



# The Role, Impact and factors of Innovation on Businesses and the Success of Innovation

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# What we need to know

+ Here are all the topics this PowerPoint aims to cover from the BME Y12 Syllabus.

- the role of innovation in improving products, processes and services
- the benefits of innovation for business, including:
  - financial gain
  - expansion of global market presence
  - increased market share
- factors that impact on the success of innovation
  - timing
  - cost
  - marketing strategy
  - technology



# Defining what Innovation in business is

**Innovation** is described as the processes of developing and implementing **new ideas, methods, processes** and **products** to facilitate business and profitability growth. This term is known as the “commercial exploitation” of new ideas and refers to both radical and incremental change in looking for opportunities for improvement and introducing new ideas to markets.

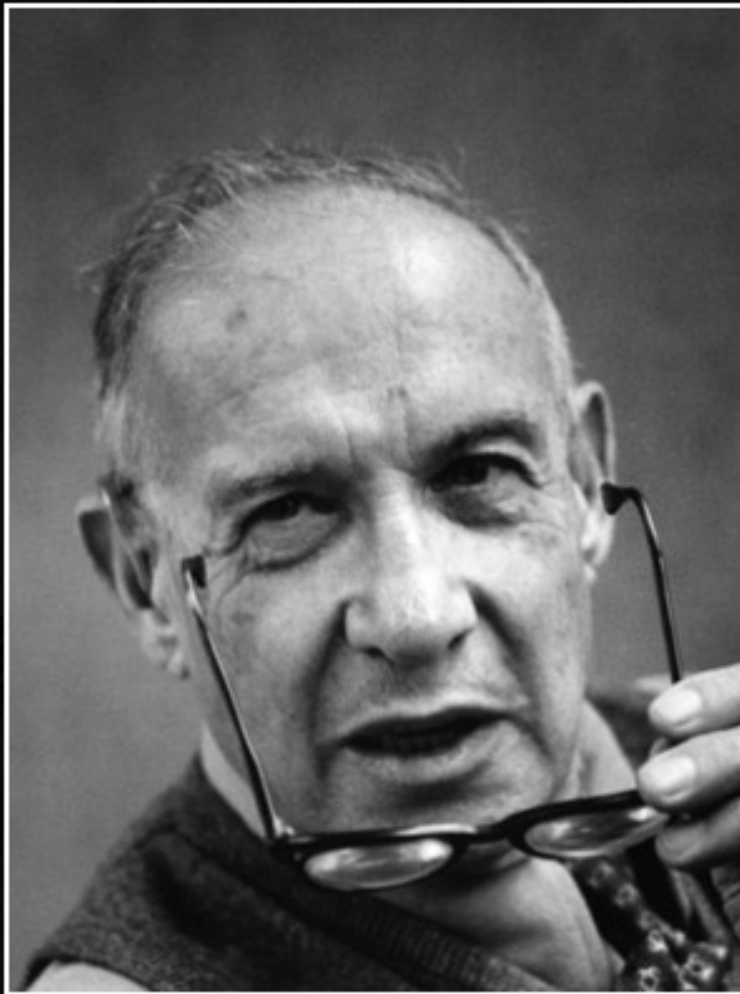
## Forms of innovation include

- **Process innovation** - changing and improving the effectiveness and efficacy of business **operations, manufacturing, distribution** and **marketing** of its goods and services. This is done through the adoption of new technology and procedures.
- **Product innovation** - changing and improving **features, materials** and/or **functions** of a good or service by developing in accordance to the evolving needs of customers.
- **Cost reduction innovation (not to be confused with process innovation!)** - deals with improving efficiency and effectiveness of processes by **reducing the costs of production** for a business
- Process innovation seeks to **improve the way things are done**, while cost reduction innovation **seeks to reduce the costs of doing them**

# Incremental vs. Radical Innovation

- + **Incremental innovation** (also known as **new use for products**) refers to gradual minor improvements made to existing products and/or processes to enhance performance, customer appeal and/or quality.
- + An example of this would be Microsoft making incremental updates to the design and tweaking features of **Microsoft Word, Excel, and PowerPoint** to remain modern and improve quality.
- + **Radical innovation** (also known as **new products**) is much more disruptive and involves larger risks as it seeks to develop new products, services and processes that are fundamentally different from products released by the business/present in the market. A lot of time, money and resources is invested in creating unique ideas that challenge existing ones with high uncertainty.
- + An example of this would be Apple introducing the **first iPhone in 2007** which would challenge the flip phones and phones with physical keyboards and styluses.





Whenever you see a successful  
business, someone once made a  
courageous decision.

— *Peter Drucker* —

AZ QUOTES



# Goals of Innovation

- + Stimulate growth opportunities and evolve the business against or ahead of the markets they compete in
  - + To reduce inefficiency through process innovation to benefit from productivity gains
- + Provide a business with international competitiveness by creating a competitive advantage that the business' foreign rivals do not have
- + Attract consumers to switch from rival products and services to the business' more appealing or innovative ones. This is a key focus for Samsung and Apple
  - + Improve quality of life and living standards, i.e., corrective eye surgery to replace glasses
    - + Create jobs and employment opportunities

# Benefits of Innovation for Business – Financial Gain

Businesses can achieve financial gain through innovation which can **increase revenue** while simultaneously **decreasing expenses**.

## Increasing Revenue

- **Product innovation involves Research and Development to create a unique selling point (USP).** This USP can be used to protect the business from competitive pressure as the business has developed a unique good or service that cannot be easily copied. As such, a premium pricing strategy can be used by the business to charge for their good or service due to the lack of competition.
- **Subsidisation by the Government,** almost all Governments have a range of industry grants and funding options for researchers to “develop and implement new idea[s] with commercial potential”. This means businesses have a lesser burden of investing in the Research and Development of an innovative product which means they can maximise on profits/return.
- **Access to markets through e-commerce,** consumers globally are very interested in innovative goods and services. This combined with the access to Internet and ability to create an e-commerce store means a business can sell their innovations with greater interest and gain a greater customer base, sales, and exposure.



# Benefits of Innovation for Business – Financial Gain (Cont.)

## Decreased Expenses

- **Reduced wastage, faster output, automation are all characteristics of process innovation that result in sustained profits.** This is possible because the capital to create goods and services becomes more efficient and able to produce more per hour worked which increases profit margins. (greater return in capital per hour worked).
- **Economies of Scale** - As a business produces more units of a product or service, its fixed costs can be spread over a larger volume of output, reducing the cost per unit. A business will likely be producing a large volume initially which speeds this process up as when an innovation is first introduced to market, they are likely to be the largest market share holder as no other competitors are likely to exist yet.
- Process innovation increase profit margins **by improving production efficiency**, while economies of scale allow **businesses to reduce the cost** per unit of output by spreading fixed costs over a larger volume of production.





# Benefits of Innovation for Business – Expansion of Global Market Presence

- + **Remain competitive** – in order to compete against existing multinational firms, innovation encourages the expansion to global markets by providing the opportunity to capture a greater market share as typically consumers are interested in innovative products over traditional ones.
- + **Shortened Cost of Delivery (COD)** – through innovation that focuses on automation, digitalisation and logistics a business reduces costs involved in delivering to customers. This encourages firms to expand overseas as it becomes more cost effective to deliver to international customers.
- + **Unique social networking opportunities** – new and innovative products receive considerably more engagement and publicity than current market leaders. This can enable a business to increase its brand image awareness globally to help the firm expand into overseas markets.
- + **Global IP laws** – businesses can apply for international Intellectual Property protections (such as patents) using the “Paris convention”. This allows a firm to claim the same date they filed for a patent, trademark etc in overseas applications within 6-12 months of the original application. It acts as a notable competitive advantage to a business as their innovations cannot be copied or imitated until the intellectual property claims expire.

# Benefits of Innovation for Business – Increased Market Share

**Competitive advantage** – unique selling points of innovative products provide an edge over competing products in the same market. This allows a business to attract more customers and hence increase its market share.



**Expansion into new markets** – if an innovative product is a new category or type of product, not only will this attract a lot of consumers but it may enter a new market. This effectively allows a business to monopolise a market if there are no other similar products.



**Brand Recognition** – should the business release primarily innovative products, its public image may be associated as an innovator and as such more consumers may purchase product from the firm.



# Impacts on the Success of Innovation - Timing

**Rapid innovation cycle** - in increasingly competitive markets with new products and firms challenging market share, it is imperative that a business is continually releasing innovative products.

**Proactive and reactive change** - firms must consider competitor's development cycle, if their's is shorter the business must take measures to match or beat this to protect their market share.

**Political and economical environment** - a business should avoid releasing innovative products during recessions, economic uncertainty, or Government-renewed focus into the market they are trying to enter. Consumers generally are not interested in spending due to decreased discretionary income during these economic events. Governments may impose changes that negatively impact a firm as part of their renewal efforts.

**Business Cycle** - during troughs a business may not have sufficient funds to invest in research and development for new products.

**Product Life Cycle** - firms should consider what stage of the product life cycle their other offerings may be in. New innovative products should be released during saturation or decline and not introduction or growth so as to avoid market cannibalisation (when a firm introduces a new product that displaces its own products).

**Management needs to exercise judgement** and information at hand to identify the ways their firm and environment around them may change, in order to anticipate change. This way they can manage the risks of innovation and better prepare for the future.

# Impacts on the Success of Innovation - Cost

**A less cash rich business leads to less R&D expenditure.** This means a firm produces less innovative products/process and is less competitive in the markets they are competing in. Innovation is what differentiates a business' offerings from other competitors, if a business could not sufficiently invest into their innovation they may struggle to enter markets.

**Government policy towards grants and tax offsets** - depending on these policies R&D costs may be more costly or cheaper in certain countries which influences a firm's willingness to invest in innovation.

**Sunken cost cannot outweigh long term benefit** - a firm should not continue to invest into innovation on the basis of getting it profitable if it is consistently making losses in the long term. This form of decision making can risk the firm's stability and solvency (the ability to meet its debts and financial obligations).

**Income > expenses (earn versus burn)** is a good way of measuring this in terms of net cash flow.



# Impacts on the Success of Innovation – Marketing Strategy

- + **Pricing** – a firm must consider whether to use premium, skim, penetration, psychological pricing strategies when marketing their new product. This is essential in determining whether an innovation will capture market share or not. i.e. an innovation with no demand should not adopt premium pricing as it is unlikely to get customers
- + **Product differentiation** – a focus on what consumers currently need and how the innovation is different from other products helps to provide a compelling selling case to generate sales.
- + **Promotion** – marketing should aim to convert consumers to customers by focusing heavily on the unique selling point that the innovation provides. This helps solidify product differentiation.
- + **Cultural consideration** – certain innovations by businesses in developed countries may appeal to more western customs. This is an issue for businesses trying to enter Middle Eastern or Asian markets as the unique selling point for innovations may be lost if there isn't any consideration for how to market it them to different cultural audiences

# Impacts on the Success of Innovation - Technology

**Efficiency and productivity of technology** – the capabilities and advancements of technology determines the costs of innovation as well as the rapidity (speed) of innovating. Too slow and/or inefficient technologies can result in innovations being slow to produce and costly.

**Acquisition of external technological knowledge** – firms typically acquire (buy out) other firms to gain access to innovations and the processes behind them. By doing this, a firm can speed up the processes of innovating new products and reduce the costs of creating existing ones.