CHAPTER 1

THE THREE CHALLENGES OF BUSINESS INNOVATION

THE OBJECTIVES OF THE BOOK

This book empowers managers to deliver breakthrough innovations successfully into the new world of business. Firms are under increasing pressure to make major innovations in products, services and business models. Whether through competitive pressure or shareholder expectations, they need to create significantly more value. That means moving away from the cautious approaches of the past to embrace the challenge of major innovation. Many firms are trying to grapple with this challenge. They are trying to shift the mind-set of their managers from the old world of R&D and products to the new world of services, business models and customer value. This book focuses on the manager and provides the essentials he or she needs to know about this new world.

Who are the managers this book is for? They are those responsible for bringing their firm's innovation to market. They work in roles such as business development, marketing, R&D and information technology. Or they are senior executives charged with innovation strategy, governance and leadership. They understand their current role thoroughly, but their work schedule leaves them little time to study new approaches or to take a broader view of innovation.

And as the nature of innovation changes, their current management practices are no longer satisfactory. Product innovation is still necessary but incremental changes are no longer enough to achieve the firm's growth and profitability targets. Instead, the firm must seek major growth through breakthrough innovations in products, services and business models. To bring these successfully to market, managers need new knowledge and practices and they need to develop skills that are different from those of the past.

This book has two objectives that set it apart from others on the topic. First, it seeks to address the changing nature of innovation and its implications for managers and management practices. Second, it seeks to provide an integrated and practical approach to bringing innovation to market.

First Objective: Address the Changing Nature of Innovation

The new knowledge and skills that managers need for major innovation are many and diverse. For executives, developing major innovation requires that they set a clearer direction for the firm, introduce better governance and use different leadership styles. For managers, it means working in new sorts of innovation teams and developing new skills in creativity and collaboration. It also needs new approaches to understanding customers and new ways of managing complex projects. Delivering the resulting innovation to the market often requires widespread changes to the organization and so innovation teams also need change management skills to achieve this. This is because teams often face resistance from within their firm, and the greater the innovation the more resistance they can expect.

The set of skills needed to manage change is valuable to corporate innovators. Building the market for a major innovation also needs a longer term, more sophisticated approach to strategy and marketing than the typical manager is familiar with. Managers and firms need to shift their perspective from the annual plan and budgeting cycle to a flexible strategic plan spread over many years and campaigns. And they need to plan from a thorough understanding of how new markets develop. Meeting the first objective of this book therefore has two parallel and supporting themes. The first is to redefine the idea of innovation to include major changes to products, services, business models and organizations. The second is to identify the management knowledge and skills that are necessary to achieve such major changes.

Firms can innovate by creating an offer to the customer or a business model that has never been seen before. Or they can innovate by significantly improving what customers buy now, or how they go about buying it or how the firm delivers on its promise. All such innovations pose the critical organizational and managerial questions that this book seeks to address. How can firms create innovations that add value to their customers and shareholders? How can they develop these innovations from idea to reality both effectively and speedily? How can they change their organization and people to deliver the innovation and build the new market? Answering these questions requires perspectives from more than one business discipline so ideas from strategy, leadership, marketing and organization all play a prominent role in the chapters to come.

The last decade has seen great advances in our understanding of major innovation. From the fields of psychology, sociology and marketing comes a better understanding of how customers accept innovation. From the fields of strategy and organization studies come better ways to think about customer value and better ways for firms to organize to deliver it. From studies of team performance come new ideas for selecting, organizing and managing the project teams that must develop innovation. From marketing and technology come new ideas on how these teams can get breakthrough insights from customers. From studies of organizational change come new principles for successfully changing the firm. And, finally, from marketing and economics come better perspectives on how to build and compete in new markets.

The challenge is to bring all this knowledge to bear more effectively and so improve the ways firms manage innovation. I hope that this book does distil and prioritize this knowledge in a useful way. In particular, I hope that it explains the essentials clearly and links them to the decisions that managers must take.

Second Objective: Provide an Integrated and Practical Approach to Managing Innovation

There are thousands of books on innovation containing many interesting ideas and suggestions. But ideas in and of themselves are not especially helpful. What managers need is far harder to get. Time pressures and the scarcity of talent in the workforce mean that managers need to focus on the few ideas that really do work. Ideas that are isolated from one another, and that are thus limited by the perspective of one business discipline or role are also not useful. Instead, managers need ideas that are organized into clear business tasks. Such tasks should form an overall approach to innovation, preferably one drawn from best practice and tested theory.

An approach that shows managers what they should do, when they should do it and how they might go about doing it is also inadequate. Managers also need practical tools for carrying out these tasks. Such tools bridge the gap between abstract ideas or recommendations and the steps they need to carry out in their daily work. And managers need to know how to adapt both recommendations and tools to the widely varying business circumstances they find themselves in. The second objective of this book is to provide such an integrated and practical approach.

Thus, the content of the book ranges from the conceptual to the practical. Conceptually the book identifies five key tasks that managers must complete to bring major innovation to the market successfully. It discusses the best way to tackle each task and links these tasks into an integrated overall approach to innovation.

However, as well as general recommendations, the book also covers various tools that managers can use. A tool can be a method for collecting relevant data, a set of criteria for decision-making or a way to manage an innovation team. There are many tools already available in some areas of innovation development. Where these exist the task will simply be to select the key tools that managers need. Yet there are no tools for some of the newer and equally critical areas of innovation development. Here the tools have to be invented. But whether old or new, they need to be tools the managers themselves can use. An important lesson from best practice is that managers cannot delegate these tasks to others. Each chapter thus identifies the practical steps that a manager can take or provides criteria for important decisions.

Further, the nature of the market, the industry or the firm might give one approach or tool advantages over another. Many prescriptions for better innovation management ignore the differences between industries and firms. This is not useful: we need to identify where a specific industry or firm will find that one approach is better than another or that one tool is more applicable to the circumstances. This book recommends how managers might adapt best practice to the unique circumstances of their firm. Similarly, the nature of the innovation itself strongly influences what the best approach or tool should be. Different innovations need different management techniques. Here again the book recommends approaches and tools and identifies the particular challenge set by each innovation by placing them a new framework. The next section develops this framework.

I hope that this content is both novel and of real benefit to managers. The focus on key tasks provides them with a sharper and more usable understanding of the existing knowledge about successful innovations. The tools enable them to apply this knowledge in their company. By customizing the recommendations, I also hope managers will be able to apply both the knowledge and tools to their own circumstances.

ADDRESSING THE CHANGING NATURE OF INNOVATION

The first part of this section illustrates the changing nature of innovation, while the second develops a clearer picture of the challenges inherent in this change. The final part examines the consequences of these challenges for managing innovation within the firm.

The Changing Nature of Innovation

In the recent past innovation was synonymous with product innovation. Even today much of the way firms think about and manage innovation comes from lessons about new product development. Yet over the last decade there has been a shift in this thinking in at least four important respects. The first three of these concern the nature of customer value and the fourth concerns the nature of the business model the firm uses.

First, there has been a shift to thinking about innovation as the total value offered to the customer. With that perspective, while products remain important, there are many circumstances in which other elements of the offer are of equal or greater importance. Typically these other elements involve services. For example, there are many portable music players whose product technology is similar to Apple's iPod. Yet iPod is the runaway leader in that market. Why? Many argue it is because of the seamless integration of the iPod, the iTunes software and Apple's online music store. This service provides value to customers because it makes building up and enjoying their music collection simple. A business-to-business (B2B) example of the same trend is Otis Elevator. Most of Otis's revenues now come from services around elevators rather than the physical elevators themselves.

Second, many managers now realize that large numbers of customers are often unwilling to buy a product or service simply because firms lack the vision to provide the right benefits. The classic example here is the Cirque du Soleil. Before the Cirque du Soleil came into existence the circus was a declining industry, appealing to shrinking audiences of families with small children. The Cirque reinvented the circus and broadened its appeal to many other audiences. This example also concerns value to the customer, but in this case providing value to customer segments not currently served by the industry.

Third, many managers also accept that firms sometimes offer too many features or benefits for certain customer segments. This includes the many examples of successful low-cost providers such as Southwest Airlines, Formula 1 hotels or Nucor in sheet steel. These providers sell to customer segments that do not need the full benefits currently on offer by their industry, and they have also reinvented their product or service.

Fourth, many managers now realize that an equally important consideration is the business model their firm uses to profit from the innovation. Apple largely adopted the existing business model of the music industry for iTunes. They did this by making the iTunes music store another reseller buying songs at wholesale prices from the record companies. These companies then give out royalties to other parties in the traditional manner. That this online model was not as threatening to the record companies as other models may be another important reason for Apple's success. A B2B example here is Dow Europe's selling industrial polyesters through the Internet. Dow's online offer is standardized, with a fixed size, no extra services and a competitive price. The offer targets a segment of the market that resellers do not want to serve. It also slows down the entry of generic products that erode the margins of both Dow and the resellers.

The first three of these points broaden the idea of innovation from product features to all the elements that offer value to the customer. They show how important it is to understand the target customer and to use that understanding to select the right offer. The fourth point seems self-evident – surely all firms want to make a profit from their innovations? However, there are many examples where competitive pressures led to firms adding unnecessary and costly features to their innovations, thus eroding their profits. That is why Kim and Mauborgne's *Blue Ocean Strategy* is so instructive.[1] This work shows managers how to think about value broadly and creatively, and how to make an intelligent trade-off between the customers' priorities and the firm's profits.

Now, managers know these examples or others like them as well. The point here is that, while the examples are known, many firms do not incorporate these lessons into their innovation development practices. Indeed, firms often manage innovation poorly. Typically, the worst firms do not set guiding principles; their culture and incentives do not support innovation; their strategies are simplistic; their projects lack resources and the firm pays inadequate attention to the customers' needs. But even in the firms that manage innovation well there is a significant gap between current practice and the challenge of major innovation. Too often firms see innovation as an incremental extension of the past; narrowly focusing on refining an existing product or service.

As a first step they need to define innovation more broadly. Innovation is first and foremost about the total value that firms provide to customers. But it is also about how creatively they configure their business model and organization to deliver that value profitably.

Defining Innovation through the Eyes of the Key Constituencies

In discussing innovation it would be useful to have a classification scheme that distinguishes between the many different types and degrees of innovation seen in products, services and business models. This scheme would provide a common terminology for discussing which management approaches might be best for different types of innovation. A useful scheme would also allow firms to assess the degree of challenge they might face in completing a specific project. This is important for both resource allocation and risk management.

Unfortunately no such scheme currently exists. Indeed, on the contrary the literature has many alternative descriptions and classification schemes. There are incremental, radical and disruptive innovations. There are non-customer innovations, low-end innovations, bottom-of-the-pyramid innovations, architectural innovations and format innovations. Garcia and Calantone point out there are over 20 different schemes in the product innovation literature alone.[2] They point out that many of the differences between these schemes result from the differing perspectives of the authors. These perspectives can differ so much that what in the eyes of one author is an incremental innovation becomes a radical innovation in the eyes of another!

An example they mention is the Canon digital photocopier. Some authors see the capacity to store or send digital images as marking a radical discontinuity in the market. Others see this as just an incremental or architectural development of existing laser photocopier technology. This simple example shows both the confusion in the literature and the danger of relying on external observers, however skilled or well-meaning. Surely it is better to understand an innovation as the degree of change it represents for all those it impacts on? These include those who must develop it, those who must deliver it to the market and, most critical of all, the customers who may buy it. If all these people see the innovation as being a major development from current solutions then it probably is. These are the key constituencies that must learn about the innovation, change their behaviour and accept the innovation if it is to succeed. Understanding their perceptions of the innovation is central to developing and marketing it successfully.

Another problem with the existing literature is that it largely ignores innovation in services. Even where authors do recognize services they view them as pseudo-products. Yet, as every service practitioner knows, services differ from products in their intangibility, inseparability, variation and perishability. Many services are also produced in that moment of truth between the customer and the employee, not in the factory or the office. Creating a service innovation is therefore not the same as creating a product innovation. It needs much more attention to people and organization. And in the many product firms that add services as a way to grow, every manager needs to understand these differences.

The literature also pays inadequate attention to innovation in business models. Afuah defines a business model as 'which activities a firm performs, how it performs them, and when it performs them as it uses its resources … to create superior customer value and put itself in a position to appropriate the value'.[3] It is the last phrase 'put itself in a position to appropriate the value' that is important because it sets up a new challenge. Innovation is not just about creating superior customer value: it is also about ensuring the firm takes its fair share of that value. Understanding how the firm can use organizational or process innovation to capture value should carry equal importance to understanding end customer needs. There is no point in innovating if some other party in the value network captures all the newly created value.

Taken together, recognizing that innovation is broader than products and examining its impact on key constituencies provides a better scheme for assessing the firm's challenge. How new is the innovation in the minds of the target customers? How new is it in the minds of those developing the product or service? And how new is it in the minds of partners and others in the value network? A true breakthrough innovation in this framework is the one that involves a major change for all three constituencies. An incremental innovation is one that involves only modest changes for each constituency. But the main goal here is not to label innovations. No, the goal should be to assess the degree of change the firm must achieve by calibrating the gaps between the innovation and current solutions. From this perspective, we can see the challenge of a business innovation as three distinct challenges. These are:

1. developing the innovation and its delivery system;
2. getting the customer to adopt the innovation;
3. appropriating a fair share of the new value.

Each of these aligns with a key constituency; that is, the firm itself, the customer and the value chain or network. Exhibit 1.1 shows the new scheme, with examples of the issues that each challenge might involve. These examples are on a scale from a low to a high challenge, with the higher challenges to the right-hand side of each. For example, meeting latent customer needs is inherently harder for the firm than meeting existing or proven ones better, if only because latent needs are less well understood.

Notice that the point of reference for the degree of challenge is relative to the firm and its constituencies, not to some absolute standard. The challenges are therefore unique to each firm.

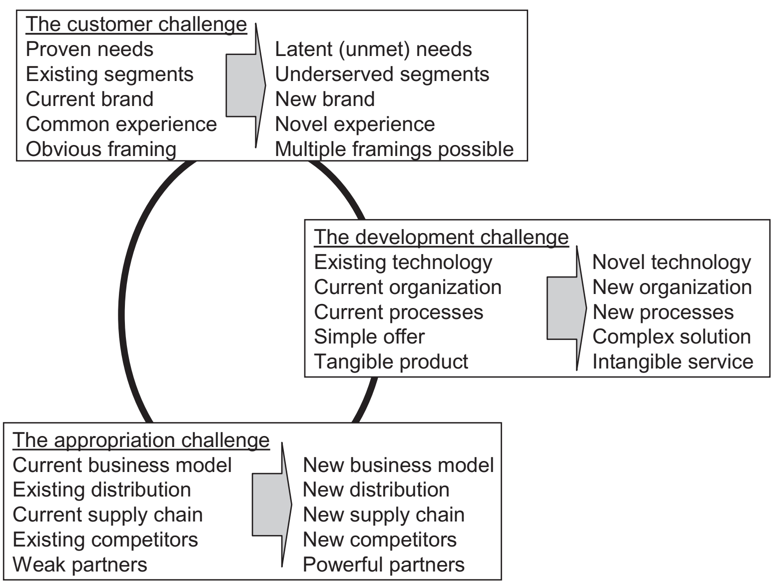

Exhibit 1.1 The three challenges of business innovation.

In this scheme, innovations such as Apple's iPod, Nintendo's Wii or Sony's PS3 fall somewhere in between the crude stereotypes of breakthrough and incremental. They are challenging in some dimensions but not in others. And it is precisely the dimensions in which they are novel, and those where they are not, that is most informative. The technology in Apple's iPod did not represent a great challenge since it involves repackaging well-understood hard disk technologies. Customers also have a proven need for mobile music, as seen in the sales of previous product technologies such as Sony's Walkman. What is more challenging is the iTunes business model of pay-per-downloadable songs plus the seamless efficiency of the downloading service.

The technology of Nintendo's Wii is also not especially challenging. Although it may be a little more novel than the iPod because of the motion controller, Nintendo built it mostly on existing gaming technology. Its business model follows the well-worn path of retail distribution and game royalties. What is more challenging is taking this innovation to non-customers – people who do not consider or use game consoles, such as families or fitness addicts.

Finally, Sony's PS3 aims at just the opposite customer from the Wii, namely gaming enthusiasts. It uses the same retail distribution and game royalty model. What is challenging is the new Cell processor, which seeks to take gaming to new levels of realism and excitement. This processor is not a simple extension of previous processor technology. All three of these innovations are combinations of products, services and business models and all provide personal entertainment. But they also differ in important respects, especially in the management challenge that each of these firms faced.

For that reason the overall challenge of business innovation needs reformulating as follows. Given the perceptions of the three constituencies, what critical challenge does the firm face in delivering the innovation successfully? Apple's critical challenge was more political and institutional than technological. They had to develop a download business model acceptable to the music industry. Without this iTunes would have failed, as several other music services indeed did. This challenge does not fit the traditional view of product development, which pays little attention to such broader issues. Nintendo's challenge was to convince the mainstream family customer that gaming has value. This is the difficult marketing challenge of crossing the chasm from enthusiasts to mainstream. Here technology and business models are secondary to marketing skills. Sony's challenge was different yet again. It was to deliver PS3 technology that worked to a group of customers who were waiting for it. They also did this using a well-established go-to-market strategy and games royalty business model. This latter example is the closest to the traditional view of product innovation, since the focus is on improving product performance through the Cell processor technology.

In summary, trying to impose arbitrary classifications on innovation is a pointless exercise. From a management perspective it is better to examine the three key constituencies and form an assessment of where the critical challenges lie. In Apple's case this was politics, in Nintendo's marketing and in Sony's technology. This is not to understate the challenges each firm faced in the other areas, but simply to point to the areas where they most needed resources, clever strategy and good management.

Implications of Taking a Broader View on Innovation

There are two straightforward implications of this broader view of innovation, and a deeper conclusion that goes to the foundations for success. The two implications concern using customer insights to develop and launch the innovation and changing the organization to deliver it. The deeper point concerns the idea of advantage to the customer.

Using Customer Insights to Develop and Launch the Innovation

Broadening from product to service and business model innovation immediately adds to the challenge the firm faces in developing the innovation. Developing services and business models needs good insight into the customer because these are inherently abstract ideas, not products. For example, services exist in the moment in which customers consume them. This makes early discussions with customers around potential ideas for innovations more difficult than for products. Discussing new business models poses the same problem with both customers and potential partners. For both services and business models it is also harder to get accurate reactions to prototypes later in development. Customers can see and touch products, but they experience services. So any prototype needs to simulate the real experience for customers. This is not to say that some product innovations are not equally challenging. They are challenging, especially when they involve the latent needs of the customer or undeveloped segments. These are also difficult to discuss at the idea creation stage and it is harder to get accurate reactions to them later in development. The implication here is that, as ideas of innovation change, so must the methods that firms use to get customer insight during innovation development. And the most recent and effective solution to these challenges is to co-create the innovation with customers as partners.

Once created, services, business models and product innovations targeting latent needs are also abstract ideas that firms must communicate to customers. Designing effective launch campaigns needs good customer insight as well. And, of course, the customer is the final arbiter of success. Technology, service and business models need to come together to deliver an effective value proposition, but marketing needs to give the customer a reason to adopt the innovation. One of the lessons of the last decade is that success in the market is just as much about perceptions as it is about the novel features of the innovation itself. Good marketing cannot save a poor innovation from failure, but many good innovations fail because of poor marketing, especially if managers do not understand how to build new markets. The implication here is that not only must methods for getting customers' insight change, so must the underlying understanding of how new markets are built. Building new markets for major innovations is different to launching incremental product innovations.

Changing the Organization to Deliver the Innovation

Broadening from product to service and business model innovation also adds to the challenge the firm faces in getting the organization to deliver the innovation. Studies have shown that most service innovations involve changes to firm processes and organization.[4] For example, the firm may reorganize or build new business units. Employees may need new skills and the training that will lead to this. Managers must communicate the reasons for the change to people both within and outside the organization. Indeed, part of the appropriation challenge involves explaining to, and persuading, partners in the value network to support the innovation. Similar comments hold true for product innovations that meet latent needs or address undeveloped segments of the market. For all these reasons, major innovations often also involve major organizational change and thus require those developing them to have good skills in change management.

Creating Advantage Is the Foundation for Success

Creating customer value is the first goal of any innovation project. However, new value in and of itself is not enough. To adopt, customers must perceive an advantage over what went before it, otherwise the innovation will fail. More importantly, typical customers perceive that they will lose much more from dropping what went before than they gain from adopting the innovation. For a major innovation, the customers must perceive a compelling advantage for them to adopt it. It is the word 'perceive' that is critical.

Advances in social sciences over the last decade have deepened our understanding of how customers perceive and evaluate advantage. They show that for many customers advantage is at least partially a social construction, formed from the many local influences that weigh on them as they consider the innovation. These local influences include the marketing efforts of the firm and its competitors but also other customers and third parties. Thus, to be successful firms need to provide a good platform for building advantage in the eyes of customers alongside the purely technical development of the innovation. This requirement has become more pressing with the broader concept of innovation. It is harder to design and communicate advantage when the innovation has more abstract or intangible benefits or where the target segment is undeveloped.

Chapter 2 provides the foundation for the rest of the book by reviewing all these advances in our understanding of how to build advantage in the market. The title of the chapter – *Creating Advantage in the Minds of Many* – points to the goal of all innovation projects; namely widespread acceptance by customers. First, using advances in cognitive psychology, the chapter looks at customers as individuals. As individuals, they do not see advantage in absolute terms but as relative to some frame of reference. The choice of the frame of reference for the innovation is one of the most important decisions for the innovating firm. Most customers are risk averse and happy to stick with the status quo unless given a strong motivation to change. Understanding what might motivate acceptance is another important consideration in development.

Second, the chapter reviews advances in personality psychology to understand how individual customers might vary in their predispositions towards innovation. To extend this foundation to B2B markets the decisions made by groups are also examined. Understanding these differences between customers is important in building new markets. Third, it looks at customers as social beings, using advances in sociology, especially computational sociology and models of the way peer influence spreads through markets. Encouraging peer influence is central to overcoming the status quo bias of many customers. Finally, it reviews advances in economics and marketing to understand how the supply of influence can help to develop the new market.

The basic principles behind creating advantage and building new markets are well-known. However, the recent advances reviewed here both extend these principles and destroy some common myths about them held by managers. For that reason, the chapter ends with a new model of adoption and action steps that point out how management practices need to change. The model highlights the role of the innovating firm in setting the agenda for change and providing the right platform for customers to construct advantage. As a result, firms should co-create their innovations by partnering with certain types of customer early in development, and all types of customer later. They should also involve customer-facing managers from the start of the project. Firms and their project teams should also devote more effort to visualizing what the mass market might look like. While this may be several years away, their early actions can shape the mass market and it is where they can make the most profit. Current management practices in many firms pay lip-service to these ideas but lack the depth of understanding and tools to carry them out effectively. Chapter 2 tries to provide this understanding, which the following chapters both expand and provide the necessary tools for.

THE FIVE KEY TASKS

There is no doubt that innovation is an important topic for firms. Study after study shows that innovation is one of the least well-managed areas in most firms. For example, from their well-known surveys the management consultants Booz, Allen and Hamilton argue that it is not the effort that firms put into innovation that decides success.[5] They find little correlation between levels of effort and the firm's performance. Instead, it is the way firms go about doing innovation that decides their success or failure. In particular, how well the various parts of the organization collaborate on key tasks is decisive.

The book focuses on five key tasks the firm needs to manage well to be successful. They have been chosen for their known high impact on overall success. As a result the book omits many other topics, not because they are unimportant, but because they have a lower impact on success. Unless the firm manages the key tasks correctly doing other tasks well will not lead to a successful innovation. These five key tasks are:

1. chartering innovation within the organization;
2. selecting, preparing and supporting the right team;
3. co-creating the innovation with customers;
4. changing the organization to deliver the innovation;
5. building the market for the innovation.

This list of topics is the core of a general management prescription for innovation. These are tasks that any firm needs to do well to be successful with innovation, in the old world as well as the new. What is different is how these tasks have changed for the new challenge of a major product, service or business model innovation.

Some brief comments on the five tasks may be useful as context before I provide a synopsis of each. The five tasks together form the central sequence for developing and bringing a major innovation to market. Doing these five tasks well is also an ambitious but feasible stretch target for busy managers. Especially when they need to change their management practices to meet the broader definition of innovation.

The five tasks span several business roles and topics. These tasks do not fit into neat functional boxes and to succeed managers need to approach them from the perspective of the organization as a whole. Apart from the fact that the enemies of innovation are narrow perspectives, in the end the whole organization has to deliver the innovation to the market. That is why this is not a marketing book, a strategy book, or a change management book, but a general management book on innovation, which incorporates the best from each of these areas.

There are many excellent books and studies on each of these individual topics, whose ideas and expertise this book cites and builds on. For example, taking each task in turn one can think of Mourkogiannis' *Purpose*,[6] Lencioni's *The Five Dysfunctions of a Team*,[7] Kelley and Littman's *The Ten Faces of Innovation*,[8] Kotter's *Leading Change*[9] and Golder and Tellis's *Will and Vision*.[10] And many others from authors like Christensen, Gladwell, Larreche, Moore, O'Reilly, Rogers, Tushman and Zaltman.

However, this book introduces new ideas to integrate the key lessons in each area or discipline into an effective innovation process. The fragmented state of our knowledge makes this necessary. In some ways writers and researchers on the topic of innovation are also in silos, mostly looking at this topic through the lens of a specific business function or academic discipline. The other reason is perhaps more controversial but also driven by fragmentation. When one starts to integrate key lessons from different knowledge silos it becomes obvious that innovation management practices need a marked rethink. The conclusion I make in more depth later is that many recommendations about innovation management ignore the latest thinking in important respects. Meanwhile, as a preview of the chapters to come, here is a synopsis of the five key tasks.

Task One: Chartering Innovation within the Organization

Chapter 3 first sets up business objectives and governance guidelines for the firm's innovation programme. Together these provide an Innovation Charter that lets everyone know where innovation fits and how to do it. The charter should define a programme involving a stream of potential projects, not simply a one-off event. For sustainability and to exploit success firms need a stream of innovations. Alongside the business objectives run the governance guidelines. What freedom has been given to the innovation teams to act? Who will decide to scale up or drop projects and what criteria will they use? How will the firm reward success and failure?

Without clear objectives it is difficult to evaluate potential innovations and to keep innovations coming in at a competitive rate. Without clear guidelines it is difficult for innovation teams to carry out their task. Worse, any lack of clarity can undermine and frustrate new projects, especially ones that threaten existing business. Chapter 3 provides a template for both parts of the Innovation Charter.

The second part of this chapter looks at setting up a specific innovation project, especially defining the right objective for the project team. This part of the chapter focuses more on tools than on big picture frameworks. It examines three complementary tools that can help define project objectives. These are the strategy canvas, scenario planning and discovery-based planning. The chapter ends by noting that clarity of direction and flexibility of organization are important to success. By implication this means that different types of innovation need different types of leadership.

Task Two: Selecting, Preparing and Supporting the Right Team

Firms use project teams to develop most innovations, so having the right team is an important ingredient of success. Chapter 4 looks at how to select, prepare and support this team, and addresses two main topics.

The first part of the chapter examines how the various types of team that firms use in innovation perform. These types of team include multifunctional, autonomous teams, X-teams and separate business units. More importantly, it also looks at the fit between these types of team and the new world of service and business model innovation. Of particular interest is the increasing need for effective collaboration with the rest of the organization.

The second part of the chapter uses lessons from the first to set up the principles for selecting, preparing and supporting innovation teams. This section focuses mainly on the role of the core team in the front end of development. It addresses issues in selecting the project sponsor, team leader and team members. It also addresses criteria for selecting these members, such as getting a diversity of viewpoints, collaboration skills, the particular focus of innovation, and the experience and expertise necessary. The chapter ends by suggesting how firms can best invest in developing their teams and supporting their progress. Chapter 4 also includes tools for selecting teams, setting the agenda for their first meeting and checking their development as a functioning team. The main conclusions of this chapter are that team membership, responsibilities and development should reflect as closely as possible the nature of the innovation they are creating.

Task Three: Co-Creating the Innovation with Customers

Leading firms now co-create innovations with their customers. Co-creation means working with customers and users as partners throughout development. Not just when the firm has an idea to test, but at every step of the way from defining the project objective to launching the innovation. Co-creation begins with a thorough understanding of customer needs, continues by generating novel ideas from customers, and ends with testing prototypes with them. Where the innovations involve services, firms use learning experiments with customers to adapt and improve as they scale-up from prototype to full launch.

The novelty of Chapter 5 is in explaining how to use the right customer with the right tool at each step along the way. Advances in psychology tell us that customers may not always be able to explain their needs. Lessons from the study of creativity tell us not all customers can provide good ideas and research on how to build new markets tells us this is not a representative process. Some customers play a bigger role than others. Managers can be much more successful if they select the right customers and the right tools according to the goals of each stage of development.

Chapter 5 divides into three parts: when to involve customers, which customers to involve and how to involve them. Thus, it has a strong emphasis on tools, including the tools for selecting the right customer, and the tools for simulating the impact of local influences during the launch. The latter is important for understanding what typical customers may decide about the innovation.

Task Four: Changing the Organization to Deliver the Innovation

Chapter 6 starts by contrasting the principles of change management with the organizational demands of major innovations, especially those involving services or business models. This identifies the five decisions that firms face whenever an innovation calls for a significant change to the organization. These decisions are:

1. the role of the firm's leadership in innovation;
2. the role of the innovation team in change management;
3. the relationship between the team and the rest of the organization;
4. how to manage large, complex projects involving many parts of the organization;
5. whether there should be a separate business unit to develop and deliver the innovation.

The chapter examines each of these decisions in depth to decide how to manage innovation projects and the preconditions for their success. The preconditions concern the actions of the firm's leadership in supporting the Innovation Charter. For example, has the CEO, CIO or VP of Innovation built a powerful guiding coalition to support innovation?

However, the rest of Chapter 6 chiefly focuses on the decisions that various levels of management must take at different stages of innovation development.

Here the main conclusion is that the innovation team should be responsible for developing and carrying out the change strategy. While the leadership can direct and support the innovation, the team is in the best place to understand the changes the firm needs to make to deliver the innovation. Chapter 6 also provides tools that can help the team assess the scale of organizational change they face.

Task Five: Building the Market for the Innovation

Most of Chapter 7 follows the same three-part sequence that a firm will use in building a new market. First, the firm chooses the right customer innovators to target and designs an offer and message that will attract them. Second, the firm gets sales moving by engaging these innovators through the media and other channels of communication, including the new media. However, launching the innovation immediately makes it visible to friends and foes alike. So Chapter 7 also looks at the impact of competitors entering the market, and how to deal with any third-party criticism. Third, the firm needs to reach the take-off point where mainstream customers start to buy. To ensure this happens the firm will need to change its marketing campaign, both to complement the social buzz and to make it easier for a typical customer to adopt. It may often also require adapting the innovation to meet the needs of various mainstream segments. Chapter 7 also includes tools for designing the new market, positioning the innovation and dealing with criticism.

Chapter 7 builds on the ideas in Chapter 2. While the basic ideas are well-known, recent advances in our understanding of how customers come to perceive advantage have major implications for building new markets. Similarly, improved understanding of competition and the time it takes to develop new markets also has implications here. In particular, these suggest that firms should rethink their approach to business planning and pay more attention to management development.

HOW TO USE THE BOOK

Next follows Chapter 2 – *Creating Advantage in the Minds of Many*. This chapter provides the foundation for the five chapters discussing the key tasks, so it is important for the reader to read Chapter 2 before going much further. Chapters

3 to 7 deal with the central sequence of innovation from chartering innovation within the organization to building the new market. Finally Chapter 8 – *Putting It All Together* – looks at how firms can be more successful with their major innovations. Chapter 8 uses the main conclusions from each preceding chapter to recommend better practice for firms in six areas of innovation management. This chapter also discusses how these recommendations might change for different innovation challenges.

Each chapter (Chapters 3 to 7) has roughly the same five-part organization. A brief discussion of why the particular task is important is followed by a more extensive review of current knowledge and management practice. That review leads to identifying what works and what does not. It also identifies gaps or inconsistencies in practice, or where we need to go beyond current knowledge, either to reflect recent advances in understanding, or to suggest new perspectives on management practice. Third, the chapter sets out the action steps that should follow from this review. These are the major conclusions and recommendations on each task, including how these might differ by market, industry and firm. Fourth is a discussion of how this task links with others in the main chapters, including the implications of the action steps for other tasks. Finally the chapter ends with a separate section – the Toolkit – that outlines the essentials of the two, three or four tools that best allow managers to put the ideas of the chapter into practice.

Once the reader looks at Chapter 2 there are three possible ways to read the rest of the book. One is to read it from front to back in the traditional manner. Another is to look first at the action steps of each of the five chapters, before going back to look at any of these chapters in more depth. A third is to look at the final chapter. This provides a summary of the book but as it builds on the conclusions of preceding chapters, and assumes some familiarity with the tools, this way is not recommended. Similarly, it is not recommended to look at the tools associated with each chapter without familiarizing yourself with the contents of that chapter. The details of how to do things do not always make sense if you have not gone through the underlying ideas.