

Creative Destruction: The Rise of Distributed Innovation



May 2012: Innovation. Everyone's talking about it – just take a look at the contents of any leading business journal in the last few months. Everyone wants to be at the forefront of it. But it's tough. It's not just about having a good idea; it's about translating creativity into action in the market or environment in which you are operating. As Thomas Edison put it: *"Innovation is 1% inspiration and 99% perspiration."*

So why all this interest in innovation? Because the world is changing faster than ever before; uncertainty and volatility are the norm. Global trends are driving new markets, new customer and consumer needs, new technologies, new business models for value creation and new ways of working, living and behaving. In this environment, even world-leading companies, with dominant and proven business models, ultimately discover limits to growth. They are always in search of the next high-growth market, the next source of value – and if they don't innovate to realize these opportunities someone else will, often someone that may not even have been considered as a potential player. Think about which company now dominates the music market – a “computer” company, Apple. Think about how leading food companies are reinventing themselves in the health and wellness market space.

In these shifts there is an emerging pattern: Innovation is becoming more and more **distributed**. Industry-level innovation is no longer the province of the traditional players – the notions of value and industry are being shaken up more often than not by players from outside the industry or small start-ups with radical ideas and/or technologies, who even more radically focus on needs and customers/consumers than industry boundaries. How value is created is becoming even more distributed as new models for sourcing and executing on ideas expand, from crowdsourcing to crowdfunding to word of mouth and peer recommendations. Everyone is – or can be – an innovator, thanks to rapid advances in communications and information technology that is shifting knowledge around the world faster than ever across multiple, self-configuring networks.

The rapid distribution of knowledge and market insights is also accelerating shifts in the location of innovation geographically. Even recently, most innovation tended to originate in developed nations, rich in knowledge and capital, then be rolled out globally. Not anymore. Reverse innovation – business models, products and services originating in rapidly developing economies, then translated to developed markets – is here to stay. In addition with future market growth expected to remain in the high growth developing markets, innovation focused on the needs, wants, mindsets and business models of and in these markets is becoming increasingly important. Is the era of imposing developed market-led innovation coming to an end?

Building tomorrow's businesses – combining creativity and execution – is hard, as organizations have

to balance innovation for the future with delivering on today's demands. So it is critical to understand where potential opportunities for innovation may come from and what it would mean to execute successfully on them – as well as where your organization might be at risk of creative destruction! Summarizing economist Josef Schumpeter's description: Creative destruction is the disruptive force of innovation that creates economic growth, even as it destroys the previous systems. Arguably, we are in one of the most intense periods of creative destruction for decades, as we move from an industrial age towards a knowledge age. Which is why innovation is top of mind.

In this briefing we explore some of the ways global trends are driving distributed innovation, creating and rethinking: markets, industries, the notion of value and how value is delivered. Think: the light bulb, the printing press – and more recently, the internet. Think also about where these innovations originate. What's next? How will your business manage distributed innovation?

Rethinking markets and industries

New and powerful forces are reshaping businesses. Traditional boundaries between industries are blurring and rules that once made sense are no longer valid. Survival in an increasingly competitive world demands that organizations get out of their comfort zones, break down market and industry boundaries and change traditional mindsets. It can even partnering up with new entrants with new innovative approaches and technologies. The businesses that dare to challenge their traditional ways of thinking and focus on the consumers' needs are the ones redefining both markets and industries.

[Kodak](#) is the perfect example of what happens when a comfort zone is *too* comfortable and great innovations that could change market and industry are sidelined. In 1975, a Kodak engineer developed the first digital camera. Yet, because of the strength of the core film business globally, the idea which could cannibalize this icon of technological innovation was only pursued in the labs, from where Kodak acquired thousands of digital imaging patents in the 1980s. Price wars on film with Fuji and the battle for instant photography with Polaroid (Kodak lost) took center-stage in a company at the peak of its success. Kodak was in denial – it thought it had time. The 1990s saw a hybrid approach, focusing on its core business, including a big bet on the growing traditional camera and film market in China, while investing heavily in digital imaging. But the results were poor leading to massive restructuring. Kiosks and consumables were seen as the solution, but optimism for the 2000s met reality. The shift to digital became a landslide, consumers stopped printing photos, and the Chinese skipped film for digital. Too late – long after [Nikon](#), [Sony](#) and [Canon](#) – Kodak wholeheartedly entered the game. In 2012 it declared bankruptcy. Looking forward, future photo markets will be all about sharing digitally, as the industry experiences yet another shift from cameras to smartphones with [Nokia](#), [Samsung](#) and [Apple](#) leading the pack. How about other industries?

In Action!

Music: The transitions between LPs, cassette tapes and CDs all kept the traditional music players in business. But now it's all about downloadable digital media. [Napster](#) changed the music distribution industry forever with its pioneering peer-to-peer file sharing Internet service, radically changing the way people used their computer. The penalty: It got sued out of business (today it has reemerged, bought by [Rhapsody](#)) as several large record companies alleged infringement of copyright. The record label industry now had its chance. But it wasn't a company from the record label industry that reinvented the music industry in the age of digital distribution. Technology company [Apple](#) crossed industry boundaries creating new consumer needs! Today, the new focus of innovation is moving beyond how people buy and listen to music to how they create, share, watch and experience music through multiple media—anywhere, any time, through multiple channels. The new innovators are the music channels and experience providers – plus direct-to-consumer artists.

Travel: Traditional business models for “one size fits all” packaged tourism are being undermined by cheap fares, accommodation at the touch of a button and ever-more transparent local options on “things to do.” The travel industry was an early adopter of technology – creating mechanisms to build relationships and generate brand loyalty. Today many innovative businesses from other industries, often service and peer-to-peer based, are finding their way into the travel and leisure market because

they understand that in today's world consumers' rely on their peers. Consumers access and contribute opinions via travel sites like [Tripadvisor](#) and [Smarter Travel](#) which help their peers make decisions at every stage of the travel cycle – often without travel agents or sales brochures. A new focus of innovation is combining peer insights to develop and personalize unique travel experiences, making the most of our limited leisure time and growing demand and desire for experience. It will not be just the traditional travel players offering this service – expect many, distributed innovators around the world.

Publishing: Most retailing is still being done the old bricks-and-mortar way. But the world of books and publishing has been shattered by the success of online retail giant [Amazon](#). For many years the industry believed that people simply did not want to buy online or read a whole book, newspaper, journal or magazine on a screen. Today the “potential death” of the printed book industry is no longer unlikely. When launching Kindle e-readers in 2007 Amazon quickly gained a 90% market share of the e-book market. Only the launch of Apple's iBookstore in 2010 encouraged innovation and competition, breaking Amazon's grip on the publishing industry. Today Amazon is further increasing its power as it begins to build its own [e-book publishing business](#), a business that threatens the very core of the traditional publishers' value proposition as the intermediary between writers and readers. More and more players can now innovate in this industry, from authors with multiple options for the creation of materials and channels to markets, to publishers reinventing their role between the content providers, distributors and consumers. And don't forget the consumers with an insatiable desire for information built around shifting interests and demands for convenient solutions to immediate needs. Real-time, self-publishing, anyone!

Look Out For...

Urban Personal Transport Services: Overcrowded road systems, rising fuel prices, limited (and expensive) parking, a new awareness of climate change and even more important the ability to connect people in real-time. Welcome to the world of urban personal transport. Many innovative businesses, often service and peer-to-peer based, driven by these trends, are finding their way into the personal transport market. As high-tech, multimedia appliances gain market share, cars are losing ground as a status symbol – especially for younger generations in developed countries. By connecting people in real-time, the imperative to own a car is shifting. After all, if you need a ride you can get it, with [RelayRides](#), [Spride](#), and [Getaround](#) to name but a few connecting people wanting a ride in real-time! Although there remain huge opportunities to increase sales in emerging markets for traditional transport and automakers, these new emerging business models could quickly spread to growth markets, which are urbanising rapidly. In a crowded urban world, what will be the new solutions to enable convenient mobility not only virtually (i.e., via the internet) but also physically (i.e., being at the right place at the right time)?

Consumer-Driven Retail Banking: Many non-bankers, including companies, individuals and communities have torn down the boundaries, rethinking the traditional retail banking system. Take for example the retailers, including [Tesco](#) and [WalMart](#), who are moving into financial services with brands that have far higher levels of trust than those of high-street banks. How about peer-to-peer lending and microfinance, which are now far beyond the realm of rapidly developing economies and taking off in the developed world? What about price comparison sites like [Comparethemarket.com](#) which allow you to use your money more wisely by making complex financial investments more transparent? Or why not just create your own [local community currency](#)? Don't forget the insatiable mobile telephone industry that is rapidly transforming itself into a mobile lifestyle business – taking care of an expanding array of services – anywhere anytime. Who will be the future innovators and leaders in retail banking: The traditional banking players, the retailers moving into services in addition to merchandise, or the mobile device providers seeking to be our own personal channel to the world—be it for email, music, or even banking?

Healthcare: Who would you involve in preventing disease and maintaining health? Today it is not only doctors, pharmaceutical and hospitals. Think about companies offering cosmetics or nutrition supplements that are aiming at helping improve conditions which may have been covered up in the past. How about the Nestlé's of the world that are moving from food and drink to nutrition to personal wellbeing as the focus of their relationship with their consumers? And where would you go for information and referrals? New technologies are rapidly changing the traditional patient doctor relationship. The waiting room is not a place people want to be. People want instant/real-time

information about their health – not just when they are ill, but to stay healthy and vital every day. With demanding lifestyles and the emergence of the internet there has been a corresponding growth in on-line sources of real-time information, services and apps that can connect you to advice on health. These include services such as symptom checklists, physician blogs, and locations to store personal medical information. Look out for players such as IBM and GE to emerge as leaders in the healthcare information space; and for the food and drink companies to continue to expand in this arena. Other players will focus on healthcare as not about being sick but about staying healthy. Still more will innovate around affordable healthcare throughout your lifetime. In fact, expect innovation to become increasingly distributed in the exploding market for health and wellness in the future.

Rethinking business models and value creation

On April 26, 2012 Hillary Clinton opened the U.S. State Department Global Impact Economy Forum with a plea for the creation of “shared value” in the global economy. Shared value challenges organizations and their leader to focus on creating value for companies and societies simultaneously – because it is the interest of both sides to do so. This is just one way new perspectives are being applied to innovation. By involving more people in the process – distributing it – creative ideas can be unleashed to tackle even the toughest problems, for example making it permissible to make money from serving poor or less fortunate people while at the same time helping them. It’s not just in the emerging and important arena of creating shared value that distributed innovation is making a difference – more minds and energy from more perspectives are being applied through for-profit partnerships with non-profits, for example to develop creative solutions for waste in the slums of Bangladesh. Tapping into the global brain through open innovation networks and crowdsourcing is becoming more widely accepted for all types of organizations. Similarly, distributed sources of funding for innovation through expanding numbers of crowdfunding networks is allowing many more entrepreneurs to innovate, while developing a whole new community of small investors. How is your organization tapping into the diverse and growing sources of distributed innovation to rethink how you create and distribute value?

In Action!

Fast moving consumer goods: Unilever has committed itself to sustainable business through [Unilever’s Sustainable Living Plan](#). When it comes to creating and delivering (shared) value it is probably most famous for its Hindustan Unilever initiative that employs more than 300,000 women in rural villages throughout India to sell soap and other hygiene products where normal distribution channels cannot reach. Unilever makes money from this, of course, but washing hands with soap is the single greatest factor in reducing the spread of diarrheal disease, one of the leading causes of death among children in developing regions. (Source: [Fast Company](#))

Healthymagination: In May 2009 GE announced its “[Healthymagination](#)” initiative, committing to spending US\$3 billion over six years on healthcare innovation that will help deliver better care to more people at lower cost. In addition, the company will commit US\$2 billion of financing and US\$1 billion in related GE technology and content to drive healthcare information technology and health in rural and underserved areas. Two years into GE’s six-year commitment the company has 43 validated products and services supporting their mission and they have touched more than 234,000,000 lives. (Source: Healthymagination 2010 Annual Report) A key to the success of this initiative is involving as many people as possible in innovation and sharing knowledge – working on healthier lives “together,” whether through Facebook campaigns or by establishing [challenges](#) to find breakthrough ideas to tackle breast cancer.

Waste Concern: In the slums of Bangladesh, most garbage is left to rot on the streets. To tackle the problem, two enterprising local engineers launched the company [Waste Concern](#) – one part nonprofit and one part for-profit. [Lions Clubs International](#) and the [United Nations Development Programme](#) made small initial contributions. In partnership with a major Dutch corporation, Waste Concern now has the capacity to serve 3.6 million people and to handle 700 tons of garbage per day. The company employs more than a thousand women, reduces health risks from festering garbage, recycles countless tons of rubbish, reduces greenhouse gases by 90,000 tons per year, and increases crop yields for small

farmers through the sale of its fertilizer. (Source: [Fast Company](#)) Again, applying new and multiple perspectives to innovation around a clear need has driven success.

Look Out For...

Patientslikeme: With over 146,000 patients and more than 1,000+ conditions addressed, [Patientslikeme](#) is a health-driven social networking site that enables its members to share condition, treatment, and symptom information in order to monitor their health over time and to learn from real-world outcomes. Advertising is not allowed on its site. Instead, the company has based its business model around aligning patient interests with industry interests. For patients, the wealth of information and community advice is invaluable – and free. For healthcare businesses, the benefits include accelerated clinical research, improved treatments and better patient care. To achieve these goals, PatientsLikeMe sells aggregated, anonymous data to its partners, including pharmaceutical companies and medical device makers, such as UCB, Novartis, Sanofi, Avanir Pharmaceuticals and Acorda Therapeutics. (Source: [Wikipedia](#) and [Patientslikeme](#))

Funding our needs: The growth of crowdfunding sites like [Kickstarter](#), [Peerbackers](#), [IndieGoGo](#), [33needs](#) and [Quirky](#) has been an emerging trend for some time. It offers a simple, low-cost way to fund new business ideas versus using traditional financial service providers and is gaining real traction with new businesses and investors alike. Now, are you ready for a crowdsourced credit card? Barclaycard is making a bold step into uncharted territory with the Barclaycard Ring MasterCard, announced in March 2012. The Ring will actually be a social network moderated by Barclaycard in which card members will get full disclosure of the card's profits and losses; they will vote on changes in terms such as interest rates, annual fees and late payment penalties; and most importantly they will participate in a rudimentary profit-sharing program called Giveback. (Source: [Iconoculture](#))

Creative currency: A fascinating new business model and approach to distributed innovation is being forged in San Francisco by [Creative Currency](#), whose team includes a digital culture non-profit, a social enterprise community, an innovative city government and a major financial services provider. The aim: Harness technology and the power of many ideas to improve people's lives in underprivileged parts of the city. The [innovation model](#) is founded first in understanding the community's needs deeply, followed by rapid prototyping through tapping into hundreds of designers, developers and leaders of the digital economy. Project development and acceleration involves testing and integrating community feedback, followed by seed funding of top projects and mentoring. In action, one recent project involved a weekend-long "[hackathon](#)" to figure out how technology could help people who don't have roofs over their heads, much less web browsers. The result: A mobile wash station for people to take showers and launder their clothes. The project, RefreshSF, would be funded through small donations made via text message to pay both for the wash stations and to employ attendants to keep them clean.

Rethinking the origins of innovations: Reverse innovation

The richest countries always seem to get the coolest and newest thing first while poorer countries get the cast-offs when prices have come down. Innovation has traditionally been driven by developed countries who had the infrastructure of innovation – the great universities, the Nobel Prize winners, the advanced capital markets and well-developed management systems. Not anymore! There is a large and growing pool of talent and knowledge in rapidly developing economies (RDEs), which organizations and governments around the world are increasingly tapping into. As these economies rise so is the number of innovations focused on the specific needs of RDEs – it is no longer “developed in Europe, assembled in China, adapted for China” but “developed in China, made in China, made for China.” These innovations, with radically new perspectives are challenging the traditional models of thinking in the West – from low-price points to simple, rugged designs and recycling built in. It does not have to be over-engineered, good enough can be great. In fact, the traditional model of developing new products and services is quietly reversing. Many emerging giants are already translating local innovations for richer countries, potentially disrupting established multinationals' businesses. And many of these multinationals are starting to see the benefits of “[when cheap is chic](#)” for a cash-strapped, austerity-ridden developed world. Look for increasing flows of reverse innovation, not only from the new global challengers from RDEs, but Western companies who have figured out that “Made in India” can be “Made for the world.”

In Action!

Tractors: [Mahindra and Mahindra](#) (M&M) began manufacturing tractors for the Indian market in the early 1960s. They were very affordable, fuel-efficient, and sized appropriately for small Indian farms. Then they looked more broadly and identified that the little red 35-horsepower tractor would be perfect for hobby farmers, landscapers and building contractors in the US. To enter the market, Mahindra partnered with International Harvester to manufacture a line under the Mahindra name. With a few modifications for the US market — such as brake pedals and super-sized seats to for larger American bodies — Mahindra arrived in the US in 1994 – and has successfully created the American hobby farming market (Source: An interview with Professor Vijay Govindarajan *via* [DNA](#)).

Affordable heart surgery: At the [Narayana Hrudayalaya Hospital](#) open-heart surgery is performed at much lower cost than in the US. Labor cost cannot explain the difference. It is pure and simple innovation. They have applied a model from the manufacturing sector to healthcare using standardization, specialization of labor, economies of scale and assembly-line production. They use the same world-class equipment you will see in the Mayo Clinic (one of the best hospitals in the United States) but they use it 20 times more, driving the costs down. In Cayman Islands, a short 60-minute flight from Miami in the US, the [Narayana Hrudayalaya Hospital](#) is now building a 2,000-bed hospital to serve American patients – potentially the first step in radically shaking up the US healthcare industry (Source: An interview with Professor Vijay Govindarajan *via* [DNA](#)).

Reverse innovation by Western companies: [Procter & Gamble](#) developed a lower-price diaper line without all the fancy features for its Brazilian market some years ago. Parents who couldn't afford the company's more expensive diapers embraced the solution to keep babies dry overnight. Procter & Gamble's range of basic products now exists around the world under different brand names, such as Simply Dry in Western Europe. Levi's Denizen brand is designed to focus on an all-inclusive approach that is both quality driven and attainable for any customers in any market. It was first launched in Asia, targeting Indian and Chinese consumers successfully. In 2011 it was rolled out in retail stores in the US for one-third to one-half the cost of a pair of the normal Levi's brand. (Source: [Ad Age Global](#)).

Look Out For...

A people's car: In July 2009, Tata Motors started delivering the Nano in India – a people's car priced for the developing world. While it has not been as successful as hoped, the car continues to evolve and at a starting price of US\$2,900, there are plans to focus on export models for the developed world. With its purchase of Jaguar and Land Rover in 2008, plus a growing commercial vehicle business, Tata is actively seeking to be a full price range automaker – and it wants to be a global one. It has strengths to build on: Inexpensive engineering, a solid base for growth in India, a proven ability to develop to a specific price point, and huge determination. Expect Tata to help redefine global car markets as the people's car reaches ever more people. (Source: [CNN Money](#))

From big box to small box: When giant big-box retailer [Wal-Mart](#) entered Central and South America, it realized it could not use its big-box retail formula. Innovation was needed and it created small Wal-Mart stores to match local needs and cultures – the big box was scaled down. Today, Wal-Mart is doing something that would have been hard to imagine just a few years ago. It is bringing the “small-mart” concept back to the United States as its big-box market is saturated and many consumers suffer from big-box fatigue. (Source: An interview with Professor Vijay Govindarajan *via* [DNA](#))

Emerging global challengers: High growth developing markets are home to a whole new generation of companies taking to the global stage. Among these you will find Tata and Mahindra from India as noted above but also Lenovo (China), Cemex (Mexico) and Haier (China). In the IT services industry firms like Infosys, Tata consulting services, and WIPRO have pioneered the concept of a "global delivery model" challenging IBM and Accenture to redefine their business models. Brazil's Embraer is giving Canada's Bombardier a run for its money in regional jets. China's Huawei is challenging global telecommunications companies including Siemens, Ericsson, Alcatel-Lucent, and Cisco. They all started as local companies in rapidly developing markets before going global. Now they offer competition to multinational corporations, not just in emerging markets but also in developed markets. (Source: [HBR Blog Network](#)) Look out for these companies to drive trends and innovations for the future.

In June: Look out for trends in action on geopolitical shifts!