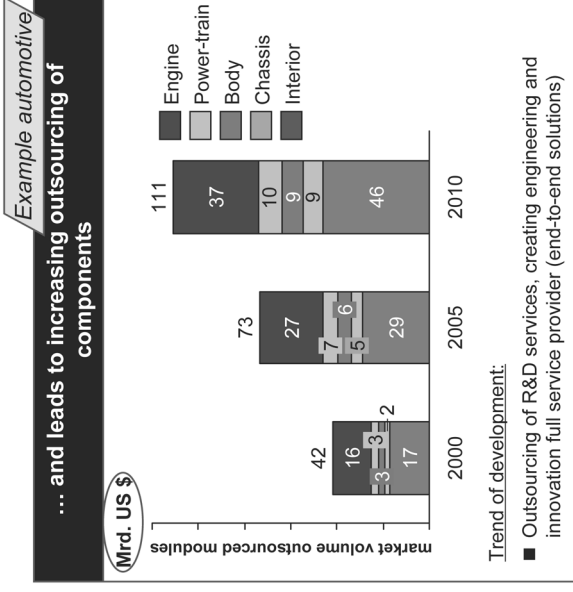
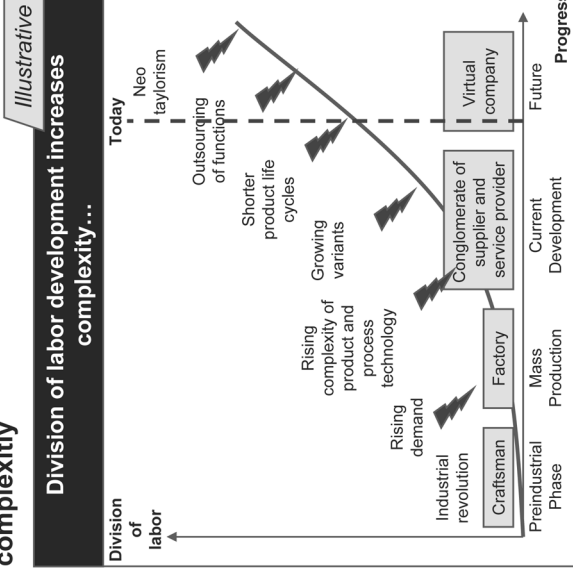


Specialisation on parts of the value chain leads to a rising division of labor and increasing complexity



Rising interfaces and complex networks for information and material handling - Innovation establishes successful interface management

Chapter 6

Complexity, often the downside of innovation

Companies in all industries are tending to make their products rich in variants and to add new features to the smallest of things. The more good ideas the employees and the research and development departments have, and the more the customers value these ideas and what becomes of it in terms of product features, the more confusing becomes the product palette, the variants and versions, the facelifts and makeovers. It is hard to believe that innovation can lead to chaos, but in some companies it does. The situation is well known to most of us when it comes to configuring a new car. Everyone who invests in a nice car wants it custom made.

Examples show what is possible in terms of negative complexity that influences the entire supply chain and also in terms of keeping complexity at bay. So-called Smart Innovators, who get around complexity in their own way, are in demand. Certainly there are opportunities from simplification and complexity reduction, through careful rationalization at all levels. This might be by focusing the business as a whole and disposing of peripheral business units, or by forming supply chain partnerships that allow concentration on just the areas where you can add differentiated value. Product rationalization is the most commonly pursued simplification opportunity. Perhaps the most spectacular reduction in brand complexity has been Unilever's move to 400 from over 1600. Procter & Gamble also started a major initiative in the late 1990s to reduce the complexity of its product ranges, concerned by the danger of confusing the con-

sumer. The mantra is to use customer valuation tools to focus on and choose the profitable niches – and cut the rest.

Try not to worry too much about the nagging concern that a new entrant with a disruptive technology or innovation will start in those niches you have abandoned. Many other companies have pursued cost savings from rationalizing supply chains, manufacturing facilities and operations, spares and support activities to the point where there is not much fat left. For these, embracing complexity, as opposed to eliminating it, may open up great opportunities for both revenue and profit. Starting with the industry as a whole, are there parts of your industry characterized by profit-sapping complexity and confusion? Is there a role for somebody to step in and change the game? Does your business have parts of a complex whole, so that adding a few more bits would enable you to combine them in different ways and offer more value? Could you make your customers' life simpler by taking on more complexity yourself – and how much might that be worth?

Following an Arthur D. Little concept, Smart Innovators are characterized by:

- Clarity of their positioning within the industry (Strategic Role)
- Ability to originate innovations (Innovation Excellence)
- Ability to handle complexity (Mastering Complexity)

Two cases illustrate what we call a Smart Innovator.

Case study BMW/Mini

In the automotive industry a good example to illustrate the characteristics that make a Smart Innovator is Mini. First and foremost the question is: What does the re-launch of the brand Mini by BMW have to do with innovation? Do not forget: The brand Mini has existed for more than 40 years now and has be-

came a style icon over time. Without much activity, it just became a cult object already back in the sixties.

But when comparing product management, brand management, marketing and even more dimensions of the phenomenon Mini, one notes that since the year 2001 everything is completely new and full of highly customer-relevant innovations. But back to the crucial question: How did Mini become a Smart Innovator?

- The first condition: Mini meets this by its clearly defined strategic role in the segment of premium compact cars. This explicit positioning also includes a focus on a few clearly defined target customer segments with high affinity to the brand. The brand values, such as “integrative”, “extrovert” and “chic”, harmonize perfectly with a modern environment, young people and a trendy lifestyle.
- The second condition: Excellent innovative ability, stands out due to the holistic innovation activity strictly focused on customer benefits and expectations. Mini makes use of the whole spectrum of customer experience in order to offer a holistic and complete experience for the customers with the product and the brand through systematic innovations.
- Focussing on really customer-relevant innovations is a lever, and at the same time, the third condition for Smart Innovation: the ability to master complexity. Mini is focussing its innovative activity clearly on segments enabling a differentiation in competition. Furthermore, Mini is using value-chain partnerships as a lever for reducing complexity. This way engine characteristics and fuel consumption were not a crucial criterion for the target groups during the market launch in 2001. Mini saved the expensive development of a new engine and fell back on an existing Chrysler engine. Not until the launch of the second generation have new engines been developed in collaboration with PSA to

remove imperfections, which gained significance over time. Also, the Mini Cabrio roof was developed in collaboration with Webasto.

The unique brand management and the knowledge of the customer requirements and demands are always the central starting point for innovations. Mini focuses its innovative activity on those elements really appreciated by the customers and is not confining itself to technical innovations, as is often customary in the automotive industry. Mini is innovating across all dimensions, from products, services to interactions, with which the customer is experiencing the brand:

- **Product innovations:** The Mini-target-customer-groups are primarily younger and lifestyle-oriented. Sophisticated technical solutions are less important to this target-group than product design, driving pleasure and opportunities for individualization. To that effect Mini product innovations concentrate on fancy Retro-Design, “Go kart”-Feeling and manifold possibilities, such as special equipment and accessories, to create a personal Mini. Costly innovation fields, such as fuel consumption, engine technology and passive security played an inferior role until the introduction of the second generation. Those factors were not of crucial significance for the target group and its buying decision or later on customer satisfaction.
- **Service innovations:** The possessing experience, satisfaction and loyalty are strongly influenced by the services offered. Attractive financing- and leasing-models are necessary to enable the predominantly young target group to even drive a Mini. By introducing “Mini SMILE”, a leasing-model with built in/integrated/embedded insurance, whose insurance premium/rate is not determined by the driver, but determined by the vehicle model, Mini is reaching out to the highly-competitive group of first-time buyers and, at the same time, providing a sound basis for early loyalty build-

ing. The Mini Excitement Card, realized in collaboration with American Express, is also contributing to the identification with the brand. The card offers exclusive custom-tailored advantages, such as access to many clubs, exclusive events, or travel, as well as, membership rewards, and the card can be individualized with a specific Miniportrait. All service innovations are strictly brought in line with customer needs and strengthen the brand identification during the full cycle of vehicle ownership.

- **Interactive innovations/Interaction innovations:** The third dimension, with which the customer is experiencing the brand, is the interactive level. This includes marketing communication, sales and distribution processes and network design, and all relationship management processes. Thereby, Mini stands out with innovative concepts, custom made for the requirements of the target group. The Mini, as the first car producer, came up with online components for brand management in marketing communication long before the product launch.

This is a very successful and cost optimal concept first used by Audi in the context of the Q7 launching. Also, the so-called guerrilla marketing found its way into the automotive industry with the help of Mini, as has happened during the market launch in the USA, when Minis were placed as “viewers/members of the audience” at top basketball games. For this reason Mini had enormous exposure without using expensive TV commercials and became topic of conversation. As innovative relationship management method, the Mini agency-for-arranged-lifts carries the brand value “integrative” and strengthens the Mini community.

That way the new Mini reached the same cult status as the original within a short period of time with the help of well-directed innovations in all dimensions of the customer interface with concurrent orientation at market values and requirements

of the target-group segments. Mini joins the squad of successful companies such as Apple, Starbucks, and also the food discounter Aldi, which all have reached an island position in the competitive environment ocean.

The Mini is clearly a Smart Innovator adjusting its innovative activities on customer demands in an optimal way and at the same time mastering complexity with the help of partnering. The market success – in the meantime more than 230,000 vehicles are sold per year, limited more by production capacities than by demand – shows that Smart Innovation is clearly a platform for long-term success, even in a crisis.