2005 The who, what and how of innovation

Everyone wants to innovate. It’s seen as the way to success. And it’s covered in glory. But ask 20 people how to achieve it and you’ll get 20 different answers.

This lack of clarity drove Professor Costas Markides mad and he’s spent the past 24 years unpicking what innovation is and how to do it – changing the way people think about innovation in the process. His ideas are now part of the framework for the core strategy course at London Business School. And he’s taught executives from major companies including Roche, LVMH, Nestlé and Zurich Financial Services.

Markides’ breakthrough was the insight that there are different types of innovation – strategic, product, business model, technological, process – and they each need a different approach to achieve them. “When someone’s sick and wants to feel better, the right medicine isn’t always aspirin,” says Markides. “Different diseases require different medicines and different types of innovation require different advice.”

New ways of finding a market
Take strategic innovation. This is essentially the discovery of a fundamentally different ‘who-what-how’ in a company’s business: a different customer to target; a different value proposition to offer; and a different way of playing the game. Companies are always trying to improve their existing who, what and how. But to be innovative they need to think of a different who, what and how. And Markides says the way to do this is by challenging their existing ways of competing and having the courage to experiment with new, radical ideas.

That’s the way Enterprise became America’s biggest car rental company, by finding a different ‘who’ – not travellers like all the other rental car companies, but people who needed a replacement car because theirs was out of action. And it’s the way Bright Horizons became the largest provider of employer-sponsored childcare – its customer wasn’t parents but companies.

Being a fast second
Then there’s the ultimate dream of innovators – inventing radical new products. Markides says the way to achieve this type of innovation is fundamentally different from the way you achieve strategic innovation. He worked with fellow London Business School Professor, the late Paul Geroski, to propose that big established companies don’t have to discover the new radical product themselves; in fact, they can’t because they’re set up to run big businesses not to have a try-anything, creative culture. So what they need to do is let the small start-up firms discover the product but then move fast enough to acquire it before anyone else does, and then scale it up – an activity that they’re really good at. So for radical product innovation, established companies don’t have to be the pioneers, they don’t need to be the first movers, they just need to be fast second – the subject and title of Markides and Geroski’s 2005 book.

“The insight here,” says Markides, “is that when you look at the evidence of radical product innovation it’s almost always an entrepreneur or a start-up firm that discovers it, but they’re almost never the ones that scale it up. It’s the big firms that scale up these radical products.”

Putting ideas into practice
Markides’ work with Sara Lee Douwe Egberts illustrates both these theories. In 1995, the company was challenged by a radical product innovation in its market in the shape of the Nespresso coffee machine. Markides’ advice was don’t panic, you don’t need to discover a new product, just take the idea behind this radical new product and scale it up. Second, he advised them to use his principles of strategic innovation to think of a different who, what and how.

Sara Lee developed the Senseo capsule system, which became a dominant product in the German and Dutch markets. While Nespresso delivers short espresso coffee at a high price, Sara Lee chose to offer long Americano coffee at a low price. They targeted a different ‘who’ in the shape of people who prefer a longer coffee rather than an espresso, and went after different countries from the ones Nespresso was targeting.

Now Markides, who’s a regular on the Thinkers 50 list of management gurus, is taking on a new challenge. He wants to apply his ideas about scaling-up innovations to the field of social entrepreneurship. He’s seen lots of successful small-scale social innovations that have failed to diffuse or scale up beyond the country where they were first introduced. He hopes to use his research on the diffusion of innovations to advise how to spread these social innovations so they can help many more people.

Costas Markides is Professor of Strategy and Entrepreneurship and the Robert P Bauman Chair in Strategic Leadership.