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

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Your Strategy?

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

Low Cost  |  Fast
---------|---------
Large    |         

Unique   | Unique  
---------|---------
X         | X       
X         | X       
X         | X       

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Defining Innovation

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

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

- **Low Cost or Unique**
  - Customer value
  - Competitive advantage

- **Large or Fast**
  - Core competencies to deliver volume
  - Core competencies to deliver speedy response
Low Cost or Unique?

Customer Value Relationship = Perceived Benefits Price

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Fundamental Strategic Choice

- **Low Cost Advantage**
  - Lowering price to increase customer value
  - Market a commodity product
  - For example, Cargill

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

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What Are the Returns and Risks?

- **Low Cost Advantage**
  - Returns: low margin, high volume
  - Risk: Not being lowest cost

- **Uniqueness Advantage**
  - Returns: high margin, captured customer
  - Risk: Not being unique
Challenge of Innovation?

- Both strategies for customer value and competitive advantage involve an innovation “treadmill.”

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

- Uniqueness Advantage
  - *Today’s unique attribute = tomorrow’s expected attribute!*
  - Continual innovation to be unique
2nd Dimension: Large vs. Fast

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

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

Scenario 1: Playground of Giants
Monolithic supply chains (captained by retailers) rule a world in which brands assure attributes, technology is constrained, consumers want low budget impact, and global demand & openness are limited.

Scenario 2: Speedway to Niches
Individual consumers (willing to pay for unique attributes) access instant response from virtual webs of micro-firms assuring attributes through e-certification within a global context of open expansive markets.

Scenario 3: Arena of Extremes
A bi-modal system of very big or very fast chains/webs/firms evolves. Commodities flow from the big while products flow from the fast. Consumers pick and choose in world of uneven global growth & openness.

Never be stuck in the middle!

Be large or be hired help!

Be fast or be gone!

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Challenge of Innovation?

- Being large or being fast also demands innovation.

- Large Advantage
  - Innovating product lines, processes, supply chain relationships and market geography to get even larger or to imitate the fast!

- Fast Advantage
  - Innovating products, processes, and supply chain relationships to do the “next” valued thing that the customer wants!

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Multiple Challenges of Innovation!

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Your Strategy?

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Mass Customization

Customer Responsive

Traditional Commodity

Agile Production/Marketing

Low Cost

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The Imperative to Innovate

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

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

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

- Commit resources to the strategy
A Checklist

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

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

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

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

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

- What level of resources go to R&D?
  - New Products and Services
  - New Production, Information, and Management Processes
  - New Markets
  - New Supply Chain Relationships

- Who is responsible for R&D?

- What are the rewards for innovation?
Conclusions

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

1. Where are you?
2. Where should you be?
3. How will you innovate?