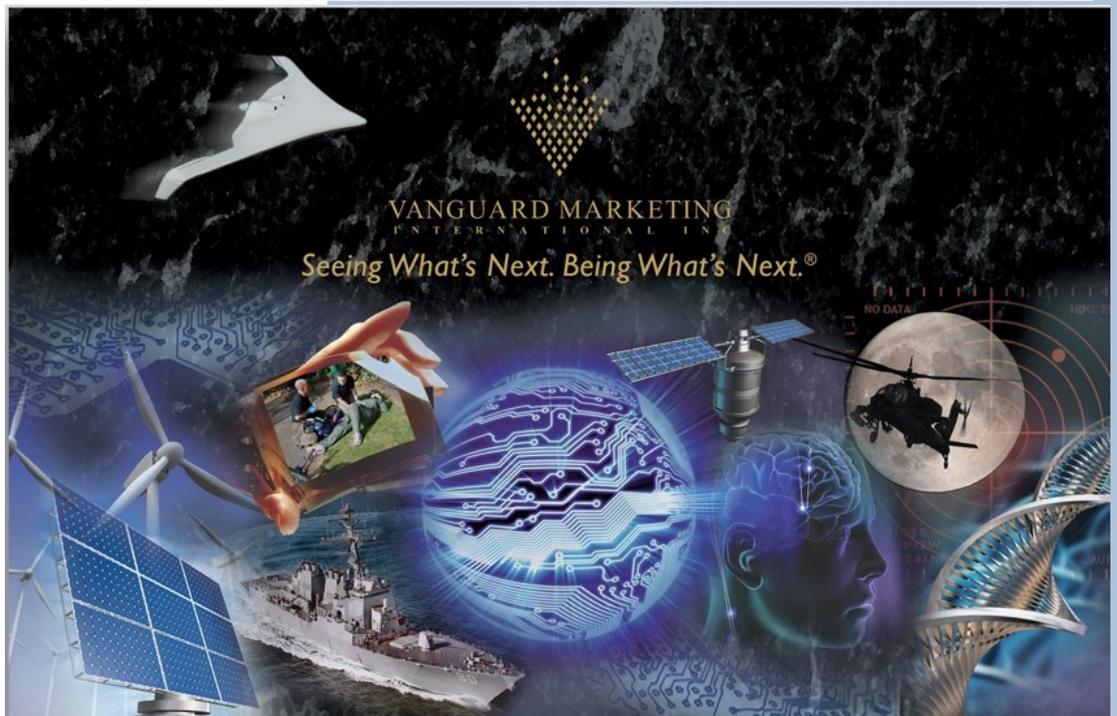




First to *New Markets* with Discontinuous Innovation: A Strategic Marketing Process



Vanguard Marketing International, Inc.



Continuous Innovation:

"A transition from an earlier fluid state to one that is highly specific and rigid. As continuous change proceeds, technological diversity gives way to standardization and commoditization. These evolutionary periods do not continue indefinitely, but are often interrupted by a new cycle of creativity and discontinuous change."

Discontinuous Innovation:

"Where this new change sweeps away much of a firm's existing investment in technical skills and knowledge, designs, production technique, plant, and equipment."

Introduction

The focus of this white paper is based on a company's position of not only having a proven technology but also the belief that there are new markets where it could displace the existing accepted technologies and thereby be able to reap the extraordinary benefits of a disruptive, discontinuous innovation. While there are a number of possible entry strategies, this paper concentrates on the process that enables you to be "first to market" with a discontinuous innovation.

Even with meticulous analysis, endowed with clear focus, and conscientious management, introducing and applying innovation still suffers from unique risks and, worse, an innate unpredictability. The keys to maximizing the probability of success of your innovation is in a person or a group of entrepreneurial people who follow a *rigorous process* of discovery, analysis and the application of good judgment.

Strategic Marketing's Role

We are not looking to engineer technology; we are looking for markets that favor *the attributes of its innovation*. This is not an engineering problem. It is a strategic marketing problem. The goal of the following strategic marketing process is to minimize risk while maximizing the opportunity of the innovation that is enabled by the technology.

The following are answers to typical questions asked by strategic marketing directors tasked with finding and exploiting new markets for their company's "discontinuous" innovation.

1. What are the chances of my success and what is involved?

The journey to find a new home for your innovation is difficult but also rewarding. Research has shown that only 6% of new entrants into existing markets with a continuous technology were successful while 37% of the firms entering a market with a disruptive innovation technology



were successful. This being said it is important that you recognize that *the innovation process* is a plan to *learn* versus a plan to *execute*. By this we mean the process consists of research, investigation, identification, and analysis of critical information across different levels of granularity. Each level will provide you with additional clarity and the ability to make incrementally better decisions as to how to proceed. Our goal is to learn enough to make an educated decision, then to move on.

2. ***How will I define success? What are reasonable goals and objectives when embarking on this search?***

You might expect the goal and objective to be finding a market that represents a specified revenue opportunity to the corporation within so many months or years. The problem with this type of goal is that in actuality (historically speaking) revenue cannot be realistically determined. The innovation process will uncover markets, help you prioritize them and provide levels of probability of success within selected markets; however, the rate of adoption and market share are very difficult to determine with any true accuracy at the completion of the process. If there were hard and fast rules for determining such, more of us would have bought stock in Casio, Microsoft, AOL and Qualcomm when their share price were in the teens!

The innovation process goal, instead of revenue, should rest on adoption metrics that help your company shift its business

model to optimize the firm's position as the leader in the new market.

The 50,000 Foot Level -- Research

The innovation process begins by answering, "What is it that we are selling and why should anyone care?" We cannot proceed until these questions are addressed, the innovation's specific attributes are assessed and their general value determined in a pragmatic manner. No attribute should be dismissed. As an example, in the search for new markets for a turbine auxiliary power unit, many attributes were assessed that were very important in the aircraft industry. Other less important attributes, however, became the criteria for choosing the technology in other markets. If we allow ourselves to be fooled with a lack of objectivity in this exercise, we will fail to exploit new markets. Once we understand the attributes offered by the innovation, it's time to move on to the "scoop shovel" research stage. At this point we research and load into the hopper any market that looks feasible when compared to our value proposition.

The 10,000 Foot Level -- Identification

At this point in the innovation process, we begin to eliminate markets so those remaining will be deemed credible and thus prospective markets. After applying some basic priority ranking, we are able to bring the potential target market number down to a few for further investigation in the next step. A



credible prospective market will have some level of probability of being worthwhile to pursue. For each one of them we need to understand:

- Trends that are impacting the market and their implications on the business practices or function of the top players
- The market's buying criteria including financial methods for making decisions
- How their buying criteria is shifting, and whether it is due to the trends taking place in their industry
- Which buying criteria attributes have already been credibly satisfied
- Whether any shift is occurring in the market as it pertains to their buying criteria
- The priority and value of each criterion as seen by the market
- Major competitors and how they currently map to the market's buying criteria
- Whether our technology has any differential advantage relative to the buying criteria and the solutions currently available
- Whether our differential advantage will be of value as trends shift in the market

As we understand the possible markets and can answer these questions, we are then able to eliminate some number of candidates. This typically results in identifying the top two or three markets for our discontinuous innovation. It is possible, however, that no markets will remain, in which case its time to examine an exit strategy.

Exit Strategy: If no home for the innovation can be found that meets your needs, three possibilities are open to you.

You can:

1. *Walk away and stick to your existing markets,*
2. *Look at licensing the technology to an established player in one or more of the markets researched,*
3. *Sell the business.*

The 500 Foot Level— Investigate

If we do have any candidates remaining, it is then time to achieve the next level of investigative granularity by learning the answers to the following questions for each market:

- What is the buying model employed?
- What is the "whole product" solution the market demands?
- What would an optimum product look like?
- What is the current product pricing model, including bundling strategies?
- What is the current standard form of sales/distribution?
- How do the competitors fit in the category and what are their individual strengths and weaknesses?
- Who are the early adopters, opinion shapers, heavy-users that we can target?
- What are the barriers to entry?

In the situation with an innovative technology, it is critical to remember that the rate of



adoption will be dictated by both how well it meets the buying criteria as compared to the competition, AND how well it meets the complexity, trialability and observability requirements of the market. As defined by Everett Rogers in his book *Diffusion of Innovations*, complexity is the degree to which an innovation is perceived as relatively difficult to understand and use. The innovation must be perceived as easy to use. Trialability is the degree to which an innovation may be experimented with on a limited basis. The lower the perceived risk - the faster the adoption. Observability is the degree to which the results of an innovation are visible to others. Simply stated: the more evidence showing that the innovation has produced meaningful results for others, the better.

We once undertook an assignment for a company that had great innovation technology. The product was a winner when compared with the normal buying criteria of the market, but it was not able to overcome complex hurdles because it required massive retraining of the engineering staff and major new tooling. The tooling was the easy part actually, but overcoming the old practices of the engineers proved to be too difficult and the innovation never broke into the new market.

The 200 Foot Level – Analysis

With the research, identification and further investigation completed, one or two of the markets will have fallen out of our queue. We now need to consider the business model that we will employ to deal with the new

market opportunities. Make no mistake; the new model will result in permanent change. If the business model necessitates a new organizational group, the newly created group will need to be placed outside of the main corporate environment. This is imperative because the new goals, objectives, customers and products will look much different than those served in current industries or markets.

Another critical part of the business is the sales model. The logical follow-on is to evaluate our sales & distribution strategy. We must determine the optimum model for introducing and selling this innovation into the new markets. The one thing we can be sure of is that disruptive innovations almost always redefine the dominant distribution channels. As we evaluate how the new market's current competitors sell products, our ability to introduce *disintermediation* into the sales model will be of great benefit. Disintermediation² is the removal of the middleman by providing either direct or new services. The more streamlined our sales model, while fulfilling the market buying criteria and model, the greater our advantage. In fact, this area can be a major differential advantage to our innovation because it will be hard for current market competitors to change their business model to effectively combat our challenge.

Where the Sky Meets the Road – Clarity

With the markets, competitors, solutions and models investigated and analyzed, we then need to achieve clarity by determining our



adoption strategy, messages and evidence. The goal is quite simple – to achieve the maximum rate of adoption in the shortest period of time.

We are now ready to revisit our target market's buying criteria questions to identify the top prospects within the target markets to pursue. These top prospects are the early adopters-opinion leaders-heavy users. Based upon their specific needs and requirements, we need to develop strategies that will convince them of the advantages and benefits of our discontinuous innovation. Inherent in these strategies is to define *the name* and position of our innovation, *the messages* we will employ for the brand, and *the pricing and bundling policy* to be utilized.

With these objectives in place, we are ready to validate our brand via the messages and evidence with a target prospect within each selected market segment. When we are confident that our (1) defined business model, (2) selected innovative attributes, and (3) messages and evidence have been validated to the extent where market adoption and acceptance are likely, then we will have met the goals of the corporation.

Conclusion

While the risk of introducing a new innovation is high, the potential rewards to the company of exploiting its discontinuous innovation in a new market are extraordinary. As in life, utilizing a replicable proven *innovation process* does lower your risk of failure. By identifying potential transplantable technologies within the firm, and applying a sound process methodology, not only can a business minimize the risk of being first to market with a discontinuous innovation, it can also secure a truly sustainable future for the company.

Epilogue

Companies that want to stay ahead of their competition must continually demonstrate leadership through leading-edge vision and the ability to execute the pursuit of new opportunities. Vanguard Marketing International works on an ongoing basis with many of its clients to ensure that they address changing market needs, capitalize on important industry trends, and maintain brands, which clearly differentiate their company and innovations throughout the investment community and prospective markets.

As a follow-up, the reader is encouraged to review Vanguard Marketing's website and published white papers on selected topics related to Vanguard's core competencies at: www.e-vmi.com

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