

The importance of Strategy & Innovations to an Organization's Success

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Introduction

The decision of when to enter into a new market or industry is a big dilemma for most organizations. This challenge in decision making has caused firms to fully examine the fastest possible way to enter a new market or industry. Firms must examine the benefits and consequences of entering a new market when making business decision. The firm's decision enter a new emerging market could also be too costly since the firm lacks the market knowledge and experience needed to succeed (Hawk et al., 2013).

Innovation is defined as the introduction of new product and service offerings as well as new processes into a new market successfully, which yields organizational growth and performance (Buisson & Silberzahn, 2010). In this study we shall examine different innovation strategies such as the blue ocean strategy, Imitation strategy, open innovation strategy, disruptive innovation strategy and business innovation strategy. This study will also examine the case study of Redbox and GlaxoSmithKline to help examine successful companies who have adopted these innovation strategies and how the chosen innovation strategy has shaped their futures.

Blue Ocean Strategy

This strategy was made popular by Kim and Mauborgne in 2004. Blue Ocean innovation strategy can be defined as the first entrance of a firm into a new market with strong differentiated products and services to create new profit opportunities. It is also known as the "first mover advantage". Blue Ocean strategy encourages firms to create new market and exploit the opportunities rather than competing with an existing market characterized by similar products. Kim and Mauborgne, (2004) argued that identifying and creating new markets is the best way for firms to achieve more market shares and also increase their profitability. There has been a lot of arguments about the blue ocean strategy by different scholars (Buisson & Silberzahn, 2010), some of who argued that a blue ocean mover can still be dominated by a second mover if the first mover does not continue to innovate and invest more in R&D. A good example is Google who was a late entrant in the internet market, but was able to still dictate the market and become a market leader despite being a second mover. These critics further argued that the only advantage of being a first mover is that, first movers are able to set standards and influence the market to their advantage at least for a little while (Buisson & Silberzahn, 2010).

Imitation Innovation Strategy

Imitation strategy has become an alternative to blue ocean innovation strategy. Many firms like IBM, Microsoft, etc., all entered into their various industries by imitating an existing product or service (Lee & Zhou, 2012). Imitation has been seen by some scholars as the best way to achieve organization growth and profits. Imitation strategy is defined as the strategy adopted by a firm to replicate its competitors' products and services by offering a better, superior product or service in order to gain market share. Imitators are late movers that builds on competitor's mistakes and short comings to introduce better products and services (Lee & Zhou, 2012).

This strategy is cheaper to execute compared to the blue ocean innovation strategy because the ground work or R&D is already done by the pioneer company (Lee & Zhou, 2012). In determining whether to imitate or innovate, it is important to understand the environmental forces that influences and impacts both strategies. It is also important to examine the impact of market research, which helps to choose

between each innovation strategies that will achieve a better competitive advantage (Lee & Zhou, 2012).

Imitation approach involves adopting a “copy-but-improve” approach to gain more competitive advantages over rivals. Therefore, to better understand the role of the Imitation approach, it is essential to understand the various types of imitation strategies (Lee & Zhou, 2012). Product imitation is divided into two: Pure and creative imitations. Pure imitation is when a firm designs its product and service offerings to be closely identical to its rival’s original, but sells at a lower price to attract more customers. Creative imitation strategy is when a firm designs its product and service offerings to be closely identical to its rival’s original, but with added features or modifications. It comes with a higher price compared to other competitors. The price hike could be perceived by customers as been a superior product thereby making the product more preferable to the originals (Lee & Zhou, 2012).

The advantage of creative imitation is that this strategy allows firms to take advantage of R&D efforts already put in place by market leaders and learn from their mistakes. Imitation strategy could be more effective in gaining competitive advantage compared to other forms of innovations, as Shenkar (2010b, p. 29) states, “97.8% of the value of innovations goes to imitators” (Lee & Zhou, 2012).

Business Model Innovation

Business model is the avenue through which an organization creates and captures customer value to increase its competitive advantages (Euchner & Ganguly, 2014). Business models needs to be revisited and changed according to the changing business environments. There is need for them to be adaptive to the market trends and environmental forces. Business model innovation is the ability of a firm to create a new market or the ability of a firm to disrupts the competitive advantage been enjoyed by the incumbent (Euchner & Ganguly, 2014).

Business models was defined by Magretta (2002), as a system that reveals how the pieces of a business fit together by using stories to explain how enterprises work together. A more accurate definition of business model was provided by Zott and Amit (2001, 2007, 2008), focusing on the creation of value and e-business technological trends. Amit and Zott (2001), defined business model as a system that describes the content, structure, and governance of dealings intended to create value by exploiting business opportunities’.

Business model innovation is new way companies design their business strategies. It can be replicating or adapting new generation of strategies by comparing with previous strategy. Comparing the strategy are needed to design new business models meanwhile it still need analysis to protect the competitive advantage (Permatasari & Dhewanto, 2013).

Casadesus-Masanell & Zhu, 2013) defined business model innovation as the search for new ways of creating and capturing value for customers by a firm. This innovation strategy also seeks for ways to increase the company’s profitability while creating more value for the company’s stakeholders. Business model innovation strategy has proved to be the driver of business success and increased competitive advantage. New firms have also succeeded to over thrown some incumbents, simply by imitating their business models and making it better (Casadesus-Masanell & Zhu, 2013).

In the business perspective, innovation can be placed into three categories: product innovation, process innovation, and service innovation (Harvard business essentials, 2003). Product innovation is again divided into radical innovation and incremental innovation. Radical innovation produces something new

to the world, and incremental innovation follows. The process innovation usually comes after product innovation (Yongkyun, 2012).

Lastly, service innovation considers how best to serve customers. Among these three types of innovation, product innovation and service innovation are strongly related to business model innovation. In other words, these innovations provide values or attributes different from the ones that other existing companies consider important, and they can create new business models (Yongkyun, 2012).

Disruptive Innovation

The term “Disruptive innovation was first used by Bower & Christensen, (1995). The concept was later popularized by Christensen in his book “Innovator Dilemma”. Christensen tries to answer the question of why companies engaged in innovation are been easily taken over and dominated by new entrant with disruptive products and technologies. Disruptive technologies does not only replace existing product and service offerings, but it also has the ability to expand existing markets with new product features. (Corsi & Di Minin, 2014).

Chandra and Shu-Jung (2011), defined the term “Disruptive innovation” as a new technology that has both lower cost and performance in relation to existing dominant design and takes on a different trajectory from mainstream technologies in the market. The authors argued that disruptive innovation should not be defined from a technological success perspective alone, but should also include market success. Chandra and Shu-Jung, (2011) further characterized disruptive innovation into the following: affordability, simplicity, and unexpected replacement of incumbents by new, smaller entrants (Chandra & Shu-Jung, 2011).

RedBox Disruptive Innovation

RedBox is a good example of a disruptive company. The video rental industry has taken a very competitive form in recent years, with Redbox becoming a market leader second to Netflix. Redbox was able to enjoy the competitive advantage thanks to its “customer driven distribution strategies, which comprises of direct online video ordering and self-service kiosk distribution strategies. The company has been able to disrupt the video rental industry and has continued to create more value for his customers (Vander Schee et al., 2012).

Redbox took advantage of the fluctuating demand for new movie releases to gain a competitive advantage over its rivals. Redbox created a new market in the entertainment industry through his unique distribution model, which was widely accepted by customers because the company located its kiosks near the entrance of various convenient stores and pharmacies (Vander Schee et al., 2012). Redbox put the buying experience in the hands of customers by allowing customers to choose any redbox location to return their rented DVDs. The company also ensures that customers have access to new movie releases 28 days after its release dates. All these has help Redbox gain more market shares compared to its rivals as well has increased its profitability (Vander Schee et al., 2012).

Open Innovation

Hoegland, Lichtenthaler and Muethel (2011), argued that the increase in companies involved in open innovation and collaborations has forced managers to focus of adopting open innovation strategies by collaborating with external actors. The authors further argued that a company might lose its technological competitive advantage as well as the benefits of open innovation strategies if proper

implementation process is not in place. Hoegland, Lichtenthaler and Muethel (2011), identified employee attitude that favors open innovation as the major obstacle to effectively implementing open innovation strategies. Therefore, organizations should adopt strategies to reduce resistant from employees.

A good example was Procter & Gamble incentive system established to encourage open innovations. Rufat-Latre, Muller and Jones (2010), states that many organizations have been able to establish practices in such a manner that has led to sustainable growth and industry leadership. The authors also identified organizational culture and practices that is resistant to change, especially when it involves exchanging of ideas and intellectual properties with external actors.

GlaxoSmithKline Open Innovation strategy

GlaxoSmithKline (GSK) is a global healthcare group, headquartered in London, UK, with business ventures in the discovery, development, manufacture, and marketing of pharmaceutical products and health-related consumer products (Alexander & Huggins, 2012). One of the innovation strategies adopted by GlaxoSmithKline is open innovation strategy. This strategy encourages organizations to focus on the products and services that is within the organizations core-competences and in which it has comparative advantages over its competitors. GlaxoSmithKline encouraged open innovation among its employees by creating the Spark Network, which was aimed at creating a conducive environment for members to develop and share creative ideas (Gassmann & Reepmeyer, 2005).

There has been a trend in the pharmaceutical industry towards collaborative R&D as a way to gain competitive advantage. Gassmann and Reepmeyer, (2005) states that the major breakthroughs in the field of science and technology are more likely to occur outside of the organization. The information and knowledge flowing from new science and technologies is too complex for any organization to process alone, which has forced pharmaceutical companies like GlaxosmithKline to adopt open innovation strategies to accommodate and involve external researchers. It is important to establish open innovation networks, because the probability of generating all necessary substances in-house is relatively low by a single company. Therefore, there is a need for collaboration with various types of external entities such as biotech firms or university research labs to help conduct pharmaceutical research and discovery (Gassmann & Reepmeyer, 2005).

Collaboration is essential in the pharmaceutical industry due to the increase in technological risks during drug discovery. In responding to this risk, most pharmaceutical companies like GlaxoSmithkline have been concentrating on its core competencies to evolve around technology platforms and therapy areas (Gassmann & Reepmeyer, 2005). GlaxoSmithKline (GSK) has put measures in place to prove its commitment to greater openness, transparency and collaboration.

GSK leadership has supported and adopted the "open innovation" approach to R&D in order to help offer solutions to the pressing health issues and challenges been faced in the world today. GlaxoSmithKline has made major changes to its business model in the past few years in preparation to help the company be more open to sharing its intellectual property and knowledge. These changes were also aimed at establishing partnerships to help encourage more R&D into diseases that most affects developing countries (GSK Committed to 'Open Innovation', 2012).

Pit falls to avoid when implementing open innovation strategy.

1. There is need for managers to communicate the open innovation strategy effectively throughout the company. This will help set the expectations for employees to follow.

2. Business executives have a role to play by openly supporting open innovation initiatives. Therefore, business leaders need to be at the forefront of the open innovation campaign.
3. Managers should help motivate employees towards achieving open innovation goals by establishing structured incentive systems.
4. Organization should organize its structure in a way that it makes open innovation easier across different levels of the organization.
5. Corporate culture needs to include open technology transfer attitudes.

Innovation Strategy for Pharmaceutical Industry

- Pharmaceutical companies need to understand the impacts culture has on their innovation. Since most pharmaceutical products are manufactured and distributed by mostly developed countries, it is important that they understand the cultures of other countries during their product designs and experimentations.
- Pharmaceutical companies require expensive research during product development, therefore it is important to adopt open innovation strategies where these pharmaceutical companies sponsors and encourage other research centers to help out in developing new promotes. This comes in the form of investing and funding private research by schools.
- Also, pharmaceutical companies need to engage the customers and ensure they are involved in the innovation process. Some companies have encouraged patients interactions through their websites to gain feedback and how best to serve their patients.
- Pharmaceutical companies must network and partner with external companies in solving the world's health issues. The world health issues are numerous especially in less developed countries that it is important for pharmaceutical companies to partner with local companies in various countries to create awareness on health issues.

Conclusion

In this study we were able to examine the definitions and different innovation strategies and concepts. The arguments for and against these strategies was also examined. A case study of Redbox and GlaxoSmithKline companies was examined to explain the innovation strategies adopted by these two companies to gain more market shares as well and gain more competitive advantages. Also, an innovation strategy was also proposed for pharmaceutical companies, explaining the importance of understanding cultures of other countries they service, encouraging open innovation by investing in research and development and the importance of partnering with external companies to help solve health issue.

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