

naked**innovation**

*uncovering a shared approach
for creating value*

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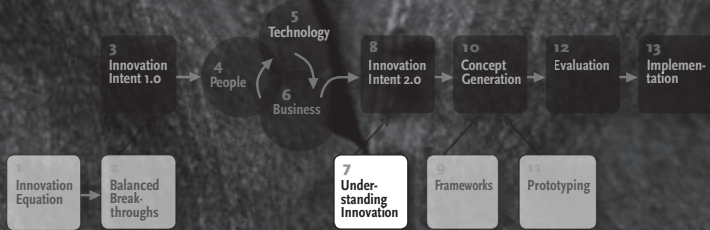
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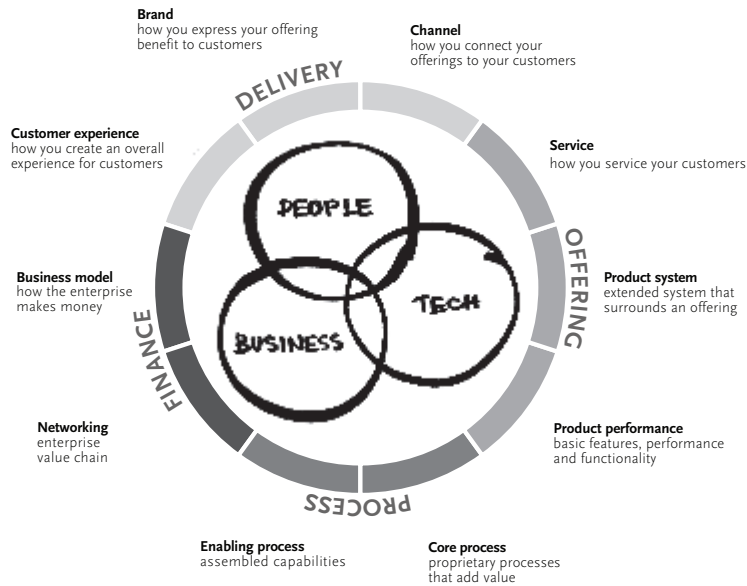
7 Understanding Innovation

The Ten Types

WE’VE TALKED ABOUT HOW PEOPLE AND FIRMS create vision and invent—the Innovation Equation. We’ve also shown that the market rewards balanced offerings and then went into detail about how to diagnose emerging trends with people, technology, and business—trends which help you build a vision and set the stage for great invention. Now let’s look more closely at how that plays out in the offerings we create. What exactly does it mean to be “in equilibrium with the demands of the market”? How can combinations of different *types* of innovations create compelling breakthroughs that sustain consumer interest and profitability?

While many gurus have outlined innovation typologies, we’ll defer to Larry Keeley and IIT Institute of Design Professor Vijay Kumar for inspiration and a starting point. Through years of research and development, Larry, Vijay, and others at the innovation strategy consulting firm Doblin Inc. have defined **Ten Types of Innovation** and how they interrelate:

- > Customer Experience
- > Brand



TEN TYPES OF INNOVATION

Ten Types of Innovation & Balanced Breakthroughs

It's not surprising to us that the Ten Types of Innovation map to what the market rewards—we create things to meet its needs. That said, it is a powerful guide to use in creating and evaluating concepts. Is your company great at creating well-performing products but doesn't put the same effort into networks and partnerships? Maybe it's exceptional in providing B2B processes but could provide new value in terms of user experience? Regardless, these Ten Types give one a starting point for considering what's next for your project or company more generally.

- > Channel
- > Service
- > Product Systems
- > Product Performance
- > Core Processes
- > Enabling Processes
- > Networks & Partnerships
- > Business Model

Big developments in one type can generate tremendous value for people and companies. Smaller developments across multiple types working together can create even bigger and more powerful breakthrough innovations. How you mix different types of innovations creates balance with what the market rewards. Let's define these types and give an illustrative example for each.

Delivery

Customer Experience | *How you create an overall, connected experience for your customers*

American Girl started as a small, niche doll manufacturer, but providing a consistent, compelling, and highly differentiated customer experience has helped them become a powerhouse producer of toys, movies, and a unique retail phenomenon: American Girl Place.

Brand | *How you express your offering benefit to your customer*
 Disney is one of the most powerful brands on the planet—largely through relentlessly leveraging a trusted name in family entertainment into an ever broader array of offerings.

Although not all their ventures have been successful, they have used their brand to sell everything from TV shows to movies, games to music, theme parks to cruises, retail shopping to mobile phone service, and housing communities.

Channel | *How you connect your offerings to your customers*

Apple is regularly heralded as an innovation powerhouse and their powerful use of sales channels is no exception. Their retail stores serve as temples to Apple products, both elevating their value and allowing individuals to engage with them in a transformative experience far beyond anything possible at a generic big box retailer, computer specialty store, or online. Contrast this with what Gateway did with their “Gateway Country” stores. It isn’t enough to just open a local store with your products—these channels must also provide distinctive value.

Offerings

Service | *How you serve your customers*

Progressive Auto Insurance has redefined what providing service means in the auto insurance industry and has profited mightily because of it. Its first bold step, providing competitor’s rates alongside its own, *even when its rates were higher*, proved a remarkable tool in fostering trust and long-time customer loyalty. The company has continued to introduce a slew of service innovations and, most recently, announced “Concierge Level” claims-service facilities in 18 metropolitan areas. Clients bring their damaged cars directly to Progressive service centers, receive a beeper and a rental car, and are notified when repairs are done—these centers make the process more efficient while providing dramatically better service.

Product System | *Extended systems around an offering*

Microsoft Office bundles a variety of specific products (Word, Excel, PowerPoint, etc.) into a system designed to deliver outstanding productivity in the workplace. Office has become the platform of choice for knowledge workers and achieved this mainly through its initial product integration.

Product Performance | *Basic features, performance, and functionality*

Few (other than competitors) would argue that Dyson vacuums perform better than any other. James Dyson’s obsession with a vacuum that wouldn’t lose suction was the starting point for a company culture bent on delivering unmatched performance. That performance is the leading reason Dyson is the number one company in floor care.

Process

Core Processes | *Proprietary processes that add value*

Pixar is amazing not only because of their compelling (and incredibly lucrative) stories, but also because of the proprietary pipeline they built to manage story creation and development. With their cutting edge Renderman rendering technologies, inclusive production management systems, and a carefully defined creative process, no other company can match Pixar’s internal systems, which consistently produce successful entertainment products

Enabling Process | *Assembled capabilities*

SAP has innovated more in enabling processes than any other. Hasso Plattner and other company founders first recognized the need for Enterprise Software and then, over the next 35 years, built a suite of software platforms which support the core functions of thousands of large companies. Interestingly enough, as SAP’s customer base grows,

broader and more differentiated innovations have resulted, all based on the same big enterprise software idea.

Finance

Networks | Enterprise value chain and web

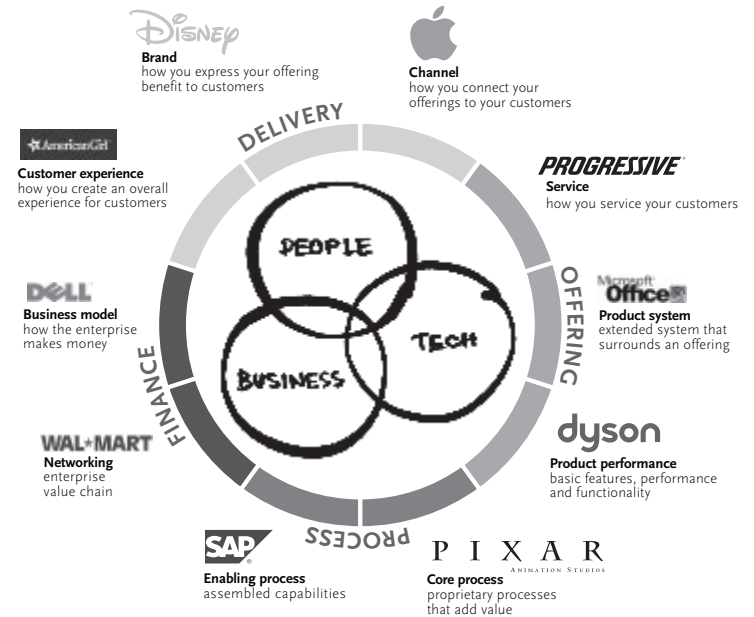
Wal-Mart built a company around a powerful infrastructure of suppliers, transportation systems, and information technology—together worth far more than a simple sum of its parts. By understanding and controlling the network around them, Wal-Mart can cut costs without dealing with details themselves.

Business model | How the enterprise makes money

Dell revolutionized the personal computer business model by collecting money before a consumer's PC is even assembled and shipped—resulting in net positive working capital of seven to eight days. Dell wins not because of better products, but because of a better business model.

These Ten Types of Innovation are remarkable in their breadth and power. You may find yourself both excited about using them, and bewildered at their implications, just as we were when first introduced to them. What we think is particularly cool is that the Ten Types give us a lot of options for us to consider whenever we are trying to develop a winning combination of innovation strategies.

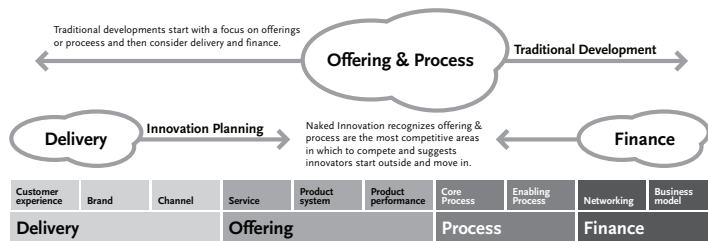
Before getting into the details how the categories and types of innovation specifically play out in offerings, let's make what we think is an obvious point. Most people who work to develop new offerings focus on performance—taking existing products and services and making them better. It sounds simple, but the ramifications of this point are important. A focus on performance leads to being absorbed with *features*—and generating new ones (or augmenting old ones) by looking at competitors



TEN TYPES OF INNOVATION (WITH REPRESENTATIVE EXAMPLES)

and trying to one-up them. We see this ingrained offering performance focus again and again as we talk to more people who work in product and service development. It seems as group, innovators are obsessed with the *things* we make and not necessarily the pieces which fit around them.

So a lot of our collective effort is spent in making products perform better—but is that the best investment of time, money, and other resources? If success hinges entirely on winning the performance race, then there's only going to be *one* winner, and everyone else is just playing catch up. In reality, while some customers are willing to pay a premium for the best (or maybe



USE INNOVATION TYPES STRATEGICALLY

even the second best), many other customers are balancing performance against other benefits, including affordability, compatibility with their current systems, convenience of delivery, brand cachet, or a compelling customer experience. And it may seem counterintuitive, but not everything a company does directly touches a customer, even though it directly contributes to the value of the offering. Improvements in the entire development, production, sales, and support chain can dramatically strengthen an offering.

This realization is more than just an interesting fact. Your projects and your company's portfolio can become stronger by knowing and using these Ten Types of Innovation. You can use them to push one-dimensional projects (and offerings) into well-rounded ones which provide value in several ways. This is especially relevant when forcing your team to begin a project considering better business models, platforms, and new customer experiences. These pathways of innovation are less well explored, and receive less investment—which will make it easier for *you* to compete if you're the only one on the Road Less Traveled. When tied together, innovations in multiple areas can transform a market space, significantly disrupt competitors while being difficult to copy. The Doblin rule

of thumb is that innovations in three or four types, combined together and introduced at once, provide a powerful foundation for sustainable competitive advantage. Let's look at two examples of how this plays out in reality.

Dyson Vacuums

First, let's come back to our friend James Dyson and how his vacuums win in the marketplace. We have mentioned that Dyson vacuums have a clear advantage when it comes to Product Performance: they really do suck better than the rest! As he noted in his biography, traditional vacuums regularly get clogged and the bags are horribly messy. We all know this. He identified this need that was staring all of us in the face and devoted himself to creating a better performing solution. It is for this reason that they command an enormous price premium. But the Dyson vacuums win on more than performance alone. As a Product System, they beat competitors as well. No vacuum bags save extra trips and hassle. Dyson also wins big in terms of Brand and Customer Experience—has any home cleaning product been as sexy as a Dyson? Even men, not generally considered the “cleaning” gender, want to use them.

What Dyson and his company did was great but it wasn't like they launched a space shuttle. They successfully identified opportunities and developed offerings to fulfill them—building products to address the unique needs of first British, then Japanese, then North American consumers. They have been incredibly innovative in a space where competitors had little to no new ideas for years. Sure, Hoover could have figured out that people were horribly frustrated with vacuums—all it would have taken would have been a few in-home observations. Couldn't they have taken this realization and produced a better vacuum? Yes—but they didn't. Dyson did, and in the process, changed the industry. We'll see if they can repeat their success with other products.



AN EARLY GOOGLE HOMEPAGE

Google

If making it into the dictionary is a measure, Google is a success. According to the Oxford American Dictionary, to “google” is to “use an Internet search engine, particularly Google.com.” While Dyson realized dominance with some focused innovations in the relatively small home cleaning space, Google has defined a new future. In the process, they have scared the hell out of entire industries by embracing many types innovation and demonstrating a willingness to integrate many formerly separate ideas. By our count, Google’s collective efforts use every of the Ten Types of Innovation. It takes a few visionary initial ideas combined with some luck and an enormous cash reserve to actually get to where they are now. Rather than dwell on their current state (so many people do that—and frankly, our book isn’t long enough to address the possibilities), let’s consider them in their earlier days when they really only had one product.

Google’s now widely used search engine was born in 1996 out of a research project by Larry Page and Sergey Brin at Stanford University. Both Ph.D. students in computer science, they theorized that a search engine that analyzed existing link relationships between websites—votes of confidence in their view—would produce more relevant results than ranking

them according to the number of times some search term appeared on a page. In fact, the system was originally nicknamed BackRub because it checked these “back links” to estimate a site’s importance. For anyone who used Google in the early days (especially before a whole industry developed to “game” its system), it clearly outperformed its competitors.

Put simply, Google-the-search-engine started with a powerful innovation in Product Performance. This was relatively quickly followed by a number of other types of innovations which built on their performance advantage. First, the Customer Experience of the initial site was simple but completely differentiated them from competitors. While Yahoo! and Microsoft were trying to build portals with endless features and graphical doo-dads, Google presented a simple beta that assumed users wished to do nothing more or less than search.

It is a fantastic example of the rule that great design does not mean offering more features or being “over-designed.” The experience really was innovative because it was designed (however simply) to meet the most pressing needs of its users: to quickly find relevant information in the vast sea of information also known as the Internet. Google had appropriately balanced its capabilities and user desires but hadn’t yet really understood how to make the company feasible in a sustained way. No revenue was coming from Google.com itself.

So what made Google the giant it is today? In 1999, it combined these two big developments in Performance and Experience with a huge new innovation in Business Models—even though it was originally created by someone else. The concept of auctioning online ads started with Bill Gross and his new venture incubator, Idealab, which launched GoTo.com. What Goss and his team had built was a system that allowed advertisers to bid on particular words, and when users

searched for those words, the advertiser's message popped up alongside the search results. It worked so well that Yahoo! bought GoTo.com, renamed the company Overture, and used it quite successfully—with Google (ironically) as the underlying search technology.

The smart people at Google took notice and built their own version of an online ad auction called AdSense. Was AdSense a better version of the technology? Probably so. Was this idea something they wouldn't have come up with on their own? Probably not. Regardless, Google took the idea, integrated it with their other offerings, and has become far more valuable as a company than Yahoo!. Google's infringement of Yahoo! patents was glossed over with a \$275 million settlement—a minuscule amount compared to the profits Google made from AdSense.

Intellectual property issues aside, what is really important is that someone at Google recognized they needed to balance their offerings feasibly and the GoTo.com / Overture / AdSense model was the perfect fit. This integration of their former search engine Performance and Experience innovations with an appropriate Business Model and smart Networking extensions perfectly balanced with emerging trends. As William Gibson might say, Google's future really already did exist. How people used computers, the rise of the Internet as a technological platform, and a new willingness by businesses large and small to try new contextually based advertisements resulted in a company whose future is so big, few (quite possibly even Google's founders) can now fully comprehend. The visionary short film *Epic 2014*, released online by Robin Sloan and Matt Thompson, presents just some of the possible ways life could be made different in the very near future, thanks to integrated innovations of the kind Google is pioneering. (If you haven't seen *Epic 2014*, it is well worth a look. It's easy to find because

you can just google it!) The company's unique portfolio of innovations and a genuine willingness to try new things means they have a lot of options.

Luckily, you don't have to have Google's resources to act like them. Any development team can embrace the Ten Types of Innovation and tease out dramatically new ways to deliver distinctive value to your current and future customers. In a shorter project, you can introduce little innovations in the types you hadn't previously considered to make them stronger. At a strategic level, you can explore types as new core competencies in which to invest and distinguish yourself from your competitor.

By now, you've come a long way from your initial Innovation Intent. After learning about the various domains that affect it, and seeing how the Ten Types of Innovation may suggest new ways of thinking about the problem, it's time to recalibrate. Next, you'll take all your insights and use them to reframe the problem, developing a revised and improved Innovation Intent.

RESOURCES FOR UNDERSTANDING INNOVATION

Doblin Inc. "Ten Types of Innovation." Doblin Inc.
<http://www.doblin.com/IdeasIndexFlashFS.htm>.