

# Innovation - the International Differentiator

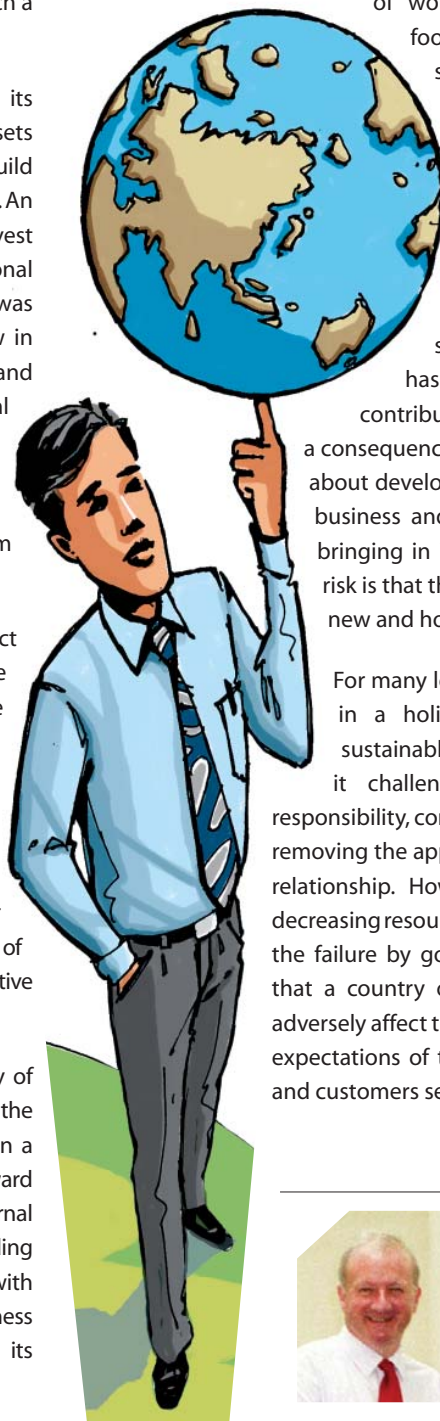
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The search for strategic competitive advantage is a major driver for both governments and businesses in the delivery of economic change, differentiation and delivery of increasing value. In these contexts, innovation is as much a cultural philosophy as a commercial need.

At a macro level, the ability of a government to use its fiscal and legislative authority to harness national assets to encourage innovation enables a nation to build international competitive advantage and create wealth. An example was the decision by the US in the 1960's to invest in space exploration in the search for strategic national competitive advantage over the USSR. The outcome was the development of many technologies that are now in daily use throughout the world. The same search and encouragement of innovation in capitalising on national assets can be seen to be underpinning the economic growth of China and India. However it can lead to social imbalance, unrest and a concentration on short-term gain to satisfy immediate needs rather than long-term international sustainability.

In business, innovation is too often limited to new product or service development. This narrow perspective limits the ability of a business to find the full benefits of competitive advantage in its markets, and can simplify the opportunities for competitors to replicate and add value without incurring the cost of original innovation. This may be a comfortable position to adopt and is symptomatic of a market follower strategy with a product orientation. It is comparatively low-risk and delivers shareholder value although at a lower rate of return. However it can also lead to an undervaluing of the business which makes it more susceptible to competitive pressures such as pricing or buy-out.

The successful application of innovation in the delivery of competitive advantage at a national or business level is the result of recognising that markets and customers are in a state of constant change, and having a culture that is outward looking, responsive to change and able to harness internal resources. For a business, innovation requires understanding of the way the organisation works in reality together with creating a chain of value for customers through its business processes, and underpinning the relationships with its markets through its brands, products and services.



Innovation becomes the focus of a holistic relationship with the customer that builds loyalty, supports retention and market differentiation. An example is the development of worldwide markets by European and US food and household product retailers. Their substantial home markets are under increasing economic and financial pressure as the markets mature and margins decline. This could lead to shareholder dissatisfaction and a devaluation of the companies. In response, they look for opportunities to enter new markets. However, a major strength that has enabled their growth has been their innovative cultures which have contributed to their dominant brand positions. As a consequence, their entry into new markets is as much about developing the inherent national ways of doing business and selling nationally sourced products as bringing in international systems and processes. The risk is that these can cause culture conflict in both the new and home markets.

For many leaders, investing culturally and financially in a holistic, outward focused, innovative and sustainable approach is threatening because it challenges the hierarchical assumptions of responsibility, control and paternalism at the same time as removing the apparent certainty of the product-customer relationship. However, in a world of oversupply with decreasing resources and boundary-free international trade, the failure by governments and businesses to recognise that a country or company is no longer an island will adversely affect their ability to both compete and to deliver expectations of the value and benefits that their citizens and customers see through international communications.



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