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THE 8P INNOVATION & DIFFERENTIATION MODEL

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ABSTRACT

Since Schumpeter (1934), managers have been aware that innovation is a critical factor if they wish to be both more efficient and successful in the market. It is known that managers and entrepreneurs need intuitive and models that are easy to apply in order to save time and be effective in their decisions. This paper focuses on the organisational need of a management tool that helps decision-makers with the innovation process. We are reviewing the innovation literature in order to sustain the proposal of a new model that fills that need: the 8P Innovation & Differentiation model – Product, Price, Place, Promotion, People, Partners, Processes and Purposes. This model systematizes and facilitates the work of managers and entrepreneurs who can reason more easily on new paths to differentiate their market offers, as well as innovate in either an incremental or a disruptive way. The model provides insights in all main aspects that can improve entrepreneurs' strategic decisions about the business model.

Key words: *innovation; differentiation; modelling; entrepreneurship; business model*

1. THEORETICAL BACKGROUND

Schumpeter (1934) was one of the first authors to acknowledge the role of innovation in cultural, social, and political aspects of society besides the economic one. He defined five ways to get innovation in organisations: (1) introduction of a new product or to better the quality of an existent one; (2) introduction of a new production method or process innovation; (3) opening a new market; (4) finding a new source of raw materials supplies or semi-manufactured goods; and (5) creating a new form of industrial organisation.

Innovation can be seen as generation, acceptance, and capacity to change or adapt new ideas, processes, products, or services by organisations (Thompson, 1965) in order to advance, compete, and differentiate themselves successfully in the market (Baregheh, Rowley, & Sambrook, 2009), and to prepare the future of the business (Carvalho, 2013) through an interactive process involving both formal and informal relationships among various actors interacting through social networks (Doh & Acs, 2010).

Some innovations can be built on what already exists, with small evolving differences, called incremental, while others are radical, disruptive, and generative, transforming approaches and situations, and creating new products or product classes (Christensen, 1997).

There are new characteristics in the way organisations and new entrepreneurs are innovating: creating social and shared value (Austin & Seitanidi, 2012; Porter & Kramer, 2011); creating multiple value (Carvalho & Jonker, 2015; Elkington, 1997); using global knowledge sources and collaborative networks (Chatterjee, 2013; Zott, Amit, & Massa, 2011); and considering global challenges and public sector problems as drivers of innovation, taking advantage of the crucial role of stakeholders (Prahalad, McCracken, & McCracken, 2009). However, to be successful, innovation should satisfy unmet human and societal needs and desires (Carvalho, 2013).

There are several models that intend to systematise the way the entrepreneurs can approach innovation.

Morote and Nuchera (1997) designed the innovation linear model, which has eight steps: (1) idea generation, analysing all information about the market, technologies, and procedures, and obtaining knowledge; (2) basic scientific research, trying to obtain guided knowledge; (3) applied research oriented to identify specific applications of new knowledge, in order to obtain a new product or process; (4) development of the product or process to determine costs and utilities; (5) prototyping to gather and test the physical and economic specifications of the new product or process; (6) standardisation to adjust to national or international norms; (7) manufacture, structuring the production means; and (8) commercialisation of the product.

Kumar (2012) defined the seven modes of the innovation design process: (1) making sense, i.e., studying the last events, developments, the state of the art, mapping the changes in the area, tendencies, reformulating problems, and establishing an initial intention to seek innovation opportunities; (2) knowing the context, i.e., planning the investigation, researching knowledge data, diagnosing the actual conditions and their evolution, comparing with analogous networks, industries, organisations, and competitors, talk with experts; (3) knowing people, i.e., knowing the stakeholders, observing and asking people, invol-

ving them in the innovation development; (4) structuring knowledge, i.e., organising the discoveries and seeking for gaps, modelling and finding clusters, patterns, and profiles, mapping value flows and experiences to find opportunities, framing, summarising and projecting orientations to generate the concept; (5) exploring the concepts, i.e., framing the conceptual space, defining, organising, and communicating the concepts, prototyping, using narratives, schemes, diagrams, and visualisations to validate and transmit the value; (6) creating solutions, i.e., generating alternatives, systematising and assessing the concepts, organising and communicating the solutions; and (7) creating offers, i.e., prototyping, defining strategies and tactics, developing initiatives (resources, budgets, schedules, teams, pilot-studies plans, and launching).

Sarkar (2014) presented the innovation wheel, based on these ideas: what is the type of innovation? (e.g. new, new application, invention-innovation, social innovation); in what can we innovate? (e.g. product, service, process, business model, organisation, management, marketing); what is involved with innovation? (e.g. costs, risk, uncertainty, entrepreneur); which is the process? (e.g. problem definition, identification of an opportunity, serendipity, internal resources, open innovation); and how can you sustain innovation? (e.g. technology, know-how, design, continuous improvement).

Keeley, Walters, Pikkell, and Quinn (2013) developed the model "Ten Types of Innovation", which is an extensive approach to all types of innovation. These authors argue that ten areas exist that an entrepreneur can use, in different combinations, in order to innovate: (1) profit model, or value model, which is the way the entrepreneur does business; (2) network, using all kinds of partnerships; (3) structure, that is the way to align and organise talents and tangible and intangible assets; (4) process, as the unique specificities in production or distribution of the products, in terms of costs or technologies; (5) product performance, in terms of value, characteristics, or quality related to simplification, sustainability, or customisation; (6) product system, as the way the entrepreneur can create complementary products or services, or other parties are creating products that can be connected to or depend on the products of the company, etc.; (7) service, meaning how the offer's value is supported and amplified, in terms of warranty and reliability of the product, for instance maintaining a website, helping phone lines, or other methods to explain the use of the product; (8) channel, improving the way the products are distributed, including the assistance of partners, clients, and competitors; (9) brand, in terms of the existence of a distinctive identity of the company or product that provides a good reputation track; and (10) customer engagement, i.e., the clients consider the product easy to use, they have a status or sense of recognition by using the product, and they talk about the way the product became part of their lives.

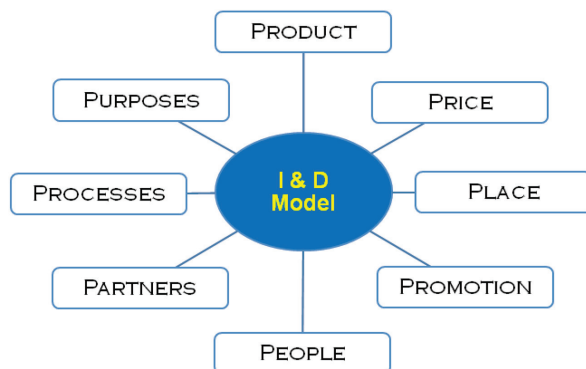
Based on these models, and in our research on dozens of case studies on innovation, we propose a new model to guide entrepreneurs in their endeavours for innovation, which seems easier to understand and apply in practice.

2. THE 8P INNOVATION & DIFFERENTIATION MODEL

Entrepreneurs can find, in both scientific literature and business consultancy publications, several innovation and differentiation models that can help them through the innovative process (e.g. Morote & Nuchera, 1997; Keeley, Walters, Pikkell, & Quinn, 2013; Kumar, 2012; Sarkar, 2014).

Here, we present the 8P Model, which sums up the main dimensions where entrepreneurs can find opportunities to innovate. These core domains of innovation include the product, price, place, promotion, processes, people, partners, and purposes (Figure 1). Most of the times, entrepreneurs must combine several of these elements to succeed.

Figure 1. 8P Innovation & Differentiation Model



Product

Regardless of the nature of its purpose (being financial or social, private or public), the focus of any activity is always the human need that it aims to satisfy through a product (good, service, or idea). Thus, to innovate in order to meet that need implies being successful in the development of a set of product characteristics, which must be linked to benefits for the customer.

Those features – that comprise elements such as ease of use, performance, compliance with new required legal or ethical standards, durability, reliability, warranty, style, design, quality, simplification, sustainability, customisation, product range, and complementary products or services, set up subdomains for product innovation and differentiation, improving the way customers choose and use the products.

Furthermore, innovation concerning installation procedures, customer training and consulting, product maintenance and repair can lead to differentiation and competitive advantages. To develop and maintain websites and telephone helplines that present product features, additional applications, or make using the product easier are other important means to differentiate from competition. The creation of user communities, particularly online, that help customers relate to each other and to improve their experience is another approach that has a pronounced impact on the diffusion of the product.

We emphasise that customers should be instructed in the use of the product so that they feel able to do it, therefore minimizing possible claims after the sale. Nothing seems better than to make a demonstration and let the customer experience or talk about the product. The performance of the product can destroy it at the outset or otherwise contribute to the word-of-mouth of satisfied customers, this way aiding to its diffusion in the market. Therefore, the product must be reliable – meaning that it must fulfil the promise of satisfying the customers' needs or requests.

Recent advances in technology allow aspects, such as the design and customisation of the product, that were once more complicated and expensive, to be now relatively easy to implement. Marketing has also evolved from the masses to individual customisation, which can even be made up by the client. These aspects are nowadays among the most used to achieve product differentiation in the marketplace.

In a global and complex world, with information overload and an increasing number of products that serve the same purpose, the need for simplification is also a leading trend, meaning that customers prefer products that facilitate and simplify their lives and that are simple and easy to use.

The normal development of a product on the market depends on the chosen marketing strategy, that is, the way the market is segmented and which client groups are chosen to be served first. However, for the majority of products, it is possible to serve all market segments by creating a product range that satisfies different customer types.

Every product consists of a value proposition to the customers, and they want to get an equivalent value to that they are willing to pay both financially and non-financially. The manufacturer or seller must define very clearly this proposition as it will disclose all marketing communication policy about the product. We define the value of the product in relation to four types of impact: economic, social, ecological, and psychological (Carvalho & Jonker, 2015; Carvalho & Sousa, 2015).

The economic value is linked to the ability of the product to meet the need or desire of the customer, as well as allowing the producer or seller to get relevant financial or non-financial return. This value is at the root of any business and, without it, it will not be possible for an organisation to survive.

The social value is, nowadays, very relevant, because the creation of economic value should also have a positive impact on the society in which the organisation operates. The impact on employment, for example, is important from the social point of view for the community, but so is the possibility of improving people's quality of life.

The ecological value reveals the concern for the preservation of nature. This can add value to the product, therefore having a positive impact on the customer's will to use this product rather than a competing one.

The psychological value is linked to the ability that some products have to influence and transform the mentality and individual behaviour of certain customers, causing them to adhere to, for example, a new lifestyle, healthier or more rewarding, helping them to acquire new knowledge or live experiences that change their way of life. This type of value is dominant in social products.

Therefore, the concept of value proposition takes into consideration the impact on economy (production of economic value to the organisation, to the client, and to society);

on society (social value related to economic externalities, health, security, quality of life, etc.); on Earth (ecological value, environmental concerns); and on people's mentalities, state of mind, and behaviours (mind-set or psychological value, increasing awareness of the subject, reducing anxiety and mental unbalances, and promoting attitudinal change, knowledge creation, the development of new skills, and more self-efficacy).

Complementary products and services also enrich value and serve as differentiating elements.

Ultimately, the product can give customers and users a statute or sense of social recognition, which is much valued.

Price

As product price we consider not only the financial price or monetary cost paid by customers but also the non-financial price, which is the non-monetary cost they have to bear. Examples of the latter are the social and cultural embarrassment that comes from using the product (e.g. family planning in many countries) and difficulties regarding product's accessibility (e.g. distance from the delivery site) and usage (e.g. complex technology), etc.

The price of a product is an important element that can be used to differentiate it. Organisations can use a variety of differentiation or innovation techniques. Some examples are listed below:

- 1) Random discount that attract informed clients, who are attentive to its distribution (e.g. discount vouchers).
- 2) Periodical discount, which is typical for promotions or during sales periods.
- 3) Second market discount that happens when one launches generics products, or when launching a product in foreign markets, or when one wants to reach specific demographic segments (e.g. students, children, and old people).
- 4) Image price, signalling quality and/or brand, usually higher than average.
- 5) Premium price, which is applied to more advanced versions of the same product in order to take advantage of the heterogeneity of demand and scale economies.
- 6) Penetration price, which is lower than the competition in order to quickly spread the product or to avoid new entries in a large profitable market (limit price).
- 7) Skimming price, which is higher during the launch of the product, but goes down over time to reach market segments with less purchasing power.
- 8) Price of the experience curve, which will initially be lower than the competition in order to sell more and to quickly gain experience and economies of scale, forcing the market exit of competitors, but later achieving compensatory profitability. It is similar to predatory pricing.
- 9) Geographical price, which implies a different price tag for more remote geographical areas, being dependent on transportation costs.
- 10) Package price, which implies buying several products together at a price below the sum of the individual purchase of each (complementary products).

- 11) Complementary price (bait-and-hook), which includes the following strategies: blocking price (e.g. cheap razor, but offset by expensive blades); and two-part tariff (e.g. initial payment and later payment for its utilisation).
- 12) Auction pricing, where customers offer a value and the producer chooses the best price.
- 13) Tiered pricing, which decreases with volume sales.
- 14) Volume pricing, which decreases depending on the total quantity purchased.

Place / Distribution

Distribution is the set of transactions and logistics operations that allow product placement on the conditions of time, place, and manner that meet clients' needs. This set of activities adds to the product retailing utility.

At the distribution level, organisations can innovate by using distribution channels not commonly used in the sector of activity or by developing specific characteristics of own channels, such as market coverage level (restrictive, selective, or intensive), potential (number of served market segments, distribution capacity), complementarity (e.g. medicines and perfumes), competence, image, and performance.

Other stakeholders, such as partners, customers, and even competitors, can help sell or distribute the organisation's products.

Promotion / Communication

Marketing communication includes many tools, such as advertising (in the media or at points of sale), promotions (samples, discount coupons, offers, promoters, prizes, contests, etc.), public relations (media, sponsorship, internal publications), news in the media, personal selling, merchandising, direct marketing (letters, flyers, newspapers, phone calls, etc.), social events, exhibitions and trade fairs, lobbying, etc.

Communication is also expressed through product name, brand symbols, packaging, labelling, and design. Other communication elements of utmost importance are the outward appearance of the organisation (places, furniture, signage), as well as that of those who interact with the public, the leaders and all personnel in general.

Advertising is based on the culture and values of society, seeking to inform, persuade, and elicit sympathy, emotion, desire, and dreams. It can be divided into interactive and direct response advertising (websites, email, phone, online advertising), and static advertising (newsletters, posters, outdoors, slides in cinema).

Promotions give a temporary advantage to a product that facilitates or encourages their use, purchase, and/or distribution.

Public relations activities aim to establish trust relationships between an organisation and its stakeholders, based on a mutual knowledge and understanding. They contribute to increasing the organisation's and product's credibility.

Sponsorships are characterised by financial support for sports, cultural or other events, in return for the sponsor's visibility. They can also encompass patronage activities, which also have the advantage of tax benefits.

Internal publications consist of annual reports of the organisation, brochures and leaflets, newspapers and internal magazines, audio-visuals (radio or internal TV), posters, bulletin boards, reception manuals, etc.

In personal selling, the sales force contacts the clients (customers, consumers, buyers, and prescribers), so its importance is crucial, since they are dealing with those who determine the future of the organisation in the market.

Merchandising comprises a set of techniques applied by distributors and producers to increase the profitability at the points of sale, adapting the supply to market needs and promoting an appropriate presentation of the products. It also designates brand licensing operations, such as in sports clubs, copyright holders, automobiles, or griffes (identify a style and a creator), etc.

The main forms of direct marketing are direct mail (catalogue, club, and mail orders), tele-marketing (phone), direct response (TV commercial, radio, newspaper or outdoor), and telematics (interactive use of the Internet, television or video text).

Lobbying is an activity that aims to unlock access to certain markets or to influence the decisions of power (political, economic, social, and cultural) about the organisation or product. It seeks to influence external decision-makers to meet particular or general interests of the organisation.

Ideally, an integrated marketing communication should be achieved, which must be based on the socio-psycho-mediagraphic profiles of target clients, and that includes planning, creation, integration, and implementation of various forms of marketing communication. These should be distributed over time, aiming to directly influence the behaviour of target audiences.

In this context, the creation of a brand is crucial to the success of an organisation, allowing the creation of a community between the producer, distributors, and clients, who identify themselves with the brand and all its values (economic, social, ecological, and psychological). Thus, the brand embodies these values, but also serves as a guarantee of origin and quality, reducing risks and promoting customer loyalty.

The brand distinguishes products, giving them their own meaning, i.e., contributing to their market positioning. It also allows higher prices based on its image value and use value.

The brand has institutional value, helping to create a team spirit in the organisation and to attract the best employees.

The identity of a brand or organisation has to do with its presentation at the market and with the associated values, constituting a concept of the entrepreneur, i.e., what the organisation or brand are from their point of view.

The image is the way the organisation or brand are seen and characterised by the stakeholders and, in particular, by clients.

The notoriety of the organisation or trademark consists in the memorisation of its name by the clients.

Positioning is how we want the organisation or the brand to be known. It is the strategic concept of identification and, simultaneously, of differentiation in relation to competition.

People

People are a key element in all kinds of businesses. Thus, their training must not be neglected and should be maintained over time.

Customers feel that employees' friendliness, courtesy, empathy, and product knowledge are key attributes for maintaining a transactional relationship with the organisation.

Ongoing training, combined with appropriate motivation systems, allow an organisation to differentiate and innovate in relation to competitors.

Establishing credibility and trust takes time, but their loss can happen in a single short moment, and it will be difficult to reverse this negative perception.

Therefore, communication, particularly from employees and managers in the "boundary" with customers (doorman, concierge, operator, sales manager, salesman, etc.) should be improved and should comply with the organisation's values.

Communication models based on people that an organisation implements with its stakeholders are critical success factors, deserving a strategic reflection that allows for the continuous improvement and the acquisition of a competitive advantage.

Partners

Partnerships are a way to innovate in the creation, production, and distribution of the product. Organisations relate to each other in order to create value together. This can happen through sharing or exchange of skills or assets in terms of personnel, equipment, and technical or market knowledge.

Partners can be suppliers, distributors, other producers of similar, complementary, or even unrelated products, and customers. Cooperation can also occur at any point of the business activity, including collaboration in the creation of value, through co-production and/or co-marketing.

Processes

The processes are related to the alignment and organisation of talent, and tangible and intangible assets.

Innovation can be found in only specific product production (technology, methodology, process), which, when patented, constitutes a major competitive advantage.

The use of equipment differently from competition, for example, can be sufficient to induce an advantage on production costs.

It is important to analyse the entire internal value chain in order to improve procedures, guaranteeing that the variable costs and the net working capital are lower than those of competition or in comparison to industry standards.

This analysis involves the identification of key processes by mapping the major elements in a flow chart in order to find opportunities for improvement, and using feasible solutions to allow process changes.

The implementation of activity-based cost management and the use of new technologies (e.g. bar code, computerised data, scanning, etc.) allow for effective cost reductions and more efficient replenishments.

Purposes

The business model, profit model, or value model can be linked to economic, financial, social, ecological, and psychological purposes, and is a major source of innovation and differentiation. If successful, it ensures the creation of value desired by clients and the sustainability of the organisation. To create a new business model, one has to act differently in relation to the competition or to industry standards in terms of achieving profitability or activity funding.

The effectiveness and efficiency of a new business model can be checked by increasing margins, particularly gross margins (sales – variable costs) when compared to the competition. One can also try to obtain more favourable ratios in the composition of fixed and variable costs.

If the client who pays for the product is not the consumer who uses it, then it is necessary to adapt the business model to this reality; this is very common in products for children, in the intermediate industrial products, and in social products.

Ideally, an organisation should seek to have multiple channels of income from different stakeholders. Some examples are revenue from advertising, brokerage, subscription, freemium, leasing, renting, licensing, and so on.

However, although economic and financial issues are crucial to the survival of organisations, there are other purposes with positive impact at social, ecological, and psychological levels. These objectives are paramount in organisations in public and social sectors. Thus, there may also be innovation or differentiation when an organisation of any kind or industry seeks to have extended purposes, combining in their products economic, social, ecological, and psychological values.

Obviously, the business model intersects with all other major elements of innovation and differentiation described in the 8P model.

3. CONCLUSION

This paper aims to present a new model to help entrepreneurs in the endeavour of innovating or differentiating their offers or activities. More than creativity, a market is needed to achieve an innovation. Therefore, and based in the analysis of dozens of cases of innovation in the market, scholars and practitioners developed models to summarise the phenomena observed. In our perspective, a model must be a tool that is easy to apply and supports strategic reflexion of managers and entrepreneurs. This was the reason for our research and modelling activity that led us to design the 8P innovation & differentiation model. It is based on literature and on the analysis of successful case studies. We found that it is possible to summarise, in eight single approaches, all the innovation process, as well as in all combinations of these perspectives; (1) product (good, service, or idea, including symbols, package, brand, additional services, reputation, etc.); (2) price (financial and non-financial); (3) place (all kind of distribution methods); (4) promotion (all kind of communication tools and strategies); (5) people (the team, namely those who work directly with customers); (6) partners (related to key activities); (7) processes (related to key activities and internal organisation); and (8) purposes (related to the business model or value model, as well as the ends of the organisation).

An important feature of this model is that it cannot only be applied to the creation a new venture but also to the development of an existing one.

8P MODEL INOVACIJE I DIFERENCIJACIJE

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SAŽETAK

Od Schumpetera (1934), menadžeri su bili svjesni da je inovacija ključni čimbenik ako žele biti učinkovitiji i uspješniji na tržištu. Poznato je da menadžeri i poduzetnici trebaju modele koji su intuitivni i jednostavno primjenjivi kako bi uštedjeli na vremenu i bili učinkoviti u svojim odlukama. U središtu ovoga članka su organizacijske potrebe za upravljačkim alatom koji pomaže donositeljima odluka u procesu inovacija. Razmatramo inovacijsku literaturu u cilju opstanka prijedloga novog modela koji ispunjava tu potrebu: 8P model inovacije i diferencijacije – proizvod, cijena, mjesto, promocija, ljudi, partneri, procesi i svrhe. Ovaj model sistematizira i olakšava rad menadžera i poduzetnika koji mogu lakše djelovati novim putevima kako bi istaknuli svoje tržišne ponude, kao i uveli nešto novo, bilo na inkrementalni ili ugrožavajući način. Model pruža uvid u sve glavne aspekte koji mogu unaprijediti strateške poduzetničke odluke o poslovnom modelu.

Ključne riječi: inovacija; diferencijacija; modeliranje; poduzetništvo; poslovni model

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