinuous – in turn.

DISRUPTIVE INNOVATION

Disruptive innovation is commonly associated with Harvard Professor Clayton Christensen. He uses the term 'disruptive' because it turns the conventional paradigm of the market on its head, not by improving on competitors' offerings, but by actually reducing functionality. If this sounds like a crazy idea, think about it for a moment. How many times from personal experience have we found ourselves faced with an incremental innovation that offered functionality that we couldn't actually use. The ability to store two million songs instead of one million, perhaps? Or take photographs at eight-megapixel resolution instead of three? Disruptive innovation challenges the commonly-accepted trajectory of rising functionality.

This type of innovation has wrought havoc within many industrial sectors, where, sensing opportunities at the bottom of the market, manufacturers have retooled production lines and processes to produce what would have been largely regarded as substandard products. In the consumer space, examples would include Aldi, discount phone services (which often deliver poorer sound quality because of increased compression rates), and the early days of online banking or ATMs (which provided a very restricted product compared to counter service). In a sense, such products simplify the product offering.

DISCONTINUOUS INNOVATION

Discontinuous innovation involves a radical seismic shift; a significant leap upwards in functionality. Products like Skype and iPod are in this category although they are frequently (and incorrectly) described as disruptive innovations because they have revolutionised their markets (or arguably even created new ones). But Skype and iPod are discontinuous rather than disruptive since they offer new features and benefits instead of cutting back on those of their predecessors.

As indicated in my diagram, discontinuous innovation may break through into a new market (breakthrough innovation), or it may be manifest as a powerful instance of sustaining innovation (growing the existing market). How it is perceived is entirely a matter of scale and perspective.

It is easy for businesses to waste time and money on innovation programs without understanding what is required. Proper analysis is critical in planning for innovation if a company is to avoid rushing headlong into the wrong type. The critical questions here are 'Where are different kinds of innovation appropriate?', and 'How can we resource for them?'.

If you're in a marketplace that is moving fast, then you had better skill your company for continuing innovation, simply to hold on to your market position. This will require investment in people and a culture that keeps close to new technology and even closer to the customer. It means building a business that is nimble and able to anticipate and react to opportunities. Staying abreast of evolving customer requirements and changes among suppliers, partners and competitors is critical if a company is to understand where and how it needs to change – and where changing technologies present opportunities.

LISTEN TO YOUR CUSTOMERS

Because much continuing innovation is about incremental improvement (a smaller computer, faster hard disk, bigger CD player, louder speakers etc.), it doesn't require a great deal of external stimulus to direct it. Not so for other types of innovation. Successful discontinuous and disruptive innovations tend to follow from some kind of customer insight or customer understanding.

Adrian Slywotzky and Richard Wise, the authors of *How to Grow When Markets Don't*, introduce the notion of 'demand innovation' – essentially the idea that there is an inherent customer requirement for innovation, since many customer needs are going unmet. Of particular significance, many of these needs are concerned with the broader usability or economic context around existing products.

In a similar vein, Christensen talks about the 'job to be done' – the task that a particular customer or segment wishes to achieve when they engage with your product.

APPLYING A DISRUPTIVE INNOVATION STRATEGY

If you're looking at a market (or are already part of a market) that contains over-serviced customers, then there is likely to be an opportunity for disruptive innovation. For example, where you can identify an existing market (let's say mp3 players) that can be made more relevant to a greater range of customers by being simplified, then it's time to consider if there may be an opportunity for disruptive innovation. Or consider the case of Vodafone, which introduced a stripped down mobile phone handset and service bundle. It's not sexy, but appeals to the need for simplicity presented by a significant market segment.

Note that stripping out functionality of one kind might improve performance on another measure. Although a miniature mp3 player might carry much less data than its mainstream competitors, it could be much smaller as a result. And consequently it might appeal to new markets that required a small unit, but didn't need the storage capacity sought by other users. Companies are typically geared towards maintaining the status quo such that their prevailing mindset, operational focus or brand positioning prevents them from reconfiguring their operations or business focus. But applying a disruptive innovation strategy requires a willingness to challenge the current paradigms of your business – if not the whole industry. As a direct consequence of disruptive innovation, companies can sow the seeds of the demise of their current core business. For example, a customer contact business that attempts to migrate much of its customer interface to an online environment could trigger the demise of its own call centre – but this is infinitely preferable to a competitor causing this to occur instead.

“The common misconception that innovation is something creatively dazzling can be dangerous, because it risks us missing the most threatening innovations altogether.”

APPLYING A DISCONTINUOUS INNOVATION STRATEGY

The lion's share of the media coverage afforded to innovation tends to go to the discontinuous variety. Discontinuous innovation is very exciting, but hard to plan for, because it depends heavily on technological breakthroughs and creative brainpower. Unfortunately for the business planner, it is almost impossible for a company to 'decide' to invent, say, the iPod or Skype.

A few large corporations are good at doing discontinuous innovation internally. Companies like 3M and Google have famous HR policies that encourage staff to spend a significant proportion of their work time on new projects of uncertain value. And while most companies don't have the cash reserves to allow staff to explore ideas without a precise goal in mind, we can all take small steps in this direction by (where appropriate) loosening up structures and KPIs.

Back to Skype and iPod. Both of these examples have been successful largely because of clever marketing or product augmentation, but they are also both based on pre-existing technology. Therein is the lesson: seek out the struggling discontinuous new product or idea and use your existing brand or customer base to leverage it.

Cash-rich companies that are prepared to swallow their pride in the interest of greater commercial success can do well to acquire discontinuous innovations. But doing so can be hard, since it implicitly acknowledges that external innovations are often more discontinuous than the ones generated by the in-house R&D team.

WATCH YOUR FUTURE COMPETITORS

Innovation presents a double challenge for business planning, because in a healthy market, your competitors will be doing it too. And, worse still, innovation means companies that are currently not competitors will be entering your space in future.

Tim Pethick, the founder of Nudie juice, has observed that major drink manufacturers didn't take much notice of what his business was doing until it was too late. This is typical of the way that dominant operators tend to see (or not see) what smaller upstarts are up to. But with disruptive innovation, the situation is often even more severe. Because disruptive innovation (in Christensen's definition) depends on reducing functionality, large companies will frequently choose to ignore it, dismissing it as 'not competing in their space'.

When conducting competitor audits or market landscape analysis, most major players tend to look to significant operators with similar product performance. This approach tends to overlook many emerging competitors, who are often small and/or approaching the same problem from other industry categories.

Watching your future competitors isn't easy. But there is a knack to it. Focusing on customer needs rather than existing products will mean that you aren't blinkered to the existing paradigms of the market – and that you can look beyond the frameworks through which customers are currently served.

The ingrained thinking about innovation is that it is an exciting, creative, progressive, high-profile and highly-visible activity. As a consequence, innovation that isn't any of these things can devastate incumbents by sneaking under the radar and remaining unnoticed until it is too late.

Innovation is certainly a critical component of the balanced marketing mix, but to say it belongs there on account of its inherent creativity is a mistake. As we have seen, there is much more to innovation than 'creativity', and innovations are often not creative at all. In fact, the common misconception that innovation is something creatively dazzling can be dangerous, because it risks us missing the most threatening innovations altogether.

Innovation can rarely be undertaken in isolation. An understanding of the market – and in particular of customers – is vital if opportunities for innovation are to be identified. The process of innovation – and the process of planning for innovation – should be key aspects of any organisation's strategy. **M**