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The types of innovation & where it occurs

Types of innovation –

The term innovation means a new way of doing something. It may refer to incremental, radical, or revolutionary changes in thinking, products, processes, or organisations. There are four types of innovation and these provide important clues when we want to analyse and manage the innovation process.

Based on "Oslo Manual", 3rd edition, 2005, the types of innovation are:
1) A **product innovation** is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. Product innovations can utilise new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies. The *I-phone* is a recent example of product innovation.
2) A **process innovation** is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. Process innovations can be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products. *Lean manufacturing* or *Just in Time* are examples. New Zealand firms apply a lot of attention to process innovation in an effort to continually lower the cost of production.
3) A **marketing innovation** is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Marketing innovations are aimed at better addressing customer needs, opening up new markets, or newly positioning a firm's product on the market, with the objective of increasing the firm's sales. Lucozade and Coca-Cola were both

medicinal drinks until innovatively promoted as sport and recreational drinks respectively.

4) An **organisational or paradigm innovation** is the implementation of a new organisational method in the firm's business practices, workplace organisation or external relations. Organisational innovations can be intended to increase a firm's performance by reducing administrative costs or transaction costs, improving workplace satisfaction (and thus labour productivity), gaining access to non-tradable or intellectual assets (such as non-codified external knowledge) or reducing costs of supplies. The Internet has seen many new business models emerge over the last decade, many of them being organisational or paradigm innovations.

Forté management finds the following alternative classification particularly useful.

- *Product*
- *Process*
- *Customer*
- *Channel*

Kiwi firms apply a moderate amount of attention to creating new products but the majority of effort is directed at process innovation to drive down the cost of production. Little or no effort is directed at customer and channel innovation. This classification closely parallels marketing's *product, price, people* and *place* (distribution) typology. Within this framework firms should concentrate on taking new and existing products, produced by new and existing processes to new and existing customers utilising new and existing distribution channels. The goal is then to maximise the value created and captured through a strategic approach to managing each of these stages.

Where innovation occurs –

Businesses achieve innovation in many different ways. Some of it is planned, some of it isn't. Some occurs through formal research and development from where the more radical and revolutionary innovations tend to emerge. Much of it is done by those actually implementing and using technologies and products as part of their normal activities. The importance to businesses of this type of innovation is only now becoming widely recognised.

"End-user innovation" or *"Make and Use Innovation"*© is where a person or organisation develops an innovation for their own or the firm's use because existing products or processes do not meet their needs. Research (*Hidden Innovation: How Innovation happens in six 'low innovation' sectors*, National Endowment for Science, Technology, Arts, (NESTA), London, UK.) indicates that in the UK, only 6% of innovations originate from Research Science & Technology. MIT Sloan School of Management, economist, professor Eric von Hippel (Von Hippel, E. (1988). *The Sources of Innovation*, Oxford

University Press, New York.) in his classic book, *Sources of Innovation* has identified end-user innovation as, by far, the most important and critical source for modern firms.

Forté management describes this as *Make and Use Innovation*© is exactly what New Zealand firms are especially good at – but we lack the awareness and systems to recognise, protect, develop and commercialise this type of innovation/IP as *"make and sell". Forté management*'s *8 Step Intellectual Assets Management Programme*™ provides a structured approach to identify, record, evaluate, protect and develop these assets to deliver and harvest value that may otherwise lay hidden within businesses. For more information see http://www.forte-management.co.nz/asset_management/eight.aspx

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