[Module 2 – Strategic Management]

Lecture Title 6: Innovation Strategies

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Undergraduate Diploma in
Business Administration

Lecture 6 – Innovation Strategies

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?
6. How do you critically explain the importance of integrational thinking in the understanding of strategy and its formation and development in complex organisations?

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.

- 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 organisation 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.

Entrepreneurial orientation (EO)

- 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.

- 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, cooperative and co-opetition measures help companies obtain resources and capabilities needed to innovate and enter new markets.

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.
- Let us describe each of the three characteristics associated with an EO: innovativeness, proactiveness, and risk-taking.

Understanding Entrepreneurial Orientation

- *Term*
- Innovativeness

- *Definition*
- The tendency to pursue novel ideas, creative processes, and experimentation.

- *Example*
- 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

Innovativeness

- 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.

- 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.

- 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

Groups Exercise

- How do firms generate these types of new ideas that meet customers' changing 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 first hand the kinds of problems customers encounter each day.
- Google's two most popular features of its Gmail, thread sorting and unlimited email 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.

Understanding Entrepreneurial Orientation

- *Term*
- Proactiveness

- *Definition*
- The tendency to anticipate and act on future opportunities rather than rely solely on existing products and services

- *Example*
- 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.
- https://www.youtube.com/watch?v=mVYDrJLMoxM

Proactiveness

- A proactive organisation 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).

Understanding Entrepreneurial Orientation

- *Term*
- Risk Taking

- *Definition*
- The tendency to take bold actions rather than being cautious.

- *Example*
- Richard Branson'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 venture

https://www.youtube.com/watch?v=RCD_Lj3e4mos

Risk taking

- 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.

- 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.

- 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.

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 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 organisation to build a constituency, and then find ways to acquire the needed resources to bring the idea to fruition.

- Entrepreneurship within an organisation 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.

Building an Entrepreneurial Orientation

- Steps can be taken by executives to develop a stronger entrepreneurial orientation throughout an organisation 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?

- 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

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.

- 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.

- 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"*

- 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.
- ***The foundation of blue ocean strategy is value innovation.***
- See several examples of firms following a 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.

Examples of Firms Following a Blue Ocean Strategy

- Bay'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.

- The Internet Revolution brought in India by Reliance Telecom Jio is a perfect example of this "Blue Ocean Strategy"....

- They completely disrupted the Indian telecommunication market by creating a monopoly back in 2016...before this India ranked over 120 in data consumption and now India Ranks in top 10....only within 2 years.

Groups Exercise

- View this video:
- https://www.youtube.com/watch?v=TA2P-BD2zI0

- How can Blue Ocean help companies continually innovate to stay ahead of the competition and capture new markets?

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.

Examples of successful - and not so successful - first movers.

- First Move Successes

- 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.

- 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

- First Move Failures

- 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.

- 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.

- 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.

- 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?

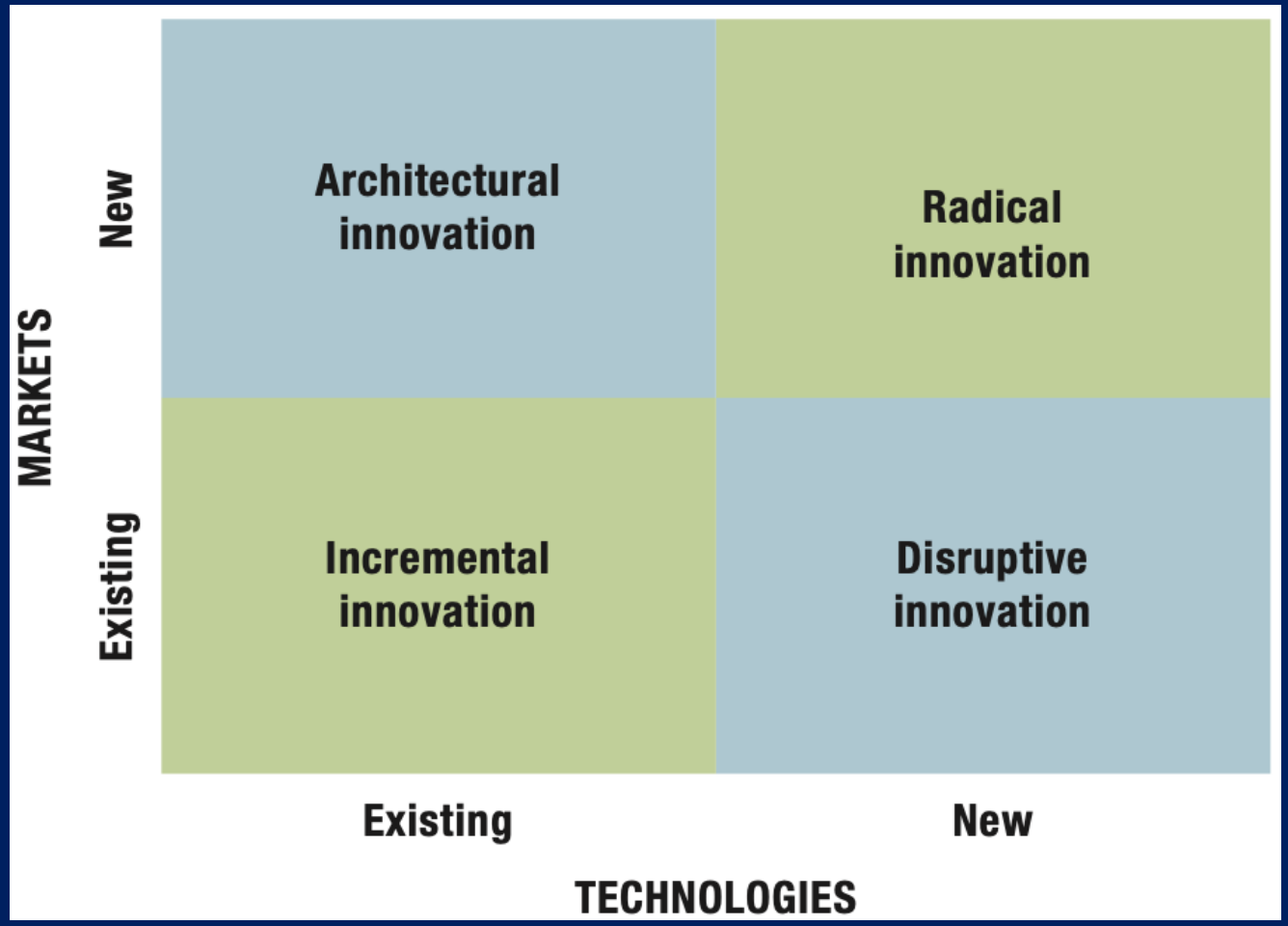
- First moves that build on strategic resources such as patented technology are difficult for rivals to imitate and thus are likely to succeed.

Types of Innovation

- Innovation can be classified into four types:

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

The four types of 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?*

- 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

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.

- 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.

- 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 overcame 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.

- 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.

- 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.

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.

- 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.

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 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

- 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.

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.

Implementing Innovation

- Product Life Cycle and Crossing the Chasm

- When innovation creates a new product, it typically goes through four stages within the marketplace.

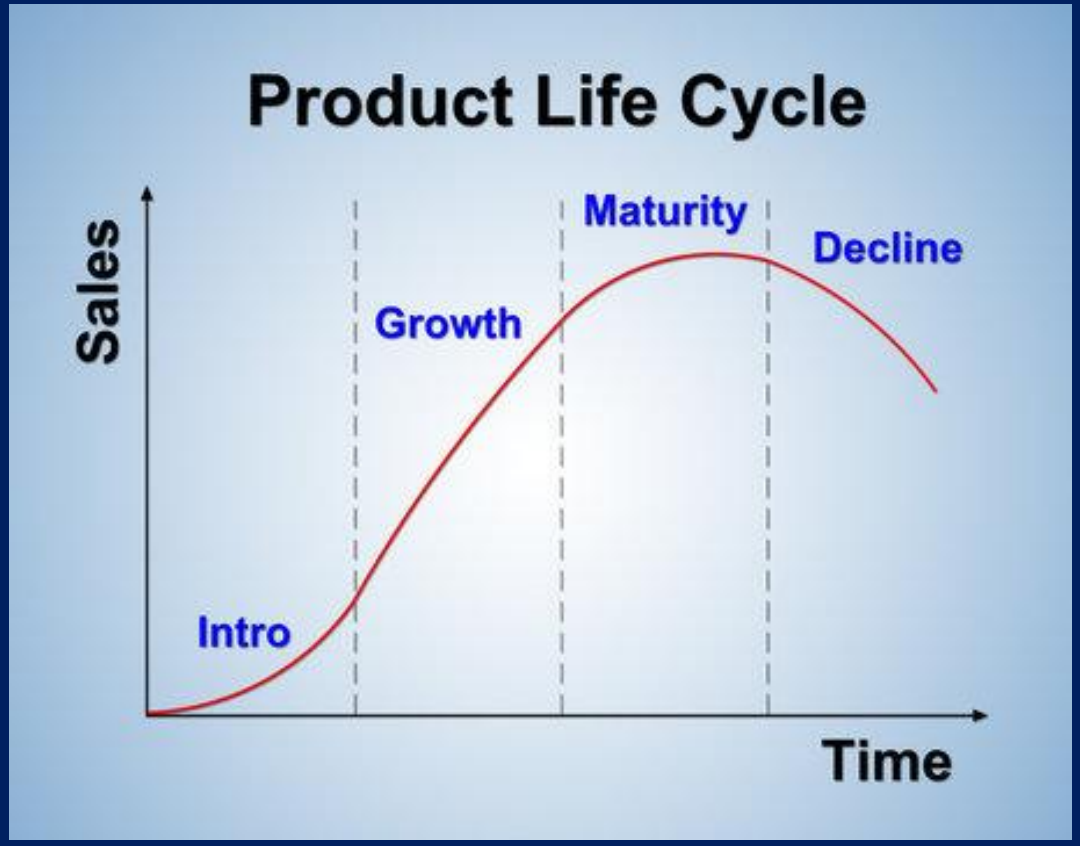
- This is true whether it is a high-tech product like a new video game system or a more mundane product like a laundry detergent.

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.



The above 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.

Innovation Strategies 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

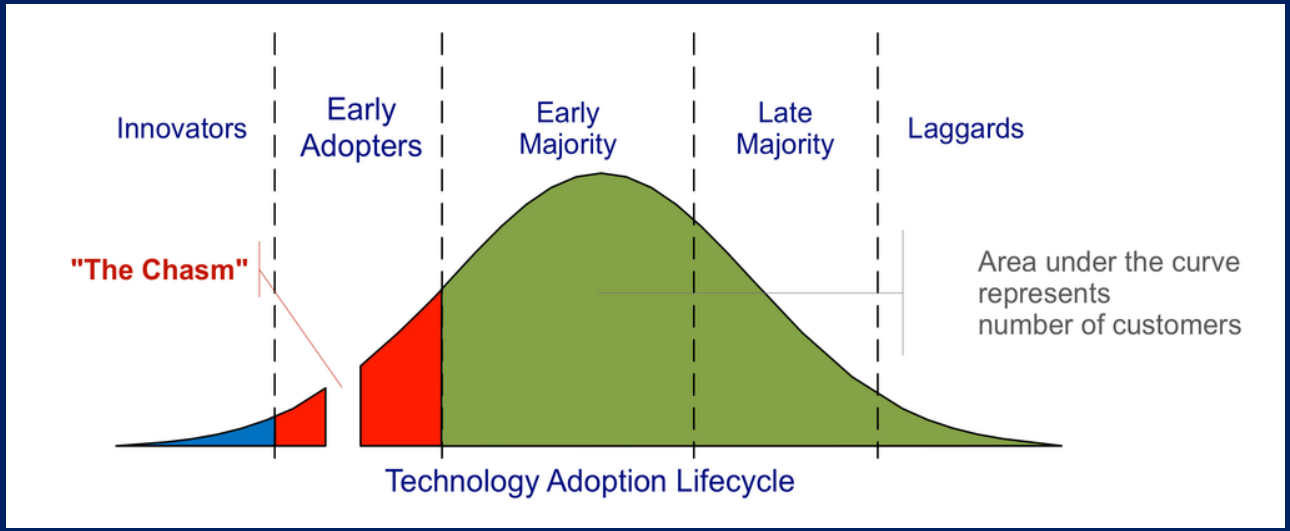
- Profits generated during the product life cycle also usually follow a traditional pattern.

- 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

- 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.



- 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.
- 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.
- 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.

Making Cooperative Moves

- Franklin Roosevelt once stated,

- *"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."*

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.

Making Cooperative Moves

- 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

Making Cooperative Moves

- 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.
- 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

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.

Groups Exercise

Identify examples of successful:

- Strategic Alliance
- Merger

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.

- 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".*

- In other words, firms tend to cooperate in activities located far in the value chain from customers, while competition generally occurs close to customers

Integrative Thinking

- Integrative thinking is a cognitive process that involves the ability to hold contradictory ideas and concepts in one's mind and to reconcile them into a unified perspective.

- In the context of strategy and its formation and development in complex organizations, integrative thinking is an essential skill that allows leaders and managers to navigate the complex and interconnected systems that define modern business environments.

- One of the key benefits of integrative thinking is that it enables leaders to see beyond the surface-level problems and challenges that may arise in their organisation.

- Instead, they can analyze the underlying causes and factors that contribute to these issues and identify potential solutions that address the root causes.

- This approach can lead to more effective and sustainable strategies that are better aligned with the long-term goals of the organisation.

- Another important aspect of integrative thinking is its ability to facilitate collaboration and communication among diverse stakeholders.

- In complex organizations, there are often multiple departments, teams, and individuals with different perspectives, goals, and priorities.

- Integrative thinking allows leaders to bring these stakeholders together and find common ground, leading to more inclusive and effective decision-making.

- Additionally, integrative thinking can help organizations adapt to change and uncertainty.
- In today's rapidly changing business environment, it is essential for organizations to be able to quickly adapt to new challenges and opportunities.
- Integrative thinking allows leaders to identify and respond to changes in the market, technology, and other factors that affect their organization's performance.
- In summary, integrative thinking is crucial for strategy formation and development in complex organizations.
- It enables leaders to see the big picture, facilitate collaboration, and adapt to change, leading to more effective and sustainable strategies that drive organizational success.