

# naked**innovation**

*uncovering a shared approach  
for creating value*

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## 2 Balanced Breakthroughs

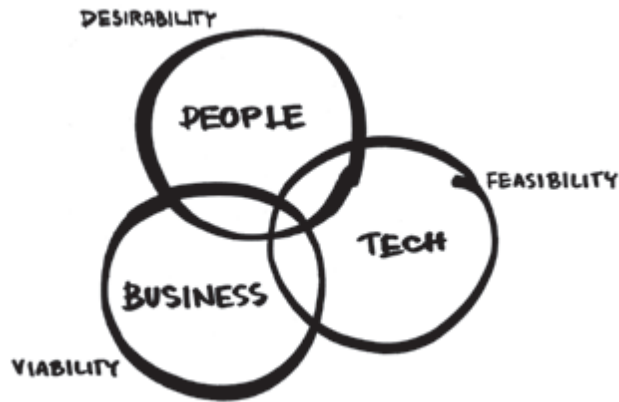
### *What the Market Rewards*

The future is already here.  
It's just not evenly distributed.

WILLIAM GIBSON

KNOWING WHAT FIRMS NEED TO DO at an abstract level takes us only so far. Merely saying, “Yeah, we should identify opportunities and develop compelling offerings and be really innovative!” is easy—but what we really need to know is, *What will the market reward?* Or, more specifically, *How does the market of all potential customers value (use/pay for) one thing over another?* We also have to know how to value the things we do that don't touch consumers directly—for example, things like effective supplier management that keeps our costs down, or intellectual property management that generates new ideas or licensing revenue.

Larry Keeley, innovation thought leader and president of Doblin Inc., represents the key components of these different types of value in the simple yet powerful **Balanced Breakthroughs**




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## BALANCED BREAKTHROUGHS

model. It shows that powerful offerings are those that appropriately match *what people desire* with *what is technically feasible* and *what is viable as an ongoing business*. Having a “balanced” offering doesn’t necessarily mean that each of these components is equally emphasized. Instead, these idea’s values should be in equilibrium with the demands of the market. A fascinating study conducted by the Management Sciences Institute found that 89% of successful new product introductions fit the following three criteria:<sup>1</sup>

- › New, but not too new to the market
- › New, but not too new technology/process
- › Is grounded in real customer needs

The first two criteria relate to expert contextual research in business and technology, while the last is tied to understanding the activities of people—this supports the notion of having Balanced Breakthroughs.

<sup>1</sup> Jacob Goldenberg, Donald R. Lehmann, and David Mazursky, “The Primacy of the Idea Itself as a Predictor of New Product Success,” MSI working paper (1999): 99–110; online at <http://www.msi.org/>

# CONTEXT IS KING.

At the start of the Internet boom, Bill Gates famously said, “Content is king.” (1996) In the sense of introducing new offerings to the market, we think he’s wrong. We would suggest that *context* is king.<sup>1</sup> What we mean by this is that offerings must fit within the context of converging trends in people’s activities, technological advances, and the competitive environment. Content only matters when the value in question is content. This is what is represented in a balanced breakthrough. Offerings aren’t great because of great technology; they aren’t great because they make a lot of profit; nor are they great because they make people’s lives better (despite what some obsessive user-centered designers tell you<sup>2</sup>); they are better because they can do these things in concert; they are better because they are relevant for emerging trends not yesterday’s. Getting one or more right can provide moderate success through invention or vision. Getting them *all* right, and doing so with appropriate timing, guarantees innovation and sustained differentiated competitive advantage.

We have chapters devoted to new ways of understanding value for each of the three components of the Balanced Breakthroughs model later in the book, but first let’s consider each one at a higher level. We’ll provide a bit of grist for the innovation mill and some questions to help you evaluate projects, offerings, and your company’s work. Many of the frameworks we’ll present in this and subsequent chapters can be used *analytically*, to measure how your (or a competitor’s) offerings

<sup>1</sup> This notion of “Context is King” came up in one of the many fascinating meetings we’ve had with our flamboyant Catalan colleague, innovator Enric Gili-Fort. Thanks Enric.

<sup>2</sup> We should know—the Institute of Design is all about user-centered design.

stack up, but they can also be used *generatively*, to develop new concepts. Naked Innovation recognizes that great ideas and disruptive innovations can come from anywhere—but they are informed by and constrained by emerging trends. Like Gibson said, the future really is already here.

### **Emerging Desirability to People**

We first consider the activities of people because the most fertile ground for innovation opportunities is in the unmet or underserved needs of current and potential customers. Companies are not unaware of this—they spend more than \$2 billion each year on market research, trying to understand consumer behavior and latent needs. While the methods they typically use to understand markets—surveys, closed answer interviews, and focus groups—are good at understanding current purchasing behavior, they fail to fully understand latent needs. Even Philip Kotler, the Kellogg School of Business professor known widely as the Father of Marketing, has been quoted saying, “The haunting truth is that traditional marketing is not working.”<sup>1</sup> Why would he disparage his own field?

Like other smart people, Kotler recognizes that society has become increasingly complex. Macro trends, including globalization, increasing mobility, mass communication, the proliferation of mobile devices, and mostly, our reliance on the Internet, have created a pool of potential customers so varied and so rapidly changing that it is difficult to keep up. Understanding what people desire has never been more difficult. This is in stark contrast to our past when people were relatively easily split by demographic and geographic segments. So, innovation projects need to address three key questions about people:

- › Who is our target customer and how many of them are they?
- › What do they want and, more importantly, what do they need?
- › How are those wants and needs changing over time?

You maybe saying, “Isn’t this obvious?” and it certainly will be to many readers. The problem is too many people assume that these questions are being asked and answered—when they actually aren’t, or at least not in meaningful ways. Not every discipline asks the simple questions that can inform and guide the process of coming up with a new offering. We want to make important questions clear and obvious. Also, we will show you some new aspects of the same questions which specifically consider latent rather than stated desires of consumers.

### **Emerging Capabilities in Technology**

Humans are in the midst of a technological revolution of a scope and scale that has never been seen before. While the Industrial Revolution pulled people from farms and concentrated them in cities and factories, the power of the Internet and inexpensive, portable “super-computers” are exploding them apart. Ironically, today’s technology allows us to be simultaneously further away yet more in touch than ever. This power has given individuals more control and yet more responsibility over their lives. Indeed, discoveries in pure science, engineering, communications, medicine, and the power of Moore’s Law have transformed all of our expectations of what it is to be human. Anyone involved in creating Vision or Invention should seek to be continually informed about what is just becoming possible. These three questions look at how emerging capabilities in technology impact your next offering—and your company’s success:

<sup>1</sup> Kotler, Philip, “Foreword” in *Kellogg on Branding*, ed. A.M. Tybout and T. Calkins, ix (Hoboken, N.J.: John Wiley & Sons, 2005).

- › Do we have the required and appropriate capabilities?
- › If not, can we acquire them, build them internally, lease them, or find an outside partner?
- › How can new capabilities for this project build on current systems or be part of a broader platform?

### **Emerging Viability of Business (or Organizations)**

With more than 70,000 employees and revenues that make it the 25th largest company in the United States, Dell Inc. is an impressive firm by any measure. What is more impressive is that Dell doesn't really make the majority of its profits from computer sales, unlike Compaq, HP, and other manufacturers. Dell's direct-to-consumer sales, and user configuration approaches helps it fulfill *specific* needs of individual consumers, instead of hoping to *approximately* meet the needs of groups of users. Moreover, it produced a business model where Dell gets paid for the computer before it has even bought the parts to make it. As a result, Dell always had more cash in the bank than it actually had on its balance sheet. While it grew to be the number one computer manufacturer worldwide, it was making a bigger profit by investing the extra cash than it was on product markups alone. This allowed it to price their products even more aggressively and ultimately to win a war with Compaq, HP, and IBM. Dell won not with better products, but with a better business model.

In an increasingly networked world, companies don't just have to make a widget and sell it at a profit to be successful—the traditional manufacturing model. Profitable businesses can be built on providing services, accepting micro-payments, facilitating peer-to-peer delivery, and otherwise leveraging an exchange of value through networked interactions having nothing to do with the “meatspace” world of products

in boxes. Sure, companies have gotten really good at playing competitively and defensively in their sectors. We propose a new willingness to deliver distinctive value to people—and also a new willingness to produce invention in business models. Before you invent, it is worth considering these three questions.

- › What competition do we and will we face?
- › Can we sell enough to make a profit?
- › What business model is appropriate? (you should really push on this point)

Unpacking the Balanced Breakthroughs model helps you know how to create offerings that will be successful. As you wrestle with the questions posed for each component, you will begin to identifying opportunity and create internal vision. You may not be able to answer all these questions yourself, as a manager or individual team contributor. But as you engage in a conversation, the need to balance people, business, and technology will help level the foundation on which you will build. Concept creation and development will take place with fewer missteps, your team will work together better, and you will have greatly increased your chance for success. Now let's frame the problem space, assemble a team, and start innovating!