

Innovation & Blue Ocean Strategy

**4 IMC DFW
Bart Kohnhorst & Jim Stewart
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Fasten Your Seat Belts!

We are going to go *FASTTT...*

Today we will attempt the impossible!

We will take you from a discussion of global competitiveness...

... all the way down to a concrete methodology to grow and win innovatively in the marketplace and make the competition irrelevant.....

In less than 60 minutes!

Innovation in the United States: still under the radar screen!

- Last year 600,000 engineers graduated in China, 350,000 in India and 70,000 in the United States.
- Recently, American 12th graders performed below the international average for 21 countries on general knowledge in math and science.
- The cost of employing one chemist or engineer in the United States is equal to about five chemists in China and 11 engineers in India.
- Chemical companies last year shut 70 facilities in the United States. Of 120 large chemical plants under construction globally, one is in the United States and 50 are in China.

New York Times, October 13, 2005

- “United States has crisis in innovation
 - Pacific Rim nations pose a threat to the engineering prowess and renowned innovation of the United States.”

Miami Herald, August 11, 2005

Our advantage, competing in a global economy with Knowledge, is fading fast

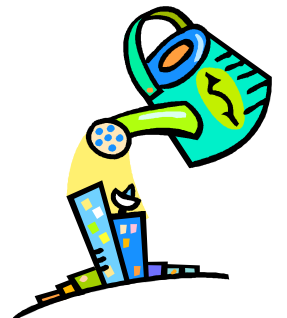
Knowledge Economy is going global at the speed of light!!!!!!

- The drivers for change are:
 - Education
 - Communications
 - Outsourcing
 - Immigration



What is at stake?

- Global competitiveness
- Our standard of living
- Economic and political influence
 - Generating Growth in the economy and business
 - Exporting Democracy



Government Innovation Initiatives

- **United Kingdom: 2001 Innovation Challenge by Tony Blair**
- **Canada: 2002 innovation and skills strategy**
- **Netherlands: 2003 Prime Minister driven “Innovation Platform”**
- **Germany: “Action Plan on Innovation” for Small to Medium Enterprises**
- **South Korea: science and technology & commercialization**
- **United States: 2003 National Innovation Initiative**

Technological and scientific advancement is now global

Korea: stem cell research & transplants

India: pharmaceutical research & transplants

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But the US leads? More patents, best schools, research...?

- The Times of London ranked 200 of the world's best institutions of higher learning
 - 7 of the top 10 were US
 - US was overall leader with 62 spots
 - Runner up was Britain, trailing with 30 spots
 - US college education was seen as the most attractive
 - Enrolled more than twice the number of foreign students than the UK and Germany combined.

But, in 2003, US postgraduate programs had more foreign students
than US students!

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Innovation in Business



Innovation is the foundation of our past and the key to our future.



Enter **IDEO**

IDEO helps companies innovate.

We design products, services, environments, and experiences.



Innovation's premise: Knowledge is good - how it is used is better.

Innovation refers to the disciplines of:

1. Acquiring new ideas and knowledge
2. Their successful exploitation

How do we innovate?

1. Creating the most valuable solutions to new and existing needs
2. Incorporating new technologies, design and best practices



Types of Business Innovation

- It used to be all about DESIGN and R&D
- Now, new disciplines of innovation are being integrated across and outside the traditional organizational boundaries

Users know their needs best

- “Users”: benefit from using a product or service
- “Manufacturers”: benefit from selling a product or service

Business Solutions =

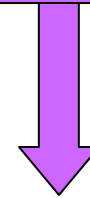
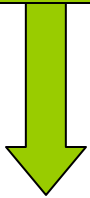
Needs

+

Environment/Context of Use

+

Generic Use Information



USERS	MANUFACTURERS
Knows own needs best	Adds specialization, resources
Knows context of use best	Aggregates innovations
Hindered by Intellectual Property and copyright law	Use IP and Copyright to protect their positions

Based on Erik Von Hippell, MIT Sloan, 2005

The 5 Business Innovation Best Practices

1. Collaboration
2. Sharing and revealing information
3. Needs
4. Value
5. Competition aware

How is an innovative company different?

Blue Ocean Strategy research: assessed 108 business launches

- 15 launches were Blue Ocean
- Accounted for 38% of total revenues and 61% of total profits



Traditional Companies

- Policy Driven
- Rule Based
- Organization Structure
- Measures Activity
- Internally Focused
- Seek Equilibrium

Innovation Companies

- Principle Driven
- Relationship Based
- Self-organizing
- Measures Outcomes
- Externally Focused
- Seek Progress

The consulting opportunity is significant

Teach companies how to implement the best practices of innovation:

- Manage customer relationships to drive innovation
- Link research & product development to user collaboration
- Develop employee incentives to emphasize creativity
- Assist in developing innovation strategies

“So watch out, consultants. A whole new cadre of advisers is out to lead CEOs into the Creativity Economy.”

Business Week, August 1, 2005

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Blue Ocean Strategy is a great example of how an innovative business can go to market and make the competition irrelevant

BLUE OCEAN STRATEGY

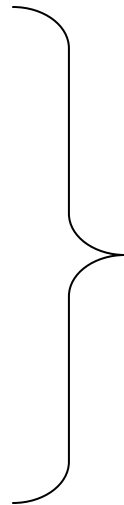
Premise:

- Rearrange conventional factors of competition in order to create a leap in customer value
- In the process, make the competition irrelevant and discover unoccupied market space

Hence the shift from a bloody, confined red sea of head-to-head competition to an expansive blue ocean of opportunity

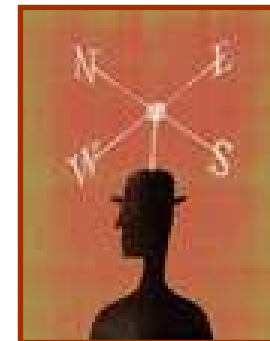
Our “Innovative Summary” of the Blue Ocean Strategy!

- Create
- Eliminate
- Raise
- Reduce



Plus

The 6 Principles



Principles

Four principles to formulate a strategy

1. Reconstruct market boundaries
2. Focus on the big picture, not the numbers
3. Reach beyond existing demand
4. Get the strategic sequence right.



Two principles to implement the strategy

5. Overcome key organizational hurdles
6. Build execution into strategy

Primary Value For Those Adopting A BOS

- Entrepreneur companies – Cirque du Soleil Strategy Canvas
- Large traditional companies in overcrowded spaces – Southwest Airlines Strategy Canvas
- Consultants who want a new service to sell – Independent Consultant Strategy Canvas



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Cirque du Soleil



Eliminate

- Star Performers
- Animal shows
- Aisle concession sales
- Multiple show arenas

Reduce

- Fun and humor
- Thrill and danger

Raise

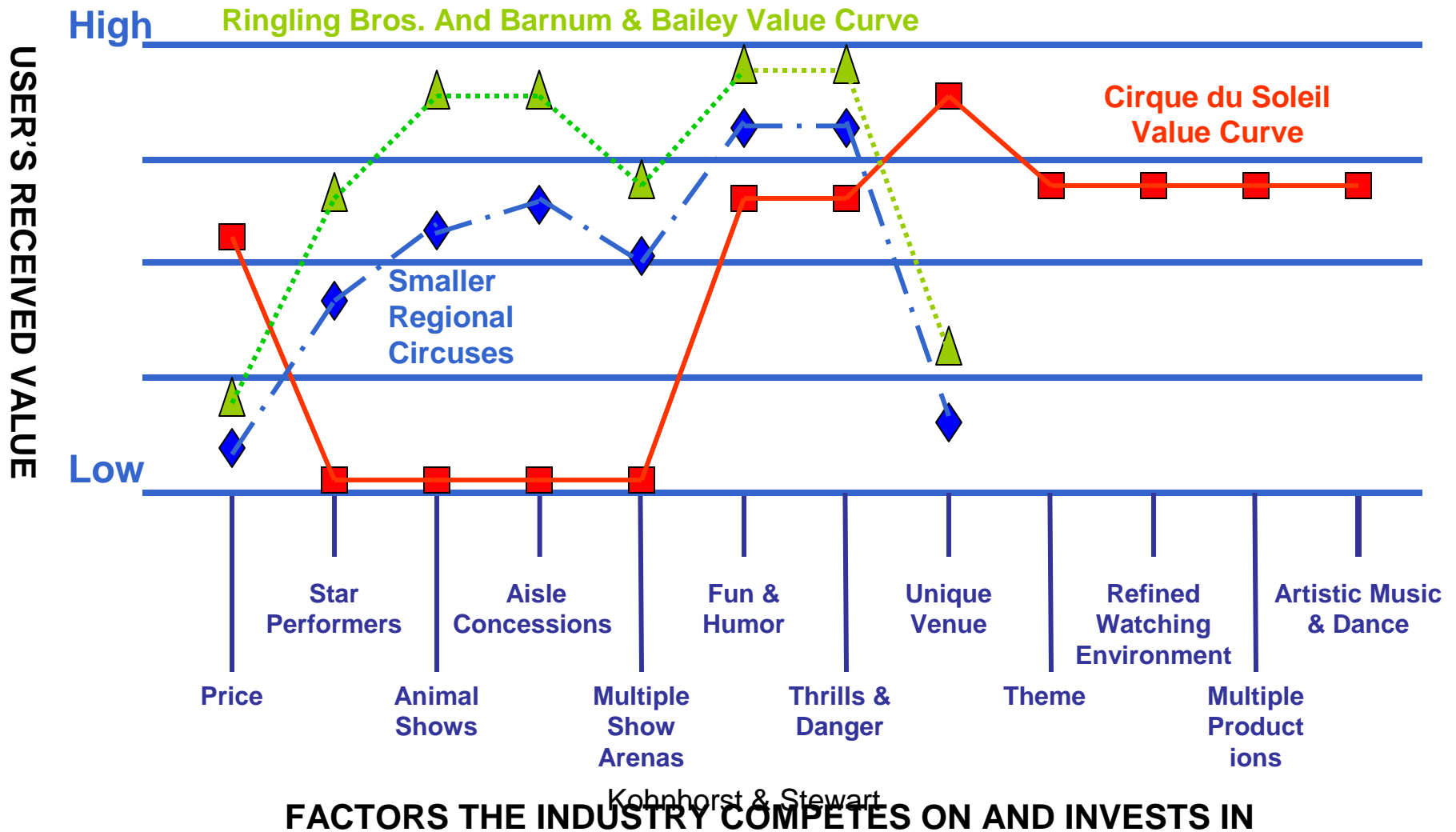
- Unique venue

Create

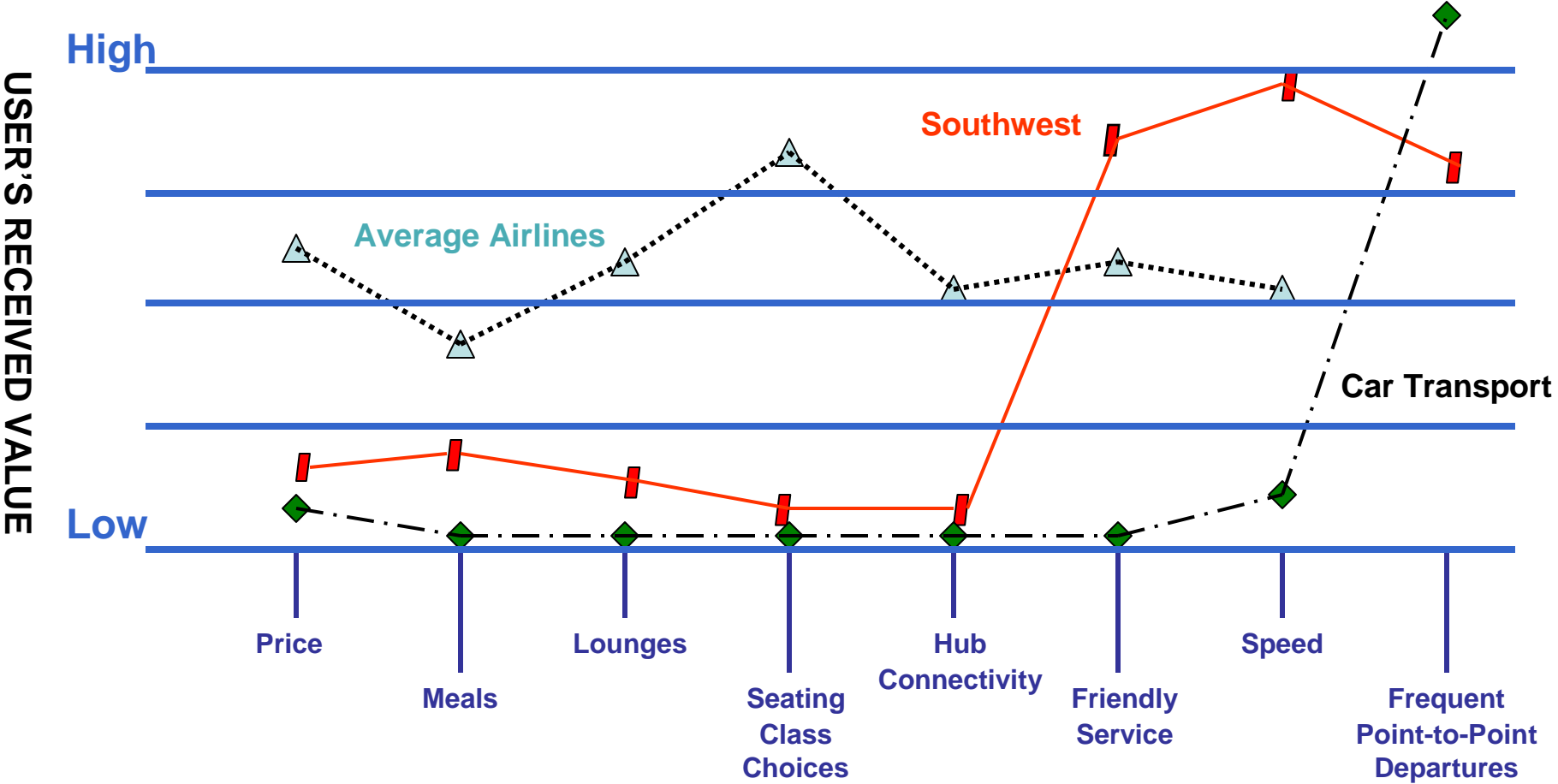
- Theme
- Refined environment
- Multiple productions
- Artistic music and dance

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Strategy Canvas of Cirque du Soleil



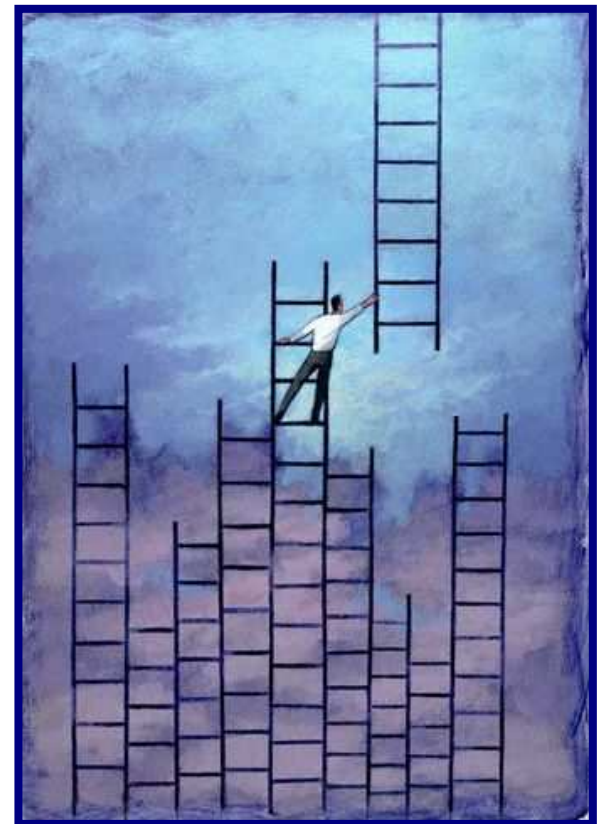
Strategy Canvas of Southwest Airlines



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FACTORS THE INDUSTRY COMPETES ON AND INVESTS IN

Specific Focus For Independent Consultants

- What gets changed in your practice?
 - Eliminated
 - Reduced
 - Raised
 - Created
- What does it look like?
- What is the path to high value and low cost?



Blue Ocean Strategy

Independent Consultancy vs. Big Consultancy

ELIMINATE

- Business jargon and language
- Lengthy proposals and contracts
- Meetings, Meetings, Meetings
- Data overload

REDUCE

- Focus on already identified problems
- Small incremental changes
- Political correctness (but not tact)
- Prescriptive advice

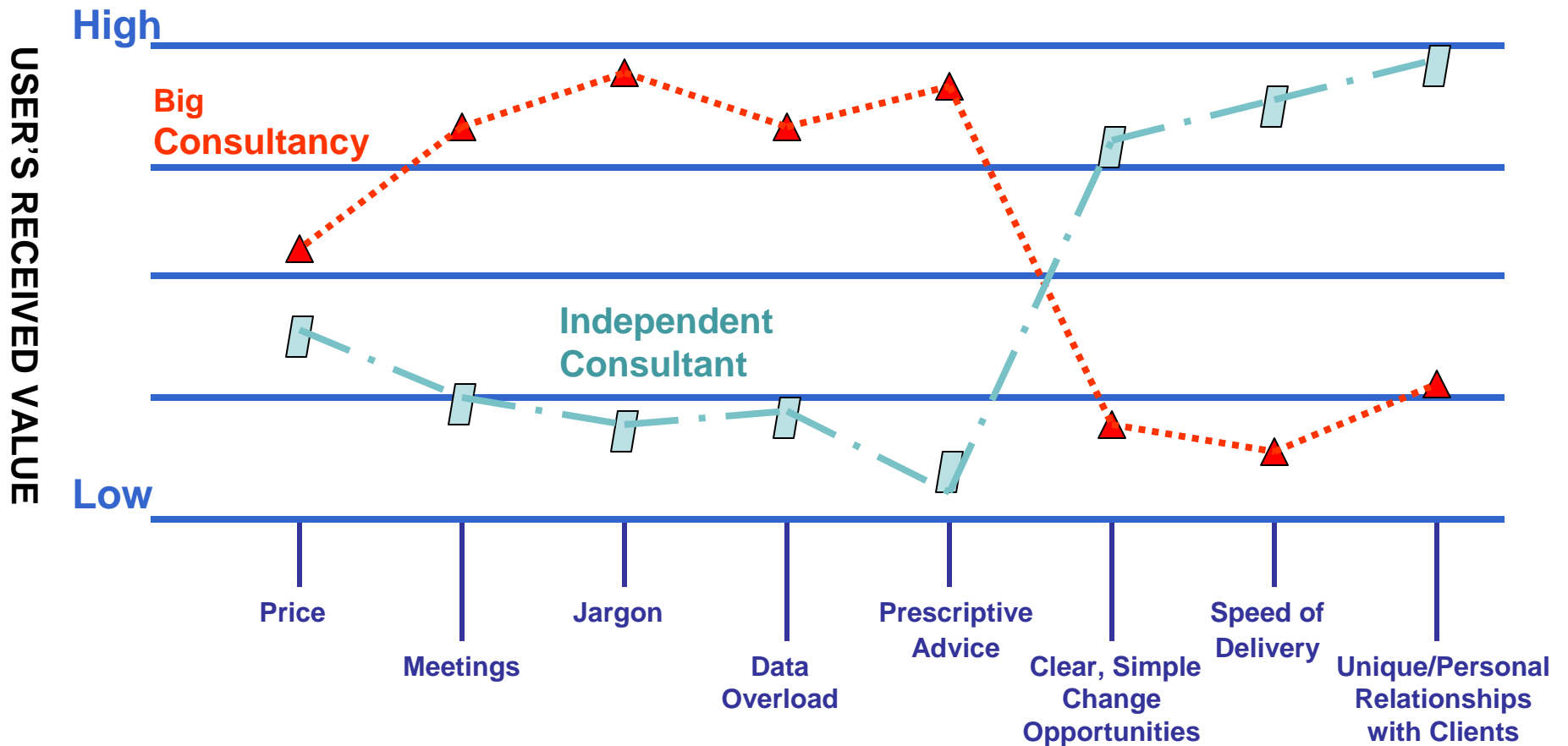
RAISE

- Speed of delivery
- Defined timelines & deliverables
- One business problem at a time
- Before and after contrast

CREATE

- Clear and simple change opportunities
- Unique & personal relationships with clients
- Meaningful engagement review

Strategy Canvas of Independent Consultant



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FACTORS THE INDUSTRY COMPETES ON AND INVESTS IN

Thank you. Questions?

Bart Kohnhorst
Growth Strategy Partners
2305 W. Parker Road
Suite 201
Plano, TX 75093

- www.GrowthStrategyPartners.com
- Tel: 469.366.5443
- bkohnhorst@GrowthStrategyPartners.com

Jim Stewart
Executive Smarts, LLC
3608 Preston Road
Suite 220
Plano, Texas 75093

- www.ExecutiveSmarts.com
- 972-934-3869
- jstewart@ExecutiveSmarts.com



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