



MASTER IN ENTREPRENEURSHIP  
INNOVATION MANAGEMENT  
IN COLLABORATION WITH MIT SLOAN

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UNIVERSITÀ DEGLI STUDI DI NAPOLI  
**PARTHENOPE**

MASTER MEIM 2021-2022

# Business Strategy and Innovation

Prof.ssa Barbara Masiello

Università degli Studi della Campania «Luigi Vanvitelli»

barbara.masiello@unicampania.it

[www.meim.uniparthenope.it](http://www.meim.uniparthenope.it)

# OUTLINE

- Objectives
- Types of Innovation
- Innovation and competitive advantage
- The value drivers
- Timing of entry

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*Case Study\_#2 | Lego (Crisis & Turnaround)*

*Case Study\_#3 | Lego (Community)*





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# OBJECTIVES

Tools and concepts needed to examine the potential for innovation to establish competitive advantage.

- ◆ Identify the factors that determine the returns to innovation, and evaluate the potential for an innovation to establish competitive advantage.
- ◆ Formulate strategies for exploiting innovation including: assessing alternative approaches to commercializing innovation, comparing the relative merits of being a «first mover» or a «follower», and managing risk.
- ◆ Formulate strategies that exploit network effects, create successful platforms, and win «standards wars».
- ◆ Understand that innovation may be generated internally and also sourced externally (“open innovation”).
- ◆ Understand that innovation can re-shape business and business models.

CIRQUE DU SOLEIL



TESLA





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*The «necessary innovation».  
Which one?*



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# INNOVATION

**The quest for competitive advantage stimulates the search for innovation and successful innovations allow some firms to dominate their industries.**

Technological innovation has become one of the key determinants of companies' competitive success.

# INNOVATION

Advances in information technology have led to an acceleration of innovation processes

Effects

Globalisation has increased the intensity of competitive pressure

# INNOVATION

Advances in information technology have led to an acceleration of innovation processes

Effects

Globalisation has increased the intensity of competitive pressure

Product life cycle shortens

New products are being introduced faster and faster

Market segmentation plays a decisive role





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# TYPES OF INNOVATION

## PRODUCT INNOVATION

allows companies to protect their profit margins by introducing elements of differentiation and novelty into their offerings.

## PROCESS INNOVATION

ensures that companies improve the efficiency of their production processes.

Product innovations can enable process innovations and *viceversa*.

# TYPES OF INNOVATION

RADICAL INNOVATION



INCREMENTAL INNOVATION



The **radicalness** of an innovation is the degree to which it is new and different from previously existing products and processes.

*(a continuum)*

# TYPES OF INNOVATION

## RADICAL INNOVATION



## INCREMENTAL INNOVATION



*Incremental innovations* may involve only a minor change from (or adjustment to) existing practices.

The radicalness of an innovation is relative; it may change over time or with respect to different observers.

Digital photography a more radical innovation for Kodak (chemical photography expertise) than for Sony (electronics expertise).

# TYPES OF INNOVATION

## COMPETENCE ENHANCING



*Competence-enhancing* innovations build on the firm's existing knowledge base (Intel's Pentium 4 built on the technology for Pentium III)

## COMPETENCE DESTROYING



*Competence-destroying* innovations renders a firm's existing competencies obsolete (I.E. chemical photography for Kodak).

Whether an innovation is competence enhancing or competence destroying depends on the perspective of a **particular firm**.

# INNOVATION AND COMPETITIVE ADVANTAGE

- The customer (not the competition) should be at the centre of strategic thinking
- The structure of the industry is not given
- The position of the incumbent is not always advantageous
- Technology is not everything



# CHANGING THE RULES OF THE GAME and CREATING «BLUE OCEANS»

## RED OCEAN STRATEGY

## BLUE OCEAN STRATEGY

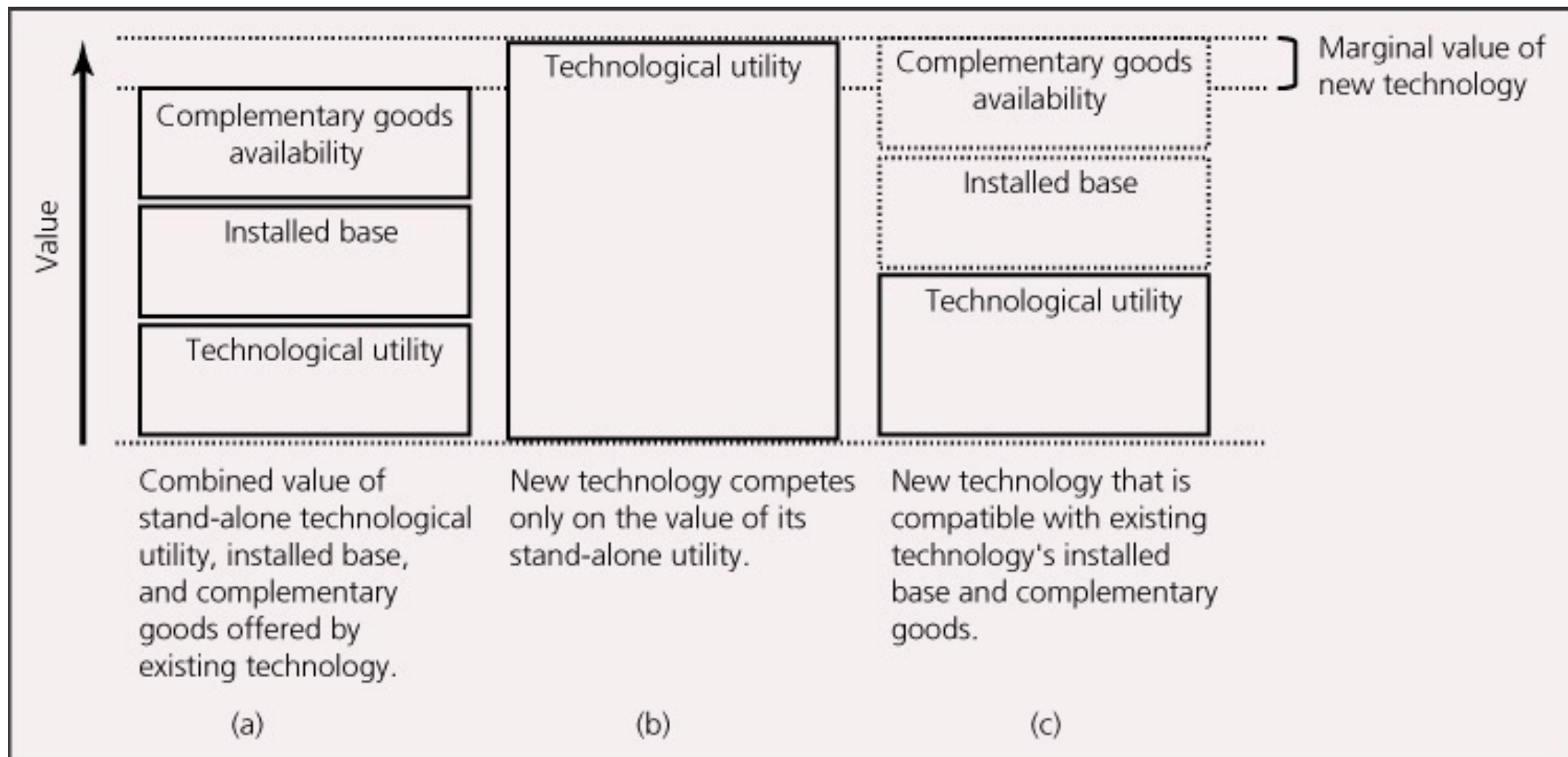
Compete in <b>existing</b> market space	Create <b>uncontested</b> market space
<b>Beat</b> the competition	Make the competition <b>irrelevant</b>
Exploit <b>existing</b> demand	Create and capture <b>new</b> demand
<b>Make</b> the value-cost trade-off	<b>Break</b> the value-cost trade-off
Align the whole system of a firm's activities with its <b>strategic choice of differentiation or low cost</b>	Align the whole system of a firm's activities in <b>pursuit of differentiation and low cost</b>

# Technology is not everything

... And the «best» is not always successful

To successfully overthrow an existing dominant technology, new technology often must either offer:

- Dramatic technological improvement
- Compatibility with existing installed base and complements





## Windows Phone - Flop story of the decade (...despite a promising partnership)



# THE VALUE DRIVERS

| The usefulness of technological innovation. *For the customer.*

**Function**

Functional

Psychological

**Meaning**

Economic

Social

**Benefits**



**Costs**

**Cost**

Economic

Social

**Switching-cost**

Functional

Psychological





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# The «Buyer Utility Map»

A tool to assess the stand-alone value of a technology → Customer utility

# The «Buyer Utility Map»

Understanding the customer experience cycle with respect to the usefulness of technology

*Stages in the customer experience cycle*

	1. Purchase	2. Delivery	3. Use	4. Integration	5. Maintenance	6. Elimination
Productivity (customer side)						
Simplicity						
Comfort						
Risk						
Fun and Image						
Respect for the environment						



# The «Buyer Utility Map»

Understanding the customer experience cycle with respect to the usefulness of technology

1. Purchase	2. Delivery	3. Use	4. Integration	5. Maintenance	6. Elimination
<i>How long does it take to find the product you need?</i>	<i>How long does delivery take?</i>	<i>Does operation require expert assistance?</i>	<i>Do you need other products/services to make it work?</i>	<i>Does it require external maintenance?</i>	<i>Does the use create waste?</i>
<i>Is the shopping environment (physical or virtual) pleasant and accessible?</i>	<i>How difficult is it to install the new product</i>	<i>Is it easy to store when not in use?</i>	<i>If so, how much do they cost?</i>	<i>How easy is it to maintain or update the product/service?</i>	<i>How easy is it to get rid of the product?</i>
<i>Is the environment/transaction safe?</i>	<i>Do buyers have to organise the delivery themselves?</i>	<i>Does the product/service offer a greater range of options than the average customer requires? Is it overloaded with frills?</i>	<i>How long does it take to get them?</i>	<i>How much does maintenance cost?</i>	<i>Is disposal safe or does it involve legal or environmental issues??</i>
<i>How long does it take to make the purchase?</i>	<i>If so, how complex and costly is this operation?</i>		<i>How much discomfort do they cause?</i>		<i>How much does elimination cost?</i>
			<i>How easy is it to get them?</i>		

# The «Buyer Utility Map»

Removing obstacles to customer benefit

	1. Purchase	2. Delivery	3. Use	4. Integration	5. Maintenance	6. Elimination	
Utility levers	Productivity (customer side) <i>At which stage are the obstacles most pronounced for...</i>						
		//			Simplicity		
		//			Comfort		
		//			Risk		
		//			Fun and Image		
		//			Respect for the environment		



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# TIMING OF ENTRY

Timing of entry can be very important

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Netflix's success in Italy |  
Also a question of timing





# TIMING OF ENTRY

Timing of entry can be very important

<https://www.youtube.com/watch?v=LsAN-TEJfN0>

TED TALK: CHRIS ANDERSSON & REED HASTING



# TIMING OF ENTRY

There are a number of **advantages** and **disadvantages** to being a first mover, early follower or late entrant.

**First movers** are the first entrants to sell in a new product or service category (“pioneers”)

**Early followers** are early to market but not first.

**Late entrants** do not enter the market until the product begins to penetrate the mass market or later.

# FIRST MOVER'S PROS & CONS

Brand loyalty and technological leadership  
Preemption of scarce assets  
Exploiting buyer switching costs  
Reaping increasing returns advantages



High research and development expenses  
Undeveloped supply and distribution channels  
Immature enabling technologies and complements  
Uncertainty of customer requirements

# Factors Influencing Optimal Timing of Entry

- How clear and established are the customer's preferences?
- How much and how relevant for the customer are the improvements in the usefulness of the technology compared to the previous one?
- Are complementary goods/services needed? If so, are they "mature"? And are they available/accessible?
- How high is the threat from new entrants? How distinctive and exclusive are the key resources/skills?
- What is the financial backing for the initiative / how well is the company able to absorb initial losses in the context of the overall strategy?
- How high is the brand reputation in the sector compared to the innovation capacity of the company?

## Check list

# ▶ CASE STUDY\_2

## I LEGO (Crisis & Turnaround)

## ▶ CASE STUDY\_2

### I LEGO (Crisis & Turnaround)

### ASSIGNMENT

**Q #1: Which were the external causes of decline in the late 1990s to early 2000s (Porter's FF Model)?**

**Q#2: Which was the role of innovation (new product development-NPD) in responding to the strategic crisis?**



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# ▶ CASE STUDY\_3

## I LEGO (Community)





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## ▶ CASE STUDY\_3

I LEGO (Community)

ASSIGNMENT

**Q #1: What were the changes to LEGO's business model introduces by the new CEO Knudstrop (internal changes to support it)?**

**Q#2: Describe the role of thechnology and of LEGO online communities in building a customer-centric organization.**