

How Creativity and Innovation can Create Indirect Routes to Market

Introduction

Studies of many successful businesses demonstrate that the reasons for their success lie in their ability to create new strategic positions. Rather than 'attacking' competitors in their well established positions, they have gone on to become the market leader and in numerous instances changed the rules of the game that everyone else in the market was playing.

You ask; "How did they do it?" Simply stated these innovators created and exploited new and viable combinations of customers, value propositions and supporting activities, assets and capabilities.

The article also shows how the strategist can put creativity and innovation into the heart of strategy making to help find rich and viable combinations.

The fundamental importance of creativity and innovation

So far we have seen WHAT any business engaged in strategy formulation has to do to unearth answers to these three questions;

1. The customer to target

2. The benefit and value to offer the targeted customer

3. The most efficient and effective means to reach the customer

But HOW can this be done in practice? Just how is it possible to go about developing a good strategy in your company? Do winning strategies emerge from analysis and planning, or is something else involved here?

How do you develop a good strategy in your company?

Do you do something like this, for example?

Do you start by identifying areas of strategic where there are identifiable markets and where profit, management and resources are largely independent of other sectors?

Do you then draw up strategic plans based on a 'comprehensive analysis of market attractiveness', competitors showing long term goals, key strategies operations and fund requirements?

And do you review these plans with a seven to ten year planning horizon, assess total risk, profitability, cash flow and resource requirements and allocate priorities against specific targets and funds.

Is that about right? Or is there more or less?

Well if it is you are not alone. Like most people involved in strategy I too was taught to strategise within a systematic approach to structuring strategic decisions – a discipline

that has been increasingly taught to countless MBA students and business executives.

Yet it's not easy to reconcile such approaches to the sheer ingenuity, inventiveness and originality of the achievements of some of the great strategic innovators that I have made reference to.

If the issue is the future, then the future is not contained in Porters 5-Forces, PEST or anything like these models. Nor is it dictated by theories such as the 'Boston Box' that determine strategies on the basis of relative market share and market growth rate

Consider for a moment the advice that analysts and planners, that have clung to such models, would have given some of the great strategic innovators of recent times;

- **Virgin** - would have been told not to get involved in the airline business because they would only take a small market share in a mature business,
- **William Cook** – would have been told not to invest in new capacity to improve customer service at a time when the castings market was mature,
- **Amazon** - would have been told that there was no sense in selling books on the internet because the business could be easily replicated,
- **Dell** - would have been told much the same; that going direct would offer no sustainable competitive advantage because of taking on IBM and Compaq

It should be absolutely clear that such conservative approaches to strategy will produce predictable and mediocre results.

Shouldn't we really learn to give creativity a chance?

The trouble is though, that people have been taught to focus on theory, structure and systems - not creativity. It's almost as if we should leave creativity to people in advertising agencies, where they are left to dream up smart artwork, slogans and jingles.

And indeed it's incredible what such people can do. You can but admire the creativity that goes into some advertisements. I laughed out loud when I saw Peter Kay in John Smiths "No Nonsense" beer ads on TV.

But is creativity purely in the sphere of people in advertising agencies. It's interesting though to note that Saatchi and Saatchi removed the word advertising from their company's description and chose to be seen as 'the ideas business'.

A fundamental aim in writing this book is to emphasise some 'nitty-gritty' themes in strategy making.

One is that the object of strategy making, namely to continually target customers with benefits they value. This is as I have tried to underline is strategic and not purely a marketing matter and

The second is to stress that the means of finding new customers and generating value is in creativity and not analysis.

Creativity is central in developing a unique strategic position. It is creativity that offers the

means to find a new market, or wrong foot traditional competitors with a new process of

going to market and so forth that actually creates superior customer value.

We should be far bolder in demanding creativity in strategy formulation!

And here's how we can do just that!

Strategy is about breaking free!

So if creativity is a crucial part of strategy formulation the implication is that strategy is about breaking free from an obsession with;

- Management tools that concerned with improving operational efficiency but not strategy direction
- Industry dogma. In fact customers do not care about industries or markets or even products. They are interested in one thing and one thing only; something that meets their needs.

Cooks, gives provide a classic example of just what I'm talking about. In fact you can't really pick out one strategic innovator – they have all rigorously concentrated on the same principal.

- Industry rules. Gary Hamel says that there are three different types of company in every industry, the rule makers who build the industry, rule takers who follow and imitate the rule makers and rule breakers such as companies like IKAE and Virgin who revolutionise and reinvent business.
- The present. Some businesses try to create the future by concentrating on the present and in so doing only really safeguard the past! It's

been estimated that something like five per cent of managers' time is spent looking at the future – the rest is taken up with the here-and-now!

- Sameness. A business can only outperform its competitors if it can create a point of sustainable difference, deliver greater value to customers or at best create comparable value or a lower price.

Note how Virgin Direct, a relatively late entrant, sold direct with a better value financial services offer.

Managing creativity and innovation breakthroughs

Genuine innovation, from the customers' perspective, is something that makes a big difference to them; something which changes their behaviour and which offers them something they can use in a way that hasn't previously been possible.

But such a ideology is accepted and embraced by only a few companies. Why is this? In part it is because innovation is an element of a broader strategy of change and not therefore purely a function of Research and Development.

Studies have shown that those companies that have realised the value of innovation are more profitable than those that haven't realised its potential.

This means that the challenge for managers wanting innovate create superior strategies is to generate as many ideas and choices as possible.

When writing on creating ideas at Nike, Seth Godden, said; “Ideas aren’t a sideshow that makes our factory a little more valuable. Our factory is a sideshow that makes ideas a little more valuable.”

And importantly his thoughts on ideas were not directed at the product but more the benefit associated with the product – in short the sizzle, not the fat!

Encouraging creativity in the company

Stimulating and rewarding creativity and innovation is mainly an issue of leadership!

In most companies today it’s claimed that 20 per cent of all new ideas flow from management – about 10 per cent of the staff of a company. It is also believed that a further 60 per cent of staff members, in any typical company, are able and willing to contribute to creativity and innovation, yet this group is not routinely involved with improvement or innovation!

I mentioned that leadership is critical to creativity and innovation. And this is perfectly true.

There are, as you can imagine, a number of views on what top management can do to encourage creativity. Here are some of them;

- Give people time and space and freedom to develop new things unhindered,
- Listen and learn from customers,
- Pair innovators with implementers and cultivate the know-how of both,
- Generate flows of ideas from social interaction outside work,

- Encourage flows of ideas from other stakeholders, referral groups, suppliers and influencers,
- Develop an ideas bank or strategy workbook to create as big a database as possible from people throughout the business as possible,
- Encourage experimentation and communicate the results,
- Roll back barriers to innovation and provide the right climate and support,

Not least of the reasons for fostering creativity is the need to challenge the old rules about strategy and try to build new ones.

This as we have seen is dependent on the number and quality of ideas. It is a fact that innovation and change is a reality of business and effective strategy – it is the means to identify new unique strategic positions. But the driver of innovation is ideas.

The ability of a business to recognise the value of generating and working with new ideas and information' depends on 'firm-specific capabilities', in particular the capability to learn and absorb new knowledge.

This relationship between learning (a company's active engagement in learning) and prior knowledge is important for two reasons;

1. The first is that prior knowledge permits the assimilation and exploitation of new knowledge; hence success today permits success tomorrow.
2. The second is that the ability to learn and absorb knowledge allows a business to predict more accurately the nature and commercial

potential of technological advances and market opportunity.

The focus of creativity

As we have seen the primary objective of creativity is to produce new and innovative answers to the questions of which customers to target, what to offer them and how to organise to do this efficiently. This as we have seen is well served by the active participation and creative contribution on the part of as many people as possible.

There is no one correct approach to think through the issues. But one way is to look at these issues in new ways through a number of techniques, all of which tackle the same issue but from different angles.

One way, is to **ask the right questions**. An example, comprising eight questions is shown in the graphic on the previous page. Clients have relished the approach and found it a useful means of considering the issues and identifying relevant ideas and decision areas.

While these questions are ostensibly to be asked of the management team, they can also be put to other staff members. Again, the more people and the more diverse the people who are asked to think about these questions, the better the outcome.

Yet another way is to find - or create the basis of value – or **space**. The concept of space is interesting. In a sense it is about breaking free. Free from an obsession with management tools,

free to change, free to break away from sameness and free to do something new – free to create the future!

Industry change can be important sources of new market space by **shaping external needs**. A danger is that company responses are incremental as events unfold when in fact a company would best consider how a trend will change the value that it can offer a customer

One way to break free of rivals is to see your product and service as not only competing with direct competitors but with **substitute products** in seemingly unrelated industries. This means looking for substitutes and at why buyers choose one substitute in preference to another – the goal being to concentrate on the advantages of both and do away with all else.

The founder of Intuit, producers of financial software packages, did not see other software producers as his main competitors, he saw the main rival as the pencil because it's cheap and easy to use.

By concentrating on these very attributes; ease of use and cheapness to compete with the pencil, Intuit created new space for financial software and grew the market by a factor of 100.

It is the space between industries that opportunities exist for creating new markets. A great example of how to break free of competition from rivals is Easyjet, the European 'no frills airline' that contrasts so markedly with more traditional airlines

Apple's iPhone is a great example of an idea that created a new market by breaking free of

conventional **strategic groups**. Strategic groups are made of groups of companies, in their separate industries, obsessed with improving their

competitive positions within the group.

Existing players or new entrants can achieve major gains by changing the way in which they compete. Thus Apple combined mobile communications, with internet functions, with the iPod to create a new hand-set, which offers great features – combining convenience with coolness, to take business from both the mobile phone and music strategic groups

Then there is the possibility of **re-thinking the functional-emotional orientation of the industry**. Companies can create market space by appealing to a different customer motivation by transforming a product or service whose appeal is functional to one that is emotional or vice versa. Reckitt Benckiser's medicinal lemon drink; Lemsip, is an example of brand positioning based on emotional appeals – quite unlike the functional appeals of its nearest rival Beechams.

Seeking complementary products and services.

Often obsession with market share in an industry causes rivals to overlook opportunities presented by complementary products often from outside the industry. Virgin Megastores combined CDs, videos/DVDs, computer games as well as stereo and audio equipment in a single shop to solve their customers' entire entertainment needs.

Evaluating and experimenting with new ideas

Clearly some means of evaluating such ideas using relevant criteria are important. Criteria

for example that checks their suitability (*fit with strategic assets and capabilities*), acceptability (*fit with stakeholders requirements*) and feasibility (*fit with risk and resources*).

Experimenting with new ideas is both challenging and exhilarating. Uncertainty abounds and surrounds any new idea. To begin with it is often difficult to be quite specific about the customer, even about the market potential, what the final product will look like, and how you will sell it and distribute it.

Testing may be carried out with existing customers, but the final customer might be totally different to the one originally envisaged. So you can't rely on purely conventional marketing techniques to get you to market.

For example when Motorola launched the mobile phone it thought that people without cars (and even those with several cars) would buy it. As it turned out the market that emerged was the travelling salesperson.

In attempting to break into the US motor bike market, Honda targeted the large bike user but actually entered with a smaller 50cc model!

So if you can't rely on conventional marketing activity what can you do? And how can this be done in practice?

Well here are some ideas:

1. Develop one – or several - early prototypes
2. Test these prototypes in potential market segments. Searle tested NutraSweet in

3. soft drinks, chewing gum, confectionary, sweeteners before settling on a number of applications
4. Use the learning to introduce improved products, in better targeted segments with better marketing.

The effects of trial and error

In reality creating strategies is about ideas, planning and trial and error until you hit on something that works. Analysis and planning will narrow down the options and testing these will develop the final strategy.

There are other important reasons for this.

First it's not possible to rely entirely on analysis and planning processes because these take time and the results are out dated by the time their fruits are implemented.

And second because you just can't depend on trial and error for this smacks of being all at sea with no place to go.

In point of fact, both planning and experimentation used in combination are indispensable. Nothing illustrates the point more than the example of Honda in the USA.

When I first looked at the case of Honda, I was studying for an MBA. As an avid student of strategy I just couldn't see how Honda, heralded by business schools and gurus alike as an icon of Japanese success, had hit all the right strategic buttons.

Honda's success, it seemed to me, was just good fortune; a company on the point of exit rather than on the brink of success!

In fact Honda's strategy simply came to light! It was the result of a combination of planning on the one hand and trial and error on the other! The company's strategy materialised against the company's conscious intentions, but to their credit Honda took advantage of the new situation.

In hindsight, Honda's unique positioning in the US small motorbike business was a source of real and sustainable differentiation. But its success, however, was as much a consequence of Honda's adaptability, persistence and experimentation, which when combined enabled to outsmart its competitors by adjusting its strategy as it went along.

The same is true of Ingvar Kamprad, the founder of IKEA, Richard Branson of Virgin Atlantic and Andrew Cook of William Cook as these strategic innovators all went through the process of developing a successful strategy.

These together with Honda highlight a further vital point to note. And that is they had a sense of purpose.

Honda had a clear purpose! It wanted a share of the US motorbike market. As we've seen, the company had to experiment through trial and error - to discover and perfect its positioning. But just relying on trial and error to develop strategy is not enough. This is a bit like taking a ship to sea without a planned destination; it can go anywhere it wants, but it doesn't know where it wants to go. Thus knowing where you

want to go from the outset is critical

Where are we now?

The primary objective in finding a new unique strategic position; is to generate fresh and original solutions to the basic questions of the customer to target, differentiating offer of value and a means to do this efficiently, with creativity and active innovative thinking on the part of as many people as possible.

Implied within this whole concept of finding and exploiting a unique strategic position is the very obvious need to embrace a variety of strategies and procedures in a company that promote creativity and invention.

In fact what is required are options – bundles of them – in order for a company to make choices to help it find a superior strategy. The more ideas it can generate the higher the probability it will turn out the strategic surprises I alluded to earlier.

Here is a short list of some of those 'strategies and procedures'.

1. Top management commitment to strategic innovation and change. This goes without saying. Enough said!
2. Institutionalise continuous innovation and creativity. Create an environment that will promote and support innovative behaviours required to encourage creativity and innovation.
3. Encourage everyone to question the company's assumptions about its strategic position (customer, offer, and organisational issues) to get at the heart of the question;

"What business are we really in?"

4. Develop processes to involve and encourage everyone involved in the business, from staff, customers and distributors to contribute strategic ideas and make it easy for them to communicate those ideas to you.

Conclusions

The process of strategy creation consists of two parts:

1. Ideas generation
2. Evaluation, experimentation and modification

New strategic ideas may be generated in a number of ways. One is to continually question its customer base, what matters to customers and the way it does business with them.

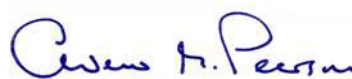
This latter phase may proceed through a number of stages until the business arrives at a strategy that gives it a unique position.

And lastly we have seen that new strategy development is part planning and part trial and error. Planning defines the parameters for experimentation and trial brings forth modification.

Taken from How to Craft a Superior Business Strategy by Andrew Pearson

To read more about strategies to grow your business [click here](#)

Best wishes,



Andrew Pearson

Managing Director
Unique Business Strategies

Something about us

Andrew M Pearson is widely considered to be a leading expert in the fields of **strategy, marketing and business-development coaching.**

Trained in sales and marketing at J Bibby, the oils and animal-feed business, Andrew set up his first business aged 25 and steered it to market leadership and a turnover of £11m in 6 years. Since then, he's held senior management and professorial posts at a number of UK firms, including 4 years with Cargill, when he founded pioneering strategies for business development in Eastern Europe.

He now regularly works with top managers and business owners in the UK and overseas, helping them to create and exploit superior strategies and business solutions.

Those who have submitted testimonials for his coaching, training and consultancy services are like a who's who in business development...

- John Adams: Fowler Welch
- Rob Keene: Over Farm Market
- Andrew May: Mainland Marketing
- Paul Smith: Due Diligence
- Don Burgess: Freeminor Brewery
- Simon Harvey: Mack International
- Graeme Kemsley: Business Link
- David Neil: Andersons Consulting

- Brian Redrup: Velcourt
 - Ann Louise and Bill Hartley: Hartley's Nurseries
 - Paul Hebblethwaite: Cadburys
- ... to name but a few.

Coaching and Workshops

The content of this book and its sister publication, *How to Create Breakthrough Strategies for Your Business* forms the basis for coaching and workshop events for executives wanting to develop breakthrough strategies for their businesses.

These learning events are available in a variety of formats from a [short talk](#), one or two day [workshop](#) to extended [coaching](#) support.

The next one day [open course](#) will be held at Whittlebury Hall Buckinghamshire.