

Chapter 8

Profiting from IDM Innovations: Learning from Amazon.com and iTunes

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ABSTRACT

This chapter focuses on how enterprises can profit from radical and incremental innovations in the IDM marketplace. It describes the roles played, importance, and impact of the two innovations in the business ecosystem. Using the ADVISOR Framework, we analyze the case study of iPhone for radical innovation and various examples such as Google, Microsoft applications, and Amazon.com for incremental innovation. We also outline the business model achieved by making a comparison between radical and incremental innovations.

INTRODUCTION

It is accepted that the long-term success of firms is linked with the ability to innovate by making improvements and introducing new market growths. This creates a rapid growth and high return on investment. This chapter discusses the radical innovation in the IDM market that will lead to such successes and profiteering.

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Radical innovation can be compared with incremental innovation; the former being concerned with the exploration of new technology, the latter with the exploitation of existing technology. Radical innovation is a product, process or service with either unprecedented performance features or familiar features that offer potential for significant improvements in performance and cost. It creates such a dramatic change in processes, products, or services that they transform existing markets or industries, or create new ones. Steve Jobs, on

the subject of radical innovation, once said: "My experience has been that creating a compelling new technology is so much harder than you think it will be that you're almost dead when you get to the other shore".

Radical innovation requires organizations to move into unknown territories and experiment with new processes that largely elude systemization. In reality, there are a number of organizational factors that leverage the human side of making radical innovation happen. These factors could be utilized more broadly for greater radical innovation success and corporate profiteering when viewed systematically. Radical, breakthrough, discontinuous, step out, game changing innovations are all labels adopted in the academic literature and management practice to identify projects whose objectives are to create new to the world offerings and, concomitantly, whole new lines of business for companies. They are distinguished not only by the promise of reward they offer, which is not only large in scope and strategically important to the corporation's organizational renewal, but also by the risk and uncertainty that accompanies their potential outcome. Radical or breakthrough innovation is increasingly relevant in today's technologically competitive environment for the growth, renewal and even long term survival of most firms. Radical innovation is even more difficult due to higher levels of uncertainty stemming from long development times, conformist decision making cultures and the potential confusion of roles. Radical innovation is an underdeveloped capability that requires better understanding.

BACKGROUND

According to Robert B. Tucker (2002), product innovation is the result of a life that satisfies the needs of the customer problem through new product, which benefits both the customer and the company. Radical innovation has the capacity to destroy the fortunes of firms (Fosters 1986;

Tushman & Anderson 1986). Costly innovations that were made for many years by an organization suddenly become useless because of new innovative products taking over the market. Usually the small and medium sized organizations succeed in the competitive market by means of radically innovative products (Chandy & Tellis, 1998).

There is an overall general opinion about radical innovation that they usually provide a disproportionate contribution towards the profitability of an organization. This fact can be best understood with the help of its definition. Firstly, radical innovation provides significant improvements over the existing alternatives in the aspects of need satisfaction and thereby triggers towards higher demand. Secondly, radical innovation is usually based on new and complex technology which is usually difficult to imitate (Terziovski, 2002).

Radical innovation remains as the factor that has the greatest influence on economic growth. It has the capacity to create, merge or even destroy the existing markets. It can transform the small firms into market leaders and can destroy markets that fail to innovate (Srinivasan, Lilien, & Rangaswamy 2002; Chandy & Tellis 2000; Utterback 1994). Companies adopting the radical innovation, lead the world markets while promoting its competitiveness (Tellis & Golder 2001; Atuahene-Gima 2005). A nation's economic growth, company's success and the market growth are all driven by radical innovations (Sood & Tellis 2005; Landes 1998; Sorescu, Chandy, & Prabhu, 2003). The advantages of radical innovation signify its importance to companies all over the world. (Yadav, Prabhu, & Chandy, 2007; Measuring Innovation in the 21st Century Economy Advisory Committee 2008; Zhou, Yim, & Tse 2005).

Innovative companies with a range of differing attitudes such as positive orientation towards the future market or tolerance towards the risks faced during the innovation period prove to be the driving forces behind radical innovation. Apple Inc. is one such company that has proven to possess such attitudes and hence shine at radical innovation

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