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3 Types of Innovation Changing the Future of Business

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August 7, 2024

People often fall into the trap of thinking that a business doesn't need to be innovative in order to be effective. After all, why fix something that isn't broken?

Innovation isn't limited to the production of new technology or the launch of the next greatest product, however. It is a powerful tool that requires the strategic use of the **innovation process** to bring forth new ideas and nurture them in ways that create sustainable business growth.

Read on to explore what innovation entails, the three key types of innovation that exist, and unique strategies you can use to help foster new ideas and expand your organization.

What is innovation?

Innovation is the process of creating new ideas, products, or methods to solve a problem. Often, innovating involves approaching an existing idea or product from a new perspective with the goal of improving it. Although experts hardly agree on a definitive set of innovation types, there are generally three categories: product, process, and business model innovation.

The 3 key types of innovation

1. Product innovation

Product innovation includes the development of a new product or the improvement of an existing one. This could be as simple as adding a new feature to an established good or service, or as complex as creating a new one altogether. No matter the approach, the overall goal of this type of innovation is to make the lives of consumers easier by solving a problem in an unexpected or unique way.

Factors that drive product innovation include technological advancements, changes in customer requirements or needs, outdated designs, and more. The product innovation process begins with extensive research that identifies opportunities in each of these areas, as well as ways that these changes can be applied to a company's product line to better serve the customer.

In many ways, product innovation is mutually beneficial for the business and consumer. When successful, an innovative product or service will better serve the needs of the market, which drives sales and revenue for the company as a result. The iPhone has been one of the most **prominent cases** of product innovation in recent years, as its release to the market effectively

changed the way humans use devices to interact with one another. Apple—alongside other smartphone manufacturers who have followed their lead—has seen incredible success as a result.

This type of success is not always the norm in product innovation, however. The costs associated with developing new and improved products can become expensive, and organizations run the risk that the market will not respond well to the changes that have been introduced to their product. Due to this level of risk, some companies may find themselves resistant to innovation and will face periods of stagnation as a result.

2. Process innovation

Unlike product innovation, which is concerned with improving the product or service itself, **process innovation** is concerned with improving the processes involved in creating, delivering, and supporting a product or service.

This type of innovation is sometimes overlooked, as it doesn't always generate a direct or measurable increase in demand or sales. When successful, however, this type of innovation can reduce production costs and translate into increased profits.

Some examples of process innovation include:

- Upgrading equipment and technology to become more efficient.
- Making the **supply chain** more predictable and systematic.
- Modifying business processes and workflows to reduce redundancies.

Process innovation is typically the type with the lowest risk, yet it is often underappreciated since the benefits of such changes might only ever be seen or valued internally.

Business model innovation

Business model innovation is a broader and more complex term than product or process innovation. Rather than focusing on the introduction of a new or improved product or service, this type of innovation relates to the way that the product or service is brought to market.

At its core, **business model innovation** is the process of changing the value that will be provided to customers and how that value will be delivered to generate profit. A retail business model, for instance, might include delivering value to customers by selling products in a brick-and-mortar store. In this case, innovation might take the form of transitioning the store to operate in an online retail format.

Despite the potential positive impacts of business model innovation, many attempts do also fail. For example, even Google—a tech giant with its finger on the pulse of consumer needs—**faced challenges** with the launch of its social network, Google+, resulting in the product's eventual decline.

“Business model innovation is too important to be left to random chance and guesswork,” writes Clayton Christensen and fellow researchers in an issue of *MIT Sloan Management Review*.

“Executives need to understand how business models develop through predictable stages over time—and then apply that understanding to key decisions about new business models.”

When successful, business model innovation can be incredibly powerful and have a lasting impact on an organization and the national or global economy. For instance, while there is nothing inherently impressive about the *products* that Amazon sells, the company’s innovative *business model* has had a tremendous lasting impact on the U.S. and global economies alike.

3 unique innovation strategies to try

There are many different strategies that businesses and entrepreneurs can use to facilitate innovative thinking and inform future initiatives. Here’s a look at three interesting approaches to innovation that are sure to spark inspiration.

1. Blue ocean strategy

The **blue ocean strategy**—based on the popular **book**—can be used to identify the ways in which an organization can innovate, differentiate from the competition, and improve overall performance. Despite being nearly 15 years old, the ideas represented in this text are still relevant and widely used today.

Specifically, the blue ocean strategy encourages organizations to innovate by thinking without assumptions and creating new markets rather than competing in existing ones. To do this, the authors recommend companies remove themselves from the “red oceans”—where competitors are at constant war with one another—and instead place themselves in a blue ocean of new, untapped market potential.

While this strategy can be useful in any sector, it is especially relevant in cases when supply exceeds demand in a particular market. When file-sharing platforms like Napster and LimeWire were abundant, for instance, Apple **unlocked a blue ocean** of new market space with the launch of iTunes by creating a legal, easy-to-use digital music platform.

2. Open innovation

Open innovation is a strategy that allows you to align your innovation efforts with the wants, needs, and ideas of those who make up your company and your overall market.

By welcoming input from a wide array of sources both inside and outside of your organization, this strategy also allows for more ideas to be circulated, bringing about information from different perspectives that may have not otherwise been considered. Some methods of open innovation

even allow customers to get involved with the research and development process, emphasizing the value of their insight as the people who actually make up your target market.

However, as with any strategy, utilizing open innovation also comes with its own set of challenges. Building an effective process and clearly defining and communicating process goals to contributing audiences, for example, can prove to be difficult and can hinder the results if not executed properly.

3. Lean innovation

Another common approach is **lean innovation**, a process that makes use of **design thinking** to solve problems using customer feedback while minimizing waste in the development cycle. The process values experimentation and continuous, incremental improvement and is most commonly applied to product innovation.

In its simplest form, **lean innovation** involves creating a solution to a customer's problem, building a prototype, testing it, and gathering feedback from the customer. The key to this process is collecting customer feedback early and often in order to reduce waste and make continuous improvements.

Major benefits of this approach include its emphasis on learning, and its ability to bring products to market sooner and with fewer resources. By using a lean innovation strategy, organizations can gain a deeper understanding of their customers while generating new ideas and building products in a faster and more efficient way.

Excelling in innovation

No matter what aspect of your organization you choose to innovate upon or the strategy you choose to use, a key component of the process will include the free flow of creative problem solving and new ideas. To execute the innovation process successfully on a large scale, you'll need a **strong innovation team** and the ability to **inspire** those team members to think outside of the box.

If you are interested in becoming a leader in today's rapidly changing business landscape, having this strong knowledge of innovation is essential. Pursue a relevant graduate degree, such as a **Master of Business Administration** with a concentration in corporate innovation, to help build the skills you need to inspire new ideas and apply them to business.

Editor's Note: This post was originally published in October 2019. It has since been updated for relevance and accuracy.

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