Industry Innovation, the Key
Sandra Sieber
e-business Center PwC&IESE
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Over the past few years, international indicators have shown that one of the main weaknesses plaguing Spanish companies is their abysmal competitiveness. In theory, nearly everyone involved agrees that one way to fix the problem would be for companies to make a firm commitment to innovation. However, in practice it is not always easy to distinguish between the different types of innovation, much less discern which solutions may be truly feasible and profitable for companies. There are different types, including product, process and discontinuous innovation. However there are two kinds of successful innovations that are governed by a very different set of rules: the sustainable and disruptive varieties.

Sustainable innovations are characterized by their continuous, incremental nature, which are necessary in order to compete and grow. They allow companies to be more competitive, since they generally seek to improve the functionality, features and efficiency of their products so as to distinguish them from the rest, or, in other words, to put a constantly improved product on the market and increase the supply of the incumbent products.

There is, however, another way—that of disruptive innovations, which seldom receive the necessary attention from companies. They are groundbreaking by nature, in that they hit the market with a different value proposal from those common to the sector. They often enter the market at the bottom-most segment, and so the sector’s top players generally pay them little mind, given that their focus is on providing outstanding coverage to the most profitable segments. However, in time the new value proposition gets modified and perfected, eventually taking over higher segments and ultimately displacing the dominant companies. This type of innovation allows for changes in the prevailing rules of the market by virtue of the consumers’ changed preferences, alteration of the distribution and production channels or even major changes to a product’s features.

Obviously, disruptive innovation entails a significantly higher risk, which is why it is usually the entrepreneurs of new business ventures who capitalize on its full potential. Established companies do not normally make aggressive investment in this kind of innovation. In the first place, they are generally unable to identify the potential of the new value proposition, given that it is analyzed using the prevailing logic of the business. Secondly, as it is initially aimed at the low-end segment of the market, it offers minimal initial profit margins. Lastly, these innovations quite often require fundamental changes in the company’s cost structure, providers, distribution and sales channels, all of which tends to jeopardize or at least question the company’s current value proposition.

Disruptive innovation is therefore gauged with respect to another company’s business model. For instance, laptops are disruptive for PCs, mobile telephones are disruptive for the fixed-line business model, and digital cameras are disruptive for analog cameras. In each of these cases, the first value propositions came from newcomers, with a sales
pitch that was scarcely appealing to the general public. Nevertheless, the ensuing evolution has dragged the dominant companies through some rather tough times, and in many cases it is those former newcomers who are now leading the sector.

Given the characteristics of both types of innovation, startup companies have a relatively larger advantage than those already established in the market for introducing disruptive innovations, paradoxically because they lack an established value chain. Dominant companies often limit themselves to sustainable innovation, in better keeping with their value chain, which could even provide them with valuable information for making improvements, jump-starting innovation projects to include customers or providers.

**How to Pull Off Sustainable and Disruptive Innovation Projects**

Companies’ bids to innovate within the framework of sustainable innovation must respond to the reality of the sector they belong to, as well as their customers’ demands. Examples of this: Banc de Sabadell and Air Miles have innovated in the area of mobility, offering their customers products and services through mobile messaging, thus improving the services offered to customers. It is also possible to be innovative with procedures or work practices thanks to the implementation of new technologies and more efficient manufacturing tools, allowing costs to be cut while increasing profit margins, which ultimately means an immediate improvement on the value offer for the end customer. Examples of this include the use of radiofrequency technology solutions to improve warehouse traceability, such as those put in place recently by companies such as Coca-Cola, 3M and Clariant. Finally, there are many examples of sustainable innovation efforts in the area of customer service. In the financial sector, countless online banking sites have appeared, including Línea Abierta (“la Caixa”), ING DIRECT, Bankinter.com and Openbank (Banco Santander), all designed to offer more complete service to customers who value the instantaneousness of the Web.

Sustainable innovation usually improves established companies’ market shares, making it tougher for the smaller players to get in the game or make any progress. They tend to focus on specific areas of a company, thereby facilitating implementation, and allowing for relatively accurate gauging each project’s success.

Nevertheless, it is not wise to disregard the power of disruptive innovation. In the case of high technological innovation, there are generally opportunities to add new technologies onto the value proposition. A perfect example of this is the music sector, where newcomer Apple found a way to use its technological expertise to give the market a value proposition that both protected the songs’ copyrights and was attractive to Internet users and music listeners in general. Conversely, the established players were unable to react to the threat of the Internet, instead focusing on their traditional distribution channels and missing out on the market—initially online—for music sales.

The development of disruptive innovations requires the development of capabilities geared toward locating new customers and identifying new markets, without taking existing customers into account. It should aim to attract the non-consumer, identifying the needs of future customers that cannot be satisfied with the existing services and products due to their price or lack of user friendliness. In addition, the rules governing the business model and the product’s design should be geared toward these new customers. Products need to be designed according to the demands of the new market.
Disruptive business should start out on a small scale, without forcing rapid growth, but instead experimenting and adjusting it as knowledge is gained about the new market that is taking shape.

It is precisely this approach that makes it advisable for disruptive innovation to be created within independent business units or even spin-offs. Often times there is not enough mental space within the usual structure of a consolidated company to go about freely investigating radical new solutions, which leads to them being hastily written off or given insufficient backing—and that could have dreadful consequences, given that it could undermine the organization’s potential for innovation.