

Strategic Innovation Research Project

02

Why Strategic Innovation?

- Strategic innovation is important
- Strategic innovation is difficult
- Strategic innovation requires a different management model
- Some companies really are innovative, with different approaches
- Innovative companies have a series of common features

2.1. Strategic innovation is important

Companies are faced with a changing environment that presents them with a series of challenges

Companies nowadays face increasingly more competition and a very turbulent economic environment, with very fast rates of technological change. Product life cycles are becoming shorter and shorter, with fuzzier sectorial boundaries.

Some challenges companies face nowadays

- Markets are much more global, so both competition and opportunities of expansion arise worldwide.
- Customers are increasingly more demanding, and they require new features, better services and lower prices, with solutions adapted to their specific needs.
- New technologies have accelerated dramatic changes in relations with customers and with other companies, being the joint creation of value with customers one of the new paradigms of management and an opportunity to create value.
- Leadership in innovation is increasingly more difficult to maintain, due to growing competition and the swift rate of technological progress.
- Fierce cost competition in many sectors has displaced and annulled innovative initiatives by many companies.
- Intellectual property is becoming increasingly more difficult to protect and preserve, measure and manage.
- Technological progress has radically altered the former vision of research and development, leaving many R&D departments mired in competences and technologies from the past, concentrating on internal operations, while the extended company, that includes providers, partners and customers, often remains unmanaged.
- Internet, Intranets and electronic mail are creating something akin to an “information democracy”, so the power of information is diluted and the key lies in transforming it into knowledge and differential value proposals for customers.
- Increasingly more, intellectual capital is more valuable than physical or financial capital, and the employees are becoming true “capitalists” in a world where talent and knowledge are critical factors.

Source: Own preparation

However, when considering their future, many companies define quite similar strategies to those of the past and which do not distinguish them from their competitors. Moreover, they do not pay attention to developing constant innovation capacity at the company, so they do not develop the new skills, practices and processes required. Thus, many companies are suffering from progressive reduction of margins and benefits and will continue to do so if they do not begin to include innovation management in their strategies.

Sooner or later, all corporate models reach a point where revenue decreases, and nowadays that is usually sooner.

“The first step is to admit that your present strategy, your dear corporate model, may have become lifeless. Never forget that sunken good companies are simply those who denied reality and their strategic deterioration for too long.

When you discover you're on a dead horse, the best strategy is to dismount. Of course, there are other strategies. You can change riders. You can get a committee to study the dead horse. You can benchmark how other companies ride dead horses. You can declare that it's cheaper to feed a dead horse. You can harness several dead horses together. But after you've tried all these things, you're still going to have to dismount.”

Gary Hamel “Leading the revolution”

2. Why Strategic Innovation?

2.1. Strategic innovation is important

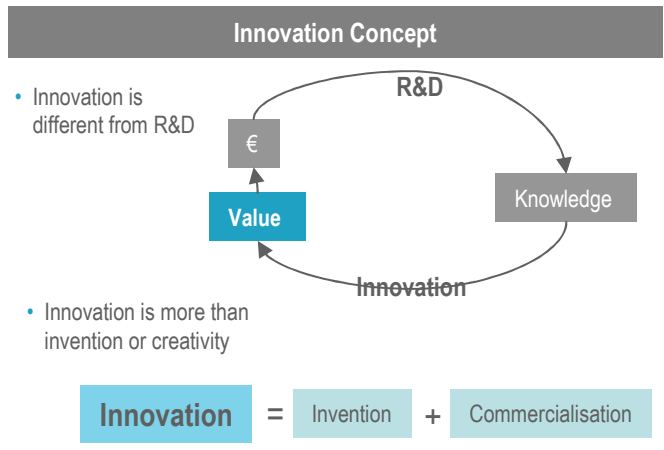
In order to deal with those challenges, companies need to innovate ...

The only way to deal with the challenges companies now face, in a profitable, sustained manner over time, is by innovation, the main source of economic growth at corporate, sectorial, national and global level. The OECD estimates that at least 50% of growth is due to innovation.

There are many definitions of innovation, a common feature to all being that innovation is something new and it must be useful. Many problems in defining innovation arise from the different dimensions of innovation: the types of innovation (product vs process, radical vs. incremental, technological vs. management), the phases of innovation (generation of innovation and adoption of innovation) and the levels of analysis (at national, sectorial, corporate, group or individual level).

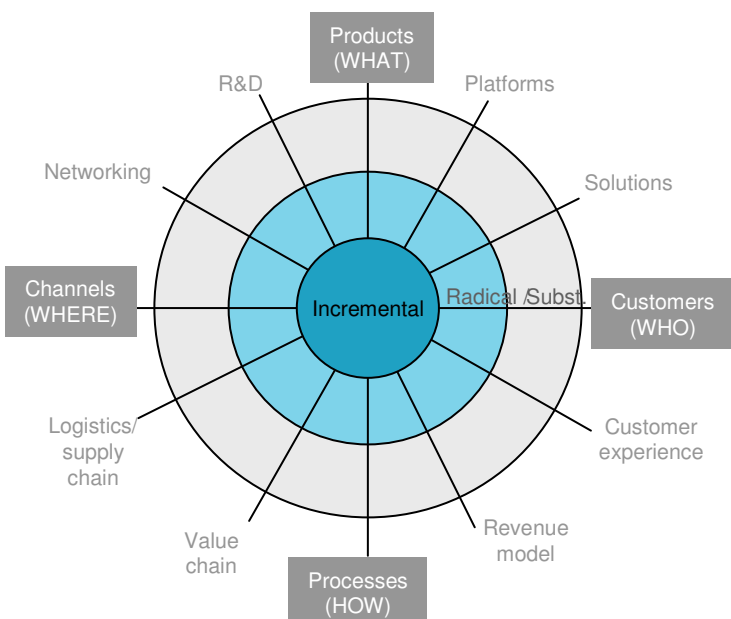
In our research project, we see innovation from the corporate perspective, with a multidimensional approach. We consider innovation transformation of knowledge into **added value**. That added value must be generated constantly in time and must be distributed among different partners (shareholders, workers, environment, society, etc.).

Added value generation takes place by creation of something new that is transformed or included in products, services, processes, systems, structures, marks, patents, etc., in something for which the customer and/or consumer is willing to pay. In that sense, we see innovation as the sum of invention and commercialisation.



Source: Göran Roos and own preparation

12 directions to innovation



Business innovation is substantial or radical creation of new value for the customers and company, through dramatic change in one or more dimensions of the existing business system, or by creation of entirely new business systems. Thus, radical business innovation is more than product innovation or technological innovation and requires one to think holistically about the business system, coherent and differentially changing several factors compared with competitors:

1. Products: Creating new products or new services
2. Platforms: Creating modular platforms and strategic control points.
3. Solutions: "End-to-end" problem solving for customers
4. Customers: Finding new customer segments or customer needs that have not been satisfied.
5. Customer Experience: Changing how customers interact with you.
6. Revenue model : Changing how you are paid.
7. Processes: Innovating in operating processes.
8. Value chain: Changing the position or the scope of participation in the value chain.
9. Logistics / Supply chain: Changing the way you produce, supply and transport the products.
10. Channels: Changing how you go to the market with your products.
11. Networking: Changing how you contact customers or providers.
12. R&D: Creating new technologies, materials, products or processes.

... and you must innovate constantly, seeking differentiation

In this research project, we have concentrated on innovation – not in the usual sense of new technologies and new products, but rather in the sense of **innovative strategies and new business models**, so they generate new value for customers, bitter surprises for competitors and new wealth for investors. What counts is not how a company is positioned in relation to its eternal rivals, but rather, how creatively it uses its key skills to create completely new markets.

Our starting point is the argument that **innovation is the competitive advantage of the coming millennium**, being the only way to avoid the inexorable competitiveness that has reduced the margins sector by sector, requiring companies to imagine absolutely new solutions to their customer needs.

To that end, the company must generate a **constant ability to innovate**, so all members of the organisation feel the need to innovate and concentrate on capturing the opportunities for tomorrow.

Thus, just as Gary Hamel states, companies must satisfy the twin challenges of the revolutionary era: **to reinvent themselves and reinvent their sector**. A company that cannot re-imagine its own essence, that of who it is, what it does and how it competes, will soon become obsolete. A company that cannot proactively regenerate its sector, in addition to itself, will attract very little future financial wealth. In the revolutionary era, **the challenge will be to match radical innovation to disciplined execution** – merging the efficiency of a Toyota production line with the innovation of Silicon Valley. In order to be a corporate revolutionary, the company must be systematic and spontaneous, highly focussed and very opportunistic, absolutely efficient and innovative.

“There have always been companies that have introduced radical innovations and have created new market spaces (“blue oceans”):

- Look back 100 years and ask yourself what industries nowadays were unknown then: such basic industries as the motor trade, recorded music, aviation, petrochemicals, pharmaceuticals and consultancy.
- Now look back 30 years and ask yourself the same question. Again, a lot of multi-billionaire industries have arisen: pension funds, mobile telephony, biotechnology, discount supermarkets, express couriers, express, snowboards, domestic videos.
- Now, wind the clock forward 20 years and ask yourself: How many industries that are unknown now will exist then? If history is a good oracle for the future, the reply is “many!” Companies have a large capacity to create new industries and to re-create the existing ones.”

Source: Kim & Mauborgne, “Blue Ocean Strategy”

“Without radical innovation, any company will spend mountains of resources on achieving insignificant differentiation. The money spent on undistinguishable beverage advertisements, the millions of free kilometres given away by airlines, the marketing investment required for investors to take notice of one of the more than 3,500 investment funds in the United States ...

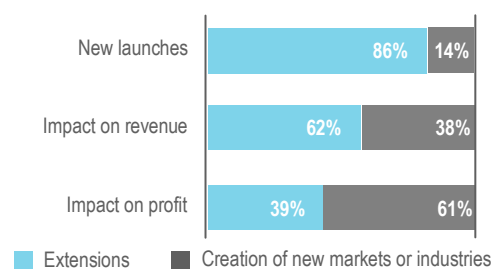
A General Manager: “I used to spend most of my time worrying about “how”: how we did things, how we operated or how we achieved efficiency. Now, I spend nearly all my time worrying about “what”: what opportunities to pursue, what collaborations to create, what technologies to endorse or what experiments to carry out”. At when the moment when a company has got up to 5% efficiency in “how”, another will have already invented a new “what”. **Inventing new “whats”**, that is the key to defending oneself in the revolutionary era.

Many companies needed a decade or more to include quality as a capacity. Creating capacity for radical innovation throughout the company is not a lesser challenge than that of flooding it with quality features – and that in turn cannot take 10 years. Creating a permanent capacity is always difficult and expensive, but the profitability of the investment in innovation will exceed profitability in any other imaginable capacity”. Gary Hamel “Leading the revolution”

“Under this new regime, wealth comes directly from innovation, not from optimization; that is, wealth is not obtained by perfecting the known, but rather by imperfectly exploiting the unknown”. Kevin Kelly “New Rules for the new economy”

The consequences of radical innovation

In a study of launches by 108 companies, we saw that 86% of the new launches were extensions (incremental improvements of existing offers), and only 14% aimed to create new markets or industries. While extensions amounted to 62% of the revenue, they only produced 39% of the profit. On the contrary, the 14% invested in creating new markets and industries amounted to 38% of the revenue and 61% of the profit.



Source: Kim & Mauborgne, “Blue Ocean Strategy”

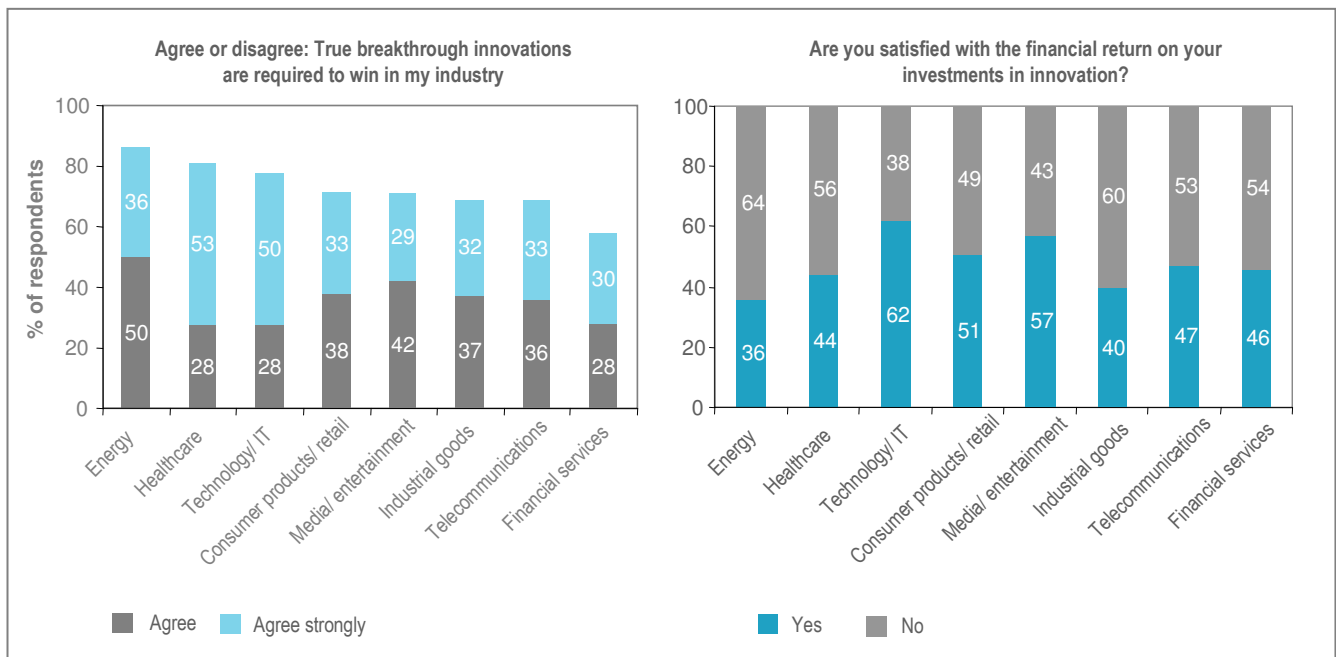
2.2. Strategic innovation is difficult

The majority of companies are not satisfied with the results they obtain from the efforts they dedicate to innovate ...

Most companies fall short on innovation and achieve little from their efforts.

According to the results of the “Innovation 2005” survey carried out by the Boston Consulting Group in which a total 940 executives participated in 68 countries and multiple sectors of activity:

- Nearly 90% of the executives said that innovation is essential for growth and success in their sector.
- More than 80% stated that true breakthrough innovation is required to win in industry.
- 66% pointed out that innovation was one of the three strategic priorities for their company in 2005.
- 74% stated that their companies aimed to increase innovation expenditure in 2005.
- However, 51% of the executives were not satisfied with the financial results of their investments in innovation.
- It was concluded that, for many companies, expenditure on innovation continued to grow, but that it was not generating sufficient profit or competitive advantage. In fact, the focus on innovation is so universal that it is also one of the reasons why it is difficult for companies to overcome competitors (it does not matter how much they invest: the competitors are also investing strongly).



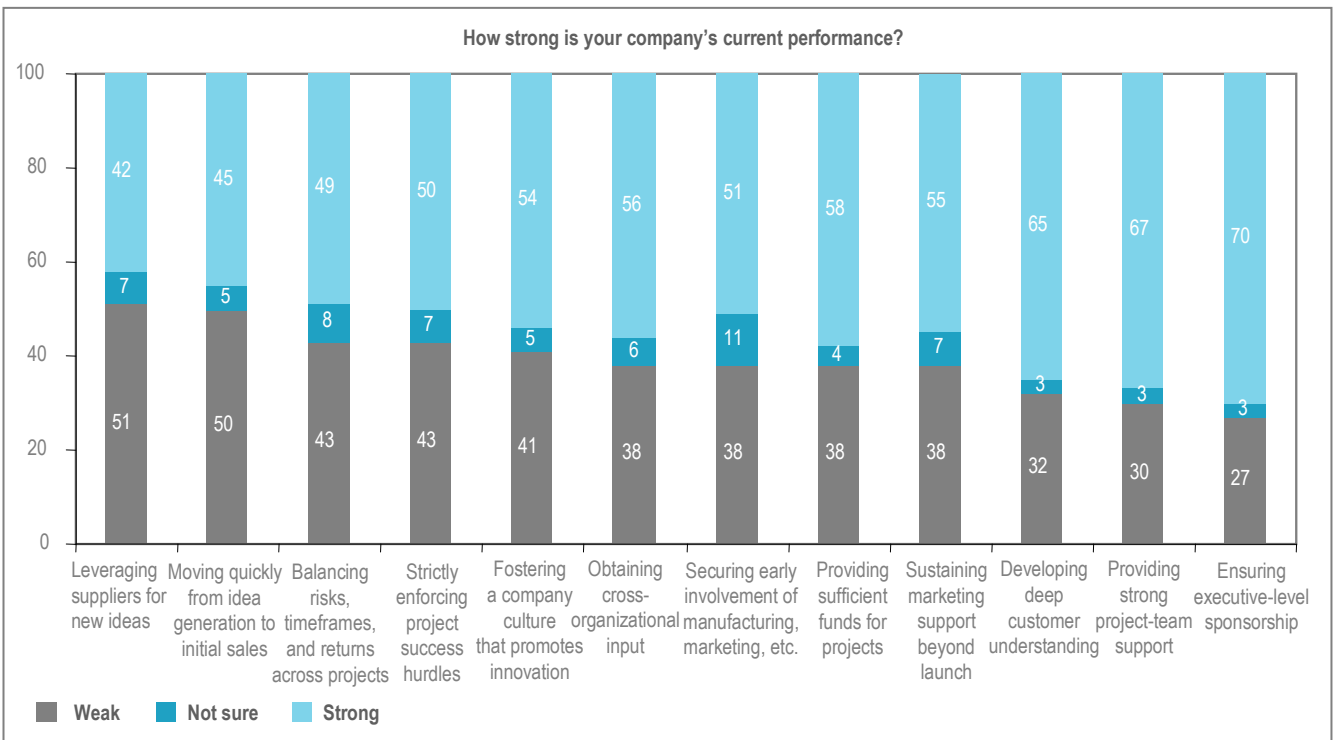
Source: BCG 2005 ITC Survey

2. Why Strategic Innovation?

2.2. Strategic innovation is difficult

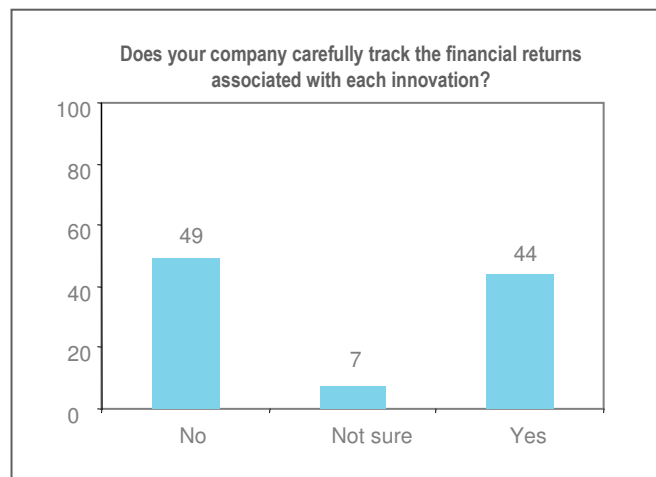
... because they have not developed certain capacities sufficiently, ...

On asking the executives about the aspects in which they are weakest when transforming their ideas into financial returns, the most common replies referred to the “time to market”, discovering new ideas and understanding the customer. Other areas in which the executives had difficulties were establishing project deadlines, balancing the risks, times and returns within the new projects portfolio and not “killing off” mediocre projects soon enough. In general, many of the factors that are most commonly behind lack of satisfaction with innovation are related to implementation or execution, that is, to the commercialisation processes, rather than the invention process.



Source: BCG 2005 ITC Survey

Another issue lies in very few companies having adequate indicators for innovation. In fact, less than half the executives interviewed said their company monitored the financial results of the innovation.



Source: BCG 2005 ITC Survey

... why are multiple obstacles or barriers encountered when innovating ...

There are diverse reasons why companies fail in development of innovative strategies:

- In some cases, companies are too focussed on cost reduction and increasing efficiency and do not consider it necessary to change and innovate to generate new value for the customers.
- At other companies, there is not a culture that favours innovation, with highly fragmented structures, leaders highly oriented by the past and without incentives to be creative and to experiment with new ideas.
- At many companies, innovation is considered important, but it is left in the hands of specific groups, without a clear vision and objectives, and without management structures, process and techniques for innovation at company level.
- Many other companies lack relational capital and invest in research alone, without networking, either with providers or customers.

The following is a non-exhaustive list of twelve barriers, that aims to summarise the most frequent obstacles companies face when preparing radical or substantial innovations.

Main barriers or obstacles when innovating

- Day to day pressure that absorbs all executives time.
- The pressure to obtain short-term results, that hinders investment in innovation projects with more medium to long term results.
- Excessive focus on cost reduction, optimisation and efficiency, on perfect execution.
- Lack of decisive support by the management, that does not insist on the need to innovate, or that does not provide sufficient support to people and teams who make an effort to innovate in the company.
- Excessive internal orientation (the “not invented here” syndrome), without establishing or managing relations with external agents in the innovation projects (with customers, providers, technological centres, etc.).
- Obsession with competition, with competitive position, with movements by competitors and with the battle to “seize” their market share from them, without seeking ways to avoid competitors and create new markets.
- The arrogance of success and the difficulty to “unlearn” the management’s own mental schemes.
- A culture that does not favour creativity or allow errors.
- Definition of strategies from top down, without taking into account the ideas and talent of the rest of the organisation and without creating prior conditions under which wealth creation strategies may arise.
- Failures throughout innovation projects, as well as not involving the appropriate partners in the first phases of development of the idea, not experimenting until perfectly defining the project, not providing sufficient support in the market entry phases, etc.
- Lack of indicators to measure the results of the innovation and lack of incentives to reward innovative efforts.
- The very difficulty of managing innovation projects and making decisions on innovation, because these are not repetitive processes (that one may gradually perfect) and many elements that influence the result are out of control (changes in the customers, movements by competitors, etc.).

Companies nowadays are obsessed with satisfying the shareholders. Splits, share buy-backs and efficiency programmes: all this “releases wealth”, but does not create “new wealth”. Nor is this created by major mergers. These strategies do not create new wealth because they do not create new markets, new customers or new flows of revenue. Moreover, the majority of companies are managed by directors who have exaggerated confidence in perfect execution and believe that is all one needs to triumph in a discontinuous world. *Gary Hamel, Leading the revolution.*

“The problem never lies in how to get new innovative ideas into one’s head, but rather in how to remove the old ones.” *Dee Hock, creator of Visa.*

“All great truths begin as blasphemies.” *George Bernard Shaw.*

An executive: “Success or failure is rarely measured. Basically, we react to success or failure either by putting more into the programme or leaving it out to grow. Official cancellation of bad ideas is very rare: normally they just wither away and that’s all”. *Respondent from AT Kearney’s innovation study, 2003.*

“Whenever there is the hazard of major companies becoming arrogant when they taste success. They begin to think they know the right answers, which is never true, because there are no right answers. There are many replies and some of them are correct and incorrect at the same time.” *Peter Littman, Director of Hugo Boss.*

... and why executives' perceptions often do not match reality

In a study of innovation carried out by the consultancy firm AT Kearney in 2003, at more than 200 companies in the United States and Europe, a series of striking paradoxes are shown, in which perceptions clash with the experience of hundreds of customers. They identify four paradoxes in relation to innovation:

1. The aspirations of breakthrough innovations end up as incremental actions.

More than two thirds of executives mention development of breakthrough products and services as a priority. However, less than 25% of their innovation projects focus on “new for the market” efforts and most of the major innovation projects companies carry out annually – that often amount to more than 30 – may be grouped in three less innovative categories: lesser derivatives or extensions of the present products; cost saving innovations on the present projects; and new projects for the company, but not new ones for the market.

An executive explained it this way: “The most important need is for breakthrough ideas. However, much of what we do concentrates on incremental increases. These are important, but you need to do much more than that”. *AT Kearney's innovation study, 2003.*

2. The customer's knowledge does not lead to leadership on the market.

Executives give their companies high marks in research into their customers' needs and priorities and on aligning innovation with those needs. However, more than half the new products and services are in reaction to the market, more than actively initiated by a multifunctional team including R&D. Innovation programmes at most companies have little direct contact with the end user and, moreover, many companies also lack a disciplined process to prioritise projects, so the final result is a reactive behaviour.

An innovation manager expressed his frustration with the scarcity of resources: “Our main obstacle is having the people to do the work. We are in a situation in which everyone is more than fully occupied on present projects, that always have the highest priority.”. *AT Kearney's innovation study, 2003.*

3. Investment is adequate, resources are not.

While executives say their companies spend an adequate amount of time and money on innovation projects, they also cite limited resources as the main reason for poor results obtained in this area. Beyond the day to day mentality that prevails at many companies, efforts at innovation tend to be highly fragmented, with too many projects in the portfolio and very little strategic prioritisation of those efforts.

Corporate strategy is highly influenced by its roots in military strategy (front line, headquarters, etc.). Nowadays, one rarely talks of strategy without using the term “competition” or “competitive advantage”. Of course, competition is important, but by concentrating on competitors, we forget two important aspects (and more lucrative ones) than strategy: one is finding and developing markets where there is little or no competition (blue oceans) and others lie in exploiting and protecting the blue oceans. *Kim & Mauborgne, Blue Ocean Strategy.*

4. The majority fights against competitors

Many executives believe their companies are doing better than their rivals in innovation. Nearly 70% of the executives claim that their companies are more innovative than competitors, and less than 10% say they are less innovative. However, less than half the new products and services launched are based on reactions to the market. That gap between perception and reality may be partially explained by the lack of consistent, reliable methods to measure progress and the results of innovation.

Among this muddle of contradictions, it is not surprising what poor results companies are obtaining from their innovation efforts. Very few radical innovations reach the market and the new products and services that are launched on the market are often faced with unsatisfactory financial results, so the executives complain they are not obtaining an adequate return from their investment. Numerous studies reinforce that opinion, finding that between one third and half of all new products are rejected before or shortly after entering production. Most of the new products that reach the market absorb valuable company resources, but they fail to return the capital cost required to create and maintain them in production.

2. Why Strategic Innovation?

2.3. Strategic innovation requires a different management model

2.3. Strategic innovation requires different capacities and management

The actual way of innovating has varied in time

Roy Rothwell distinguishes five generations in the innovation process, beginning with that which concentrates on internal technological development (inherent to the 1950s-1960s), down to the fifth generation he calls “lean innovation”, just as shown in the scheme on the right.

According to Rothwell, the growing complexity and means of technological change are forcing companies to form new vertical and horizontal alliances and to seek greater flexibility and demand in responding to changes on the market. That adaptation process is leading some companies to a greater, more strategically focussed integration in networks and in adoption of sophisticated computer tools in their design and development activities, to increase flexibility, speed and efficiency in development. That new type of innovators is beginning to take elements from the fifth generation of the innovation process (5G), which is essentially a “lean innovation” process.

However, Rothwell states that reality is more complex and that even nowadays, there continue to be all the types of innovation processes in different forms. To a certain extent, that diversity is due to sectorial differences.

Five generations of the Innovation Process

- 1st generation (1950s – Mid 1960s): **Technology Push**
- 2nd generation (Mid 1960s – Early 1970s): **Market Push**
- 3rd gener. (Early 1970s – Mid 1980s): **“Coupling Model of Innovation”**
- 4th gener. (Early 1980s - Early 1990s): **Integrated Innovation Process**
- 5th generación del Innovation Process: **Lean Innovation**



Features of the 5th generation (5G) of the innovation process:

- Major global organisational and systems integration (including external networking)
- Flatter, more flexible organisational structures, including greater delegation in decision making.
- Very complete, highly developed internal data bases.
- Product development assisted by information technologies
- Effective external electronic links

Source: Roy Rothwell, “Towards the Fifth-generation Innovation Process

Like Rothwell, Gary Hamel also records several phases of evolution in innovation in his book “Leading the revolution”, and indicates that in the revolutionary era, we will not only see competition between corporate models, but also between innovation regimes.

- From 1900 to 1950, **major science**, scientists in their laboratories, not all rivals, as a mechanism to create wealth.
- From 1950 to 1990, the field of innovation was **marketing**. Company spent more effort on manufacturing deeds than in performing scientific discovery. The objective was to manage to get the consumers to buy “your” own brand. The marketing people unceasingly invented to use advertising to tell the stories we wanted them to tell us.
- The new corporate order demands **innovation in corporate concepts**. The challenge is not a patent or a new advertising campaign, but rather a radically new corporate concept. It is no longer scientists or marketing managers, it is the entrepreneurs – what Charles Handy defined as “the new alchemists”, people able to make something from nothing. That is more like Silicon Valley than a laboratory or customer service group. Hundreds of new corporate ideas are competing in Silicon Valley, on what has become an open innovation market. Although R&D and marketing will continue to be routes to wealth creation, they will no longer be the only or the most profitable ones.

The new Innovation Agenda

Continual improvement	&	Non linear innovation
Product and process innovation	&	Corporate concept innovation
“Releasing” wealth	&	Wealth creation
Daring	&	Capacity
Visionaries	&	Activists
Scientists, marketing managers	&	Silicon Valley

Source: Gary Hamel, “Leading the revolution”

2. Why Strategic Innovation?

2.3. Strategic innovation requires a different management model

Breakthrough innovation radical requires focus on strategy in a different way and developing new skills within the organisation

The significant achievement of the industrial epoch was the notion of continual improvement, and that continues to be the secular ideology of many executives (kaizen, re-engineering, resource planning, etc.). Organisational learning and knowledge management are the closest relatives of continual improvement, as they aim more to be better than to be different. The real matter nowadays is linear innovation against non-linear innovation and, to that end, companies must change their operating methods and management techniques: they must introduce variability instead of concentrating exclusively on decreasing errors; they must experiment instead of controlling down to the last detail, they must surprise and jump instead of conformity with continual or incremental improvement; and they must continuously rethink what they do, instead of perpetuating the strategies of the past.

Firstly, companies must adopt a different strategic approach, in search of radical innovation. The book on Blue Ocean Strategy emphasises that blue ocean creators, in strong contrast to companies that act with traditional rules, never use competition as a benchmark. On the other hand, they make it irrelevant by creating a jump in value for buyers and for the company itself.

Perhaps the most important feature of the blue ocean strategy is that it rejects the fundamental principle of conventional strategy: the need to choose between value and cost. Successful companies pursue what they call “value innovation”: differentiation and low cost simultaneously. Value innovation may occur anywhere, in a whole range of activities by the company: product, service, delivery, costs, price, and the business model.

The more effective it is, the more corporate concept innovation leaves competitors in a cul de sac: if they abandon their old tried and proven model, they risk being second in a game they did not invent, the networks of w2 they do not understand; but if they do not adopt the new model, they renounce the future. It is bad if they do so, worse if they do not. Innovation, in corporate terms, need not actually be related with “competitive” strategy. It is not a way of taking positions “against” competitors. It is based on “avoiding” not on “attacking”. Gary Hamel, *Leading the revolution*.

Red Ocean vs Blue Ocean Strategy	
Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value / cost trade-off	Break the value / cost trade-off
Align the whole system of a company's activities with its strategic cost of differentiation or low cost	Align the whole system of a company's activities in pursuit of differentiation <i>and</i> low cost

Source: Kim & Mauborgne, *Blue Ocean Strategy*

Secondly, companies must develop a series of skills for breakthrough innovation. It is not sufficient for the company to change its strategic approach in seeking radical innovation, but rather, in order for that search to provide results, a series of changes in the organisation are required for good breakthrough innovation ideas to continually come to the fore, and for these to be successfully be implemented.

In that sense, it is necessary to have leadership that boosts innovation and a culture that favours it (that recognises the urgency of innovating and the need to experiment and commit mistakes, that rewards efforts in innovation, etc). It is also necessary for people to be provided with innovation skills, with the necessary knowledge and information, with creative attitude and aptitude, and with the ability to liaise with external partners (customers, providers, competitors, institutions, etc.). Another series of more formal aspects must also be reviewed and changed to favour innovation: the organisational structure, the processes and actual management indicators. All these aspects are developed in greater depth by the explanation **of the model “The Innovation Kite” which we have prepared in the B+I Strategy to help companies define and implement innovative strategies.**

2. Why Strategic Innovation?

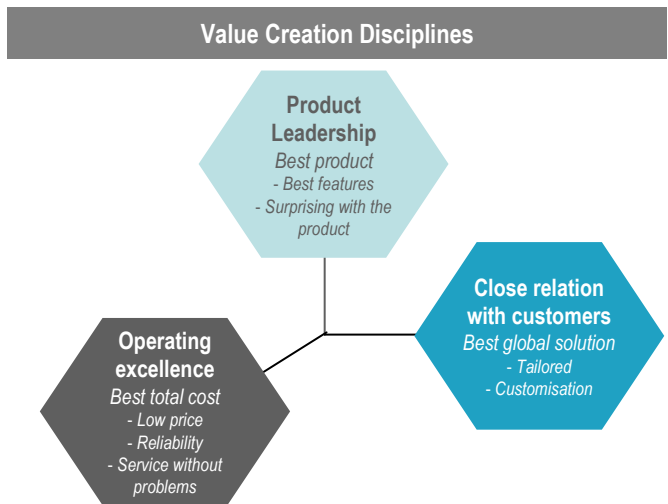
2.4. Some companies really are innovative, with different approaches

2.4. Some companies really are innovative, with different approaches

As we stated at the beginning of the document, in spite of the difficulty most companies have in innovating, there have always been and always will be innovative companies, that sometimes break out of the moulds in the sector or create completely new markets and even sectors.

Following the scheme of Value Creation Disciplines developed by Treacy & Wiersema, we note that different leading companies innovate in different ways:

- Product Excellence related innovation: Nokia, Sony, Lladró, 3M
- Innovation related to close relations with the Customer: Ritz Hotels, RACC, El Corte Inglés, Harley Davidson
- Innovation in Operational Excellence: Walmart, Toyota, Mercadona
- Innovation in several disciplines at once, developing new business models: Inditex, Ikea, El Circo del Sol, Yellow Tail.

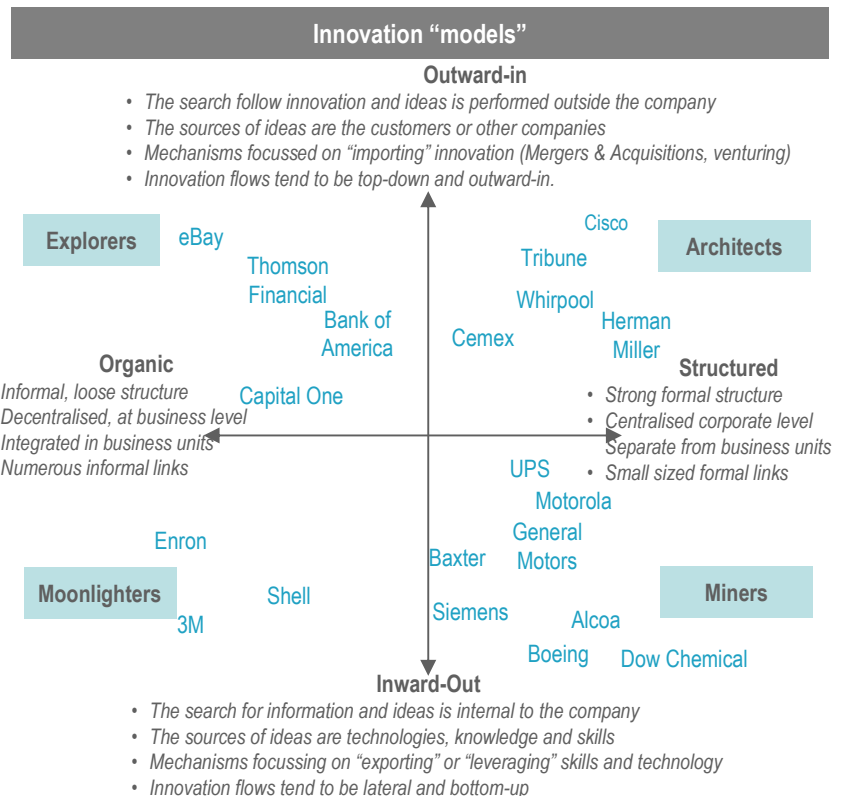


Source: Treacy & Wiersema

Another way to group different approaches by innovative companies is that taken by Sawhney, who says that companies are organised differently to innovate, according to various factors:

- Where they focus their search for (within or outside the company)
- How the innovative ideas flow (top down or bottom up)
- How innovative ideas are development (internally, or decentralised using external partners)
- Where innovation resources or efforts are located within the organisation (separate from the core business or integrated)
- How the innovation process is managed (formal or informal processes)

On the basis of the previous factors, the author defines four “models” of business innovation: “Moonlighters”, “Explorers”, “Architects” and “Miners”. There is no correct model for innovation, but rather, it depends on the context of each company (its environment and own features). Each model has its advantages and disadvantages, that must be considered.



Source: Mohan Sawhney

2. Why Strategic Innovation?

2.5. Innovative companies have common characteristics

2.5. Innovative companies have a series of common features

Many companies have been successful in defining innovative strategies and in developing radically new products and services, in a highly profitable, sustainable way. Each company is different, but we may find a series of features all these innovative companies have in common:

- A clear strategy that establishes the priorities for innovation and assigns the resources in keeping with them. Innovative companies concentrate on what their brands communicate, what needs they cover and what niches they cover. They also concentrate their innovation efforts on gaps in their product and services portfolios. Likewise, an integral part of their strategy is how to focus the provider or partner base in the best way to leverage their innovative power.
- A good innovation process that turns strategy into reality. Consistent processes that ensure that ideas are generated and captured systematically, and that the projects selected are aligned with the strategy and are executed effectively. Moreover, a formal approach to collaboration between the functions and extended company – soon in the development process – is a key factor.
- Solid management of the technological portfolio helps companies to deal with the risk of new technologies adequately, instead of betting or selecting immature technology.
- An open culture that encourages and boosts innovation, providing the appropriate level of management control, valuing the result, awards risk taking and opening up to change. A system of indicators and incentives to support innovation.

In the survey conducted by the Boston Consulting Group among a total of 940 executives in 68 countries in 2004, the first five companies considered most innovative were Apple, 3M, General Electric, Microsoft and Sony. Although the executives quoted many characteristics they admired in the most innovative companies, the following skills were the most often mentioned:

- “Market insight”, the ability to enter your customers’ minds and understand and shape their desires.
- Skill to “institutionalise” innovation, that is, to maintain a corporate culture that leverages the best ideas of each and every one of the employees.
- Skill to create something new from something old. Innovation not only consists of new technologies or radically new products, but also may mean looking at an existing product, technology or service and improving or adapting it to capture a new market. (E.g. iPod, launched in 2001, when Compaq launched a similar product in 1999 and it was not successful).

Source: Boston Consulting Group. *Innovation 2005*

Characteristics of innovative companies

- Clear vision, with longer time horizons and greater market focus.
- Each employee knows what the company strategy means for him or her at work.
- Demanding customers and/or a real understanding of the customers that is built into the innovation processes, right from the formulation phase of the idea / opportunity.
- Strong skills linked to operations and strategy. The essential competencies are identified, maintained and leveraged.
- A good Innovation Management System.
- Constant appraisal and measurement.
- Strategic planning linked to project planning and execution, so the options are evaluated on the basis of where they fit into the strategy, rather than on the basis of financial indicators.
- Emphasis on learning from experience, with approaches to the market that are more experimental than analytical, and greater tolerance of error or failure.
- “Spirit of innovation”: innovation is rooted in the DNA of the company, forms part of its culture.

Source: Own preparation

After analysing the data on blue ocean creation in the last 100 years, we discover that :

- Blue oceans are not about technological innovation. On some occasions, spearhead technology lies in the creation of blue oceans. However, in general, blue oceans are rarely the result of technological innovation in itself; the essential technology often already existed.
- Existing companies often create blue oceans and normally in their main business. E.g. Automotive and hardware. Thus, being an established company is not a disadvantage and new markets are most often in your own sector (not in far away waters).
- Creation of blue oceans generates brands. A strategic blue ocean movement may create a brand capital that lasts decades (e.g. Ford, IBM.).

Source: Kim & Mauborgne. *Blue Ocean Strategy*

Success in innovation requires all these characteristics. Even the best strategy is of no use if it is not adequately implemented and major processes are frustrated by badly aligned incentives and low morale within the organisation. Where should one begin? The first step is to evaluate the starting point objectively. The company may then work to create a solid strategy, the formal processes and adequate culture. To help you in that process, at B+I Strategy we have developed the Strategic Innovation Model (“*The Innovation Kite*”) that is presented in the following section.