

Market-based innovation form an alternative to expensive and risky technological innovations



Innovation Strategies for **Small and Medium**-Sized Enterprises

Especially in recent years, innovation has become a determining factor for competitiveness for all organisations, whatever their nature and size. In order for small and medium-sized enterprises to survive, a fundamental objective is to get rid of the idea that only large organisations are capable of carrying out innovative activities.

by Rafael MOMPO and Judith REDOLI

Thanks to the mass media, innovation is commonly thought of as associated with the immediate application of the results of basic research, despite the fact that this idea is one of the most widespread myths. This simply shows one view of reality corresponding to certain collectives.

We may see innovation as the generation or acceptance of ideas, processes, products or services which are perceived as new either by the company generating them, by the client accepting them, or by both. Depending on the level of innovation, they can be classified as 'incremental' or 'disruptive'. The former implies minor changes to the technology or products, whereas the latter modifies market consumer patterns. All the other concepts, strategies and tactics related to innovation are developed around these basic ideas.

The discussion here is based on a clarifying article that was published in the Journal of Marketing in 2006, interpreted and applied to small and medium-sized enterprises in accordance with the broad experience of the authors and shown in the marketing management philosophy preached by Instituto de Empresa Business School.

Incremental or Disruptive Innovations

Nowadays, we all agree that innovation is one of the most determining strategic key factors for a company's mid- and long-term competitiveness. However, everyone is aware that the form of innovation for a large enterprise may not be the same in SMEs. There may not be a one-size-fits-all innovation. The following is one possible option for innovation in your enterprise, based on various situations.

I am fine on my market. I don't want more.

The enterprise that is comfortable on its market feels so because it has the capacity to develop its product so that it continues to please its clients. In addition, it introduces the necessary improvements to internal processes (purchasing, production, logistics, sales and customer service) and keeps a constant vigil over progress in technology and procedures as it appears in its sector. This form of innovation is called incremental innovation.

I want to greatly increase my current market.

If the response is to obtain increases on the market on which you currently operate (your current market), you need to make disruptive technological innovations, in other words, adopt new technologies for the consumer to obtain noticeable improvements. The problem with this type of innovation is that it requires high investment – that is why you have to be a leader to carry them out.

Here, we are talking about disruptive innovation but in the sense of technological innovation. In fact, your clients always expect continuous improvements to the product or service and that is the price of their loyalty!



Innovation requires the help and cooperation of all staff

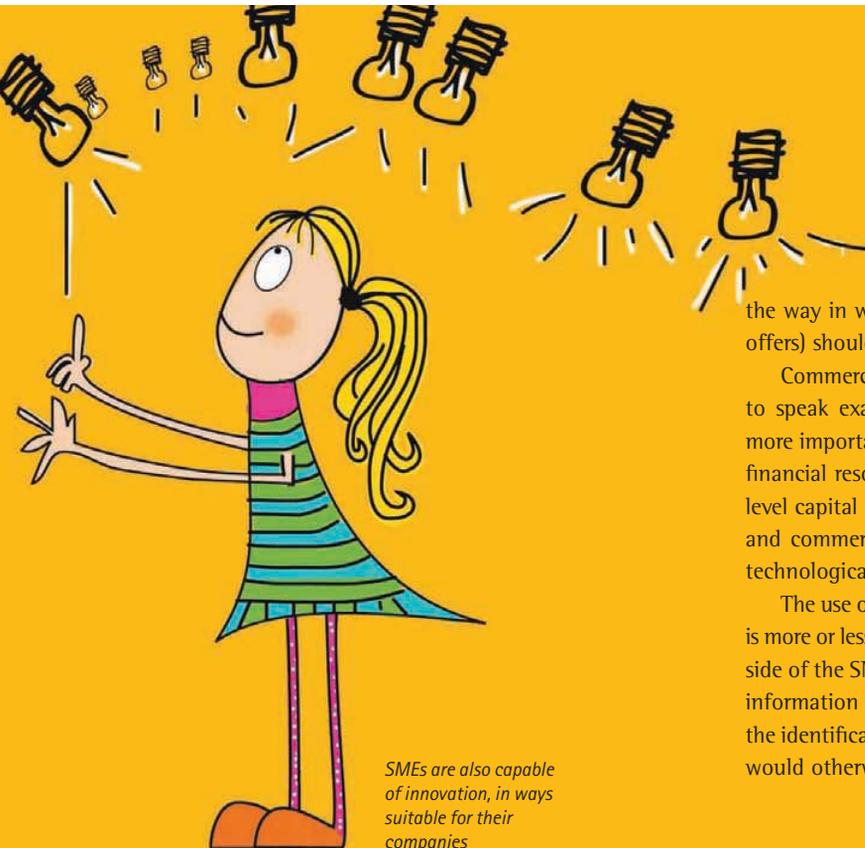
I have problems maintaining my position on the market.

In this case, one strategically intelligent move is to look for other market segments. The way to do this is to use market-based innovation, which is a type of disruptive innovation. Do not complicate things with expensive and risky technological innovations. In general, use new technologies, but keep them simple and propose disruptive innovations in other areas.

Entrepreneurial strategy

Technological innovation must always be a part of any enterprise if it is to maintain its competitiveness. The question is how innovative the technology needs to be. In principle, it is sufficient to equip the product, production processes and commercial processes with incremental innovation. In other words, keep up with the market and be capable of operating on it fluently. However, this incremental innovation is occasionally not enough. The company, or the product, considers disruptive innovations either due to its ambition to grow or to the danger of not being able to continue competing and being left out of the market.

Disruptive innovations can be technology-based or market-based. As stated in the previous sections, small companies cannot afford technology-based innovations but they can easily cope with the market-based ones. Market-based disruptive innovations are possible only if the necessary condition is made a part of the company's strategy and is found in its key individuals: entrepreneurialism. In addition, when the aim is to innovate in



SMEs are also capable of innovation, in ways suitable for their companies

technology, the fact that entrepreneurial strategies have been implanted in the company is also very useful.

What is the basis for the entrepreneurial strategy of a company? The idea is for the company to be ready to take up new market opportunities and renew existing processes. To do this, it should encourage its staff, suppliers, partners and collaborators in general to implement values such as

- To be highly proactive in the search for market opportunities.
- To be tolerant with risk.
- To be receptive to new ideas.

Innovate in the commercial side of your business

Commercial innovation should be understood as the search for 'holes in the market'. When we think of new ideas that make us more attractive in the minds of our clients or new, more effective ways of distributing our products or services to clients, we are innovating in the commercial side of our business.

Commercial (or marketing) innovation is essentially based on the methods of organisation, distribution and communication used in the process for marketing a product or service, although

the way in which the product is offered (e.g. grouped in special offers) should also be considered as commercial innovation.

Commercial innovation is organisational and it is not possible to speak exactly of scientific and technical progress. It places more importance on imagination, creativity and savoir-faire than financial resources. It is often a matter of innovation with low-level capital and technology. The frontier between technological and commercial innovation is not always clearly defined, since technological innovation often leads to commercial innovation.

The use of information technologies in commercial innovation is more or less obligatory in all cases. Consequently, the commercial side of the SME should always be highly modernised in the use of information technologies. This type of modernisation will enable the identification of opportunities for commercial innovation that would otherwise be missed.

Joining a cluster

A business cluster is a type of association of companies whose aim is to co-operate on the development of products or projects and in commercial processes. A cluster involves large enterprises coexisting with small enterprises.

In general, large enterprises are able to access large markets and small enterprises have the opportunity to access these markets if they join a cluster in which the big boys take part. To do this, the smaller enterprises need to incorporate the innovations in processes that are necessary for them to be on the level required for inter-company relations when a large market is being accessed.

There has to be a commitment to innovation as a priority competitive element to maintain the healthy position of companies on the market and favour their growth. Companies must be aware that innovation will make them progress and fit in with the changing environment, which requires adaptation to the evolution of the markets on which they compete.

All companies can innovate. The important thing is to define the innovation strategy. This article proposes some key ideas for defining such a strategy. 

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