



**CHRISTINE  
McMAHON**

**BREAKTHROUGHS**

# Innovation needs to be a core competency

**A**re you pleased with the quality of innovative thinking at your company?

What percentage of your business is the result of new products and services that were introduced within the last five years?

Describe how innovation happens at your company.

Let's face it...finding an idea that generates an innovative product or service is difficult. Creating a constant stream of new innovations challenges even the best companies. Consider this sobering statistic: Research Technology Management concludes that it takes 3,000 new ideas to produce one successful new product launch. How many new ideas does your organization produce each year? Are you even close to that number?

The sheer number along with the complexity of bringing a new product or service to market makes innovation one of the most challenging issues leaders face today. The failure rate is nothing short of staggering.

On top of that, uncertainty riddles the entire process. Finding statistics for a market that doesn't currently exist is, well, like finding a needle in a haystack. Can you imagine developing the business case for ink jet printers before printers had been manufactured? How could anyone have projected back in 1984 that HP would be selling \$25 billion annually?

So what is an innovator to do? The

only way to predict the usage of a product is to go to the source – your customers. The most innovative companies in the world are also the most customer-centric. Had Segway founder Dean Kamen conducted appropriate market research, he may have reconsidered launching the technologically-advanced motor scooter that was marketed to be the alternative to an automobile. In the last five years, he has sold only 24,000 units versus the 260,000 he had originally predicted.

“Organizations that consistently lag in innovation may be heading for problems because innovation is the primary mechanism by which companies adapt to change. And since tomorrow's markets will be changing even faster than today's, the necessity to innovate will inevitably become even more pressing,” says business consultant and author Langdon Morris in his book *“Permanent Innovate!on.”*

Consider too, that product development cycles are getting shorter. Fifteen years ago, it took four years to design and build a new car. Today it only takes 18 to 24 months.

Generating new ideas that create incremental new market share is hard work (if it were easy, everyone would be doing it!). Technology allows companies to produce copycat versions in record time.

In his book, Morris describes four

types of innovation: Incremental Innovation, Product & Technology Breakthroughs, Business Model Innovations and New Ventures. Each addresses a different aspect for gaining a competitive advantage or at the very least, maintaining a competitive position.

Let's examine each strategy in more detail:

## Incremental Innovation

Incremental innovations are improvements made to existing products and services that improve the functionality, lower the cost, or change the product's appearance to create more “curb appeal.” Examples include: Crest Pro Health toothpaste; Bird's Eye Steamers; 100 calorie individual snacks; Oscar Meyer re-sealable bacon package. A whopping 95 percent of all new products are categorized as incremental innovations.

Launching an incremental innovation before your competition allows you to capture incremental market share, but usually just for a period of time until the competition catches up. If you are the lagging launcher, you may lose market share but will have retained more than if you didn't do anything at all.

The underlying power of continual, incremental innovation is seen through

Industry	Incremental Breakthrough	Breakthrough Product or Technology	New Business Model	New Venture
Autos	Remote controlled locking and unlocking	Minivan, airbags	Saturn	Saturn (GM); Lexus & Scion (Toyota)
Retail	Self checkout	Bar codes	Home Depot	Old Navy (Gap)
Trucking & Transport	Cross-docking	Bar codes; GPS	FedEx	???
Media	Live remote news	Blogs	CNN	MSNBC (Microsoft & NBC)

the track record of Taiichi Ohno, Toyota's legendary head of manufacturing. For 30 years he leveraged the power of incremental innovation to improve Toyota's manufacturing and assembly lines. Today Toyota is one of the most admired and efficient manufacturing companies in the world – setting industry standards that other automobile companies follow.

## **Breakthrough Product and Technology Innovation**

Innovations in this category are also referred to as “rupture innovations” because they disrupt the marketplace. They change consumption habits and attract new customers to the market. Consider how many people clung to their Sony Walkman, now considered a antique next to their iPod.

## **Business Model Innovation**

This type of innovation is when companies create a new business model that offers customers more value. Companies including Walmart, Nordstrom, and

Southwest Airlines found a different way to deliver value:

- » Walmart improved their distribution system and passed the cost savings onto the customer in the form of lower prices.
- » Nordstrom offered better selection and quality merchandise with a “no questions asked” return guarantee.
- » Southwest Airlines figured out how to unload, service and reload an airplane in less than 10 minutes passing the savings onto their customers in the form of lower fares while providing upbeat, friendly customer service.

Each of these companies has found a new way to serve its customers and the results speak for themselves.

## **New Venture Innovation**

These enlarge a company's scope of operation into markets that are so different from their current markets that they must be addressed by an entirely “new venture.” This is an organizational response to in-

novation where new skills, perspectives and a new identity are required. Examples include GE Financial, Saturn (owned but eventually not funded by GM) and W.L. Gore (owned by DuPont).

May I suggest that you make an innovation table for your industry and identify which patterns emerge? Don't be surprised if the majority fall into the Incremental Innovations category. Remember that 95 percent of all innovations are incremental.

Once that's complete, make a separate table showing the different types of innovations that your company has brought to market over the last 20 years. Since innovation is one of the core strategies for how companies adapt, grow and create their futures, according to Langdon Morris, what does this tell you about how innovation “lives” at your company? Is it a core competency, or is there room for improvement? ■

**Christine McMahon** is a business strategist. She can be reached at (414) 290-3344 or by email at: [ccm@christinemcmahon.com](mailto:ccm@christinemcmahon.com).