Innovation Explained

THE WHAT, WHY, HOW OF BETTER INNOVATION FOR LEADERS OF ALL LEVELS

JD Meier
In/jdmeier

“The business enterprise, has two – and only two – basic functions: marketing and innovation… All the rest are costs.”

-- **Peter Drucker**

Disrupt or Be Disrupted

Be the disruptor or be disrupted—the choice is yours.

About This Guide

I wrote this guide to help more leaders master one of the greatest skills you can learn for work and life.

If there's one thing you know, nothing stays static.

In addition to agility, the greatest skill you can learn is innovation.

The way you rise and thrive is to continuously reimagine yourself or your business.

The more you understand the different ideas and ways to think about innovation, them more flexible you become.

Challenge Yourself to Understand Innovation Better

When you read this guide, try to learn the following ideas:

1. What is innovation?
2. What are the types of innovation and why do they matter?
3. What are the highest impact types of innovation?
4. What is sustaining vs. disruptive innovation?
5. How to defend against and drive disruptive innovation?
6. How to organize and lead innovation?
7. What is the Two-Track Transformation model for innovation?

Why Does a Common Definition of Innovation Matter?

Innovation is a Team Sport

Innovation is a team sport.

If you want everybody to play the game, then they need to know what innovation actually is.

Plus, when you start from common ground, it's a firm foundation for everybody to build from and go deeper.

Here is now Jeff Degraff put it in his Inc. article on What is Innovation?:

"So why does a common definition of innovation matter? Because if you don't share a common description of what innovation is and how it is created you have little chance of achieving it with the other members of your organization.

This is particularly true for the entrepreneurial firm that is rapidly growing into something bigger and presumably better.

Sure everyone is working on innovation but since they all have their own interpretation of just what exactly that means they are not working toward the same outcome.

So they go their own way in the hopes that it will all sync up in the end. It seldom does."

What is Innovation?

What is Innovation?

Here are how a few dictionaries define innovation:

1. *the action or process of innovating*
2. *a new method, idea, product, etc.*
3. *something new or a change made to an existing product, idea, or field.*

I looked up how “innovating” is defined to see what exactly #1 means:

“make changes in something established, especially by introducing new methods, ideas, or products.”

So if we put it all together then:

“the action or process of making changes in something established, especially by introducing new methods, ideas, or products.”

It’s a bit wordy, but I do like how it boils down to changing something that’s established by introducing something new, whether that’s a process, a product, etc.

Innovation is the Act of Introducing Something New

While the details of the definition can be distracting, the key theme here is doing things differently, or new.

If you keep these two ideas in mind:

1. ***"the introduction of something new."***
2. ***"the act of making changes to something established."***

Then you will better understand disruptive innovation versus sustaining innovation.

But disruptive innovation isn't simply about the act of making something new.

It's more specifically about disrupting the incumbents or the masters of the market by changing the game either through a low-end product or creating a new market segment.

Off the Top of My Head...

During a podcast, I was asked how I define innovation.

I hadn’t thought about a crisp definition, but this is what popped out:

“Innovation is about applying creativity to bring ideas to the market.”

It’s not inclusive of all the variations of innovation, but what I wanted to remind people to apply creativity and imagination to solve customer’s pains, needs, and desired outcomes.

Innovation is the Adoption of New Ideas

I am always a fan of starting with simple, before getting into complexity and nuances.

A simple definition of innovation could be:

“Innovation is the adoption of new ideas.”

Colleagues and friends have a few variations of this, as all paths lead to the same town, but here’s why it rings true for me.

I learned long ago that adoption is the difference that makes the difference. Without adoption, you might have vision, dreams, ideas, and even execution.

But when you focus on adoption, that’s when you make innovation relevant and real.

Don't Change for Change Sake, Change for Goodness Sake

David Catzel, a former Microsoft colleague, suggested that I extend the definition to include the following:

"Innovation is the adoption of new ideas to improve, reimagine and advance the way you do things"

It helps remind us that it's not change for change's sake, but it's change for goodness's sake.

Innovation is the Engine for Growth

As a business leader, innovation is core to your business evolution.

Here is how Peter Drucker put it:

"Because the purpose of business is to create a customer, the business enterprise has two–and only two–basic functions: ***marketing and innovation****. Marketing and innovation produce results; all the rest are costs."*

But not all innovation is created equal.

How Everett Rogers Defines Innovation

Here is how Everett Rogers, famous for his "Diffusion of Innovation Theory", defined innovation:

*"Innovation is an idea, practice, or object **perceived as new** by an individual or other unit of adoption."* (Rogers, 2003)

That "perceived as new" part really got my attention when I first heard it.

It's a reminder that if your customer doesn't feel the change, then it might not be much of one.

How I Define Innovation

I like to keep things simple so in practice, here is how I define innovation:

"Innovation is the introduction of something new."

In a business context, I tend to define innovation like this:

"Innovation is bringing new ideas to life in the market."

I think it helps to think of innovation as bringing new ideas to market. You can innovate in your product, or in your process.

Another way I put it is like this:

"Innovation is the creation of new value through applied creativity."

What I like about defining innovation in this way is that it reminds us that innovation is a skill and it's a way to apply creativity to create new value.

Whether it's a new approach, a new process, a new product, a new idea, a new way of doing something, the key to me is that innovation is applying creativity to create new value.

And of course, some innovations are accidental discoveries (like when 3M created Post-Its / sticky notes, while trying to create a better, stronger, tougher adhesive).

How I Think About Innovation

How I Think About Innovation

When I think about innovation in a very broad way, I think of it as a tool for solving some of the world’s toughest challenges whether it’s education, poverty, hunger, energy, etc.

In fact, innovation is most likely how we will address and solve the 17 sustainable development goals of the United Nations.

I think of innovation as a challenge to the status quo. It’s a way to think differently. It’s a way to change the way things have always been done.

I also think of innovation as a way to create new value or to solve problems in new ways.

By thinking of innovation as applying creativity and imagination to solve problems and do things differently it turns innovation into a skill that anybody can learn.

Adapt and Evolve in an Ever-Changing World

Perhaps the most important concept in my mental model is how continuous innovation is a way to respond to disruptive threats and adapt and evolve in an ever-changing world.

So basically, you can innovate in something existing (an idea, a process, a product) or you can bring something brand new to the table.

What innovation masters know that others don't, is that some of the best innovation comes from transforming the end-to-end experience for users and consumers.

After all, the purpose of a business is to create a customer. And the essence of the business it creating a value exchange with customers.

There is a lot of room to reimagine new ways to create and capture value all along the journey of an end user.

3 Types of Innovation

3 Types of Innovation According to Clayton Christensen

Clayton Christensen describes the three types of innovation as:

1. **Sustaining Innovation**. Sustaining innovation is simply an improvement to an existing product or service. This is where you make your good products better for your most sophisticated and demanding customers. This is where big companies tend to focus because they find their best profits. And this is what actually creates space for new entrants and disruptors.
2. **Low-End Disruption**. Low-end disruption is when businesses come in at the bottom of the market with a “good enough” product at a cheaper cost. According to Christensen, this is disruptive innovation where a smaller company with fewer resources moves upmarket and, ultimately, captures the incumbents’ customers, who have adopted it into the mainstream.
3. **New-Market Disruption**. This is market-making disruption. New-market disruption is when businesses create a new segment in an existing market to reach underserved customers. These businesses basically turn products and services that were once expensive and unattainable into something affordable and accessible to a larger population of people.

The big difference between the low-end disruption and new-market disruption is that low-end disruption focuses on over-served customers, while new-market disruption focuses on underserved customers.

Disruptive Innovation

What is Disruptive Innovation?

Clayton Christensen coined the term “Disruptive Innovation” in his 1997 book, The Innovator’s Dilemma.

Here is how Christensen defined disruptive innovation:

“Disruptive Innovation describes a process by which a product or service initially takes root in simple applications at the bottom of a market—typically by being less expensive and more accessible—and then relentlessly moves upmarket, eventually displacing established competitors.”

In other words, disruptive innovation is a process where a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up the market, and eventually displaces established competitors.

Disruption Can Be Low End or New Market

A disruptive innovation is often a simpler, low-grade solution that's more accessible and more affordable to a larger population, which opens it to an entirely new market.

Disruptive innovations are usually underrated at first, but their low cost and other advantages helps them move up the market and displace their sophisticated competitors.

Disruption can be low-end or new-market, and disruptive innovation is a process rather than a product or service.

According to Christensen:

"If you come to the bottom of the market, you create a situation where the giant company is motivated to flee, rather than fight you. They won't fight you, because there's no profit in it, and it's very hard for companies to pursue opportunities where there's no profitability.

Low-end disruption doesn't create new markets, you just gain market share against the old. New-market disruption competes against the original players by going after new customers that these companies aren't interested in, selling them a simple product."

How “Disruption” Gets Misused

Not all innovation is disruptive. It’s a common mistake where anything new or different gets labeled as “disruptive” innovation.

After all, anything that enters a market and interrupts or changes the normal progress or activity of something could be seen as “disruptive”.

But that’s not what Christensen had in mind when he defined disruptive innovation.

Christensen was very specific about the concept of disruptive innovation:

“what happens when the incumbents are so focused on pleasing their most profitable customers that they neglect or misjudge the needs of their other segments.”

This is an important concept because it’s the basis for the idea behind the innovator’s dilemma.

The Innovator’s Dilemma

The Innovator’s Dilemma

In the book, The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail, Clayton Christensen coined a key concept that is core to managing innovation.

The innovator’s dilemma is the choice that every innovator faces whether to continue their success by investing in their existing customers and products, or invest in new uses cases, new business models, and new markets.

It’s a paradox because the same practices that lead the business to be successful in the first place, can eventually result in its demise.

It’s the practice of focusing investments on those innovations that promise the highest returns.

That’s smart business.

But that’s also how companies miss out on new waves of innovation.

What a dilemma.

Remember the key to addressing a dilemma is that it’s a challenge to be managed, not a problem to be solved.

Sustaining vs. Disruptive Innovation

Sustaining vs. Disruptive Innovation

This is perhaps one of the most important concepts to deeply understand to inform how you structure and manage innovation.

What usually happens is business leaders wrap their business around their most profitable customers and solve their most complex challenges.

Basically, you sell more products to your most profitable customers.

That’s a path to profit.

That’s sustaining innovation because you are basically sustaining your high-end customer set.

Sustaining Innovation

Sustaining innovation tends to create new products to sell, but not new buyers and not new markets or economies.

The whole business, or organizations, or teams might be fully focused on running the business and sustaining innovation.

The leaders, the KPIs (Key Performance Indicators), the processes, and the talent all reinforce optimizing around the current business model.

Disruptive Innovation: Low End Disruption and New Market Disruption

Anything that challenge the current business model is a threat.

It's the innovator's dilemma.

The core business is focused on innovating with its top customers and efforts that drive the immediate and near-term bottom line.

So if you are ever wondering why the organization you are in won't entertain new ideas that are outside the box or focus on customers not on the scorecard, you are in an organization that's driving sustaining innovation.

This sets the stage to be disrupted.

And this is where Clayton Christensen called out the two main ways of disrupting:

1. low-end disruption
2. new-market disruption.

Keep Disruption Outside of the Core

Keep Disruption Outside of the Core

In the HBR article, What is Disruptive Innovation, Clayton Christensen, Michael Raynor, and Rory McDonald, recommend keeping disruptive innovation outside the core business.

Christensen, Raynor, and McDonald write:

"Our research suggests that the success of this new enterprise depends in large part on keeping it separate from the core business. That means that for some time, incumbents will find themselves managing two very different operations. Of course, as the disruptive stand-alone business grows, it may eventually steal customers from the core. But corporate leaders should not try to solve this problem before it is a problem."

You Need to Protect Disruptive Innovation

There are very good reason to keep the disruption as a separate division, org, or team.

The disruptive work is going to require very different values, KPIs, and skillsets.

It’s going to be a very different culture.

If you try to do the disruptive innovation from the core, the anti-bodies in the system will come out.

The disruptive efforts will lose to the current business efforts.

The sustaining efforts will eat the disruptive innovation efforts, which is why you need real clarity around how you are managing sustaining vs. disruptive innovation.

How To Defend Against Disruption

How To Defend Against Disruption

The good news is that true disruptive innovation is rare.

That said, it’s easy to follow the money with your top customers and gradually become irrelevant in the market or displaced.

So how do you defend against disruption?

By designing your business for it and being intentional about how you address disruptive innovation.

You should respond to disruptive innovation, but don’t overreact. In other words, don’t dismantle your current business.

Clayton Christensen on How To Defend Against Disruption

In the HBR article, What is Disruptive Innovation, Clayton Christensen, Michael Raynor, and Rory McDonald, outline ways to protect from disruption:

1. Invest in sustaining innovation to bolster relationships with existing customers.
2. Invest in disruptive innovation by creating a new division to go after the growth opportunities

How Incumbents Defend and Claim Their Future

In the Wikipedia article, The Innovator's Dilemma, there is a summary of key strategies per Christensen.

Here is how to incumbents defend and claim their future:

- They develop the disruptive technology with the "right" customers. Not necessarily their current customer set.
- They place the disruptive technology into an autonomous organization that can be rewarded with small wins and small customer sets.
- They fail early and often to find the correct disruptive technology.
- They allow the disruption organization to utilize all of the company's resources when needed but are careful to make sure the processes and values were not those of the company.

How McKinsey Says to Defend Against Disruption

How McKinsey Says to Defend Against Disruption

In the brilliant article The best response to digital disruption, Jacques Bughin and Nicolas van Zeebroeck concluded the best response for disruption by leaders is a three-pronged approach:

1. **Develop new customer segments.**
2. **Introduce new business models.**
3. **Redefine the value chain.**

Their conclusion is backed by amazing insight through breadth and depth research

How McKinsey Frames the Problem

The authors framed the problem this way:

“Few executives would argue that digitization’s disruptive influence is growing — and growing rapidly. But surprisingly little empirical evidence has captured either the magnitude of digital disruption or how incumbents are reacting on a broad scale.

Leaders know they have a problem — and know they must react to that problem — but they have little guidance to determine the right course of action.”

McKinsey Says Adopt Bold Offensive Strategies

The key issue for incumbents is:

“Successful new entrants pose dual threats: They pull industries in new digital directions while gaining a huge head start in reaping the benefits from the new models they are creating. “

According to McKinsey, the bottom-line solution is:

“Companies that adopt bold offensive strategies in the face of industry digitization will come out the winners.”

Two Criteria to Measure Boldness

Boldness is measured against two criteria:

1. the intensity of its strategic response (from "no or ad hoc responses" to "changes to the long-term corporate strategy")
2. level of investments in digital technology relative to its competitors (from "significantly underinvesting" to "significantly overinvesting").

Bold Responses Pay Off Twice as Much, and Three Times as Much

According to Bughin and Zeebroeck, Companies should consider at least two dimensions when devising the type of bold reactions needed to compete:

1. Concentrating on new customer segments rather than exclusively on current customers
2. Focusing on new ways to re-segment the market, instead of relying solely on cost cutting and labor saving through automation.

What they learned from their research is:

1. Incumbent companies are usually better off reacting than not reacting.
2. On average, bold, at-scale responses pay off twice as much as semi-bold reactions and three times as much as medium reactions.
3. To do better than just break even on digital disruption, companies must also integrate digital strategy into their corporate strategy.

Why is a Bold Response to Disruption Necessary?

Why is a Bold Response to Disruption Necessary

You need to outpace and outsmart the kind of competition through imitation that going digital can trigger.

In The best response to digital disruption, Jacques Bughin and Nicolas van Zeebroeck explain why it’s necessary to take bold action if you want to win.

Digital disruption creates two loops:

1. the loop of disruption itself, where incumbents try to respond to the new models and
2. the loop of intense competition among legacy companies.

The Two Loops Erode Profits

These two loop effectively erodes profits for incumbents:

“Across countries, digitization has a significant negative impact on the profits of incumbents through two loop effects:

digital entrants competing with incumbents through disruptive models, and incumbents responding to disruption and creating more intense competition with each other.”

Red Queen Competition

The key thing to keep in mind is that you have to respond to both digital disruption and potential Red Queen competition.

Red Queen competition, where "innovation becomes imitation", can hurt just as much as digital disruption:

"While most executives intuitively understand the pain inflicted on incumbents by digital entrants in the first loop of digitization, the second loop — how legacy companies react to each other — can hurt just as much.

In fact, we contend that incumbent responses to digital disruption can trigger 'Red Queen' competition6 in which legacy companies engage in aggressive imitation — first in response to digital entrants and then in response to one another — in a self-reinforcing process.

(This kind of competition is named for the Red Queen, a character in Lewis Carroll's Through the Looking-Glass, who engages in a foot race in which competitors run hard just to stay in the same place.)"

The Double Whammy of These Double Loops

It’s the double whammy of these double loops that require a bold response:

“These two loop effects suggest that organizations should go on the offensive:

A successful digital strategy built on a scale larger than that of the rest of the industry yields the largest returns and may offset the full competitive impact of digitization.”

The answers is bold action if you don’t want to be left behind:

“To understand why requires us to go back to the logic of the two loops.

Any reaction to digital pressure is likely to be matched by Red Queen competition of the same magnitude.

That means companies need to act more boldly than the average incumbent if they wish to outperform their industry.”

Not Just Bold,
But Quick Too

Keep in mind, it's not just bold action.

It's also about creating quick disruption:

"And the reaction must be more than simply bold: It should be appropriate in the face of digital entrants. Because digital entry is usually disruptive, the incumbent must also be disruptive — and quickly — to both limit the loss of competitive ground against digital newcomers and take advantage of other incumbents that are slow to respond."

Creative Destruction is the Key to Survival

“In order to change an existing paradigm, you do not struggle to try and change the problematic model. You **create a new** model and make the old one obsolete.”

-- **Buckminster Fuller**

How Creative Destruction is the Key to Survival in a Hypercompetitive, Digital World

Lou Basenese is an independent analyst and investor at Disruptive Tech Research.

Basenese says the key to survival is a strategy of Creative Destruction.

Here is how Lou explains what is Creative Destruction:

“Few companies have the guts to kill an iconic… admired… refined… brilliantly conceived… historically significant… multibillion-dollar business… ON PURPOSE….

See, by strategically killing, say… an aging business model… a declining product… an outdated design…

… a tired brand… a fading trend… Sears, Dell, Blockbuster, America Online, Kodak, MySpace, and Yahoo could’ve stayed perched atop their kingdoms.

It’s called ‘creative destruction.’”

Two-Track Transformation for Innovation

Innovation Beyond
“Business as Usual”

Why Two-Track Transformation for Innovation?

I created the Two-Track Transformation for Innovation model after I found myself having the same whiteboard discussions again and again.

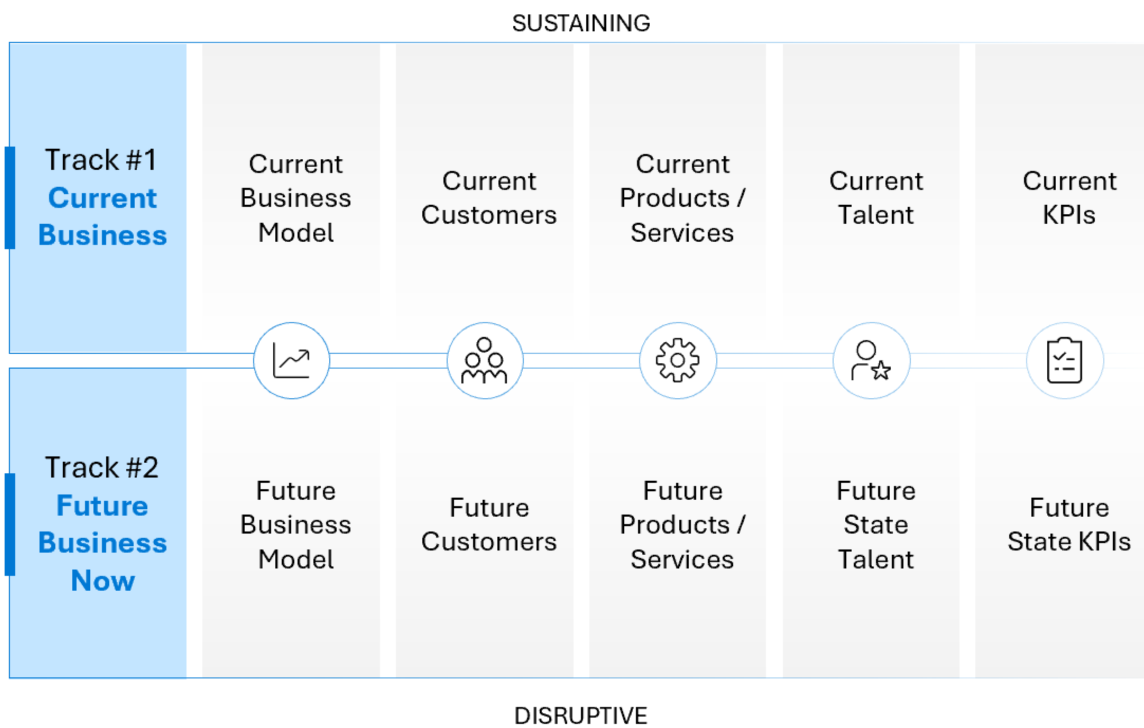
I found that leaders were confused about how to manage their core business, while changing the business for the future.

They kept putting their future, out there, in the future, and, at the same time, putting their future business at risk.

I needed a simple mental model that more leaders could understand how to "run the business", while you "change the business."

You need to work on your future business now, or you lose.

Two-Track Transformation for Innovation



The Keys to Two-Track Transformation

Validate your Future Business value through small business experiments, today!

Work backwards from high value, compelling Future State Scenarios, while working forwards, today!

Disrupt yourself before others disrupt you, today!

Intentional Innovation

What Satya Nadella Taught Me About Intentional Innovation

Intentional Innovation simply means that you are structuring and supporting innovation with a purpose.

The example I like to use is that when Satya Nadella setup our innovation team, he gave us a very clear charter:

“Bring me new business models.”

Simple and clear, but it also helped ensure that we were focused on business model innovation and creating new business models versus working on science projects or hoping something great happened.

Intellinet on Intentional Innovation

Here I like the simple definition by Intellinet:

*"Intentional Innovation is the **practical alignment of strategy with the capabilities of an organization**."*

Intelli-Think on Intentional Innovation

I also like the definition from Intelli-Think:

"Intentional Innovation is ***a structured business system enabling an organization or individual to focus their brain power on meaningful and unique business ideas."***

Teaching Strategies on Intentional Innovation

To round it out, I also like a distinction that Teaching Strategies shares regarding change vs. innovation:

"The difference for me between change and innovation is intentionality. When fueled with purpose and direction, change becomes innovation."

I think another perspective to consider here is that hope is not a strategy, so you might be more effective if you are intentional about innovation versus just hoping innovation happens.

Management Innovation

Management Innovation

In the book The Future of Management, Gary Hamel walks through the Innovation Stack and how Management Innovation is at the top of the pyramid.

In the Innovation Stack, Hamel identifies Management Innovation, Strategic Innovation, Product Innovation, and Operational Innovation.

Hamel writes:

"Innovation comes in many flavors; operational innovation, product innovation, strategy innovation, and, of course, management innovation. Each genre makes its own contribution to success, but if we were to array these various forms of innovation in a hierarchy, where higher tiers denote higher levels of value creation and competitive defensibility, management innovation would come out on top. "

Management Innovation Creates Difficult-to-Duplicate Advantages

In terms of impact, Hamel puts Management Innovation at the top of the stack and Operational Innovation at the bottom of the stack.

Hamel writes:

“The point is, not all types of innovation are created equal. When focused on big, chunky problems, management innovation possesses a unique capacity to create difficult-to-duplicate advantages.

Why?

Because some heresies are more heretical than others. You, for example, would probably find it easier to adjust your fashion preferences than to transpose your religious beliefs.

Similarly, most executives find it easier to acknowledge the merits of a disruptive business model than to abandon the core tenets of their bedrock management beliefs.”

Business Model Innovation

Business Model Innovation

One of the best things that Satya Nadella did was to focus our innovation team very specifically on business model innovation.

Satya used a very simple mantra:

"Bring me new business models!"

This was a super smart move because it kept us from working on science projects and gave us the charter to bring new business models that would shape the future.

It instantly made our innovation efforts relevant to the core business and informed future direction.

That said, I found it really difficult to have conversations about business model innovation unless somebody knew what a business model actually is.

The book I turned to was The Business Model Navigator.   The reason it was so helpful was because it was so clear about what a business model is.

What is Business Model Innovation?

The authors of Business Model Navigator very clearly laid out what a business model is and what business model innovation means:

- **Business Model**: The business model defines who your customers are, what you are selling, how you produce your offerings, and why your business is profitable.
- **Business Model Innovation**: Business model innovation is when you innovate two or more elements of your business model.

What is Business Model Navigator Based On

What is Business Model Navigator

The authors of the Business Model Navigator analyzed successful business models of the past 50 years, plus a number of pioneering ones from the past 150 years, as well as analyzing why a company's business model failed to work.

They found 55 recurring business model patterns that you can use to inspire and recombine your business model components into new ones.

The 4 Parts of a Business Model

According to the authors of the Business Model Navigator, your business model is the constellation of your customer segments, your value proposition, your value chain, and your profit mechanism.

The authors calls this constellation the “magic triangle”.

Here are the 4 parts of a business model:

1. **Customer**: Who? Who is your target customer segment?
2. **Value Proposition**: What? What do you offer to the customer?
3. **Value Chain**: How? How is the value proposition created?
4. **Revenue model/Profit Mechanism**: Why does it generate profit?

The Key to Business Model Innovation

Remember that true business model innovation requires modifying at least 2 of the 4 dimensions of your business model.

According to the authors of The Business Model Navigator, successful business model innovation can be constructed through creative imitation and recombination.

And that’s exactly what I’ve seen in practice as companies in every industry have reinvented themselves and reimagined and reengineered new business models.

The How of Business Model Innovation

“Innovate, then integrate.”
-- **Steve Ballmer**

The How of Business Model Innovation

The authors of The Business Model Navigator use a process and structured approach.

This helps you break with your dominant industry logic and adapt the pattern to your company's specific context and create an innovative variant.

Distinguish Between Design and Execution

The authors distinguish between two phases in the business model innovation process:

1. **Design**
2. **Execution**

The idea is that first the analytical and creative part has to be done, which is an iterative design cycle.

Then, after the first draft of the concept is developed, implementation of the pilot begins, including identifying lead users and lead markets.

4 Steps to Business Model Innovation

The Business Model Navigator approach to business model innovation is 4 steps:

1. **Initiation**: Analyze your current business model at the 30,000 foot view using the 4 core dimensions who-what-how-why. Analyze the actors (customers, partners, and competitors). Analyze the influencing factors in your ecosystem (megatrends, regulatory changes, global scenarios, etc.). Write a eulogy for your business model based on what you find to distance yourself from your current model and to think critically.
2. **Ideation**: Find and compare relevant business model patterns based on similarity and extreme differences. Adapt the patterns and evaluate against the NABC method (Need, Approach, Benefits, and Competition).
3. **Integration**: Shape your new business model. From your rich harvest of ideas for a potential new business model, your new ideas must be shaped into a coherent business model (who-what-how-why). The new business model needs to break with the dominant industry logic and have a high level of internal consistency without being based on an established model.
4. **Implementation**: Realize your plans. Now that you've designed your business model, you implement it and build feedback loops. Test and adapt as you introduce your new business model into the market.

Explore Case Studies and Business Model Patterns

You can explore the database of case studies and business model patterns at The Business Model Navigator database.

The Business Model Canvas

The Business Model Canvas

One of my key tools of choice as head coach for Satya Nadella’s innovation team was to use the Business Model Canvas.

I used it differently from most people in that I created two versions:

1. Current State Business Model
2. Future State Business Model

I did this because I found it helped frame the focus better and to help get the right people focused on the right things.

Whenever I saw someone try to show everything on one canvas, it was a mess and people got confused.

Tony Robbins on Radical Innovation

Tony Robbins on Radical Innovation

Here is Tony Robbins on what is Radical Innovation:

"Radical innovation is a transformative business model that seeks to completely demolish and replace an existing industry or create a whole new industry.

It takes an existing system, design or invention and turns it into something brand new.

It may change the parts of the system, the processes of the system or both."

How Tony Robbins Walks Through the Innovation Spectrum

Here is how Tony Robbins walks through the innovation spectrum:

1. **Incremental Innovators:** Are businesses that typically sell an existing product, technology or service within an existing market. They innovate as necessary to stay in the game and make a profit, but they prefer to remain relevant without causing an industry-wide stir.
2. **Architectural Innovators:** Are businesses that take an existing product or service, tweak it to match slightly different needs and sell it to a new market. It’s a low-risk form of innovation because products and processes don’t change; they’re applied to a new market.
3. **Disruptive Innovator:** Are businesses that create a new product or service to sell to an existing market. They’re often successful because they enter the low end of the market, snagging customers largely ignored by established companies.
4. **Radical Innovators:** Are businesses that create new information or products that transform the industry. They are similar to disruptive innovators, but rather than entering an existing market, they create an entirely new market for their product.

Once you understand how to think about Radical Innovation, it helps to also be familiar with a common way to speak about innovation in terms of 3 levels (Incremental, Radical, and Breakthrough innovation).

The 3 Levels of Innovation: Incremental, Radical, and Breakthrough Innovation

The 3 Levels of Innovation: Incremental, Radical, and Breakthrough Innovation

Another aspect of innovation is the level or magnitude of the innovation.

This is where people tend to classify innovation into 3 categories:

1. Incremental Innovation
2. Radical Innovation
3. Breakthrough Innovation.

The 3 Levels of Innovation

Here is a summary of each level of innovation:

1. **Incremental Innovation**. According to MassChallenge.org, “Incremental innovation is a significant improvement or upgrade to the performance or functionality of an existing business model, product, service, or process.”
2. **Radical Innovation**. According to MassChalenge.org, “A radical innovation, or disruptive innovation, is a significant breakthrough from a new business model, technology, process, or concept that disrupts the existing market.”
3. **Breakthrough Innovation**. According to Yonder Consulting, “ “Breakthrough innovation is difficult as it requires the introduction of either a new technology or a new business model. Breakthrough innovation is high risk as it requires greater investment than incremental innovation in terms of capital, time and resources. However, the rewards can be greater too: it often results in a product or service which provides significantly better value to customers than the existing market offering.”

Know the Distinction Between Radical Innovation vs. Breakthrough Innovation

I’ve found it helpful simply to be familiar with the categories and to understand what makes an innovation a Breakthrough Innovation versus Radical Innovation, since, they could sound like the same thing, unless you know the distinction.

The Innovation Ambition Matrix: Core Innovation, Adjacent Innovation, and Transformational Innovation

The Innovation Ambition Matrix

There is another idea that's important to understand if you want to grow your business beyond its core or transform your business.

It's how to think about your portfolio of innovation efforts and how to group them.

In the HBR article, Managing Your Innovation Portfolio, Bansi Nagji and Geoff Tuff outline how successful companies aim at breakthrough product development.

Successful companies think about and organize their innovation initiatives for transformational innovation in addition to incremental innovation.

To do so, Nagil and Tuff share the The Innovation Ambition Matrix which calls out 3 types of innovation

Core Innovation, Adjacent Innovation, and Transformational Innovation

Nagil and Tuff share the The Innovation Ambition Matrix which calls out 3 types of innovation:

1. **Core Innovation**: Incremental improvements to existing products or services using current capabilities. Examples include Nabisco's 100-calorie Oreo packets and Dow AgroSciences' liquid herbicide. Focused on enhancing existing offerings but can lead to product proliferation and revenue fragmentation.
2. **Adjacent Innovation**: Expanding into new markets or applications by leveraging existing capabilities. Examples are P&G's Swiffer, which reimagined floor cleaning based on existing customer insights and new techniques. It involves applying current strengths in new ways.
3. **Transformational Innovation**: Creating entirely new products, services, or businesses for new markets. This type includes breakthrough innovations like iTunes, the Tata Nano, and Starbucks' unique in-store experience. It requires developing new capabilities and understanding uncharted customer needs.

Why Do These Distinctions Matter?

All too often companies repeat a cycle where they kill their innovation, because they can't grow beyond their core.

Nagji and Tuff write:

"Unfortunately, this company's structure and processes were not set up to execute on that ambition; although it had the requisite capabilities for envisioning, developing, and market testing innovations close to its core, it neither recognized nor gained the very different capabilities needed to take a bolder path.

Its most inventive ideas ended up being diluted beyond recognition, killed outright, or crushed under the weight of the enterprise. Before long the company retreated to what it knew best.

Once again, little was ventured and little was gained—and the cycle repeated itself."

The Most Successful Companies Manage for Total Innovation

The most successful companies manage for total innovation.

Nagji and Tuff write:

"The companies we've found to have the strongest innovation track records can ***articulate a clear innovation ambition; have struck the right balance of core, adjacent, and transformational initiatives across the enterprise****; and have put in place the tools and capabilities to manage those various initiatives as parts of an integrated whole.*

Rather than hoping that their future will emerge from a collection of ad hoc, stand-alone efforts that compete with one another for time, money, attention, and prestige, they manage for 'total innovation.'"

The 70-20-10 Rule of Innovation

The 70-20-10 Rule of Innovation

If you put your innovation efforts on a chart, organized by Core, Adjacent, and Transformational innovation, it's also helpful to understand how to spread your investments.

A rather well-known ways is the 70-20-10 Rule of Innovation.

Ken Hudson's 'Speed Thinking' blog shared the investment considerations for teach type:

- **70% – Core:** "Innovation efforts in the core (i.e. use existing products and assets to serve existing markets and customers)."
- **20% – Adjacent:** "Innovation projects– expand from existing business into new to the company (i.e. add incremental products and assets and enter adjacent markets and serve adjacent customers e.g. Google Maps)."
- **10% Transformational:** "Developing breakthroughs and inventing things for markets that don't yet exist (i.e. develop new products and assets and create new markets and target new customer needs e.g. ipad)."

Transformational Innovation is the Biggest Risk and Biggest Reward

While the 70-20-10 Rule of Innovation has been discussed before, Najgi and Tuff tried to make it a more generic model.

The most important take away might be this:

“Yet here is the rub. In terms of innovation returns — the core generates 10%, the adjacent 20% and the transformational 70%.”

While Transformational innovation might be the biggest risk, it is also, the biggest reward, by far.

6 Archetypes for Organizing Innovation

6 Archetypes for Organizing Innovation

In the article, How To Organize Innovation, Jesse Nieminen identifies 6 archetypes or common approaches to organize and govern innovation:

1. **No in-house innovation** – The first and simplest way to organize innovation is to not do it, or to completely outsource it. Perhaps the most common method here is to simply keep tabs on promising startups and then acquire them, or to have tight collaboration with universities and other research institutions.
2. **Centralized** – a centralized department that serves the innovation needs of the entire organization including each business unit and support functions, such as IT or HR. This can be a subdivision within R&D, but these days it's typically a separate crosdepartmental unit serving the innovation needs of business units
3. **Dedicated** – a dedicated team for innovation; popularized by Clayton Christensen to address the Innovator's Dilemma
4. **Embedded** – innovation is embedded within business units
5. **Ambidextrous** – innovation should happen across the organization with existing business units focused on exploiting their current position through incremental innovation, and a separate dedicated unit being responsible for exploring and building the future of the organization through more radical or disruptive innovation.
6. **Decentralized** – the organization decentralizes the responsibility for innovation to happen in individual teams (which are typically cross-functional and relatively small) across the organization.

Why Opt for Decentralized Innovation?

While every archetype has pros and cons, according to Jesse Nieminen, the Decentralized approach is the likeliest to lead to sustained levels of high innovation performance in the 21st century.

Here are a few potential benefits of this model:

- *Extremely high throughput and pace of innovation*
- *Ability to adapt, re-organize and meet changing demands quickly*
- *Strong focus on execution and value creation*
- *Clear roles and responsibilities*

10 Types of Innovation

10 Types of Innovation

In the book, Ten Types of Innovation: The Discipline of Building Breakthroughs, the authors Larry Keeley, Ryan Pikkel, Brian Quinn, and Helen Walters identify 10 types of innovation.

Here are the 10 types of innovation:

1. **Innovation Process** – How a company organizes to support innovation
2. **Core Process** – Proprietary processes that add value
3. **Product/Service Performance** – Basic features, performance, and functionality
4. **Service Systems** – Extended system that surrounds an offering
5. **Customer Service** – How you service your customers
6. **Delivery** – How you connect your offering to your customers
7. **Brand** – How you express your offering's benefit to customers
8. **Customer Experience** – How you create an overall experience for customers
9. **Business Model** – How the enterprise makes money
10. **Value Network** – Enterprise structure and value chain

How I Think About the 10 Types of Innovation

Really, the 10 types of innovation is a helpful map of where to think differently in your business and where to apply new ideas.

Inside-Out vs. Outside-In

The authors group the innovation types into Inside-Out and Outside-In:

Inside-Out	• *Innovation Process* • *Core Process* • *Product/Service Performance* • *Service Systems* • *Customer Service*
Outside-In	• *Delivery* • *Brand* • *Customer Experience* • *Business Model* • *Value Network*

Process, Offering, Delivery, and Finance

The authors also group the innovation into an overall framework of Process, Offering, Delivery, and Finance:

Process	• *Innovation Process* • *Core Process*
Offering	• *Product/Service Performance* • *Service System* • *Customer Service*
Delivery	• *Channel* • *Brand* • *Customer Experience*
Finance	• *Business Model* • *Value Network*

15 Types of Product and Service Innovation According to Geoffrey Moore

15 Types of Product and Service Innovation According to Geoffrey Moore

In the book, Dealing with Darwin: How Great Companies Innovate at Every Phase of Their Evolution, Geoffrey Moore writes about 15 types of innovation:

1. *Disruptive Innovation*
2. *Application Innovation*
3. *Product Innovation*
4. *Platform Innovation*
5. *Line-Extension Innovation*
6. *Enhancement Innovation*
7. *Marketing Innovation*
8. *Experiential Innovation*
9. *Value-Engineering Innovation*
10. *Integration Innovation*
11. *Process Innovation*
12. *Value-Migration Innovation*
13. *Organic Innovation*
14. *Acquisition Innovation*
15. *Harvest and Exit Innovation*

Grouping the 15 Types of Innovation Into Themes

Moore organizes the 15 innovation categories into a process model to address how innovation supports company evolution:

Product Leadership	• Disruptive Innovation • Application Innovation • Product Innovation • Platform Innovation
Customer Intimacy	• Line-Extension Innovation • Enhancement Innovation • Marketing Innovation • Experiential Innovation
Operational Excellence	• Value-Engineering Innovation • Integration Innovation • Process Innovation • Value-Migration Innovation
Category Renewal	• Organic Innovation • Acquisition Innovation • Harvest and Exit Innovation

5 Key Types of Innovation for Business Evolution

5 Key Types of Innovation for Business Evolution

In my own experience, I’ve really focused on 5 key types of innovation to evolve a business:

1. **Product Innovation**
2. **Process Innovation**
3. **Business Model Innovation**
4. **Experience Innovation**
5. **Paradigm Innovation**

#1. Product Innovation

Product innovation is, as it sounds, coming up with an innovative product or solution.

#2. Process Innovation

Process innovation is innovating in the process to find new ways to make things better, faster, cheaper.

I learned the hard way that if you don’t innovate in your process, you can get priced out of the market—development gets too expensive.

#3. Business Model Innovation

Business model innovation is really the essence of evolving a business. Think about the forcing function that happens when you change to a subscription model. This alone can make or break a company.

What I like about Business Model Innovation is that, when done well, it's pretty encompassing because you are actively considering customers, value props, value chains, and revenue models.

#4. Experience Innovation

Experience innovation is a common place find and create innovative opportunities.

Integration and cross-pollination are ripe ways to reimagine the experience.

#5. Paradigm Innovation

Paradigm innovation is where you flip the model around or really disrupt what is expected.

For example, think of Amazon’s approach to how your groceries come to you, or grab and go at the check out.

Think about how Cirque Du Soleil changed the paradigm from a circus of animals for the family to a circus of gymnasts for adults.

Blue Ocean Strategy is a great method for shifting the paradigms and flipping the value model.

In general, all Paradigm Innovation is Experience Innovation, but not all Experience Innovation is Paradigm Innovation.

Characteristics of Great Innovators

Characteristics of Great Innovators

What do successful innovators share in common?

There's no shortage of research.

Here are some examples…

According to the HBR article, The Innovator's DNA:

"Our research led us to identify five 'discovery skills' that distinguish the most creative executives: ***associating****,* ***questioning****,* ***observing****,* ***experimenting****, and* ***networking****.*

We found that innovative entrepreneurs (who are also CEOs) ***spend 50% more time on these discovery activities*** *than do CEOs with no track record for innovation."*

5 Skills that Innovative Leaders Have in Common

According to the HBR article, The 5 Skills that Innovative Leaders Have in Common, great innovators share the following characteristics:

1. **Manage Risk –** Innovative leaders scored 25% higher than their non-innovative counterparts on managing risk.
2. **Demonstrate Curiosity** – Innovative leaders also scored higher in terms of demonstrating curiosity.
3. **Lead Courageously** – Innovative leaders are proactive and lead with confidence and authority.
4. **Seize Opportunities** – Innovative leaders scored higher when it comes to seizing opportunities.
5. **Maintain a Strategic Business Perspective** – innovative leaders demonstrate a keen understanding of industry trends and their implications for the organization.

5 Characteristics of Successful Innovators

According to the HBR article, The Five Characteristics of Successful Innovators, successful innovators share the following characteristics:

1. ***An opportunistic mindset***
2. ***Formal education or training***
3. ***Proactivity and a high degree of persistence***
4. ***A healthy dose of prudence***
5. ***Social capital***

Diffusion of Innovation Model (The 5 Adopter Categories of Technology Adoption)

Diffusion of Innovation Model (The 5 Adopter Categories of Technology Adoption)

The technology adoption curve is a simple bell curve model of 5 adoption stages that shows how different people react to, adopt, and accept new innovative products and technologies.

In Diffusion of Innovations, Everett Rogers walks through the characteristics of each of the five adopter categories within the technology adoption life cycle:

1. **Innovators (2.5%)**. Innovators lead the technology adoption life cycle. They are the ones who are willing to try new things and may encourage or inspire others. They are enthusiastic about new technology, willing to takes risks, and not worried about failure. They are willing to go against the grain and try new things.
2. **Early adopters (13.5%).** Early adopters are trendsetters. The big difference with innovators is they are concerned about their reputation. Early Adopters tend to be comfortable taking risks, but they want to form a solid opinion about a technology through personal experience before vocally supporting it. They are persuasive, they are willing to work through early issues and setback, and they want to appear knowledgable through their first-hand experience.
3. **Early majority (34%).** The Early Majority are interested in technology but they want proof of its effectiveness, rather than hype. They are logical, pragmatic, and data-driven. The Early Majority want case stuides and real-life user stories to help them make the most logical choice.
4. **Late majority (34%).**
5. **Laggards (16%).**

The 5 Attributes of Innovation that Affect Adoption

Everett Rogers identified 5 attributes of innovation:

1. **Relative Advantage**. Relative Advantages is the degree to which an innovation is perceived as better than the idea it supersedes.
2. **Compatibility**. Compatibility is how consistent is this innovation with existing values, past experiences, and needs of potential adopters.
3. **Complexity**. Complexity is the degree to which the innovation is perceived as relatively difficult to understand and use.
4. **Trialability**. Trialability is the degree to which the innovation may be experimented with on a limited basis.
5. **Observability**. Observability is how easy is it to observe, understand and communicate the results to others.

How People Innovate

How People Innovate

People can innovate in a number of ways. Here are some of the most common ways that I've seen:

1. They scratch their own itch. They solve a problem they care about. (You at least have a user of 1, but your success will be scaling that).
2. They solve an unmet user need. (Remember that this can be a challenge of "faster horses vs. automobiles", and demand generation can be tough).
3. They challenge the way something has always been done, and they do it a different way.
4. They create a new category or reimagine an existing one (Tesla electric / clean energy cars)
5. They create new experiences or innovate in the end-to-end experience.   This could mean simplifying the experience, or it could mean finding ways to reduce friction in the journey. It could mean finding new ways to create new value along the journey.
6. They borrow from one domain or one industry and bring that idea to another industry.
7. They recombine things in new ways. (Your peanut butter and my chocolate = Reese's Peanut Butter Cups).
8. They compete where there is no competition. (Blue Ocean, compete on an adult acrobatic circus, not animals and ring leaders).
9. They create a new market of exchange (Uber, AirBnB, etc.)
10. They setup an innovation engine to deliberately manage, drive, and empower innovation among their employees, their customers, and their partners.

If you think something sucks, and you can imagine a better way, or if you can dream up a new or better experience, then you can innovate.

Anyone Can Innovate

As Vincent Van Gogh put it:

"If you hear a voice within you say you cannot paint, then by all means paint and that voice will be silenced."

And always remember these great words of wisdom from Pablo Picasso:

"Every child is an artist; the problem is staying an artist when you grow up."

The Best Way to Predict Your Future

The Best Way to Predict Your Future is To Create It

There is an inspiring quote often misattributed to Abraham Lincoln and Peter Drucker that summarizes the power of innovation:

"The best way to predict the future is to invent it." — Alan Kay, former chief scientist of Atari

Here are a few variations:

- *"You cannot predict the future, but you can create it."* — Peter Drucker
- *"The way to cope with the future is to create it."* — Ilya Prigogine
  "The future cannot be predicted, but futures can be invented. It was man's ability to invent which has made human society what it is." — Dennis Gabor

Vision Drives Innovation

How are you reimagining your Future Business today?

How are you reimagining your Future Self, today?

Innovation is the way.

Conclusion

Key Takeaways

- Master innovation for work and life to rise and thrive for the future
- *"Innovation is the creation of new value through applied creativity."*
- Creative Destruction is the Key to Survival in a Hypercompetitive, Digital World
- Focus on business model innovation and management innovation as high value levers
- The best way to predict the future is create it.
- Anyone can be an innovator
- Know the different between sustaining innovation and disruptive innovation
- Master the Two-Track Transformation model for Innovation

Where to Grow for More?

For more proven practices in **high performance, innovation,** and **leadership** follow me, JD Meier, on LinkedIn:

In/JDMeier

Unleash Your
Greatest Impact!