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A practical guide to managing innovation

---- by Robert Goldsmith ----

What does innovation mean? It used to relate mainly to products, and that's still important. But over the last decade or so, businesses have been putting more and more emphasis on innovating new services and business models as well. In light of this, it’s time companies take another look at how they manage innovation.

“Innovation is one of the least well-managed areas in most companies,” says David Midgley, a marketing professor at INSEAD and author of *The Innovation Manual*. “This leads to wasted resources and costly mistakes. It’s not the effort that companies put into innovation that decides success. Instead it is how firms go about doing innovation that separates leaders from the rest.”

Most of the information about managing innovation available today is siloed, addressing specific issues such as technology or finance. But as the boundaries of innovation expand, more managers will need practical knowledge and tools that transcend these functional silos.

More than good electronics

In addition to providing this practical knowledge and the toolkit to go with it, *The Innovation Manual* examines what is known about innovation management and asks if it still applies today when an innovation may indeed be a product, but a product with a service attached and driven by a totally different business model than a few years before.

To illustrate this idea, Midgley uses the example of the Apple iPod. Apple has sold hundreds of millions of iPods since introducing them in 2001. But, he says, that success is not because the iPod is an innovative product as there are many similar devices. The real point behind the iPod is the service that allows the customer to easily download music and the business model that allows both Apple and the music industry to make money from those downloads.

“Apple negotiated a business model with the music industry that allowed everybody to get what they want -- the music industry to get their royalties, Apple to sell downloads and the iPod itself, and the customer to be able to select the songs they want rather than putting up with the compilations the industry offered because of its previous business model,” Midgley says. “These are Apple’s real innovations – the rest is just good electronics.”

No longer simple

Back when innovation related only to products, it was easier for companies to manage. One group of employees designed the product and passed it on to another group who sold it. But the broader boundaries of innovation have complicated things for company managers responsible for delivering innovations to the marketplace.

Implementing an innovation today may require making major organisational changes. For example, implementing an innovative service could mean making changes to employee training programmes and company procedures. A business model innovation entails getting everyone to understand the new way of making money, or, if this is not possible, setting up a new business unit.

To understand what sort of organisational changes are required for an innovation, a manager first needs to understand what sort of challenge the innovation is going to pose. For Midgley, there are three categories of challenge – the customer, technology, and business model. Understanding which category the innovation falls into is the key to understanding what steps the company needs to take next.

"If it's a customer challenge, then you need to orient your intelligence and services one way," Midgley explains. "If it's a challenge on the organisational side, then it's another way. If it's a breakthrough in all three then you might want to think it's a big risk."

The customer challenge addresses how far away this innovation is going to be from the way the customer usually thinks. For example, Nintendo designed the Wii video game console to appeal to an entirely new customer base, namely people who wouldn't ordinarily think of playing electronic games.

"What's interesting in the Wii is not the technology, which is fairly straightforward," says Midgley, "and it's not the business model, because it's actually quite a traditional business model for the gaming world. The really innovative and creative thing is making games that appeal to the grandmothers, or to families or the people who don't play 'shoot-'em-up games' on PS3 (PlayStation 3)."

The second type, technology, asks how much of a challenge the innovation is going to be for the organisation. The PS3 posed a typical technology challenge for Sony because the company was inventing a new superprocessor for their existing game console and customer base. The business model challenge addresses how the company can get money out of the existing value chain. This is what Apple overcame with the iPod.

The beginning is the end

The ultimate goal of any innovation is to create value in the minds of the customers.

Midgley identifies five key tasks the organisation needs to do to accomplish this and provides the tools for managers to use to accomplish the tasks.

The first task is organisational and involves setting the direction and fixing the rules for implementation. The second is setting up the team. Teams are key to success, so the firm needs to select the most appropriate team for the type of innovation.

Task three involves working with customers as co-creators. "You get much more mileage by working with the right customers at the right time than by suddenly popping up and saying: 'Here's our bright and shiny new thing, how do you like it?'" Midgley says.

Once the goal has been defined, the right team selected, and a solution defined that meets a strong customer need, the fourth task is to make the necessary organisational changes to deliver the solution. This is especially true for service or business model innovations.

The fifth task is to build momentum in the market for the solution. Managers need to design and create markets for innovations with a thorough understanding of how customers accept or reject them, which is something companies don't always do right.

For example, the personal digital assistant (PDA) was a highly innovative product which flopped when it was first introduced by Apple, Tandy and Motorola. These companies didn't choose the right target customer to get the market moving, nor did they understand how these customers would get best value out of the innovation. As a result, all three companies ended up emphasizing the wrong features of the product.

Palm then introduced essentially the same product but, by studying how their customers would use it, the company was able to market a feature with a strong customer appeal. In the end, their highly successful version of the PDA sold in the millions.

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Last updated: July 3, 2009

RG 03/09