

The Challenge of Innovation: Low Cost/Unique, Large/Fast



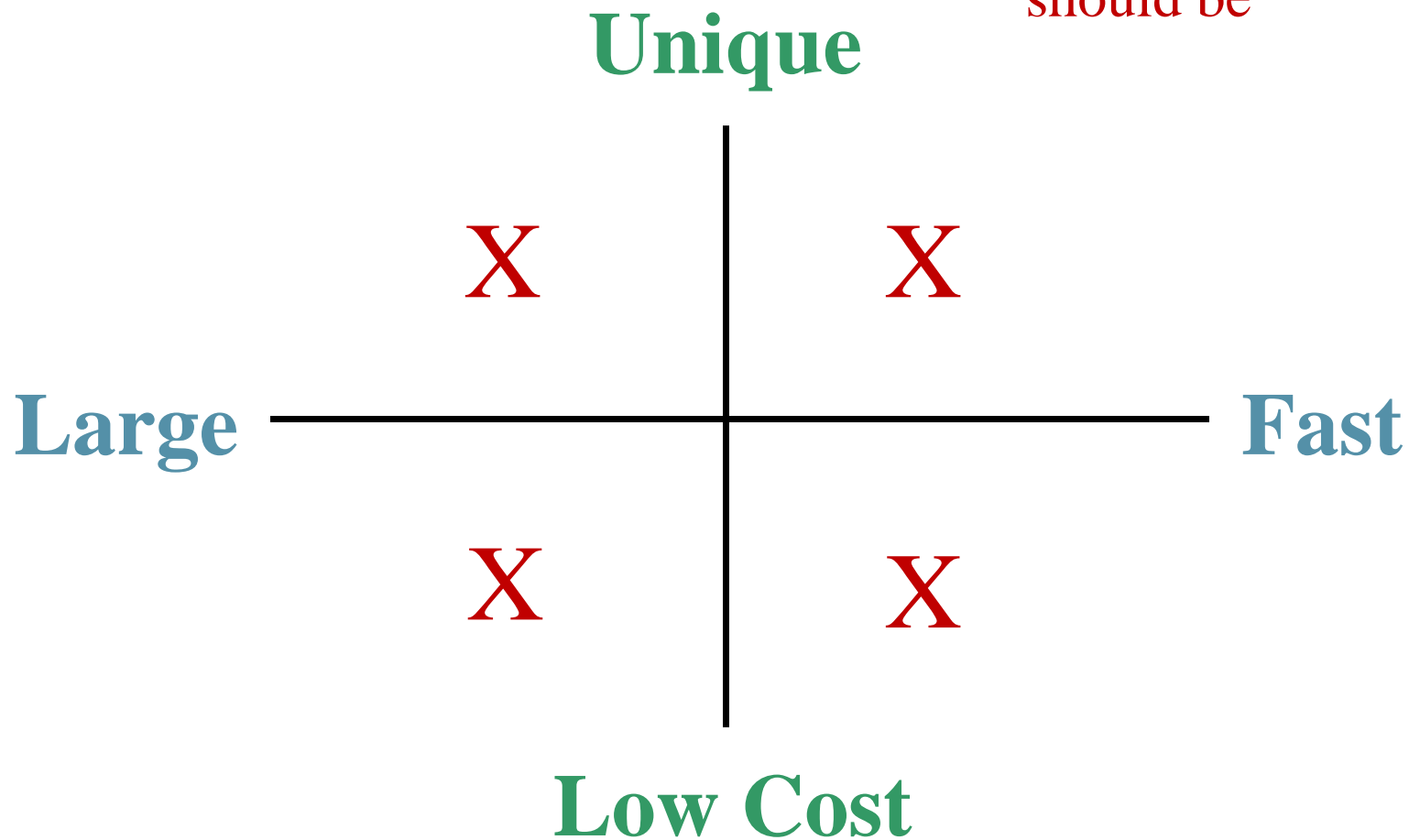
Dr. Chris Peterson

Nowlin Chair of Consumer-Responsive Agriculture

Michigan State University

Your Strategy?

1. Put X where you are
2. Put O where you should be



Defining Innovation

- Innovation: Creating business change.
- Change in what?
 - Products & services
 - Processes & technology
 - Capabilities/competencies
 - Supply chain relationships
 - Markets



Defining Innovation

- Innovation has many degrees
 - Type of innovation
 - New to the World (most innovative)
 - New Attribute (moderately innovative)
 - New only to the Individual (least innovative)
 - Extent of innovation
 - Limited to some specific product or function
 - Business wide
 - Reinventing the market



The Strategy Dimensions?

- Low Cost or Unique
 - Customer value
 - Competitive advantage
- Large or Fast
 - Core competencies to deliver volume
 - Core competencies to deliver speedy response



Low Cost or Unique?

$$\text{Customer Value Relationship} = \frac{\text{Perceived Benefits}}{\text{Price}}$$





Fundamental Strategic Choice

■ Low Cost Advantage

- Lowering price to increase customer value
- Market a commodity product
- For example, Cargill

■ Uniqueness Advantage

- Increasing bundle of unique benefits to increase customer value.
- Market a differentiated product
- For example, John Deere





What Are the Returns and Risks?

■ Low Cost Advantage

- Returns: low margin, high volume
- Risk: Not being lowest cost

■ Uniqueness Advantage

- Returns: high margin, captured customer
- Risk: Not being unique



Challenge of Innovation?

- Both strategies for customer value and competitive advantage involve an **innovation “treadmill.”**
- Low Cost Advantage
 - **Today’s low cost = tomorrow’s average cost!**
 - Continual innovation to lower cost
- Uniqueness Advantage
 - **Today’s unique attribute = tomorrow’s expected attribute!**
 - Continual innovation to be unique



2nd Dimension: Large vs. Fast

- The Choice
 - Large: Handle volume
 - Fast: Respond to market change with speed

- It depends on the future agri-food system
 - Who will hold power and how?
 - Food safety/security assurance?
 - Do consumers want low budget impact or uniqueness of attributes from food?
 - World effective demand and openness?
 - Relative demand arising from:
 - Bioeconomy emergence?
 - Relative supply of ag commodities ?
 - Governmental incentives and regulation?
 - Sustainability of the whole system?
 - Emergence and adoption of technology?



Agri-Food Futures

Scenario 1: Playground of Giants

Monolithic supply chains (captained by retailers) rule a world in which brands assure attributes, technology is constrained, consumers want low budget impact, and global demand & openness are limited.

**Be large or
be hired
help!**

**Never be
stuck in the
middle!**

Scenario 3: Arena of Extremes

A bi-modal system of very big or very fast chains/webs/firms evolves. Commodities flow from the big while products flow from the fast. Consumers pick and choose in world of uneven global growth & openness.

Scenario 2: Speedway to Niches

Individual consumers (willing to pay for unique attributes) access instant response from virtual webs of micro-firms assuring attributes through e-certification within a global context of open expansive markets.

**Be fast or
be gone!**



Challenge of Innovation?

- Being large or being fast also demands **innovation.**
- Large Advantage
 - **Innovating product lines, processes, supply chain relationships and market geography to get even larger or to imitate the fast!**
- Fast Advantage
 - **Innovating products, processes, and supply chain relationships to do the “next” valued thing that the customer wants!**



Multiple Challenges of Innovation!

- Low Cost Advantage
 - **Today's low cost = tomorrow's average cost!**
 - Continual innovation to lower cost

- Uniqueness Advantage
 - **Today's unique attribute = tomorrow's expected attribute!**
 - Continual innovation to be unique

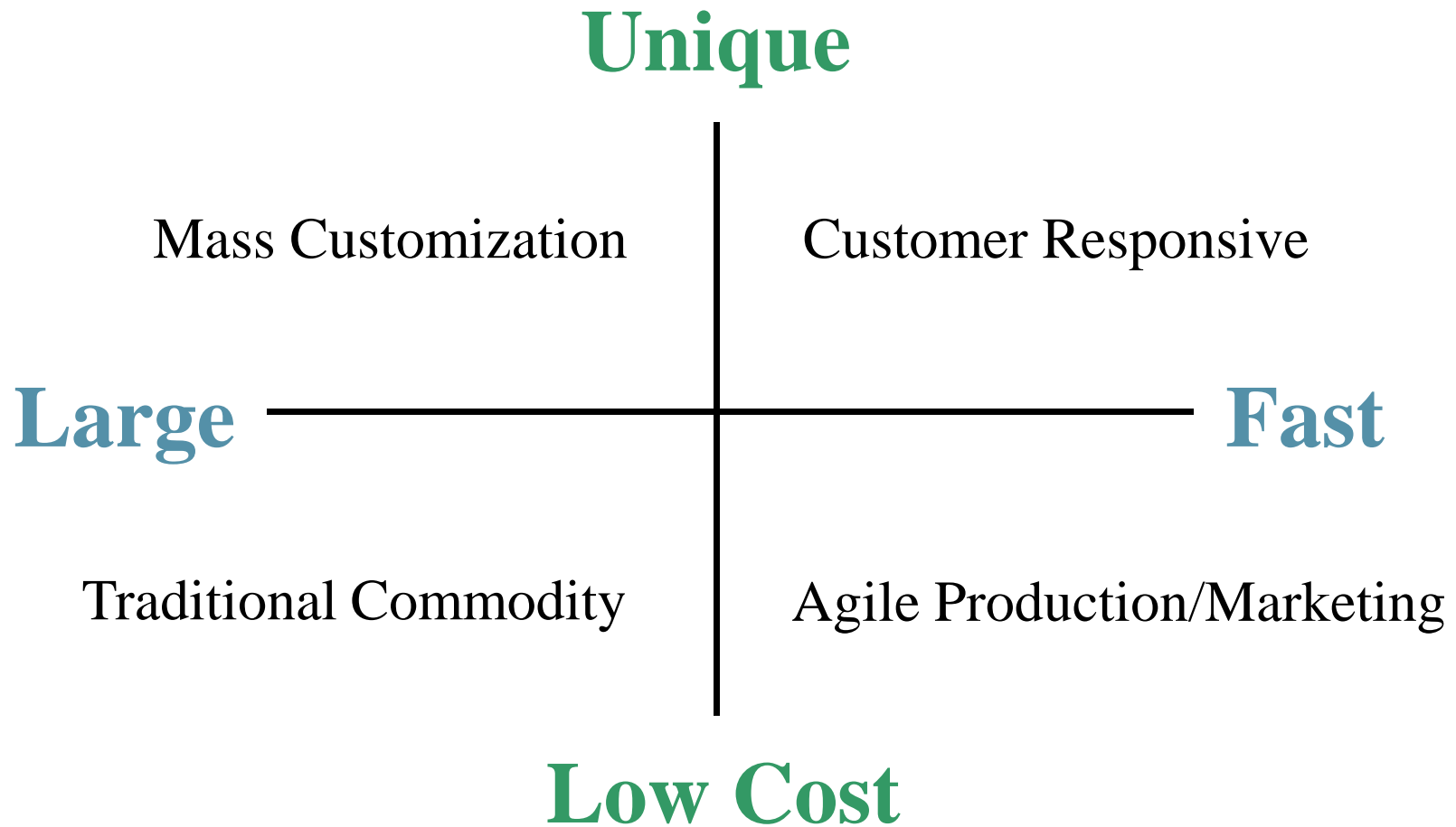
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The Imperative to Innovate

- With *no* innovation, the value you create for customers deteriorates over time!
 - Customers change.
 - Competitors copy you and innovate themselves.
 - The world becomes more global.
 - Today's high value (low cost, uniqueness, largeness, or fastness) is tomorrow's average value!!!!!!!



The Imperative to Innovate

- When should a firm innovate as strategy?
 - When “creative destruction” opens the door.
 - When a firm is competitively “disadvantaged.”
 - When the “local” environment is supportive of innovation
 - When the firm has developed the dynamic capacity to learn.



How to Innovate?

- Have an innovation strategy
 - Set priorities for innovation
 - Low cost vs. unique
 - Large vs. fast
 - Determine the extent to which and in what circumstances you:
 - Copy it
 - Buy it from outside
 - Invent it inside
 - Partner to get it

- Commit resources to the strategy



A Checklist

- When was the last time your firm implemented an innovative idea?
 - New to you
 - New to a product or process
 - New to a market or supply chain
 - New to the world

- Do you innovate?
 - Do you merely copy?
 - Do you merely react when the situation forces you to innovate?
 - Do you proactively seek innovation externally?
 - Do you develop innovation internally?





A Checklist

- Do you know what innovative you need?
 - To remain low cost?
 - To remain unique?
 - To remain large?
 - To remain fast?
 - To move from where you are now on these strategic dimensions to where you should be?



A Checklist

- Do your decision processes bias your firm against innovation?
 - Obsession against risk vs. risk management
 - Preoccupation with hard assets vs. balance across all areas of investment
 - Single point planning vs. true scenarios
 - Conservatism first vs. openness to change

- Do you reflect and learn?
 - Examine your failures and your successes
 - Probe your bottlenecks and problem relationships
 - Seek out external occasions to learn



A Checklist

- What level of resources go to R&D?
 - New Products and Services
 - New Production, Information, and Management Processes
 - New Markets
 - New Supply Chain Relationships
- Who is responsible for R&D?
- What are the rewards for innovation?

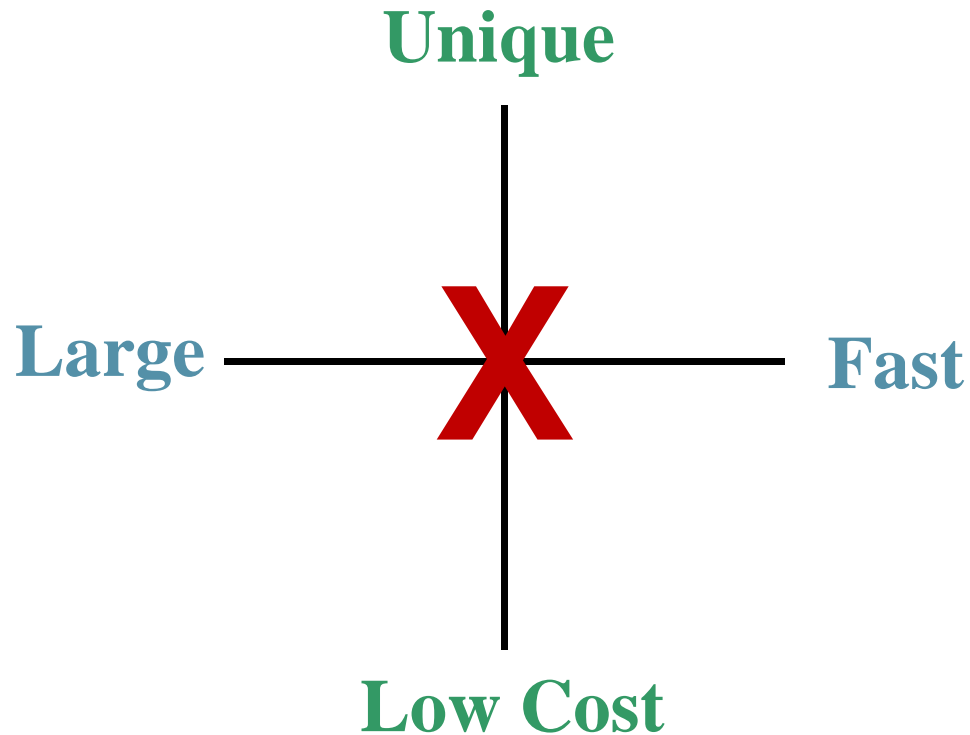


Conclusions

- Innovation is essential in today's world
- Is your firm innovating enough?
 - Products & services
 - Processes & technology
 - Capabilities/competencies
 - Supply chain relationships
 - Markets
- Does your innovation match your strategy?
 - Low cost vs. unique
 - Large vs. fast



Your Strategy?



1. Where are you?

2. Where should you be?

3. How will you innovate?

