

Managing Product and Service Innovation

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Shorter product and service lifecycles, the advent of e-commerce and the increasingly rapid catch-up of me-too competitors have heightened the need for innovation in almost all organisations.

Whilst many organisations have a clear intent to foster innovation, few can overcome cultures which are risk-averse and consequently they come to depend on acquisition or good fortune.

We think there are better solutions.

Innovation: a working definition

Because the word “innovation” can suggest a wide range of activities or outcomes to different people, it helps to have some working definitions. We prefer a definition that states:

“Innovation creates a product or service that is not just new or novel but better. Innovation does not stop after new ideas are generated; it is part of a structured process that results in the creation and exploitation of a new product or service. An innovation can be an improvement either functionally or conceptually to something currently existing, or it creates new value where there is no existing comparative entity.”

If this definition is accepted, then innovation can be considered to exhibit a number of aspects and elements.

Some examples of different aspects of innovation are:

Functional innovation; the product or service provides a new function. Automatic Teller Machines are in this category because they required several inventions to provide the function. One was the paper money dispensing mechanism, which had to be extremely reliable in separating and delivering paper money that could be in a wide range of conditions (new, crisp vs. old, limp, ragged). This device had to be intelligently coupled to a bankcard reader, key board and real time accounts processing software to complete the overall functionality.

Concept innovation; although there is no new functionality incorporated, the customer perceives the product or service as new. The "People Carrier" (e.g. Renault Espace) is basically a goods transporter van with a luxury interior and re-configurable seating (not a new invention). This created a new segment of vehicle in the car industry.

Value innovation; an example is where a market segment's customer value profiles are analysed and a new profile is closely targeted. Formula One motels examined a part of the hotel market and chose to align their service offering to the "no frills" car traveller. Elements of the 'traditional' hotel infrastructure such as the restaurant and reception area were eliminated since they added no value in this new market segment. The motel has a convenient, clean, efficient, low cost approach that represents best value to a significant number of customers.

Key elements of innovation are:

Invention; invention depends on the creativity of individuals. Creativity can be either the 'lucky eureka' of an individual whose behaviour and perseverance are exceptional, or can be fostered within an organisation by attention to culture, organisation and tools and techniques.

Development and commercialisation; development processes that define the approach and review mechanisms, decision and selection criteria, resourcing and commercialisation are critical enablers for exploitation of invention.

Some organisations that are leaders in innovation

Within Financial Services in the UK some of the best known examples include:

First Direct: now part of HSBC this is an example of concept and value innovation in retail banking. The idea of using information technology and a telephone call-centre to provide 24 hour access at low cost was very different from the branch-based model that prevailed, and offered a clearly superior value proposition to an emerging consumer segment. The product offer of a cheque-account and linked credit card was standard. Also of interest is the choice of organisation i.e. autonomous operation and brand, to implement the new concept successfully.

Virgin Direct/Virgin One: the One account is perhaps the best example of real functional innovation in FS. The combination of current/loan/savings/mortgage/card accounts in one was briefly unique in the industry.

It is noticeable that within FS innovations such as these seem to be an exception. Also they are often associated with 'maverick' individuals (such as Richard Branson in Virgin) rather than the companies themselves. The organisations that are acknowledged as best at innovation are typically not in Financial Services. This is probably because industries that are subject to substantial regulatory controls designed to limit risk of loss tend to develop risk adverse cultures. As a result, most of the examples of innovation in FS come from processes or people imported from outside the industry.

Some of the companies that have an excellent reputation for innovation are:



3M (speciality chemicals, adhesives and consumer goods); this is the company that most famously invented “post it” notes and has a well known and much publicised process and culture to nurture and encourage innovation. Anyone in the company who wants to pursue a good idea can apply for funding and help to bring that idea to fruition in the marketplace. There is annual budget to fund a certain level of this activity across the organisation, there are phased review procedures in place to help select and advance the most promising ideas and most importantly there is a culture that encourages and supports this behaviour.

Hewlett Packard (electronics and office equipment) has a culture and innovation process similar to 3M. HP prides itself that up to 35% of its revenues are generated by products that have been introduced to the market in the two preceding years.

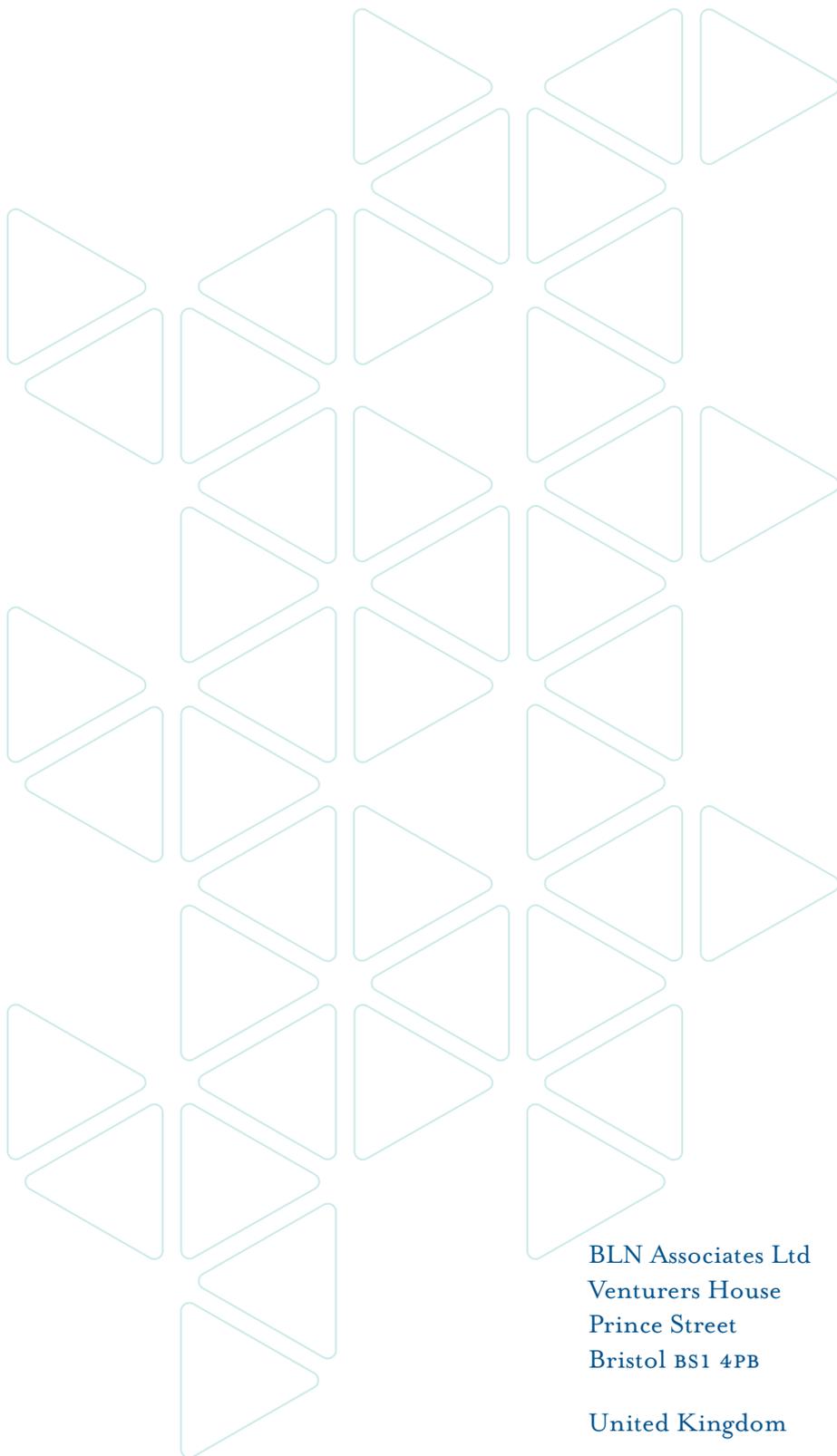
Sony (consumer electronics) has a structured approach that maximises its return on innovation. A repeated cycle of new platform and derivative innovation to continually lead the market has proved extremely successful. Examples are the range of Walkman, Watchman and Discman products.

The example of companies that consistently perform well in terms of innovation demonstrate that creation of appropriate culture, reward and business processes can deliver.

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