



novation

Firms face a dilemma. If they don't innovate, they will die. And if they do innovate—and their innovations are not successful—they may also die. Given that only 20 percent of consumer packaged goods introductions are successful and maybe 40 percent of new business-to-business products are successful, the odds are discouraging.

Yet innovation is a safer bet than standing still. The key is to manage innovation better than your competitors. Innovation and imagination must be made into a *capability*, as it is at 3M, Sony, Casio, Lexus, Braun, and Honda. These companies have been called “product juggernauts” in that they run product development as an ongoing and interactive process, with the manufacturer, sales force, and customer all working together to develop, refine, adapt, and improve products.³⁷

The innovation process has to be managed carefully as a set of processes, including *idea development*, *idea screening*, *concept development and testing*, *business analysis*, *prototype development and testing*, *test marketing*, and *commercialization*. The company needs to build in or acquire the competencies needed in each step of the process. And it must appoint a well-seasoned leader of the innovation process.

Gary Hamel holds that innovation can be a *strategic capability*,

84 Marketing Insights from A to Z

just like in some companies quality is a discipline.³⁸ Innovation is not achieved by a two-day brainstorming session. Success requires developing three markets within the firm: an *idea market*, a *capital market*, and a *talent market*. The company must encourage and reward new ideas; it must set aside a pool of money to finance investments in promising new ideas; and it must attract the talent necessary to implement these ideas. And those who contributed the ideas, capital, and talent should be rewarded.

Innovation is not limited to new products or services. It includes thinking up new businesses and business processes. Nestlé sells coffee in the groceries but it was Starbucks that thought up a new way to retail coffee. Barnes & Noble thought up a new concept for a physical bookstore, and Amazon thought up a brilliant system for selling books online. All of the following were major business innovations: Club Med, CNN, Dell Computer, Disney, Domino's Pizza, Federal Express, IKEA, McDonald's, watchmaker Swatch, Wal-Mart.

A company needs to pursue both continuous improvement and discontinuous innovation. Continuous improvement is essential, but discontinuous innovation would be even better. A greater sustainable competitive advantage can come from discontinuous innovation, albeit at a much greater cost and risk. The risk comes from several facts: The technology is evolving, there are competing technologies, the market is ill-defined, there is no delivery infrastructure, and timing of completion is difficult. Furthermore, marketing research is of little value. Discontinuous innovation hurts the bottom line in the short term, and it may not help the bottom line in the long term. The conventional new product process works well for continuous improvements but does not work for discontinuous innovations.

Where should companies go to get new product ideas? A marketer's normal answer is to ask customers what they need. Done right, this can yield useful ideas, but probably incremental rather than breakthrough ideas. Consumers would not have answered that they wanted a PC, Palm, Walkman, wireless phone, or camcorder. Akio

Morita, Sony's late CEO, said: "There was no need for market research. The public does not know what is possible. We do."³⁹

The truth is that ideas can come from anywhere, and not only from customers or the lab. Every firm is a potential hotbed of ideas, except the company fails to stimulate them or lacks a net to catch them. Why not appoint a high-level *idea manager* to whom salespeople, distributors, suppliers, and employees could send their ideas? The idea manager has a committee that finds the better ideas and rewards those whose ideas the company implements. The Dana Corporation, for example, expects every employee to place two ideas a month into the company's suggestion box on any improvements the employee senses, whether in selling, purchasing, energy use, travel, or other areas.

Companies that expect mild improvements can usually get them. The trick is to ask for a huge improvement. Instead of a 10 percent reduction in costs, ask for a 50 percent reduction in costs. Instead of a 10 percent improvement in productivity, ask for a tenfold improvement. The effect of this is to force everyone to reexamine the operation and design a better operation, instead of only squeezing out a little more from the present operation.

Every business should examine its *innovation index*. This describes the proportion of its sales derived from products less than three years old. No company will survive with a zero innovation index. A traditional business will have a hard time if its innovation index isn't at least 20 percent. High-fashion clothing businesses need at least a 100 percent innovation index to succeed. The message: *Innovate or evaporate*. (Also see Creativity, New Product Development.)