Chapter 7: Innovation Strategies

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Learning Objectives

After reading this chapter, you should be able to understand and articulate answers to the following questions:

1. What is Entrepreneurial Orientation?
2. Why should companies innovate?
3. What are the four types of innovation?
4. What are the four stages of the product life cycle and crossing the chasm?
5. What are the ways firms might cooperate with their competitors?

7.1 Introduction

A firm's philosophy toward innovation greatly impacts the business-level/competitive strategies that it pursues. Having an entrepreneurial orientation stimulates a firm toward innovation, improving its products and services and launching new product lines. Innovation can open new markets for a company, and being the first mover to launch a new product or service can be an advantage over competitors, but not always. There are four types of innovation that depend on if existing or new markets are reached or if existing or new technology is used. Firms may also find it advantageous to cooperate at certain levels, such as through a joint venture, strategic alliance, merger, acquisition co-location, or co-opetition.

Innovation is important in strategic management. A firm must be improving its products and services or

developing new ones to stay competitive. Business level strategy will not be able to sustain any competitive advantage by sitting still. As firms implement corporate and international strategies, discussed in the next two chapters, cooperative and co-opetition measures help companies obtain resources and capabilities needed to innovate and enter new markets.

7.2 Entrepreneurial Orientation

A famous Nike slogan encourages people to "just do it!" For people and organizations that have developed an entrepreneurial orientation (EO), "just do it!" is a way of life. While often associated with starting new ventures, an EO can be very valuable to established organizations as well. Below we describe each of the three characteristics associated with an EO: innovativeness, proactiveness, and risk-taking.

An additional two characteristics were later added—competitive aggressiveness and autonomy. However, these two dimensions of EO have been subject to much debate and are omitted for the purposes of this text.

Table 7.1 Understanding Entrepreneurial Orientation

Term	Definition	Example
Innovativeness	The tendency to pursue novel ideas, creative processes, and experimentation.	3M has built its business around its mission statement: to solve unsolved problems innovatively. 3M employs over 7,000 researchers and more than 118,000 patents as of 2019, adding more than 4,000 patents annually. 3M's innovativeness has led it to develop thousands of products (such as Post-it notes and Scotch tape) that are sold in almost 200 countries.
Proactiveness	The tendency to anticipate and act on future opportunities rather than rely solely on existing products and services.	Proactive Communications Inc. lives up to its name by focusing on emerging and unusual opportunities. The firm embraces contracts in war zones and natural disaster areas that are often avoided by other telecommunications firms.
Risk Taking	The tendency to take bold actions rather than being cautious.	Richard Brandson's launching of Virgin Galactic—a company that plans to offer suborbital space flights to commercial passengers—reflects his love of high-risk, high-reward ventures.

The Value of Thinking and Acting Entrepreneurially

When asked to think of an entrepreneur, people typically offer examples such as Elon Musk, Oprah Winfrey, Jeff Bezos, Kylie Jenner, and Mark Zuckerberg —individuals who have started their own successful businesses from the bottom up that generated a lasting impact on society. But entrepreneurial thinking and doing are not limited to those who begin in their garage with a new idea, financed by family members or personal savings. Some people in large organizations are filled with passion for a new idea, spend their time championing a new product or service, work with key players in the organization to build a constituency, and then find ways to acquire the needed resources to bring the idea to fruition.

Entrepreneurship within an organization is called intrapreneurship. Companies often grow by offering new services or launching new products. Rather than acquire another company that provides that product or service, they develop it themselves. This is a method of strategy implementation called internal development. To maximize opportunities for intrapreneurship, companies need employees with a high entrepreneurial orientation.

Thinking and behaving entrepreneurially can help a person's career as well. Some enterprising individuals successfully navigate through the environments of their respective organizations and maximize their own career prospects by identifying and seizing new opportunities (Table 7.1) (Certo et al., 2009).

Section Video

The relationship between entrepreneurial orientation and organizational performance [01:02]

The video for this lesson discusses the relationship between entrepreneurial orientation and organizational performance.

You can view this video here: https://youtu.be/Iru7IBqc3Vk.

In the 1730s, Richard Cantillon used the French term entrepreneur, or literally "undertaker," referring to those who undertake self-employment while also accepting an uncertain return. In subsequent years, entrepreneurs have also been referred to as innovators of new ideas (Thomas Edison), individuals who find and promote new combinations of factors of production (Bill Gates' bundling of Microsoft's products), and those who exploit opportunistic ideas to expand small enterprises (Mark Zuckerberg at Facebook). The common elements of these conceptions of entrepreneurs are that they do something new and that some individuals can make something out of opportunities that others cannot.

Entrepreneurial orientation (EO) is a key concept when executives are crafting strategies in the hopes of doing something new and exploiting opportunities that other organizations cannot exploit. EO refers to the processes, practices, and decision-making styles of organizations that act entrepreneurially (Lumpkin & Dess, 1996). Any organization's level of EO can be understood by examining how it stacks up relative to three dimensions: (1) innovativeness, (2) proactiveness, (3) and risk taking. These dimensions are also relevant to individuals.

Entrepreneurial orientation (EO) is measured at both the organizational and the individual levels. The characteristics of an entrepreneurial company noted in Table 7.1 also apply to individuals. Those individuals who are less risk averse, innovative thinkers, and competitive tend to have a higher EO and greater success at starting a business. Online EO assessment tools exist for those wishing to determine their EO. It is important to note that EO is not only related to high tech start-ups. Starting a lawn care business or a beauty shop are very valid and necessary entrepreneurial ventures, and will have a better chance of success if an entrepreneur possesses a higher EO.

Figure 7.1: As a college student, Michael Dell demonstrated an entrepreneurial orientation by starting a computer-upgrading business in his dorm room. He later founded Dell Inc.

Innovativeness

Innovativeness is the tendency to pursue creativity and experimentation. Some innovations build on existing skills to create incremental improvements, while more radical innovations require brand-new skills and may make existing skills obsolete. Either way, innovativeness is aimed at developing new products, services, and processes. Those organizations that are successful in their innovation efforts tend to enjoy stronger performance than those that do not.

Figure 7.2: Ben & Jerry's displays innovativeness by developing a series of offbeat and creative flavors over time.

Known for efficient service, FedEx has introduced its Smart Package, which allows both shippers and recipients to monitor package location, temperature, and humidity. This type of innovation is a welcome addition to FedEx's lineup for those in the business of shipping delicate goods, such as human organs. How do firms generate these types of new ideas that meet customers' complex needs? Perennial innovators 3M and Google have found a few possible answers. 3M sends nine thousand of its technical personnel in thirty-four countries into customers' workplaces to experience firsthand the kinds of problems customers encounter each day. Google's two most popular features of its Gmail, thread sorting and unlimited e-mail archiving, were first suggested by an engineer who was fed up with his own e-mail woes. Both 3M and Google allow employees to use a portion of their work time on projects of their own choosing with the goal of creating new innovations for the company. This latter example illustrates how multiple EO dimensions—in this case, autonomy and innovativeness—can reinforce one another.

Proactiveness

Proactiveness is the tendency to anticipate and act on future needs rather than reacting to events after they unfold. A proactive organization is one that adopts an opportunity-seeking perspective. Such organizations act in advance of shifting market demand and are often either the first to enter new markets or "fast followers" that improve on the initial efforts of first movers.

Consider Proactive Communications, an aptly named small firm in Killeen, Texas. From its beginnings in 2001, this firm has provided communications in hostile environments, such as Iraq and areas impacted by Hurricane Katrina. Being proactive in this case means being willing to don a military helmet or sleep outdoors—activities often avoided by other telecommunications firms. By embracing opportunities that others fear, Proactive's executives have carved out a lucrative niche in a world that is technologically, environmentally, and politically turbulent (Choi, 2008).

Risk Taking

Risk taking refers to the tendency to engage in bold rather than cautious actions. Starbucks, for example, made a risky move when it introduced a new instant coffee called VIA Ready Brew. Instant coffee has long been viewed by many coffee drinkers as a bland drink, but Starbucks decided that the opportunity to distribute its product in a different format was worth the risk of associating its brand name with instant coffee.

Although a common belief about entrepreneurs is that they are chronic risk takers, research suggests that entrepreneurs do not perceive their actions as risky; most take action only after using planning and forecasting to reduce uncertainty (Simon et al., 2000). However, uncertainty seldom can be fully eliminated. A few years ago, Jeroen van der Veer, CEO of Royal Dutch Shell PLC, entered a risky energy deal in Russia's Far East. At the time, van der Veer conceded that it was too early to know whether the move would be successful (Certo et al., 2008). Just six months later, however, customers in Japan, Korea, and the United States had purchased all the natural gas expected to be produced there for the next twenty years. If political instabilities in Russia and challenges in pipeline construction do not dampen returns, Shell stands to post a hefty profit from its 27.5% stake in the venture.

Building an Entrepreneurial Orientation

Steps can be taken by executives to develop a stronger entrepreneurial orientation throughout an organization and by individuals to become more entrepreneurial themselves. For executives, it is important to design organizational systems and policies to reflect the three dimensions of EO. As an example, how an organization's compensation systems encourage or discourage these dimensions should be considered. Is taking sensible risks rewarded through raises and bonuses, regardless of whether the risks pay off, for example, or does the compensation system penalize risk taking? Other organizational characteristics such as corporate debt level

may influence EO. Do corporate debt levels help or impede innovativeness? Is debt structured in such a way as to encourage risk taking? These are key questions for executives to consider.

Examination of some performance measures can assist executives in assessing EO within their organizations. To understand how the organization develops and reinforces autonomy, for example, top executives can administer employee satisfaction surveys and monitor employee turnover rates. Organizations that effectively develop autonomy should foster a work environment with high levels of employee satisfaction and low levels of turnover. Innovativeness can be gauged by considering how many new products or services the organization has developed in the last year and how many patents the firm has obtained.

Similarly, individuals should consider whether their attitudes and behaviors are consistent with the three dimensions of EO. Is an employee making decisions that focus on competitors? Does the employee provide executives with new ideas for products or processes that might create value for the organization? Is the employee making proactive as opposed to reactive decisions? Each of these questions will aid employees in understanding how they can help to support EO within their organizations.

Section Video

Entrepreneurial Orientation [02:39]

The video for this lesson explains the importance of entrepreneurial orientation.

You can view this video here: https://youtu.be/L6MqD5Hhs2U.

Key Takeaway

- Building an entrepreneurial orientation can be valuable to organizations and individuals alike in identifying and seizing new opportunities. Entrepreneurial orientation consists of three dimensions: (1) innovativeness, (2) proactiveness, and (3) risk taking.

Exercises

1. Can you name three firms that have suffered because of lack of an entrepreneurial orientation?
2. Identify examples of each dimension of entrepreneurial orientation other than the examples offered in this section.
3. How does developing an entrepreneurial orientation have implications for your future career choices?
4. How could you apply the dimensions of entrepreneurial orientation to a job search?

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Figure 7.2: Lam, Willis. “September 6th is National Coffee Ice Cream Day.” CC-BY SA 2.0. Retrieved from https://commons.wikimedia.org/wiki/File:Ben_and_Jerry%27s_2_Coffee_3_Buzz_Ice_Cream_(30650663798).jpg.

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The Oxford Review. (2018, December 16). *The relationship between entrepreneurial orientation and organisational performance* [Video]. YouTube. https://youtu.be/Iru7IBqc3Vk.

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7.3 Why Innovate?

Innovate to Capture Markets

Innovation can be a key strategy to stay ahead of the competition. Firms who sit still, perhaps satisfied with their success, will find themselves outsmarted and left behind, with the competition winning over their customers. An innovation strategy coupled with an entrepreneurial orientation will help keep customers buying.

Automobile manufacturers have used this strategy of innovation for years. Every year, a new innovation of nearly all car models comes out in the fall season. The new year's model may look a little sleeker, have some safety improvements, or be connected to the internet. These innovations entice consumers to sell their existing car to have the latest look or technology. Cell phone manufacturers do the same thing, coming out with a new model almost annually, with more memory, a faster processor, a better camera, etc. Where would Apple be today if they stopped with the iPhone 7? Drug manufacturers are always innovating by doing research to find the next medication to slow Alzheimers or cure skin cancer.

Figure 7.3: Apple's iPhone has continued to boast new features since its initial release in 2007.

Innovation is usually the strategy of new startup IT companies. A new software program is developed or a new way to do interactive video games can meet a need or provide a service that consumers want. It is the innovation strategy that propels the organization forward. This is not to discount the need for a business-level/competitive strategy such as focused differentiation, as the firm still needs to determine their business-level strategy and optimize it. Often a differentiation strategy, broad or focused, can be used for a new, innovative product or service and priced high, because the competitors are few or none.

Joseph Addison, an eighteenth century poet, is often credited with coining the phrase "He who hesitates is lost."

This proverb is especially meaningful in today's business world. It is easy for executives to become paralyzed by the dizzying array of competitive and cooperative moves available to them. Given the fast-paced nature of most industries today, hesitation can lead to disaster. Some observers have suggested that competition in many settings has transformed into hyper-competition, which involves very rapid and unpredictable moves and countermoves that can undermine competitive advantages. Under such conditions, it is often better to make a reasonable move quickly rather than hoping to uncover the perfect move through extensive and time-consuming analysis.

The importance of continuous learning also contributes to the value of adopting a "get moving" mentality. Success in business often depends on executives learning from a series of competitive and cooperative moves, not on selecting ideal moves. In some circumstances, advantages can be created by taking decisive action, even if the decision is based on incomplete information.

Blue Ocean Strategy

It is best to win without fighting. – Sun-Tzu, The Art of War

A **blue ocean strategy** involves creating a new, untapped market rather than competing with rivals in an existing market (Kim & Mauborgne, 2004). This strategy follows the approach recommended by the ancient master of strategy Sun-Tzu in the quote above. Instead of trying to outmaneuver its competition, a firm using a blue ocean strategy tries to make the competition irrelevant (Table 7.2). Baseball legend Wee Willie Keeler offered a similar idea when asked how to become a better hitter: "Hit 'em where they ain't." In other words, hit the baseball where there are no fielders rather than trying to overwhelm the fielders with a ball hit directly at them.

Nintendo openly acknowledges following a blue ocean strategy in its efforts to invent new markets. Perrin Kaplan, Nintendo's former vice president of marketing and corporate affairs for Nintendo of America noted in an interview, "We're making games that are expanding our base of consumers in Japan and America. Yes, those who've always played games are still playing, but we've got people who've never played to start loving it with titles like Nintendogs, Animal Crossing and Brain Games. These games are blue ocean in action" (Rosmarin, 2006). Other examples of companies creating new markets include FedEx's invention of the fast-shipping business and eBay's invention of online auctions.

Firms that create blue oceans experience a temporary competitive advantage. How long "temporary competitive advantage lasts" in a blue ocean strategy depends on the particular combination of internal and external factors that create the opportunity in the first place. Needless to say, the more successful a company is with a blue ocean strategy, the more attention they will receive from potential competitors who want to get into a position to benefit from those same advantages.

It's a big ocean out there! When pursuing a blue ocean strategy, executives try to create and exploit vast untapped markets rather than competing directly with rivals. See several examples of firms following a blue ocean strategy below.

Table 7.2 Blue Ocean Strategy

Examples of Firms Following a Blue Ocean Strategy
The interactive features of Nintendo's Wii transformed playing video games from a hobby for the hardcore gamers into a treasured family event.
Coffee shops were once the domain of old men, insomniacs, and chain-smoking urban hipsters. By reinventing coffee shops, Starbucks made the $4 latte a must-have item for college students, business people, and soccer moms.
At a time when cars were only for the wealthy, Henry Ford envisioned cars that were affordable to the typical American. Ford priced his vehicles so that his assembly line workers could afford them.
eBay's invention of online auctions extended the auction experience—and the chance to buy that rare Elvis plate—to anyone with internet access.
Golf can be frustrating to even skilled players. Callaway's creation of the Big Bertha club with an oversized head made golf appealing to a whole new set of weekend warriors.
A classy, affordable wine for novice wine drinkers? Casella wines (maker of Yellow Tail) steered clear of wine snobs and sommeliers and instead created fun and simple tastes for the masses.

Key Takeaway

- Firms must continually innovate to stay ahead of the competition. Blue ocean strategy is one way that innovation can capture new markets.

Exercises

1. Find a key trend from the general environment and develop a blue ocean strategy that might capitalize on that trend.

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Image Credits

Figure 7.3: Fotois.com. "iPhone 4S Unbox." CC BY 2.0. Retrieved from https://flic.kr/p/avJQdj.

7.4 Types of Innovation

Being a First Mover: Advantages and Disadvantages

The idea of first mover advantage borrows from military strategy. For example, Confederate general Nathan Beford Forrest's attack plan was simply stated as "git thar fustest with the mostest."

When confronted by a poisonous snake, should you strike first or wait for the serpent to make a move? Each option has advantages and disadvantages. In business, being a first mover might allow a firm to "rattle its rivals, but a first move might also attract the "venom" of skeptical customers. Below are examples of successful—and not so successful—first movers.

Table 7.3 First Mover Advantage

First Move Successes	First Move Failures
At a time when using most personal computers required memorizing obscure commands, Apple pioneered a user-friendly interface. The firm gained a reputation as an innovator that persists today.	Netscape's web browser was a first mover that was popular in the 1990s, but nearly extinct by 2002 with the advent of Microsoft's competitive offering—Internet Explorer.
Following World War II, Japan's economy laid in ruin. Ibuka Masaru used this backdrop to build a company that would be the first in Japan to create tape recorders and transistors radios. The company he pioneered—Sony—has now been a fierce electronics competitor for over a half century.	Not all of Apple's first moves were triumphs. The firm's disastrous attempt to pioneer the personal digital assistant market through its "Newton" created a loss of around one-hundred million dollars.

A famous cliché contends that "the early bird gets the worm." Applied to the business world, the cliché suggests that certain benefits are available to a first mover into a market that will not be available to later entrants. A first-mover advantage exists when making the initial move into a market allows a firm to establish a dominant position that other firms struggle to overcome (Table 7.3). For example, Apple's creation of a user-friendly, small computer in the early 1980s helped fuel a reputation for creativity and innovation that persists today. Kentucky Fried Chicken (KFC) was able to develop a strong bond with Chinese officials by being the first Western restaurant chain to enter China. Today, KFC is the leading Western fast-food chain in this rapidly growing market. Genentech's early development of biotechnology allowed it to overcome many of the pharmaceutical industry's traditional entry barriers such as financial capital and distribution networks and become a profitable firm. Decisions to be first movers helped all three of these firms to be successful in their respective industries (Ketchen et al., 2004).

On the other hand, a first mover cannot be sure that customers will embrace its offering, making a first move inherently risky. Apple's attempt to pioneer the personal digital assistant market, through its Newton, was a financial disaster. The first mover also bears the costs of developing the product and educating customers. Others may learn from the first mover's successes and failures, allowing them to cheaply copy or improve the product. Sony, Samsung, and others have built on Apple's knowledge and creation of Airpods to offer competing products. In many industries, knowledge diffusion and public-information requirements make such imitation increasingly easy.

One caution is that first movers must be willing to commit sufficient resources to follow through on their pioneering efforts. RCA and Westinghouse were the first firms to develop active-matrix LCD display technology for flat computer screens, but their executives did not provide the resources needed to sustain the products spawned by this technology. Today, these firms are not even players in this important business segment that supplies screens for notebook computers, camcorders, medical instruments, and many other products.

To date, the evidence is mixed regarding whether being a first mover leads to success. One research study of 1,226 businesses over a fifty-five-year period found that first movers typically enjoy an advantage over rivals for about a decade, but other studies have suggested that first moving offers little or no advantages.

Perhaps the best question that executives can ask themselves when deciding whether to be a first mover is, how will this move provide my firm with a sustainable competitive advantage? First moves that build on strategic resources such as patented technology are difficult for rivals to imitate and thus are likely to succeed. For example, Pfizer enjoyed a monopoly in the erectile dysfunction market for five years with its patented drug Viagra before two rival products (Cialis and Levitra) were developed by other pharmaceutical firms. Despite facing stiff competition, Viagra continues to raise about $1.9 billion in sales for Pfizer annually.

In contrast, E-Trade Group's creation of the portable mortgage seemed doomed to fail because it did not leverage strategic resources. This innovation allowed customers to keep an existing mortgage when they move to a new home. Bigger banks could easily copy the portable mortgage if it gained customer acceptance, undermining E-Trade's ability to profit from its first move.

Incremental Innovation

Innovation can be classified into four types:

1. Incremental Innovation
2. Disruptive Innovation
3. Architectural Innovation
4. Radical Innovation

The type of innovation is dependent on two factors:

1. Market – does the innovation create a new market, or address the existing market?
2. Technology – does the innovation use a new technology or an existing technology?

Figure 7.4 illustrates the four types of innovation.

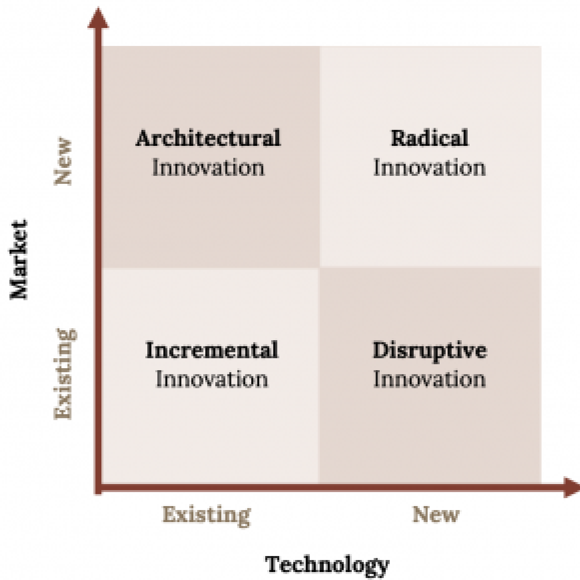

Figure 7.4: Types of Innovation

Incremental innovation can be described as making improvements on an existing product or service. The improvements are based on using existing technology and are directed at the existing market. In the automobile industry, the improvements made each year to the newest model of car are incremental innovations. No new markets are formed, and existing technology is used to make the car better. Some other examples of incremental innovation are presented in Table 7.4

Incremental innovation occurs when the innovation uses existing technology to improve a product or service that addresses the existing market.

Table 7.4 Incremental Innovation

Incremental Innovation Examples
Each new version of Apple's iPhone that comes out is typically incremental innovation. iPhone features such as the camera and processor are tweaked to make an improvement over the previous model.
When Gillette went from a single razor blade to a double blade, to now up to six blades, no new markets were created, as the same consumers are buying the blades. There was no new technology involved, so this is incremental innovation.
Residential washers and dryers have been transitioning from top-loading to side-loading, and can handle larger loads. This incremental innovation used existing technology and created no new markets, but stimulated demand for more purchasers at higher prices.

Disruptive Innovation

Some firms have the opportunity to shake up their industry by introducing a disruptive innovation—an innovation that conflicts with, and threatens to replace, traditional approaches to competing within an industry (Table 7.5). Disruptive innovation occurs when a new product or service engages the existing market with a new technology. The iPad has proved to be a disruptive innovation since its introduction by Apple in 2010. Many individuals quickly abandoned clunky laptop computers in favor of the sleek tablet format offered by the iPad. And as a first mover, Apple was able to claim a large share of the market.

Disruptive innovations occur when firms introduce offerings that are so unique and superior that they threaten to replace traditional approaches. Existing markets are disrupted by new technology. Sometimes a disruption is so significant that it may create a "blue ocean" by finding a new market while disrupting an existing one, but this is not typically the case. A number of disruptive innovations are illustrated below.

Table 7.5 Shaking the Market with Disruptive Innovations

Disruptive Innovation Examples
Tablet computers disrupted laptop sales due to their versatility and portability. Reading books can be awkward on traditional computers, but user-friendly devices such as iPad, Nook, and Kindle are popular platforms for aggressive textbook publishers.
Many stores that relied on compact disc sales went under when downloadable digital media disrupted the music industry. Years earlier, CDs supplanted vinyl albums and cassette tapes due to their superior durability and quality. Music subscriptions such as Spotify and Apple Music are new technologies that are replacing downloads. What new technology will replace subscriptions?
Digital cameras disrupted the photography industry by offering instant gratification and eliminating the cost of getting film developed. Excellent cameras on cell phones have since disrupted the digital camera industry.
The emergence of personal computers disrupted the dominance of mainframes and made it possible for everyone to have a computer in their home.
LED lights are a newer technology that have been disrupting and replacing incandescent lights by selling to the existing market.

The iPad story is unusual because most disruptive innovations are not overnight sensations. Typically, a small group of customers embrace a disruptive innovation as early adopters and then a critical mass of customers builds over time. An example is digital cameras. Few photographers embraced digital cameras initially because they took pictures slowly and offered poor picture quality relative to traditional film cameras. As digital cameras improved, they gradually won over almost everyone that takes pictures. Executives who are deciding whether to pursue a disruptive innovation must first make sure that their firm can sustain itself during an initial period of slow growth.

Architectural Innovation

Architectural innovation occurs when new products or services use existing technology to create new markets and/or new consumers that did not purchase that item before. For example, the smart watch used existing cell phone technology and was repackaged into a watch. This opened up a new market of purchasers by repackaging an existing technology. Typically, firms alter the architecture of the product to create a new product that opens up sales to new markets. Table 7.5 provides more examples.

Firms can innovate by using and adapting existing technology to create new products or services that address new markets and consumers. This type of innovation is called Architectural Innovation, since the architecture of a product is changed to create a new product to reach new markets.

Table 7.6 Architectural Innovation

Architectural Innovation Examples
Peloton, maker of home exercise bicycles, packages the already existent bicycle, internet, and communications technologies to create new consumers who otherwise would not buy an exercise bike.
Some firms have leveraged solar cell technology to produce small outdoor ground lighting. This created a whole new group of consumers who decorate their yards with these environmentally friendly lights.
Copiers used to be large and expensive machines purchased only for large offices. Canon and others reconfigured these copiers to be small and usable on desktops, creating a whole new market of people buying personal copier/printers.

Radical Innovation

When new products or services are developed using new technology that open up new markets, the result is called radical innovation. The airplane is a good example of a radical innovation. It used an entirely new aeronautical technology to open up a whole new market for people traveling. Traveling across the country was unthinkable for most people, when it would take weeks to go from New York to San Francisco by car or train. Table 7.6 provides more examples of radical innovation.

Innovation that uses new technology to reach new consumers is radical innovation. Firms who are successful with a new product of service using radical innovation may then employ a strategy of incremental innovation to continually improve the product or service and generate more sales.

Table 7.7 Radical Innovation

Radical Innovation Examples
Pharmaceutical researchers often produce a new product that is radical innovation. They come up with a new combination of chemicals to treat a medical condition that attracts new buyers. Aricept,a new medication co-marketed by Eisai and Pfizer that helps treat the symptoms of Alzheimer's disease, has opened new markets.
Apple's Airpods can be considered a radical innovation. Apple developed an earpiece that could use wireless technology to receive Bluetooth signals. Now we see people with Airpods in their ears when before they would not have been using wired earphones nearly as much.
The Magnetic Resonance Imaging (MRI) machine uses electro-magnetic forces instead of x-rays to produce images internal to the body. This new technology generated a brand new market for hospitals to buy these machines for new diagnostic capabilities.

Footholds

Footholds are useful for rock climbers looking for sure footing to ascend a difficult mountain, as well as firms hoping to gain positions in new markets. In business, a foothold is a small position that a firm intentionally establishes within a market in which it does not yet compete. Examples of the use of footholds are illustrated below.

Table 7.8 Footholds

Foothold Examples
Swedish furniture seller IKEA opens just a single store when entering a new country, such as their first store in Japan. This foothold is used as a showcase to establish IKEA's brand; more stores are opened once brand recognition is gained in the country.
Pharmaceutical giant Merck obtained a foothold by purchasing SmartCells Inc.,–a company developing a possible new diabetes treatment.
The foothold concept also applies to warfare. Many armies establish new positions in geographic territories that they have not previously occupied. The Allied Forces used Normandy, France, as their foothold to advance on German forces during World War II.

Similarly, some organizations find it valuable to establish footholds in certain markets. Within the context of business, a **foothold** is a small position that a firm intentionally establishes within a market in which it does not yet compete (Upson et al., 2012). Swedish furniture seller IKEA is a firm that relies on footholds. When IKEA enters a new country, it opens just one store. This store is then used as a showcase to establish IKEA's brand. Once IKEA gains brand recognition in a country, more stores are established (Hambrick & Fredrickson, 2005).

Pharmaceutical giants such as Merck often obtain footholds in emerging areas of medicine. In December 2010, for example, Merck purchased SmartCells Inc., a company that was developing a possible new treatment for diabetes. In May 2011, Merck acquired an equity stake in BeiGene Ltd., a Chinese firm that was developing novel cancer treatments and detection methods. Competitive moves such as these offer Merck relatively low-cost platforms from which it can expand if clinical studies reveal that the treatments are effective.

Key Takeaway

- Being the first mover can provide a firm a competitive advantage, but competitors who wait may be the ultimate winners.
- There are four types of innovation that firms employ to increase their strength in the marketplace.

Exercises

1. Provide an example of a product that, if invented, would work as a disruptive innovation. How widespread would be the appeal of this product?
2. How would you propose to develop a new foothold if your goal was to compete in the fashion industry?

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7.5 Implementing Innovation

Product Life Cycle and Crossing the Chasm

When innovation creates a new product, it typically goes through four stages within the marketplace. This is true whether it is a high-tech product like a new video game system or a more mundane product like a laundry detergent. The four stages are:

1. Introduction: The product is launched, with the hopes that it catches on. Sales are low.
2. Growth: The product catches on, and sales increase with time. Competitors jump in, but the rivalry among competitors is not really strong yet, and there are plenty of sales for all.
3. Maturity: Sales begin to level out, growth slows, and competition increases. Shake-out occurs, with some competitors leaving the market or being acquired by others.
4. Decline: Sales start declining. More consolidation occurs, with firms looking for exit strategies. A few firms remain.

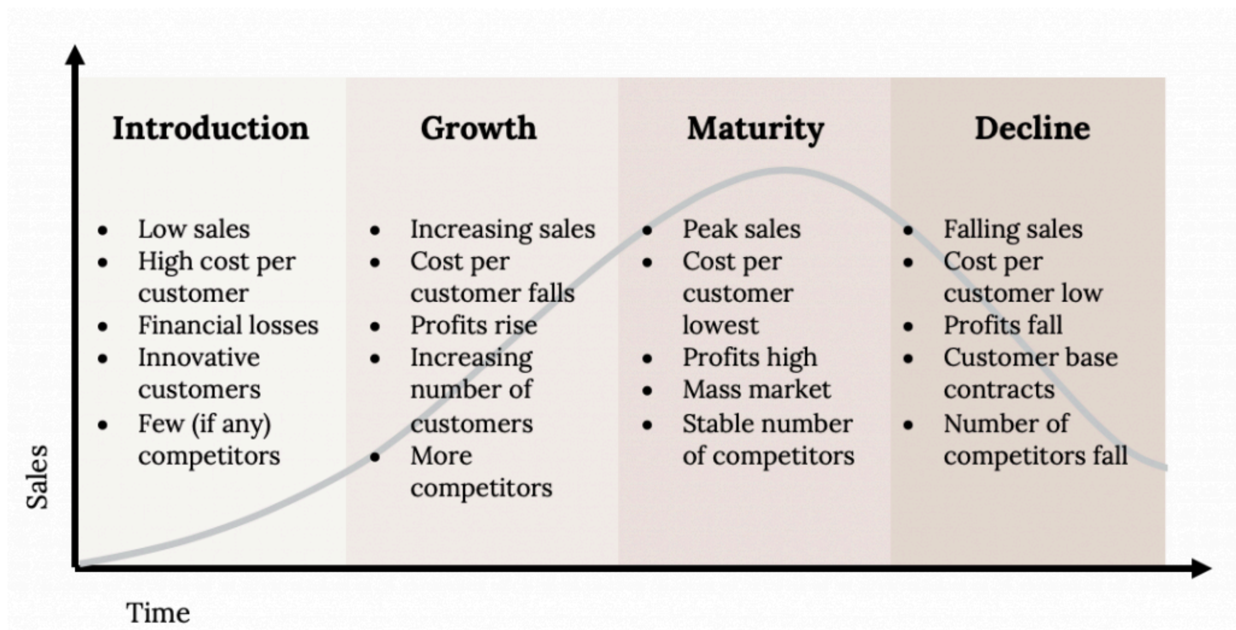

Figure 7.5: Product Life Cycle

Figure 7.5 illustrates these four stages over time. To prevent the decline of their product after the maturity stage, firms will often "relaunch" their product with a new and improved model. Innovation again plays a role, making improvements to the product, so that consumers will purchase the latest model. Prime examples of

incremental innovation strategy are Apple's iPhone and car manufacturers, such as Ford and Toyota. In essence, the new model starts the product life cycle all over again. Figure 7.6 illustrates this concept.

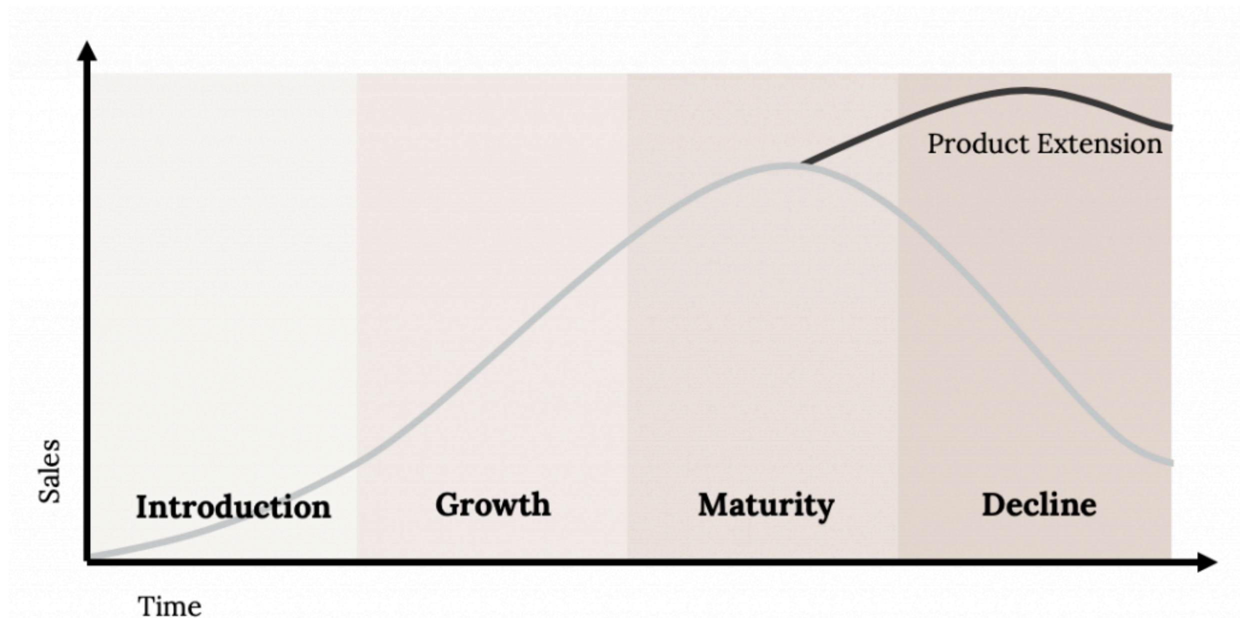

Figure 7.6: Product Life Cycle Extension

Profits generated during the product life cycle also usually follow a traditional pattern. During the research and development phase of the product, the firm is investing funds into the product, generating a negative profit. Losses continue during the introduction phase, when sales are low and marketing expenses are high. Firms tend to recoup their investment in R&D and marketing during the growth phase, with maximum profits at the beginning of the maturity phase. Once competition heats up in the maturity phase, price competition kicks in, and lower prices mean lower profits. Figure 7.7 illustrates the profits during the four phases of the product life cycle.

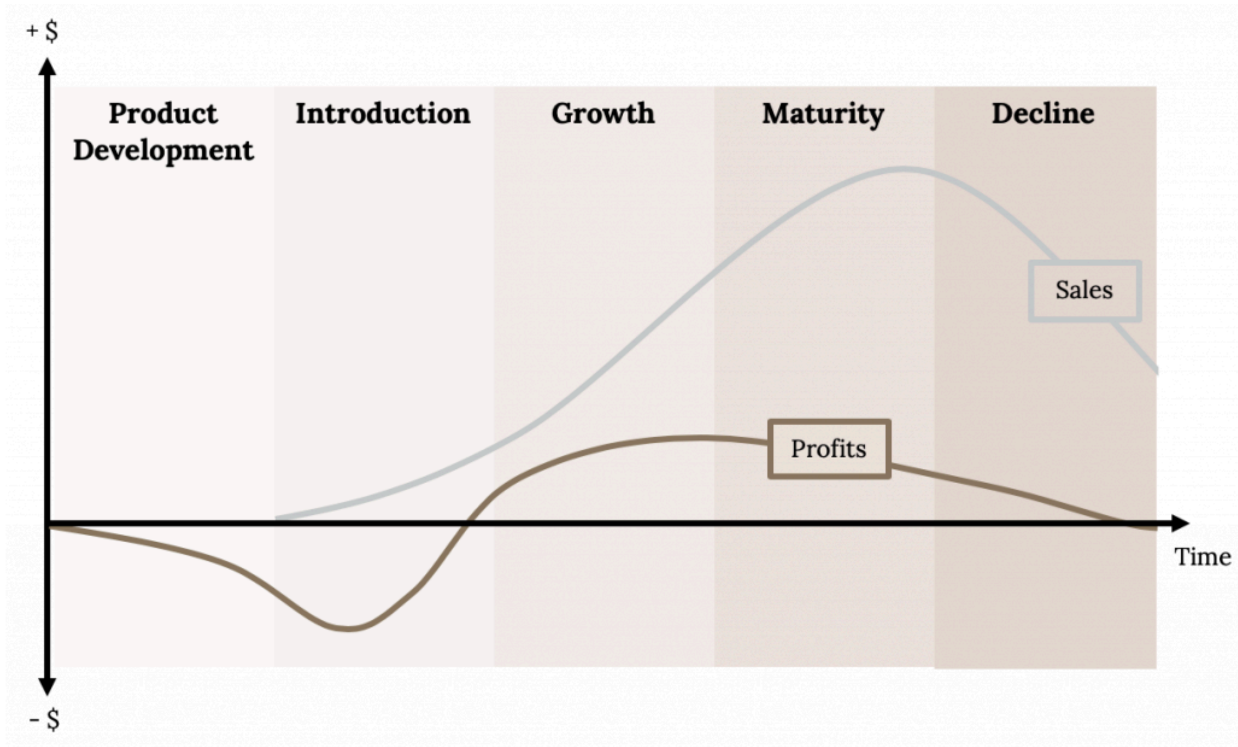

Figure 7.7: Profits During the Product Life Cycle

Another phenomenon that occurs in the innovation process with new technology is called "crossing the chasm." When a new technology is launched, often there are technology innovators/enthusiasts who will purchase the new technology to check it out. A few more, called early adopters, will also want to try out the new product. But how does the firm get the product into the mainstream market? How do they get it to catch on? This can often be challenging. Can the product make the leap to the mainstream? This is called "crossing the chasm," and often requires a different marketing approach.

Figure 7.6 illustrates this concept, breaking down the market into customer segments. Innovators and early adopters make up about 15% of the market. Firms must determine a business strategy for each segment of the market. If they cannot convince the early majority to buy their product, the product fails. Google Glass is an example of a product that did not cross the chasm. Eyeglasses connected to the internet were quite an innovative product, projecting internet sites in front of the eyes, or allowing the wearer to take pictures. Its true usefulness, however, was questionable, and aside from some early adopters, it failed.

Where is the electric car in this technology adoption life cycle? The purchase of electric cars has certainly been growing. Have they crossed the chasm? In 2019, approximately 2.2% of all car sales were electric plug-in vehicles (Coran, 2019). Electric vehicles still need to cross the chasm. The lack of charging stations across the nation and concern for running out of battery are limiting factors preventing the electric vehicle from selling to the early majority.

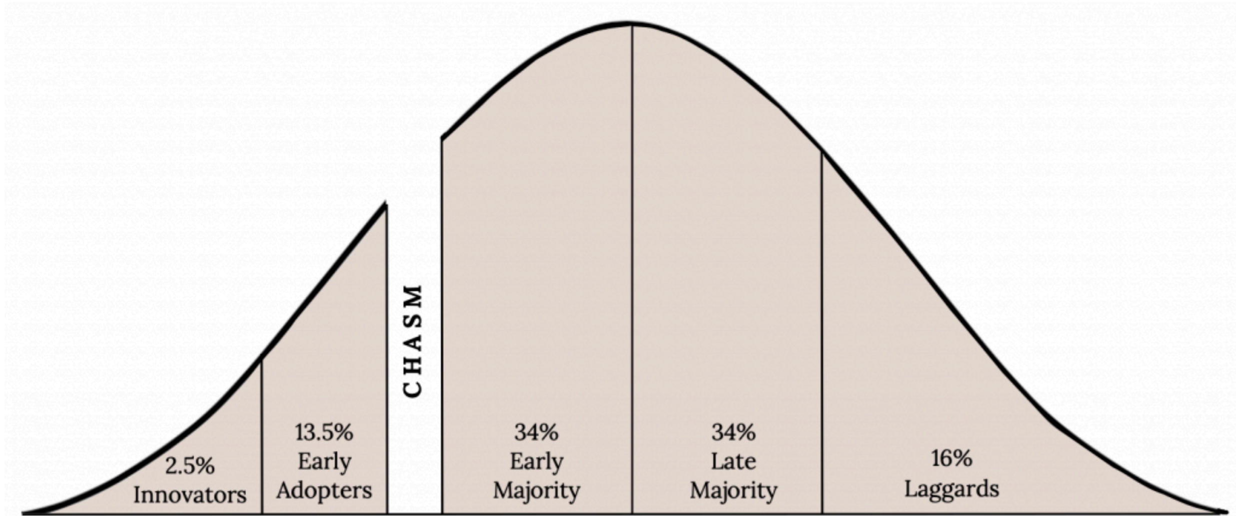

Figure 7.8: Technology Adoption Life Cycle

Making Cooperative Moves

Franklin Roosevelt once quipped, "Competition has been shown to be useful up to a certain point and no further, but cooperation, which is the thing we must strive for today, begins where competition leaves off." We illustrate four commonly used cooperative moves used by firms below.

Table 7.9 Making Cooperative Moves

Joint Ventures	Joint ventures involve two or more organizations that contribute to the creation of a new entity. For example, Hong Kong Disneyland is a joint venture between the government of Hong Kong and the Walt Disney Company. While the park consists of Disney mainstays such as Main Street, USA, Fantasyland, Adventureland, and Tomorrowland, the park also incorporates elements of Chinese culture such as adherence to the rules of Feng Shui—a set of aesthetic design principles believed to promote positive energy.
Strategic Alliances	Strategic alliances are cooperative arrangements governed by contract between two or more organizations that do not involve creating new entities. For example, a strategic alliance between Merck and PAREXEL International Corporation was formed with the goal of collaborating on biotechnology efforts known as biosimilars—a term used to describe subsequent versions of innovative drugs.
Mergers and Acquisitions	Mergers and Acquisitions combine two organizations into one. Mergers typically occur between like-size firms. Sprint and T-Mobile merged to create a stronger force in the wireless communications industry. Acquisitions usually are done by larger companies acquiring smaller ones, as when Google acquired Fitbit.

In addition to competitive moves, firms can benefit from cooperating with one another. Cooperative moves such as forming joint ventures and strategic alliances may allow firms to enjoy successes that might not otherwise be reached (Table 7.9). This is because cooperation enables firms to share rather than duplicate resources and to learn from one another's strengths. Firms that enter cooperative relationships take on risks, however, including the loss of control over operations, possible transfer of valuable secrets to other firms, and possibly being taken advantage of by partners (Ketchen et al., 2004).

Joint Ventures

A **joint venture** is a cooperative arrangement that involves two or more organizations with each contributing to the creation of a new entity. The partners in a joint venture share decision-making authority, control of the operation, and any profits that the joint venture earns.

Sometimes two firms create a joint venture to deal with a shared opportunity. A joint venture was created between Merck and Sun Pharmaceutical Industries Ltd., an Indian pharmaceutical company. The purpose of the joint venture was to create and sell generic drugs in developing countries. In a press release, a top executive at Sun stressed that each side has important strengths to contribute: "This joint venture reinforces [Sun's] strategy of partnering to launch products using our highly innovative delivery technologies around the world. Merck has an unrivaled reputation as a world leading, innovative, research-driven pharmaceutical company" (Merck, 2011). Both firms contributed executives to the new organization, reflecting the shared decision making and control involved in joint ventures.

In other cases, a joint venture is designed to counter a shared threat. Brewers SABMiller and Molson Coors Brewing Company created a joint venture called MillerCoors that combines the firms' beer operations in the United States. Miller and Coors found it useful to join their US forces to better compete against their giant rival Anheuser-Busch, while the two parent companies still remain separate. The joint venture controls a wide array of brands, including Miller Lite, Coors Light, Blue Moon Belgian White, Coors Banquet, Foster's, Henry Weinhard's, Icehouse, Keystone Premium, Leinenkugel's, Killian's Irish Red, Miller Genuine Draft, Miller High Life, Milwaukee's Best, Molson Canadian, Peroni Nastro Azzurro, Pilsner Urquell, and Red Dog. This diverse portfolio makes MillerCoors a more potent adversary for Anheuser-Busch than either Miller or Coors would be on their own.

Strategic Alliances

A **strategic alliance** is a cooperative arrangement between two or more organizations that does not involve the creation of a new entity. For example, Twitter formed a strategic alliance with Yahoo! Japan. The alliance involved relevant Tweets appearing within various functions offered by Yahoo! Japan (Rao, 2011). The alliance simply involves the two firms collaborating through a contractual relationship as opposed to creating a new entity together.

Figure 7.9: ExxonMobil, a merger of Exxon and Mobil oil companies

The pharmaceutical industry is the location of many strategic alliances. In another example, Merck and PAREXEL International Corporation engaged in a strategic alliance. Within this alliance, the two companies collaborate on biotechnology efforts known as biosimilars. This alliance could be quite important to Merck because the global market for biosimilars has been predicted to rise significantly (PRWeb, 2011).

Mergers and Acquisitions

Another way for firms to cooperate to the advantage of both firms and their stockholders is through **mergers**. Two firms decide to combine into one entity, often gaining strength in the market. The merger of T-Mobile and Sprint is a prime example. As the number three and four players in the wireless communications industry, combining forces makes the new firm a much stronger competitor against AT&T and Verizon. Sometimes both firms' identities remain in the name of the new company, such as with the merger of Exxon and Mobil oil companies to ExxonMobil. At other times, only one of the firm's names remains, or a new name is selected for the merged companies.

Whereas mergers typically occur with like-size companies, **acquisitions** are usually done by the larger firm acquiring the smaller firm. The end result is basically the same, with two companies combining into one. Sometimes the acquired firm is absorbed into the acquiring company, but sometime it retains its identity. Besides combining the strengths of both organizations with the intent of having a stronger performing company, mergers and acquisitions reduce the number of competitors in the industry.

Mergers and acquisitions are not without risk, however. According to a Harvard Business Review report, the failure rate of mergers and acquisitions is between 70% – 90% (Lakelet Capital, 2019). Often, the enthusiasm of the perceived benefits of the merger overshadow the challenges of adapting two organizational cultures into one, the total costs of the venture, and/or dealing with different technical systems. Also, an acquisition is a quick way to increase firm revenues, a metric that may incentivize CEOs to acquire another firm without adequate due diligence, creating an agency problem, which is discussed in Chapter 11 on ethics.

Internal Development

Another method to expand a firm is through **internal development.** If a firm wants to add a new product or service line, rather than acquire that expertise by buying a company, the firm can develop that capability themselves. Although this is more of a competitive rather than a cooperative move, this is where a firm's strength of entrepreneurial orientation (EO) comes into play, and when intrapreneurship is important. Instead of acquiring Fitbit, Google could have developed this wearable technology internally by hiring those with the expertise and paying for the research and development for product development to enter this market.

Key Takeaways

- New products and services typically follow a predictable product life cycle, and must be able to "cross the chasm" to attract buyers beyond the early adopters.
- Sometimes it is advantageous for a firm to make a cooperative move with a competitor, with strategies such as a joint venture, strategic alliance, merger, or acquisition. Internal development is also a method to add innovative capability.

Exercises

1. What are examples of firms that "relaunch" their products once in the maturity stage of the product life cycle?
2. Why might local restaurants not be in the position to respond to large franchises or chains? What can local restaurants do to avoid being ruined by chain restaurants?
3. How could a family jewelry store use one of the cooperative moves mentioned in this section?? What type of organization might be a good cooperative partner for a family jewelry store?
4. What are some reasons why a merger between Ford and Volkswagen might fail?

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7.6 Responding to Innovation in the Market

Executives in many markets must cope with a rapid-fire barrage of attacks from rivals, such as head-to-head advertising campaigns, price cuts, and attempts to grab key customers. If a firm is going to respond to a competitor's move, doing so quickly is important. If there is a long delay between an attack and a response, this generally provides the attacker with an edge. For example, PepsiCo made the mistake of waiting fifteen months to copy Coca-Cola's introduction of Vanilla Coke. In the interim, Vanilla Coke carved out a significant market niche.

In contrast, fast responses tend to prevent such an edge. Pepsi's announcement of a mid-calorie cola introduction was quickly followed by a similar announcement by Coke, signaling that Coke would not allow this niche to be dominated by its longtime rival. Thus, as former General Electric CEO Jack Welch noted in his autobiography, success in most competitive rivalries "is less a function of grandiose predictions than it is a result of being able to respond rapidly to real changes as they occur. That's why strategy has to be dynamic and anticipatory."

So…We Meet Again

Multi-point competition adds complexity to decisions about whether to respond to a rival's moves. With multi-point competition, a firm faces the same rival in more than one market. Cigarette makers R. J. Reynolds (RJR) and Philip Morris, for example, square off not only in the United States, but also in many countries around the world. When a firm has one or more multi-point competitors, executives must realize that a competitive move in a market can have effects not only within that market, but also within others. When RJR started using lower-priced cigarette brands in the United States to gain customers, Philip Morris responded in two ways. The first response was cutting prices in the United States to protect its market share. This started a price war that ultimately hurt both companies. Second, Philip Morris started building market share in Eastern Europe where RJR had been establishing a strong position. This combination of moves forced RJR to protect its market share in the United States and neglect Eastern Europe.

If rivals are able to establish mutual forbearance, then multi-point competition can help them be successful. Mutual forbearance occurs when rivals do not act aggressively because each recognizes that the other can retaliate in multiple markets. Southwest Airlines and United Airlines compete in some, but not all markets. United announced plans to form a new division that would move into some of Southwest's other routes. Southwest CEO Herb Kelleher publicly threatened to retaliate in several shared markets. United then backed down, and Southwest had no reason to attack. The result was better performance for both firms. Similarly, in hindsight, both RJR and Philip Morris probably would have been more profitable had RJR not tried to steal market share in the first place. Thus, recognizing and acting on potential forbearance can lead to better performance through firms not competing away their profits, while failure to do so can be costly.

Responding to a Disruptive Innovation

When a rival introduces a disruptive innovation that conflicts with the industry's current competitive practices, such as the emergence of online stock trading, executives choose from among three main responses. First, executives may believe that the innovation will not replace established offerings entirely and thus, may choose to focus on their traditional modes of business while ignoring the disruption. For example, many traditional bookstores such as Barnes & Noble did not consider book sales on Amazon to be a competitive threat until Amazon began to take market share from them. Second, a firm can counter the challenge by attacking along a different dimension. For example, Apple responded to the direct sales of cheap computers by Dell and Gateway by adding power and versatility to its products. The third possible response is to simply match the competitor's move. Merrill Lynch, for example, confronted online trading by forming its own Internet-based unit. Here the firm risks cannibalizing its traditional business, but executives may find that their response attracts an entirely new segment of customers.

Fighting Brands: Get Ready to Rumble

A firm's success can be undermined when a competitor tries to lure away its customers by charging lower prices for its goods or services. Such a scenario is especially scary if the quality of the competitor's offerings is reasonably comparable to the firm's. One possible response would be for the firm to lower its prices to prevent customers from abandoning it. This can be effective in the short term, but it creates a long-term problem. Specifically, the firm will have trouble increasing its prices back to their original level in the future because charging lower prices for a time will devalue the firm's brand and make customers question why they should accept price increases.

The creation of a fighting brand is a move that can prevent this problem. A **fighting brand** is a lower-end brand that a firm introduces to try to protect the firm's market share without damaging the firm's existing brands. In the late 1980s, General Motors (GM) was troubled by the extent to which the sales of small, inexpensive Japanese cars were growing in the United States. GM wanted to recapture lost sales, but it did not want to harm its existing brands, such as Chevrolet, Buick, and Cadillac, by putting their names on low-end cars. GM's solution was to sell small, inexpensive cars under a new brand: Geo.

Interestingly, several of Geo's models were produced in joint ventures between GM and the same Japanese automakers that the Geo brand was created to fight. A sedan called the Prizm was built side by side with the Toyota Corolla by the New United Motor Manufacturing Incorporated (NUMMI), a factory co-owned by GM and Toyota. The two cars were virtually identical except for minor cosmetic differences. A smaller car (the Metro) and a compact sport utility vehicle (the Tracker) were produced by a joint venture between GM and Suzuki. By 1998, the US car market revolved around higher-quality vehicles, and the low-end Geo brand was discontinued.

Figure 7.10: The Geo brand was known for its low price and good gas mileage, not for its styling.

Some fighting brands are rather short lived. Merck's failed attempt to protect market share in Germany by creating a fighting brand is an example. Zocor, a treatment for high cholesterol, was set to lose its German patent in 2003. Merck tried to keep its high profit margin for Zocor intact until the patent expired as well as preparing for the inevitable competition with generic drugmakers by creating a lower-priced brand, Zocor MSD. Once the patent expired, however, the new brand was not priced low enough to keep customers from switching to generics. Merck soon abandoned the Zocor MSD brand (Ritson, 2009).

Two major airlines experienced similar futility. In response to the growing success of discount airlines such as Southwest, AirTran, Jet Blue, and Frontier, both United Airlines and Delta Airlines created fighting brands. United launched Ted in 2004 and discontinued it in 2009. Delta's Song had an even shorter existence. It started in 2003 and ended in 2006. Southwest's acquisition of AirTran in 2011 created a large airline that may make United and Delta lament that they were not able to make their own discount brands successful.

Despite these missteps, the use of fighting brands is a time-tested competitive move. For example, very successful fighting brands were launched forty years apart by Anheuser-Busch and Intel. After Anheuser-Busch increased the prices charged by its existing brands in the mid-1950s (Budweiser and Michelob), smaller brewers started gaining market share. In response, Anheuser-Busch created a lower-priced brand: Busch. The new brand won back the market share that had been lost and remains an important part of Anheuser-Busch's brand portfolio today. In the late 1990s, silicon chipmaker Advanced Micro Devices (AMD) started undercutting the prices charged by industry leader Intel. Intel responded by creating the Celeron brand of silicon chips, a brand that has preserved Intel's market share without undermining profits. Wise strategic moves such as the creation of the Celeron brand help explain why Intel ranks thirty-second on Fortune magazine's list of the "World's Most Admired Corporations." Meanwhile, Anheuser-Busch is the second most admired beverage firm, ranking behind Coca-Cola.

Table 7.10 Co-location and Co-opetition

Co-location	Co-location refers to a situation when goods and services offered under different brands are located very close to each other. Noting one common example of co-location, a comedian once joked that La Quinta was Spanish for "Next to Denny's." Both hotels and restaurants are often co-located alongside freeway exits to allow numerous choices for road-weary travelers.
Co-opetition	Co-opetition is a term that refers to the blending of competition and cooperation between two firms. Toyota and General Motors' creation of jointly owned New United Motor Manufacturing incorporated (NUMMI) allowed for collaboration on automobile designs while Toyota and GM continued to compete for market share worldwide. The NUMMI experience also inspired the comedy Gung Ho.

Co-location

Co-location occurs when goods and services offered under different brands are located close to one another. In many cities, for example, theaters and art galleries are clustered together in one neighborhood. Auto malls that contain several different car dealerships are found in many areas. Restaurants and hotels are often located near one another as well. “Big Box Stores” like Target. Staples, Best Buy, Lowes, etc., are almost always found clustered together with other retailers. By providing customers with a variety of choices, a set of co-located firms can attract a bigger set of customers collectively than the sum that could be attracted to individual locations. If a desired play is sold out, a restaurant overcrowded, or a hotel overbooked, many customers simply patronize another firm in the area.

Because of these benefits, savvy executives in some firms co-locate their own brands. The industry that Brinker International competes within is revealed by its stock ticker symbol: EAT. This firm often sites outlets of the multiple restaurant chains it owns on the same street. Marriott’s Courtyard and Fairfield Inn often sit side by side. Yum! Brands takes this clustering strategy one step further by locating more than one of its brands—A&W, Long John Silver’s, Taco Bell, Kentucky Fried Chicken, and Pizza Hut—within a single store.

Figure 7.11: Yum! Co-located brands

Co-opetition

Although competition and cooperation are usually viewed as separate processes, the concept of co-opetition highlights a complex interaction that is becoming increasingly popular in many industries. Ray Noorda, the founder of software firm Novell, coined the term to refer to a blending of competition and cooperation between two firms. For example, drug manufacturers Merck and Roche are rivals in some markets, but the firms are working together to develop tests to detect cancer and to promote a hepatitis treatment. NEC, a Japanese electronics company, has three different relationships with Hewlett-Packard Co.: customer, supplier, and competitor. Some units of each company work cooperatively with the other company, while other units are direct competitors. NEC and Hewlett-Packard could be described as “frienemies”—part friends and part enemies.

Toyota and General Motors provide a well-known example of co-opetition. In terms of cooperation, Toyota and GM vehicles were produced side by side for many years at the jointly owned New United Motor Manufacturing Incorporated (NUMMI) in Fremont, California. While Honda and Nissan used wholly owned plants to begin producing cars in the United States, NUMMI offered Toyota a lower-risk means of entering the US market. This entry mode was desirable to Toyota because its top executives were not confident that Japanese-style management would work in the United States. Meanwhile, the venture offered GM the chance to learn Japanese management and production techniques—skills that were later used in GM’s facilities. NUMMI offered both companies economies of scale in manufacturing and the chance to collaborate on automobile designs.

Meanwhile, Toyota and GM compete for market share around the world. In recent years, the firms have been the world's two largest automakers, and they have traded the top spot over time.

In their book titled, not surprisingly, Co-opetition, A. M. Brandenberger and B. J. Nalebuff suggest that cooperation is generally best suited for "creating a pie," while competition is best suited for "dividing it up" (Brandenberger & Nalebuff, 1996). In other words, firms tend to cooperate in activities located far in the value chain from customers, while competition generally occurs close to customers. The NUMMI example illustrates this tendency—GM and Toyota worked together on design and manufacturing but worked separately on distribution, sales, and marketing. Similarly, a research study focused on Scandinavian firms found that, in the mining equipment industry, firms cooperated in material development, but they competed in product development and marketing. In the brewing industry, firms worked together on the return of used bottles but not in distribution (Bengtsson & Kock, 2000).

Section Video

Innovation Strategy [04:16]

The video for this lesson explains innovation strategy.

You can view this video here: https://youtu.be/B-tY6citUHw.

Key Takeaway

- Cooperating with other firms is sometimes a more lucrative and beneficial approach than directly attacking competing firms.

Exercises

1. Divide your class into four or eight groups, depending on the size of the class. Each group should select a different industry. Find examples of competitive and cooperative moves that you would recommend if hired as a consultant for a firm in that industry.
2. What types of cooperative moves could your college or university use to partner with local, national, and international businesses? What benefits and risks would be created by making these moves?
3. If a new alternative fuel was found in the auto industry, what are two ways existing car manufacturers might respond to this disruptive innovation?
4. How might a firm such as Apple computers use a fighting brand?

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7.7 Conclusion

This chapter explains how innovation impacts strategy development. An entrepreneurial orientation helps a firm develop and implement new innovations. Being the first mover can present advantages, but is not without the risk of competitors learning from the first mover and eventually beating them. Executives may also choose a more conservative route by establishing a foothold within an area that can serve as a launching point or by avoiding existing competitors overall by using a blue ocean strategy. There are four types of innovation: incremental, disruptive, architectural, and radical. New products typically follow a predictable product life cycle with four stages: introduction, growth, maturity, and decline. Firms often use incremental innovation to re-launch products with improved features, starting the product life cycle over again. New products and services must "cross the chasm" to get them into the mainstream. Firms may cooperate with competitors through joint ventures, strategic alliances, mergers, and acquisitions, or through co-location and co-opetition. Executives may also react to competitive attacks by using fighting brands. All of these efforts by firms are part of the strategic management process that executives must respond to if they want their companies to be successful.

Exercises

1. Divide your class into four or eight groups, depending on the size of the class. Each group should think of one example for each of the four types of innovation: Incremental, Architectural, Radical, and Disruptive. Report out to the class.
2. Divide your class into four or eight groups, depending on the size of the class. Each group should think of one product or service that launched but did not "cross the chasm." Report out to the class.