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Moving the innovation horizon in Asia

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ABSTRACT

Innovation is responding to or anticipating change by creating new value. Firms constantly face changes and the need to adapt. This is nothing new and has been true for centuries, what is changing are the context and means by which firms respond. As a result, innovation management methods need to be adjusted as well. The goal of this note is to show how the innovation challenge is faced by firms in Asia by featuring a prominent incumbent (Sime Darby) and a successful startup (Iflix). Also considered is an interesting example of speeding up innovation (Nestlé). After a comparison of the Asian situation with the Western world, this note concludes with an outlook of effective, new innovation approaches that leading firms have developed. The overview identifies the new vocabulary of innovation in an environment where not only the rules of the games are challenged, but the game in itself is dynamic.

1. The incumbent

The palm oil industry is an attractive business, as palm oil is used in many products, from margarine to lipstick. However, the future of palm oil is uncertain, as the detrimental effects of palm oil plantations on the world's remaining rainforests are widely recognized (Balch, 2015). Sime Darby is the world's largest producer of certified sustainable palm oil, with over 50,000 employees and huge plantations in southern Malaysia (Nair, 2016). However, its traditional business is under pressure by vocal NGOs, climate change, new regulations, and price volatility. How to cope? Careful selection and breeding of the most productive trees has led to a 15% higher yield – reducing land use needs by 15%. Yield was reduced due to caterpillars and mice. The classic response of using chemicals was replaced by a more sustainable and cost attractive response: planting flowers that attract predators that eat caterpillars, and importing owls from the UK that eat mice during the night.

Like many companies, Sime Darby has an ideas portal to leverage the creative potential of employees, active portfolio management for identifying high return projects, and a well-managed stage-gate process to better manage projects. These continuing adjustments keep the firm agile. Sime Darby also pursues foresight activities, such as inviting more than 60 people from the industry to look further ahead. For communication purposes, the firm has created a video about the plantation of the future. It features sensors on each palm, a system ensuring optimal moisture levels for each plant, drones surveying and monitoring the huge plantations, and a 24/7 harvesting process. This

clear future vision is internally used to improve alignment of idea generation.

2. The startup

The context and the means of innovation management have changed, but some good old methods are still effective. Take the example of startup Iflix. Iflix, founded in 2014, is a subscription video-on-demand platform based in Kuala Lumpur, Malaysia, and led by former AirAsia CEO Azran Osman Rani. Being the Asian counterpart of Netflix, the startup faced the classical question: how can Tom Thumb beat the giant (see also Hang et al., 2015)? Strategy teaches us that startups usually better not attack the incumbent head-on, but first need to acquire a foothold by doing what the incumbent does not or cannot do. So, Iflix focused on non-English speaking markets in smaller Asian countries, consciously neglecting India and China, where people access the internet on mobile devices, and where most of the networks even in 2020 are expected to still be 2G or 3G (Osman-Rani, 2016). Iflix realized that in most Asian countries network coverage is not a reason anymore for not using the Internet, the barrier is relevant content, requiring the startup to form partnerships with various regional and global studios. Currently, more than 50% of the Iflix content is local. The founders also realized that payments in Asia are still predominantly cash based, and therefore developed partnerships with telcos. The company launched its service in Malaysia and the Philippines in May 2015 and has reportedly attracted more than two million subscribers within a year (Chua, 2016).

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3. Speeding up

A common problem many firms, incumbents and startups, face is how to improve their time-to-market and customer learning. The Nestlé solution is called the jungle test (Hofbauer, 2016). In essence, it is a *pop up* store selling coffee. Pop up, as the store is built in a truck and can be easily moved around Malaysia, and selling, as Nestlé has quit the old strategy of giving away free samples. Charging does not only cover part of the innovation cost, it also makes the trial process more like actual purchasing. Interestingly, Nestlé experienced that when charging a low price for prototype coffees more customers were willing to give feedback than when using free samples. One thousand people purchased and provided feedback within 48 h, enabling Nestlé to prototype faster. Getting from idea-to-final-product for Nestlé Latte Coconut took only 93 days. Building on this success story, Nestlé currently has developed 20 *pop up* stores.

4. The Asia case

An often-debated question is whether Asia is unique, given the different economic and social circumstances (see for related discussions Hall et al. (2014), and Bhatt et al. (2016)). The answer: Yes and No. No, because the landscape is a familiar mix of startups and incumbents (both Sime Darby and Nestlé are 100+ years) and - similar to Europe - Asia includes a diverse mix of countries, with different languages, cultures, and development stages. Most firms are small, and the larger ones report struggling with functional silo-thinking. Also, Asian firms are challenged by a changing mix of context and means in a setting of intense and rapid global competition, very similar to the Western firm environment. In Asia too, the rules of the games are questioned (e.g. Sime Darby facing tough environmental challenges), while being unsure that the game will last (e.g. Sime Darby threatened by research into algae oil and yeast as disruptive substitutions for palm oil). Also, many innovation strategies are similar. These include: mobilizing the entire workforce, open innovation within and across value chains, and extensive use of Information Communication Technology (ICT). Iffix CEO Azran Osman Rani proudly reported that the only hardware Iffix has are its laptops. He also told how Iffix approached 215 firms, before finding a telco interested in providing funding, echoing the challenge many Western startups report.

However, Asia is different as well. Some suggested that innovation in Asia is more problem-solving oriented, with a focus on capturing opportunities as recognized, and responding to threats that endanger survival. Also, Asia tends to have a younger population (customers and employees) and cash-based transactions (in some countries over 90%). Even without the giants China and India, the total population is over 1.8 billion people, more than twice that of Europe.

5. Beyond the horizon

To deal with rising complexity, uncertainty and rapid change; firms cannot afford to trust luck, but need to manage innovation. Which is the classical innovation oxymoron. Management refers to structuring, cutting in pieces, setting budgets, targets, and accountability, while, as John Bessant tends to put it nicely, innovation in reality looks like spaghetti (Bessant, 2016). No linearity, no clear start and finish, no milestones, and not one accountable individual.

In dealing with this spaghetti, speed is crucial. For example, Kickstarter - a means for advanced market research and crowdfunding - are reportedly monitored by a Chinese firm as a source of

product ideas. Given the speed of the copycat firm, this may lead to the copycat launching products before the Original Equipment Manufacturer (OEM) does.

Interestingly, new vocabulary is entering the innovation space. Most of it is derived from other areas operating in similar contexts, such as software engineering and entrepreneurship. Leading edge

innovation terminology include: lean, agile, experiment, co-create, minimum viable product, validated learning, hackathon, ecosystem, and incubator. The underlying notion is do things quickly, act before everything is known, learn while doing, involve real customers early, prototype iteratively, collaborate extensively and actively, and be prepared for the unexpected.

To conclude, two interesting examples of Nestlé illustrate the power of the unexpected. Girls like to share, as everyone knows. But what has this to do with ice cream? Nestlé introduced a new ice cream to the Malaysian market - the Mat Kool Butterfly. The ice cream is in the shape of a butterfly and comes in a strawberry or grape flavor. It has two sticks, each connected to a wing of the butterfly. Because the wings can be broken apart, the ice cream can be shared. A great success - Nestlé has sold over 30 million units. The second example refers to an internal innovation contest at Nestlé. Out of more than 400 proposals, the winning idea came from a factory operator, who had never innovated before. Both examples illustrate the well known and continuing challenge of innovation management: while the unexpected is everywhere, firms need effective methods. Nestlé is a promising case, as the firm reports an astonishing success rate for new products: 84% in the past four years. This shows that smart approaches pay off!

This review provides insight into the *ISPIM Innovation Summit* that was in Kuala Lumpur, Malaysia 4–7 December 2016. ISPIM is the International Society for Professional Innovation Management. It is an association of members from research, industry, consulting and the public sector, all sharing a passion for innovation management - how to successfully create new products, processes and services from ideas to stimulate economic growth and well-being. Formed in Norway in 1983, ISPIM has members in over 70 countries and is the oldest, largest and most active innovation network in Europe, expanding rapidly in the Americas and Asia-Pacific. The *ISPIM Innovation Summit* attracted delegates from 24 different countries.

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