CORPORATE INNOVATION:

Marketing and Strategy

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CROOM HELM
London & Canberra

Croom Helm Ltd, Provident House, Burrell Row,
Beckenham, Kent BR3 1AT
Croom Helm Australia, PO Box 391,
Manuka, ACT 2603, Australia

British Library Cataloguing in Publication Data

Foxall, Gordon R.
Corporate innovation.
1. Technological innovations 2 Management
I. Title
658.4'06 HD45

ISBN 0-7099-1020-7

ISBN 0-7099-1047-9 Pbk

Printed and bound in Great Britain
by Billing & Sons Limited, Worcester.

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PREFACE

Innovation is a wide-ranging subject. Its formal study cannot be confined within the bounds of a single discipline, embracing as it does aspects of economics, design, engineering, corporate policy, politics, sociology, buyer behaviour and marketing. Doubtless there are others. In concentrating upon the role of customer-oriented business strategy in the process of new product development this book touches upon a number of these perspectives but its relevance derives principally from considerations of marketing strategy. The theme which unifies its chapters is the uncertainty which pervades the development and commercialisation of new products and services in consumer and industrial markets. Much of this uncertainty reflects unavoidable ignorance of the vicissitudes of the market place, the partly unknowable strategies of innovation planned and pursued by competitors and purchasers. The investigation of corporate innovation leads to the conclusion that much uncertainty is ineradicable: despite enormous advances in the development and refinement of analytical and predictive techniques, far more new products fail than succeed.

But the book is not pessimistic. The rewards of new product success are considerable and critical study of the innovative process is likely to result in a more accurate conception of the difficulties involved and the appropriate managerial response in each case. No matter how desirable innovation may be -- socially, economically, politically – new product development is first and foremost a decision for individual companies, a decision that must be taken and implemented within the context of those firms' separate and diverse opportunities, capabilities and strategic responses. The book is concerned, therefore, with the strategic need to innovate and the role of marketing-oriented management in the creation and delivery of profitable new products. From this perspective, it goes on to assess current knowledge of the other half of the innovative process, the behaviour of innovative buyers upon whom the diffusion of new products and the effectiveness of corporate innovation ultimately depend. Thereafter, the book examines the new product development process as a means of reducing uncertainty with respect to the management of innovation.

The conclusions of this analysis are uncomplicated, though their implications for marketing thought and practice could be far-reaching.

The need to accommodate the new product development process at each stage to the strategic mode of the enterprise can be expressed in terms of a simple model of strategic response to the external environment and the firm's capacity to match its innovative efforts to that environment. As a result of achieving the required accommodation, the firm ought to develop those innovations which are strategically necessary to the attainment of its overall economic objectives, though this will not necessarily lead to the radical innovation which is generally understood to be required for the achievement of the ends of macroeconomic and social policies. An important question raised by the analysis is whether innovation produced in response to firms' *immediate* strategic needs is likely to fulfil even their long-term requirements. This involves consideration of the role of marketing-oriented management in the attainment of strategic accommodation; this role may well be changing in ways which have important consequences for the identification and location of the entrepreneurial function in the large-scale enterprises which currently dominate industrial economies. The later chapters which examine new product development in some detail draw closely upon the analysis contained in earlier parts, even though the themes of these earlier sections – innovation in its corporate strategic context and innovative buying – are dealt with comprehensively in their own right. Most chapters have long concluding sections which obviate the need for a repetitive restatement of the dominant conclusions in the final chapter; a little repetition in earlier chapters has been tolerated in order that the main threads of the argument are not lost as the discourse covers several subjects and themes. The concluding chapter examines anew the far-reaching relationships of corporate strategy and marketing orientation, innovation and entrepreneurship, and suggests priorities for further research.

I would like to thank two colleagues from the University of Birmingham: Professor A.L. Minkes for interesting me in the question of the locus of entrepreneurship and Dr P. Hanson for discussions of innovation in general. I am also grateful to Mrs M.A. Sheridan for typing the manuscript so well. The usual disclaimers apply.

PART ONE

EFFECTIVE INNOVATION

1 INTRODUCTION TO PART ONE

It is sometimes said that marketing is not and cannot be an academic subject in the same sense as the physical, natural and social sciences. Marketing's practical roots, according to this view, render any attempts at theorisation and generalisation more likely to result in useless intellectualisation rather than applicable conclusions. There is something in this. Some of the most prestigious academic journals display a preöccupation with academic matters almost to the point of excluding genuine managerial concerns. And some of the research and teaching which is conducted under the marketing banner proceeds at a level of abstraction which precludes and perhaps even discourages application.

However, the idea that marketing education must be concerned with the unadorned description of practice and that more formal research and teaching inevitably go beyond the needs of managers is too far-reaching. Indeed, the suggestion that to try to systematise marketing knowledge and to conceptualise practice in ways other than those used by managers themselves cannot be helpful is somewhat disingenuous. To speak or write about marketing at all, even to describe a single case, is to abstract from observation and experience. To describe two or more cases can hardly fail to involve systematisation and some of the elements of theorisation. Language itself is, after all, a model of reality.

Academic work of the right kind can, moreover, provide a useful foundation for practice. If nine per cent of new bridges collapsed, civil engineers would, among other things, return to the intellectual basis of their profession in order to discover reasons. In marketing, where up to ninety per cent of new products fail in the market place, precious little such foundation exists. Academic research is unlikely of itself to solve this problem – not all facets of management are currently susceptible to systematic understanding, anyway – but the absence of a body of critical knowledge of new product development must be reckoned more a disadvantage rather than an advantage.

There is, of course, no shortage of checklists for the better managment of innovation, nor of books and booklets, texts and tomes which purport to show the most appropriate ways to organise and administer the new product development process. The tendency of these writings is to offer, from a distillation of knowledge and experience, the one systematic approach to corporate innovation which guarantees success.

It would be misleading to claim that none of this work has borne commercial fruit during the last quarter century but the latest accounts of the effectiveness of the innovative process do not suggest that widespread gains are being made. Rockwell and Particelli[1] report the results of an extensive investigation of American new product marketing in the 1970s. They conclude:

> The mythical Sisyphus was condemned to push a large boulder up a mountain, only to find himself at the bottom again after almost reaching the summit. New product managers have faced a similar frustration over the past 25 years . . . Improvement in the new products management process has only helped us stay even in performance. On average we have seen no appreciable change in new product success rates during the past 25 years. Like Sisyphus, new product managers are still at the bottom of the mountain striving for the summit. Only the boulder seems to be getting larger and the mountain steeper.

These authors are speaking in terms of averages. They identify successful companies whose effectiveness in new product development improved during the last quarter century and describe in general terms the organisational and managerial differences between successful and less successful innovators. But, in the circumstances they describe, there is little point in producing yet another textbook on the marketing of new products. The current need is not for more managerial prescriptions but to understand better the innovative process. No single publication can develop full understanding of this highly-complex procedure. Innovation is a huge subject studied by economists, marketing specialists, engineers, designers, historians, and many more besides. This book concentrates, therefore, upon a small number of selected themes and issues.

There is an urgent need in studies of innovation to perceive and conceptualise the innovative process in its entirety, even though academic and managerial divisions of labour naturally make it necessary from time to time to concentrate upon a subset of the overall process. It is valuable, for instance, to remind oneself that innovation is not only a managerial activity but a facet also of customer behaviour. The effectiveness of the former is, moreover, dependent upon the latter. Only by understanding the dynamics of innovative buying in the market place is it possible to plan corporate new product development and to manage the innovative process over time by anticipating and responding to customers' changing requirements. Related to this is the very nature of innovation. Many writers on this subject habitually think in terms of large scale, radical innovations based upon major technological breakthroughs. Important as such innovation is, however, the vast majority of new product launches comprise product modifications and improvements which accommodate the basic product concept more and more closely to the wants of the market. Viewing the innovative process from an industry-wide perspective, it is clear that over time the most radical of innovations provide numerous small scale, incrementally-different new products as the plasticity of demand becomes increasingly apparent. This realisation is of importance to those individuals and groups who have explored the value of industrial innovation in the stimulation of economic growth. Innovation is so highly desired that numerous commentators and politicians now advocate that the innovative process be stimulated by means which modify or supersede the market. But established efficient companies will not produce and market new products unless it is clearly within their strategic interests to do so, unless the innovative opportunities open to them are appropriate to their strengths and requirements. Sometimes, perhaps most frequently, the strategic interests of firms are such that incremental innovation rather than radical breakthrough serve them most appropriately.

A particular issue raised by this consideration is the place of marketing-oriented management in entrepreneurship and in the formulation and implementation of corporate strategy as a whole. Marketing, innovation and strategy all involve the new product development process of the firm. This book concentrates upon that process as a series of procedures designed to gather, analyse and interpret information in order to reduce the uncertainties and risks of corporate innovation. Information is required in order that efficient and effective decisions can be made throughout the process with respect to the allocation of resources among competing projects. The formidable array of new analytical tools and decision techniques could easily give the impression that much is knowable. The reverse is true. A recurring theme, particularly in the later chapters, is that much remains unknown even at the point of launch and beyond it. Indeed, so much is unknowable that the management of innovation is essentially an art rather than a science, to which managerial judgement and entrepreneurial alertness at the level of the individual company will long continue to make essential and unique contributions.

Note

1. Rockwell, J.R. and Particelli, M.C. 'New Product Strategy: How the Pros do it', *Industrial Marketing* (1982) p. 49. The survey covered over 13,000 new product launches by over 700 companies. Industrial product-markets comprised sixty per cent of the sample and included information technology, machinery, chemicals and textiles. The consumer goods which made up the remainder of the sample were equally-divided between durables and non-durables. The study replicates the well known investigation, *The Management of New Products* (New York: Booz, Allen and Hamilton, 1965 and 1968).

2 INNOVATION IN PERSPECTIVE

The Value of Innovation

Innovation and change are highly-valued components of modern industrial societies. Often they are desired simply of themselves for the intrinsic variety and interest they afford, and thereby for their capacity to enhance the quality of life. But industrial innovation is generally valued not so much as an end in itself as for its perceived consequences. Economic innovation is frequently acknowledged in these societies as a means by which many of the benefits promised by politicians and expected by voters can be delivered. Such benefits as economic growth, full employment, consumer satisfactions, international trade surpluses and the reduction of inflation have all been attributed to increases in the quantity and quality of applied scientific knowledge in industry. Moreover, one of the most entrenched values in industrial societies is the belief that further progress in living standards, national prestige and security is guaranteed by the continued pursuit of industrial innovation. Cairncross[1] expresses thus the value of innovation:

> Perhaps we ought to remind ourselves more often that income levels have risen fourfold here and in other industrial countries in less than half a century . . . It is not because we work harder or longer that we are better off than our forefathers: hours of work are much shorter and the physical effort involved is generally a great deal less. We are better off because of the enhancement of productivity that rapid technological change has made possible.

In the same vein, Freeman[2] has argued that

> innovation is of importance not only for increasing the wealth of nations in the narrow sense of increased prosperity, but also in the more fundamental sense of enabling men to do things which have never before been done at all . . . It can mean not merely more of the same goods but a pattern of goods and services which have not previously existed except in the imagination.

That industrial innovation is a source of the benefits attributed to it is