Professional Development LAP 18 Performance Indicator: PD:126

Student Guide

Ideas in Action

Innovation Skills

Objectives:



Describe the importance of innovation in business.



Explain techniques used by business to achieve innovation.



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Just think of all the ways you use your smartphone every day. You



might use it to text your friends, check your email, pay a credit card bill, take a picture, order a pizza, get directions, read a list on Buzzfeed...your phone can help you do basically anything you want to do! But, as you probably know, it wasn't always like this. It wasn't even that long ago that phones were used for phone calls only. So what changed? If you ask most people, they'll point to Apple.

Although Apple didn't invent the phone (or even the smartphone), they did make phones better, faster, and easier to use. They took something everyone already used and reworked it so that it fit even more needs. They turned the phone into something totally new that most people couldn't live without. That's innovation.

Of course, innovation isn't only important for Apple—it's essential for every business. Keep reading to find out more.

What Is Innovation?



Innovation is a word you probably hear all the time. You might hear it in a commercial for a new product, in a news report about technology, or in an article about business. It's clear that innovation is important...but what, exactly, does it mean?

Simply put, **innovation** is something new. This can mean a new product, method, strategy, or process. It can also be an improvement to something that already exists. Many people confuse innovation with invention, but be careful! Just because the words sound similar doesn't mean they're exactly the same. You don't need to invent an entirely new product to be innovative. Innovation happens when you rethink and reinvent. Although invention can be involved in innovation, it doesn't have to be.

"What Is Innovation?" from Rafa Galeano, published in Fast Company, will give you a quick visual explanation of innovation: http://vimeo.com/77911159.



Creativity and Innovation

What do you think of when you hear the word creativity? Writing a story, creating a piece of artwork, or making something that could be displayed in a gallery somewhere? While it's true that artistic talent is definitely considered creativity, the word actually has a much broader meaning. Creativity is the ability to generate unique ideas, approaches, and solutions. Those unique ideas are necessary when it comes to innovation. Without creativity, businesses would simply use the same old ideas and solutions over and over again. That's the opposite of innovation.

But don't get confused and think that creativity and innovation are the same thing. Creativity is a skill that requires coming up with new and exciting ideas. Innovation, however, involves the process of putting those ideas into action. When you combine a creative idea with an opportunity to put that idea to work, you may have an innovation!

Types of Innovation: The Four P's

Innovations can be labeled as product, process, positioning, or paradigm. Innovations sometimes overlap, but they can usually be placed into one of the following broad categories:

Product. Product innovation occurs when a business either creates or improves a product. Whether you invent an entirely new product or just tweak one that already exists, that's considered product innovation. The iPhone is one well-known example of product innovation. Apple didn't invent the phone, but they improved upon what already existed and created a new product.



▲ Product innovation occurs when a business either creates or improves a product. The iPhone is one wellknown example of product innovation.



Although we often think of product innovation as it relates to technology, it's actually involved in every aspect of our daily lives. Think about Swiffer micro-fiber disposable dusters and sweepers. You probably see so many commercials for them every week that you've forgotten they didn't always exist, but they're relatively new products! Many people complained that regular dusting and sweeping just spread dust around, which aggravated their allergies. So, Procter and Gamble designed the electrostatic Swiffer products, which capture dust and remove more allergens than traditional dust rags or brooms. This is an example of innovation that caught on in a big way—in fact, you may have a Swiffer product in your own home!

Examples of product innovation are all around us. Product innovation occurs when a shoe company introduces a new running shoe, a baker creates a new type of cookie, or a gaming company comes out with a new and improved gaming console. Product innovation is the type of innovation most of us are familiar with because it's easy to see. New (or improved) products come on the market all the time!

Process. Innovations don't just happen to products themselves—they can also happen to the processes that create products. Process innovation focuses on *how* something is done. Companies usually want to find ways to make their processes faster, cheaper, or more efficient for one obvious reason: money! Better processes typically mean more profit. If a company can make a product more quickly, it can produce more in the same amount of time—which means it can sell more products and make more money.



Process innovation can do great things, but people aren't always happy with it. One example of this relates to farming. So-called "factory farming" is able to produce lots of meat, milk, and eggs quickly and at a low cost to consumers. However, some people think that factory farming is harmful to animals and the environment. What do you think? Is process innovation always worth the cost?



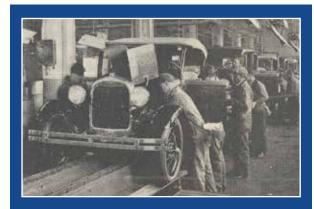
Process innovation is also happening around us all the time. Just think about how much manufacturing has changed in the last 100 years! Many things that used to be made slowly by hand are now produced quickly in mass quantities by machines. One extremely famous and important example of process innovation happened way back in the early 1900s when Henry Ford revolutionized the auto industry. When he introduced the moving assembly line, he changed the process by which the Ford Motor Company made its iconic Model T. The car that used to take over 12 hours to make now took only 93 minutes! This meant Ford could produce many more cars and sell them for less, which led to huge profits. In fact, Henry Ford was even able to shorten his employees' work day and pay them more. Many of his workers repaid him by purchasing their very own Model T's!

Read more about the assembly line on Ford's website: http://corporate.ford.com/news-center/press-releases-detail/663-highland-park.

You can also check out the video "Henry Ford and the Model T" from History.com to see Ford's innovations in action:

http://www.history.com/topics/henry-ford/videos#henry-ford-and-the-model-t.

Don't forget about the huge changes that occurred for many businesses when the Internet came along. Now, it's much easier for companies to make sales and conduct business online. People enjoy booking hotel rooms or airline flights, making dinner reservations, ordering new clothes, or making their doctor's appointments online. Online sales and interactions eliminate many processing steps—not to mention the cost of paper and all the time that would otherwise be spent actually visiting or calling the business. All this means that customers are able to get the products they order more quickly and for less money.





▲ The moving assembly line was a huge process innovation that revolutionized the auto industry. Assembly lines are still used today!

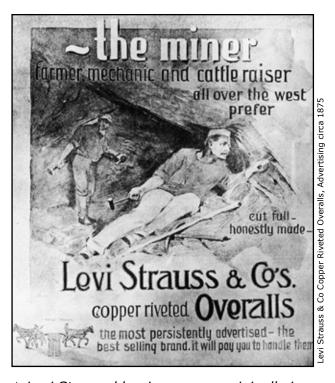


Positioning. Positioning innovation occurs when the *purpose* of a product is changed. The product itself remains the same, but it is marketed differently. In other words, the company focuses on changing the customer's perception of its product. With markets and consumer needs changing rapidly, companies may find out that there's no longer a huge desire for what they produce. If they don't want to go out of business, they need to reposition their products.

When the PlayStation 3 wasn't competing against other gaming consoles as well as Sony hoped it would, the company decided to reposition it. Instead of marketing it solely as a video game console, the company advertised it as an all-in-one entertainment source. You could use it to play video games, download movies, and watch Blu-ray discs. At the time, the PlayStation 3 was the only major video game console that could play Blu-rays, so this strategy gave the PlayStation 3 a unique edge in the marketplace.

Just look at Levi Strauss blue jeans. You probably think of them as a fashionable item of clothing that you can pick up at a department store. But, they were originally intended to be heavy-duty work pants for manual laborers. Positioning innovation transformed blue jeans from a work uniform into a stylish staple of everyday wear.

Paradigm. Perhaps the most difficult type of innovation to achieve (and understand!) is paradigm innovation. That's because paradigm innovation doesn't simply rely on changing a product or the way a product is made—it relies on a much bigger, more drastic change. Paradigm innovation occurs when there is a significant change in thinking.



▲ Levi Strauss blue jeans were originally intended to be heavy-duty work pants for manual laborers, but now we think of them as fashionable items of clothing. This is an example of positioning innovation.



Paradigms are the values, assumptions, and beliefs that make up the way people see things. You can understand why paradigm innovation is so hard to achieve changing the way people think can often be more difficult than creating a new product or process.

A well-known example of paradigm innovation involves personal computers. Once upon a time, computers were only in labs—it would have been downright bizarre for a person to have a computer in his/her own home, office, or school! As you no doubt know, though, this all changed with the creation of the personal computer. Computers became something that virtually everyone wanted and needed—in fact, you might even be reading this LAP on a computer right now. This paradigm innovation involved shifting beliefs about computers and turning them from something for a select few into something for everyone.

Google is one company that many people think of as being particularly innovative. In fact, Google has an entire secret lab—called Google X—where the company works on its most innovative products, like Google Glass and a driverless car. In this article, "Inside Google's Secret Lab" by Brad Stone, you can read more about Google's approach to innovation, specifically paradigm innovation: http://www.businessweek.com/articles/2013-05-22/inside-googles-secret-lab#p3. One Google employee even suggests that Google Glass is as innovative as the first Apple personal computer because "we are proposing that there is value in a totally new product category and a totally new set of questions."



▲ Google is one company that's known for valuing innovation.



Why Is It Important?

Now that you know what innovation is, you might be wondering: What's the big deal? Why do businesses need to be constantly creating new products, positioning old ones, or developing new processes? As you'll learn soon, innovation isn't optional... it's absolutely *essential* for competition, for survival, and for our entire economy.

Innovation helps businesses compete. Just think about all the companies that sell almost the exact same thing. How can one company ever stand out from the pack? Well, if you've been paying attention to this LAP, then you probably know the answer...innovation! Simply put, it's impossible for a business to compete if it doesn't innovate. Netflix changed the video rental market by sending DVDs directly to people's homes and making some films available to stream immediately online. If the creators of the company had gone the route of Blockbuster and just opened a string of brick-and-mortar stores, no one even would have noticed them among the pack of existing video rental stores. But, because Netflix created an innovative process to get movies to people, the company stood out from the crowd. In short, innovation is an important way for a company to gain a competitive advantage—the edge achieved by businesses that offer something better than their competitors.

Innovation helps businesses survive. The business world is always changing, and companies have to change, too. In fact, if they don't innovate, they may go out of business completely. Think about all the companies that have disappeared or faltered in the recent past. If Blockbuster had been more innovative (like Netflix), could it have avoided closing its retail stores and filing for bankruptcy? Technological and cultural changes can make a business's products obsolete, sometimes almost overnight. With changes happening all the time, businesses have to keep up and focus on innovation.





▲ Innovation helps businesses survive. If Blockbuster had been as innovative as Netflix, could it have avoided closing its retail stores and filing for bankruptcy?



Innovation helps the economy. Innovation isn't just important for individual companies; it's a necessity for our economy! Innovation creates new products and services that, in turn, create new jobs (someone needs to make those new products!). Innovation can also lead to even more products being created. Let's go back to the iPhone example again. How many "extras" can you think of that go along with iPhones? Phone cases and apps are just a couple of examples. Someone has to create or develop the cases and apps, which means more jobs. And then, consumers purchase those cases and apps, which pumps more money into the economy. One innovation—the iPhone—led to many other products and jobs. Innovation can kick start a cycle that helps the entire economy to grow.

Risky Business

Innovation isn't all good news, unfortunately. There are some definite downsides and risks, including failure, creative destruction, and loss of jobs.

Failure. Although innovations can be wonderful when they work out, there's always the chance that they won't. For every innovative product or service you use every day, there are many more attempted innovations that failed before they even reached the market. Failure is just one of the expected costs of innovation, and it can cause a company to lose money or even go out of business.





Creative destruction. Austrian economist Joseph Schumpeter coined the term creative destruction to describe how new goods and services can hurt existing products. Think about what happens when a great new restaurant opens in your neighborhood. You and your friends love it, and you start eating there multiple times a week. That's good, right? Well, it's good for the new restaurant... but what about the restaurant you used to eat at before the new one came along? It just lost your business! That's what happens in creative destruction. Innovations can hurt goods and services that are currently on the market. Although eBooks were an innovation that revolutionized the publishing industry, they weren't such good news for existing brick-and-mortar book stores like Borders, which closed its doors for good in 2011.

Loss of jobs. Innovation can certainly lead to the creation of jobs, but on the flipside, it can also lead to job loss. Innovative automation equipment can manufacture goods quickly and efficiently. This can make a company more productive and profitable, but it also eliminates the need for some jobs.

You see innovations all the time that could lead to job loss (if they haven't already): Self-scan machines at grocery stores mean the stores can hire fewer employees, and online travel sites eliminate the need for travel agents. These innovations may be great for customers and the company, but they can be bad for the people who previously held those jobs.



▲ Although innovation can lead to the creation of jobs, it can also lead to job loss.



Summary

Innovation is something new—either a product, method, strategy, or process. Innovation is not the same as invention, although invention can be involved in innovation. Creativity is a skill that requires coming up with new and exciting ideas. Innovation, however, involves the process of putting those ideas into *action*. Innovations can be labeled as product, process, positioning, or paradigm. Innovation is important because it helps businesses compete and survive. It also helps the economy. There are some downsides and risks to innovation, though, including failure, creative destruction, and loss of jobs.

TOTAL RECALL

- 1. What is innovation?
- 2. What are four types of innovation?
- 3. What are three reasons why innovation is important?
- 4. What are three possible risks of innovation?



Innovation has many positives, but there are some downsides, too. Are they always worth it? John, an engineer at a factory, is working on a new machine that will change the way his company makes its products. He knows that this machine will make his company faster and more productive, and it will save a ton of money. However, the new machinery will also eliminate the jobs of many people who work on the factory floor. Some of these people have been working for the company for years, and many of them are John's friends. He wants to help his company be the best it can be, but he also doesn't want people to lose their jobs. What do you think John should do? Are lost jobs just one of the collateral costs of innovation? Do the positives of innovation outweigh the negatives?



Fredrico Caputo/iStock/Thinkstock

▲ Innovators are naturally curious people. They ask questions, look for answers, and always want to learn more about their business.

Innovation in Action

It should be clear by now why innovation is so important for businesses. But what does it really take to be innovative? Although every innovative businessperson is unique and has her/his own specific skills, attitudes, and behaviors, there are a few things that most innovators have in common.

Open-mindedness. Innovative people are open to new ideas. This doesn't mean they take every single new idea they hear to heart, but it does mean they don't automatically reject things that are new or unusual.

Flexibility. The market changes all the time. Innovators are ready to change along with it. They don't get bogged down in one rigid way of thinking—instead, they stay flexible. When innovators run into a challenge, they adapt.

Curiosity. Innovators are naturally curious people. They ask questions, look for answers, and always want to learn more about their business. Curious people don't always set out to be innovators—they often stumble across ideas when they're pursuing their passions.



Some companies build in time for employees to pursue the projects that pique their curiosity. Their reasoning? If employees pursue projects they're passionate about, they'll naturally come across new, exciting ideas. 3M's 15 Percent Time is based on this philosophy. Their website states, "If there's a secret ingredient to 3M's more than 100 years of innovation, it's this: give talented people the time and resources to prove the worth of their ideas, and in the long run you'll come out well ahead. Even if those talented people are mistaken, you've learned something." You can read more about 15 Percent Time on 3M's website: http://solutions.3m. com/innovation/en US/stories/time-to-think.

Problem-solving skills. People with problem-solving skills are able to find solutions to obstacles and problems—an essential ability for innovators! Innovators are able to look at problems and think about new, creative ways to solve them.

Creativity. As we mentioned earlier, creativity helps people come up with new, inventive ideas. Those ideas lead to innovations.

Risk-taking ability. Risk-takers understand and accept the responsibility of not knowing the outcome of their actions. Innovation is essentially risk. When you come up with a new product or idea, there's no guarantee that the product or idea will be well received. There's always a chance you could fall flat on your face! Innovators are willing and able to take risks, but they also know how to minimize the chance that they'll fail.



▲ Innovative people have problem-solving skills that help them find solutions to their obstacles. They also have the determination to find new solutions when their original plans don't work out.



Determination and resilience. People who are determined keep working until their job is done, no matter what gets in the way. Innovators know that true innovation takes time and work, but they don't get discouraged. And, when innovators face failure, they don't give up. Instead, they bounce back. There will always be obstacles and frustrations, but innovators keep going.

Where Does Innovation Come From?

Innovation doesn't just appear out of thin air. There are many different sources of innovation, some of which include observations, customer needs, demographics, experience, trends, accidents, and looking toward the future.

Observations. Remember the natural curiosity that innovators need to have? It leads them to make observations that can turn into innovations. If businesspeople want to be innovative, they must always be observing life around them both the business world and the world in general. They should be reading trade publications, newspapers, and industry blogs as well as attending trade shows and conferences. But observations shouldn't end with the businessperson's chosen industry! It's important to read about and be aware of other industries, as well. You never know where inspiration will strike!

You can find innovation opportunities anywhere—even when you're on a visit to a ski slope! Derek Christensen's "Innovation Through Observation" explains how snowshoes were invented: http://www.derekchristensen.com/innovation-through-observation/.



carlosbezz/iStock/Thinkstock



Customer needs. Customers can be the best source of innovation inspiration. Businesses should pay attention to their customers' wants and needs. Simply listening to customers or asking for their thoughts can lead to new ideas and solutions. Some companies accomplish this by asking for customer feedback via surveys and questionnaires. Have you ever been asked by a company if you were happy with its product or service? Did the company ask if you had ideas for improvement? If so, this company was paying attention to customer needs.

For instance, if a restaurant's customers repeatedly ask for vegan options, the restaurant may decide to develop several new vegan appetizers and entrées. Or, if a company overhears customers complaining about its slow response time, it may consider changing the way it operates via process innovation to provide a faster customer experience.

Demographics. Demographics are the physical and social characteristics of the population. In other words, demographics divide a population by factors like age, race, economic status, income level, and many other things.

So how does this impact innovation? Just think about the innovations that are directed toward the elderly. As they become a larger portion of the population, there's a greater need to care for people with dementia and Alzheimer's. Many innovations have popped up to take advantage of this shift, including GPS tracking shoes that can help locate elderly people if they wander away from home. Watch this video from CBS News, "GPS Shoes Aid Alzheimer's Patients and Caretakers": http://www.youtube.com/watch?v=ADH5rVbcd80.



▲ Demographics can inspire innovation. Just think about the innovations that are directed toward the elderly.



And, consider the new products that have been designed to accommodate the growing number of obese Americans. One company produces a line of office chairs that support more weight and have larger seats than typical office chairs. These chairs cost upwards of \$1,300—clearly there's money to be made by catering to this demographic!

Experience. Sometimes, businesses can innovate in the future by looking at what they've done in the past. What's worked? What hasn't? Failures can be even more helpful than successes. They can point a business in a new direction and help it figure out what to do next time.

One successful product born of failure is something many businesspeople use every day: Post-Its. A chemist working for 3M initially thought that he could coat a bulletin board with the weak adhesive he had discovered so that people could stick papers to the board without using nails or tacks. However, the idea never got off the ground. It wasn't until several years later that another chemist at 3M used the same adhesive in a different way—putting it directly on the paper instead of on a bulletin board. Although the adhesive wasn't successful at first, 3M's employees learned from their previous experience and created a truly unique, successful product.



Trends. Trends, or the general directions in which people or events are moving, can be a big source of innovation. Take, for example, the trend toward healthy living. This encourages companies to create new foods and lifestyle products.

Have you heard of (or maybe even seen someone working at) the TrekDesk, a desktop that's mounted on a treadmill? The trend of healthy living (combined with the trend of employees working much longer days) made the treadmill desk seem like a perfect solution. This innovation makes it possible for employees to take phone calls, answer emails, and go about their normal work days—all while they're on a treadmill. You can read more about the popularity of this innovation in "Taking a Stand for Office Ergonomics" by Steve Lohr: http://www.nytimes.com/2012/12/02/business/stand-up-desks-gaining-favor-in-the-workplace.html.

Accidents. Believe it or not, many innovations aren't planned at all! Just take this vintage Reese's peanut butter cups commercial as an example: http://www.youtube.com/watch?v=DJLDF6qZUX0. While we can assume that peanut butter cups weren't really invented because someone eating a chocolate bar and someone eating peanut butter ran into each other on the street, many innovations actually are the result of mistakes and accidents.

The development of the artificial sweetener NutraSweet is just one example. A chemist was working on developing a new chemical when he accidentally got some of it in his mouth and noticed it was sweet. This isn't a recommendation to taste random chemicals, but it does show the accidental way innovations can come into being. This is one of the many reasons why innovators need to be open-minded—you never know where your next innovation might show up!



▲ Trends can often be a source of innovation. The trend of healthy living led to the creation of the TrekDesk, a desktop that's mounted on a treadmill.



Looking toward the future. It's important for businesses to focus on tomorrow, not just today, if they want to be innovative. Innovative companies are always asking questions like, "What will consumers want in 10 years?" or "How will upcoming technological developments influence our products?"

One technological development that may affect innovation is the 3D printer. Although 3D printers are not commonplace now, they have the potential to be very influential—and possibly disruptive to many companies. This article from *Forbes*, "Our Future With 3D Printers: 7 Disrupted Industries" by Thomas Ehrlich and Ernestine Fu, highlights seven industries that will likely be influenced by 3D printers: http://www.forbes.com/sites/ehrlichfu/2013/10/29/our-future-with-3-d-printers-7-disrupted-industries/. What can these industries do to look toward the future and avoid being left behind?

Who's the Most Innovative?

Many people assume that huge corporations are the most innovative. After all, they have the most money, the most employees, and the most resources. You might be surprised to learn that innovations often come from small businesses. In fact, some studies show that small entrepreneurial companies create twice as many innovations as large companies! Pacemakers, snowboards, photocopiers, and soft contact lenses are just a few of the important innovations from small businesses. Why are small businesses so innovative? Here are two reasons:



▲ If businesses want to be innovative, it's important to focus on the future.



They are more flexible. Most small businesses are started by people who are pursuing a passion or trying to fill a market niche. These people probably wouldn't have started their own business if they didn't have big ideas! Small businesses have more flexibility to pursue those ideas. They often do not have to stick to rigid schedules or follow a predetermined set of rules. They have the freedom to do the work they want to do, and that freedom can lead to innovation.

They face fewer judgments. People who work for large companies often have to run their ideas by their boss, then their boss's boss, etc. While that system of checks and balances can be a great way to minimize risk and prevent mistakes, it can also stifle innovation. When a small business owner decides to pursue an idea, s/he can start doing so immediately, without running it by any upper-level executives.

If you need some examples of innovative small businesses, here are 10! Check out this article, "10 of the Most Innovative Small Businesses of 2013" by Daniel Bukszpan: http://www.entrepreneur.com/article/226940.

Making It Work: How Businesses Can Achieve Innovation

There are many steps businesses can take to put innovation into action, including being open-minded and flexible, encouraging employee suggestions, researching, making connections, and reducing risk.



▲ Small businesses are often innovative because they are more flexible and face fewer judgments than large businesses.



Be open-minded and flexible. Remember how small businesses are often more innovative because they can be more flexible? This is something all businesses should try to imitate. Companies don't become innovative by being rigid or doing everything by the book.

Encourage employee suggestions. A company's employees might have some great ideas, but no one will ever know unless those employees speak up! It's important for companies to accept and encourage employee suggestions. Even if an idea seems unrealistic or impossible, it's important to listen to it. Shooting down ideas immediately will make it much less likely for employees to suggest their ideas in the future. Companies that encourage innovation also reward employees who suggest great ideas.

Research. It's important for companies to be aware of what's happening in the business world around them. This involves staying informed about competitors' actions, being aware of market changes, and, of course, keeping up on customer needs. Research can also include getting customer feedback or suggestions.

Make connections. "Connecting the dots" is a crucial step in the innovation process. It's important to make connections and figure out how to solve problems. Many people can be creative, but businesses that want to innovate must learn how to generate ideas, locate problems, spot opportunities, create solutions, and put innovation into action.



▲ It's important for businesses to be openminded and flexible. By being open to new ideas and approaches, they can achieve innovation.

Reduce risk. If businesses want to be successful innovators, they should also focus on reducing risk. Innovation is always risky to some degree, but there are a few things businesses can do to reduce that risk, such as making sure there is a market for their innovations and basing new innovations on previous experiences. It's also extremely important for a business to make sure it has enough money and resources to handle launching the innovation. A company doesn't want its innovation to fail simply because it runs out of money.

Summary

Many innovators have specific skills, attitudes, and behaviors in common, including open-mindedness, flexibility, curiosity, problem-solving skills, creativity, risk-taking ability, and determination/resilience. Sources of innovation include observations, customer needs, demographics, experience, trends, accidents, and looking toward the future. Small businesses are often more innovative than large companies because they are more flexible and face fewer judgments. Businesses can achieve innovation by being open-minded and flexible, encouraging employee suggestions, researching, making connections, and reducing risk.

TOTAL RECALL

- 1. What are seven traits most innovators have in common?
- 2. What are seven common sources of innovation?
- 3. Why are small businesses often more innovative than large companies?
- 4. Name five things a business can do to become more innovative.

Make It Pay!

Innovation is all around you! Think about any new products you've purchased recently. Maybe you just bought a new phone or tablet. Or, maybe it was something as small as a new sandwich at a fast food restaurant. Do you think the company that made the product you purchased was particularly innovative? Why or why not? What do you think the company had to do to innovate?