



# Innovation transformed

**Richard Cuthbertson**

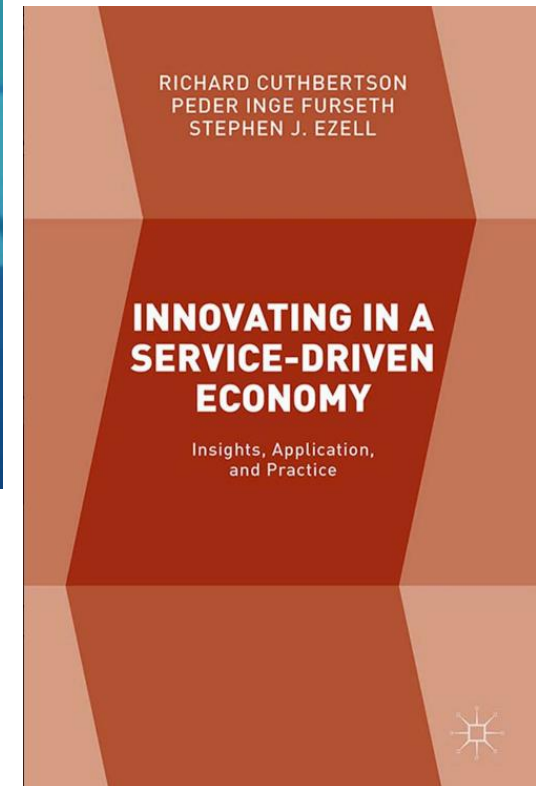
Senior Research Fellow, Saïd Business School

Research Director, Oxford Institute of Retail Management



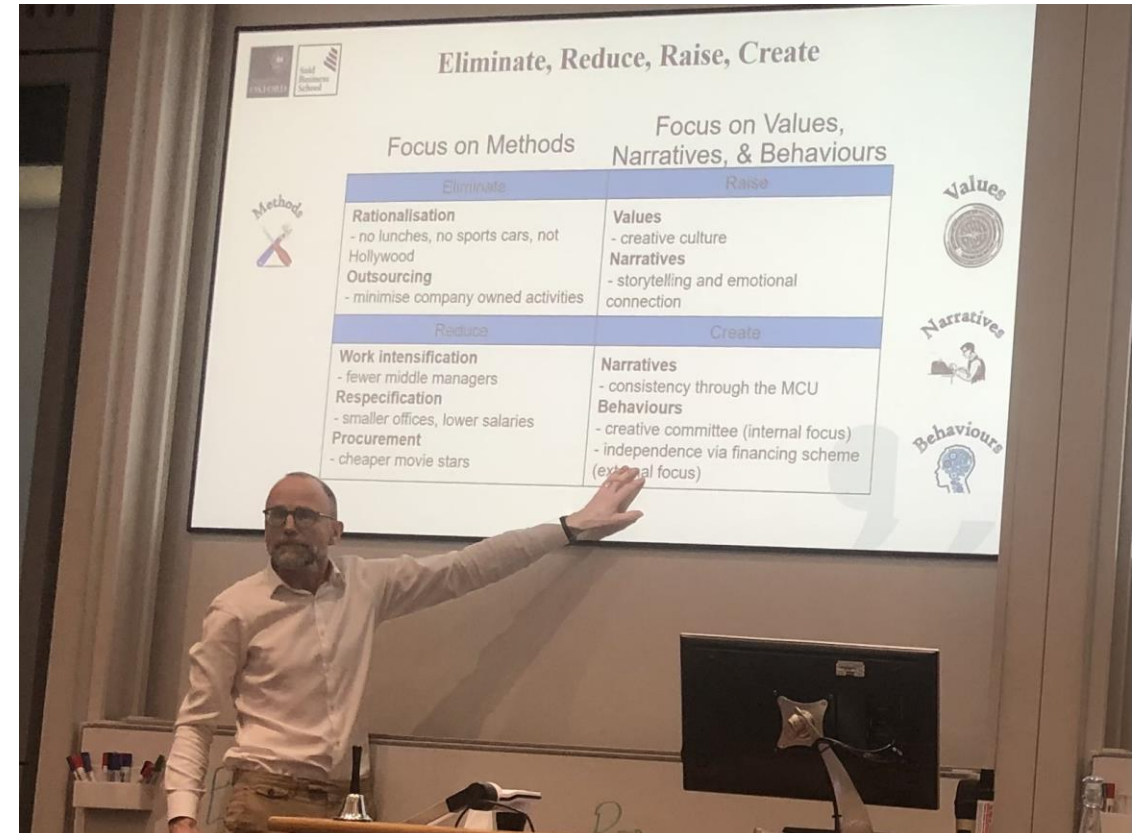
# Agenda: Innovation transformed

- Background
- Work with Peder for MiM San Francisco module
- Update on development of that work
- Reflections and conclusion

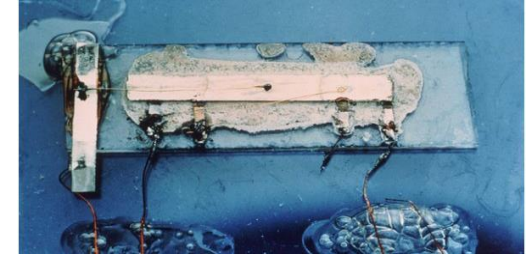


# Background

- Management science background
- Central government policy making
- Energy and automotive industries
- Consulting, especially retail clients
- Oxford academic
- Visiting academic: BI Norwegian Business School; IMI Kolkata; UC Berkeley; NTU Singapore; Aalto, Finland.

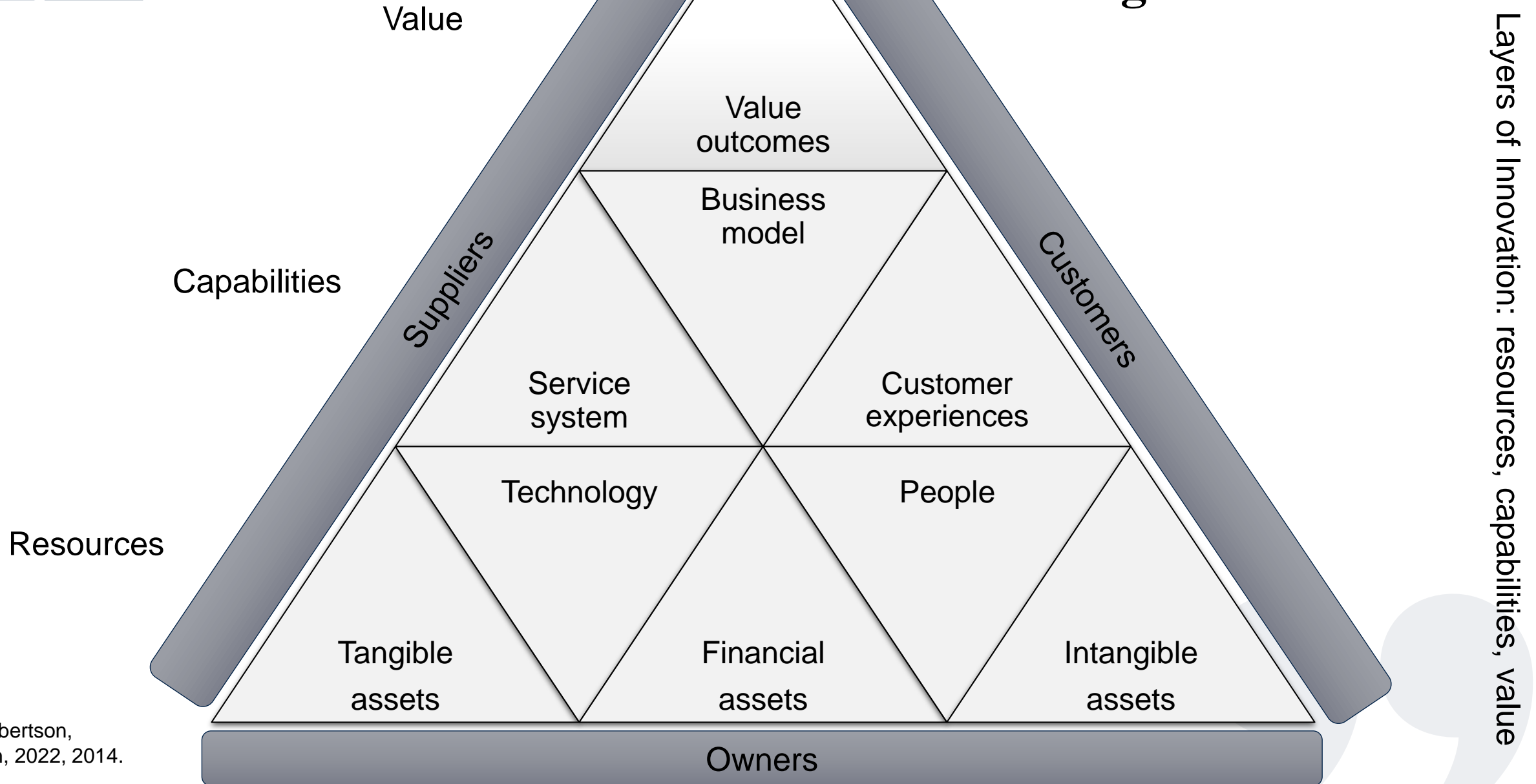


# A digital revolution already underway

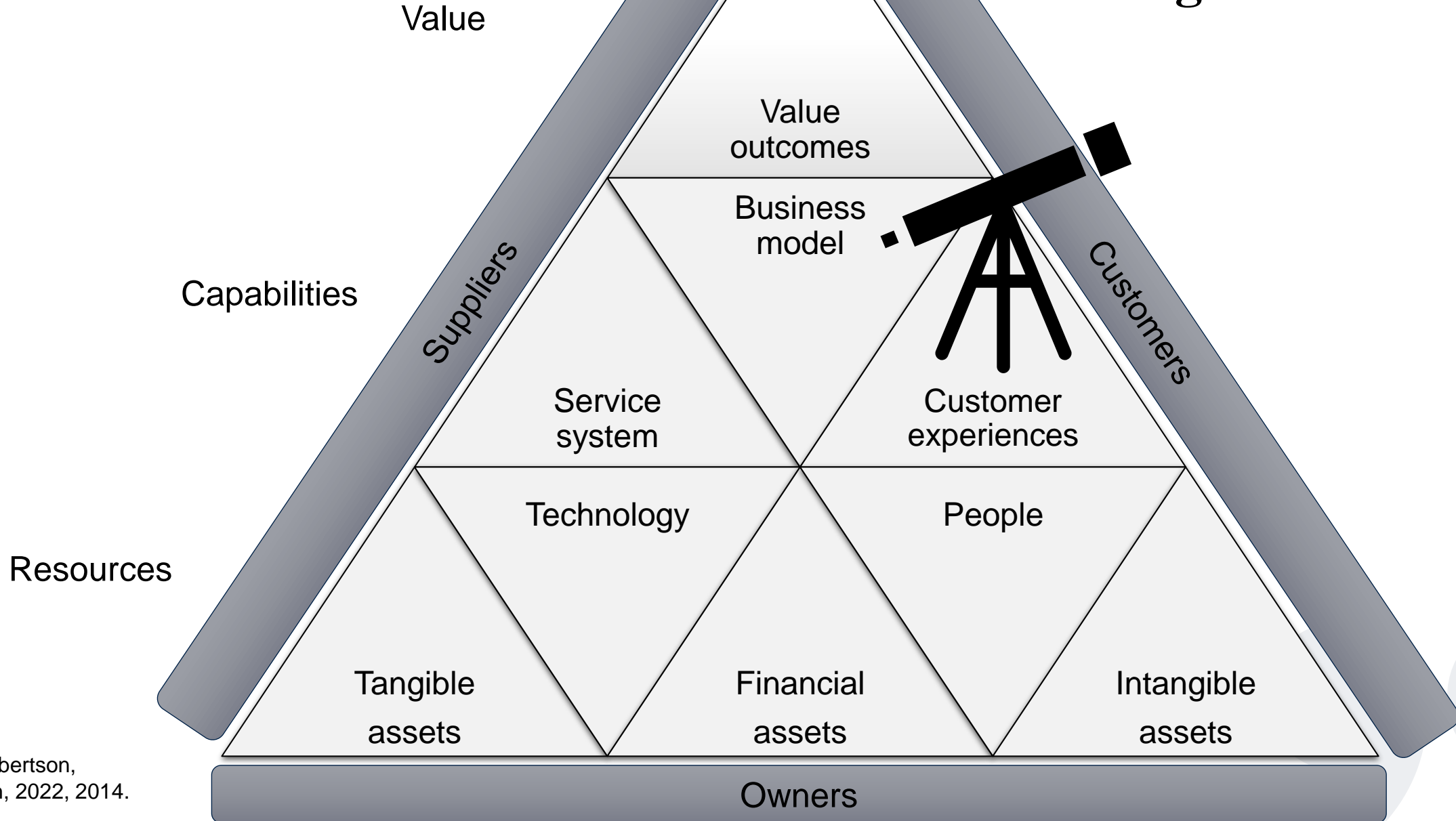


	<b>Agricultural</b>	<b>Industrial</b>	<b>Digital</b>
<b>Output</b>	Raw materials	Products	Services
<b>Geography</b>	Community	Centralisation	Distribution
<b>Scale</b>	Local	National	Global
<b>Relations</b>	Point	Linear	Network
<b>Management</b>	Identify	Control	Integrate
<b>Data</b>	Little	Broad	Deep
<b>Brand</b>	None	Ubiquitous	Unique

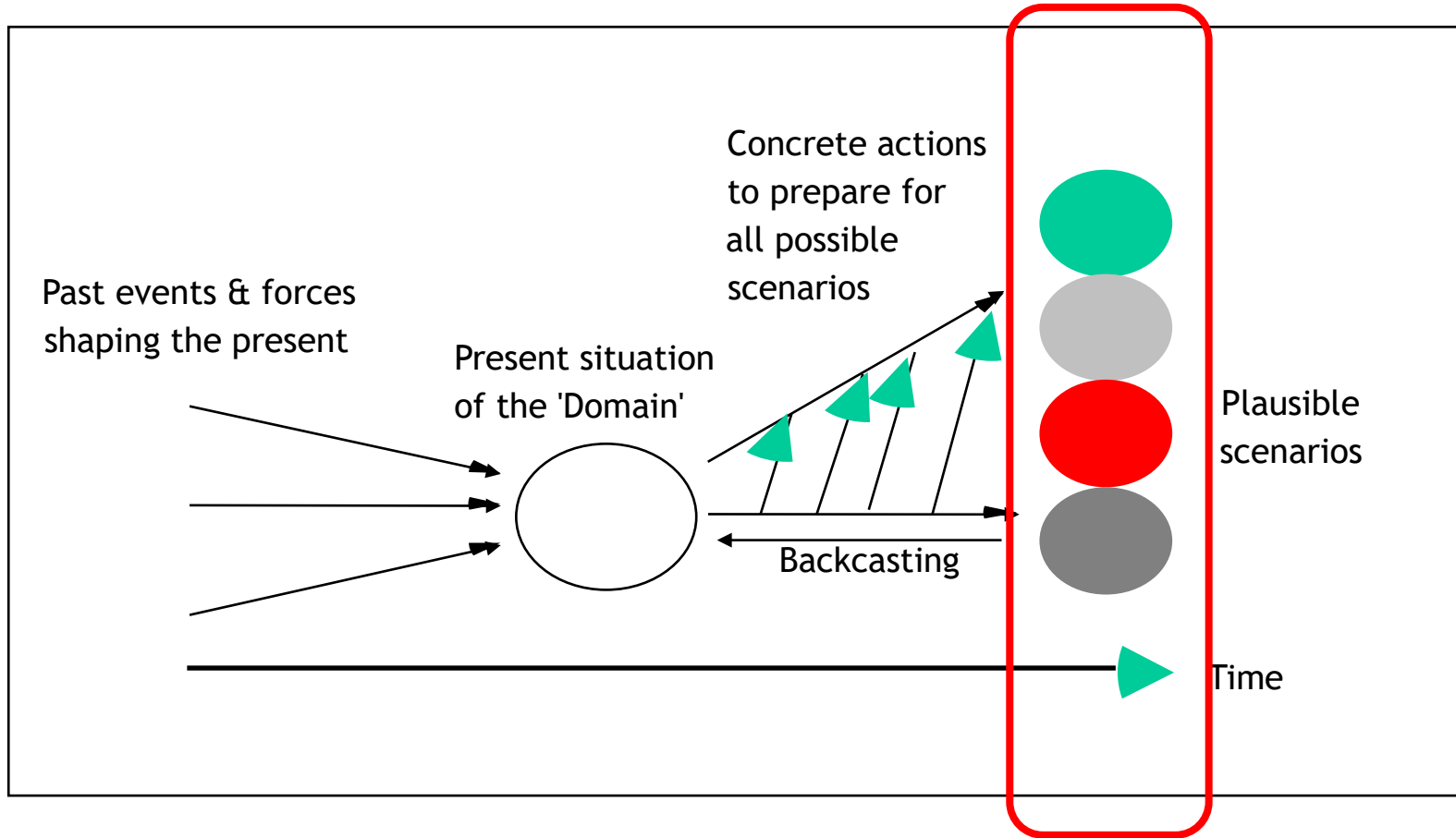
# The Service Innovation Triangle



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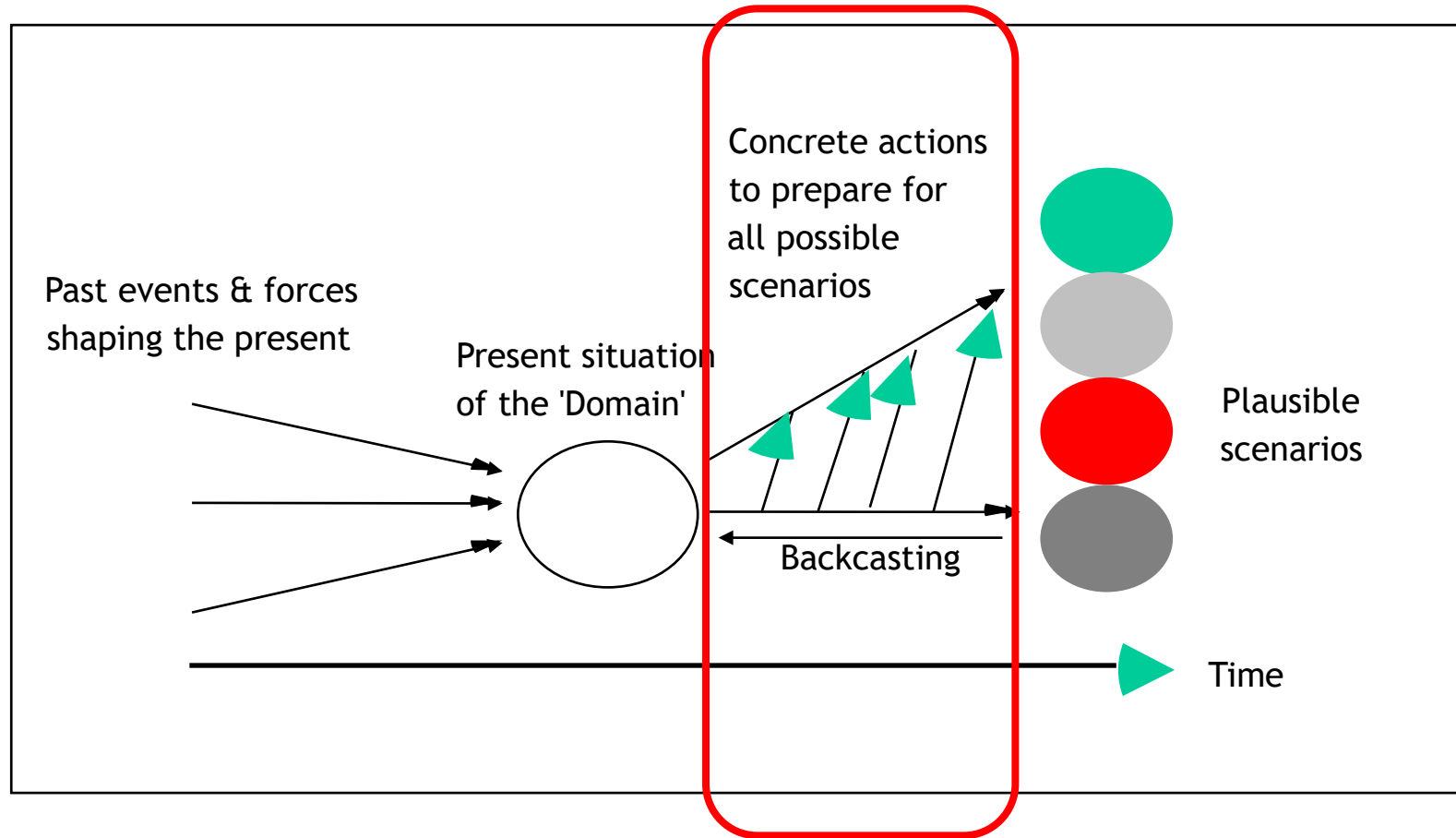
# From the future to the present (backcasting)



What does it mean for what we do in the following months and years?



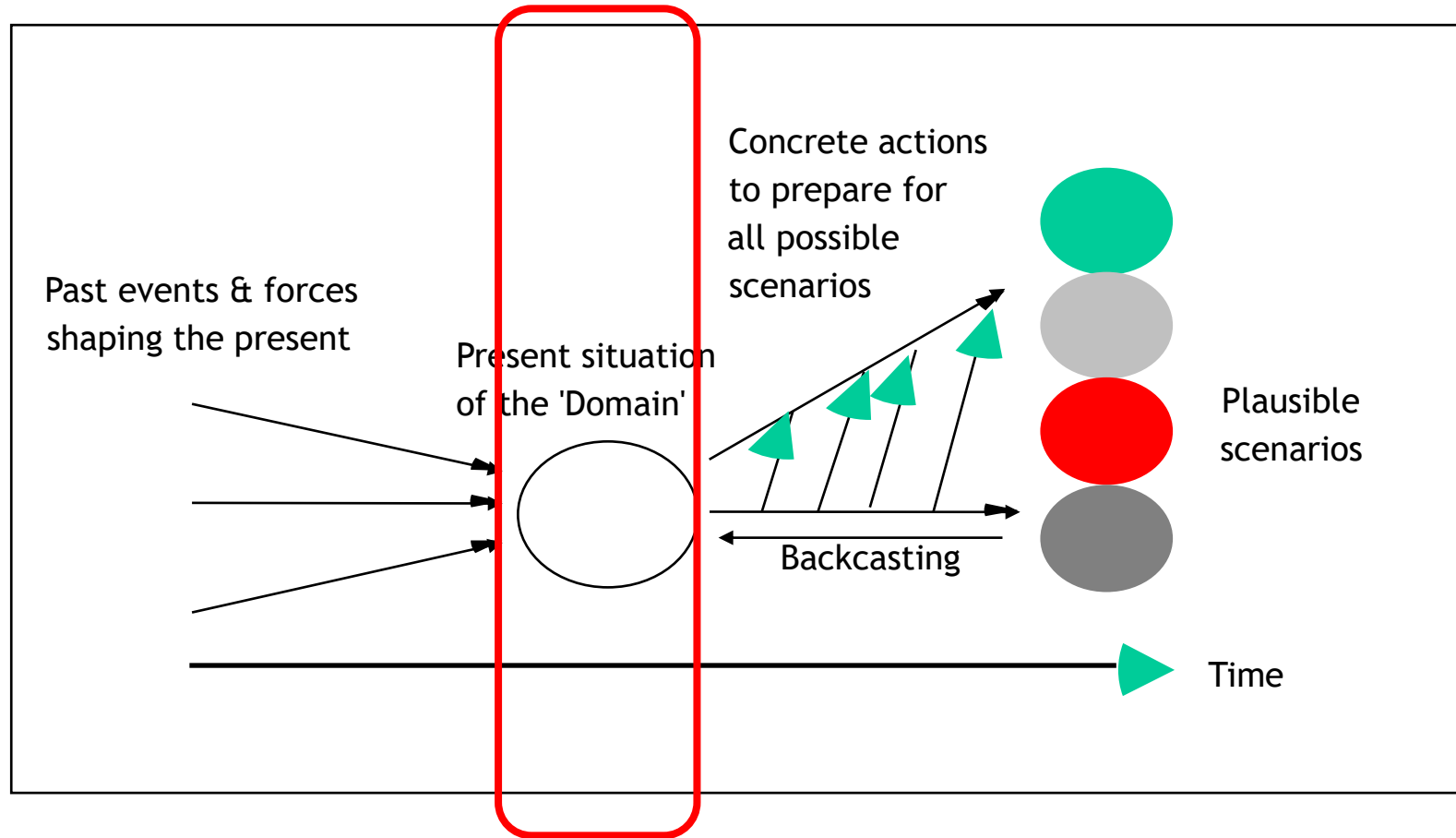
# From the future to the present (backcasting)



What does it mean for what we do in the following months and years?



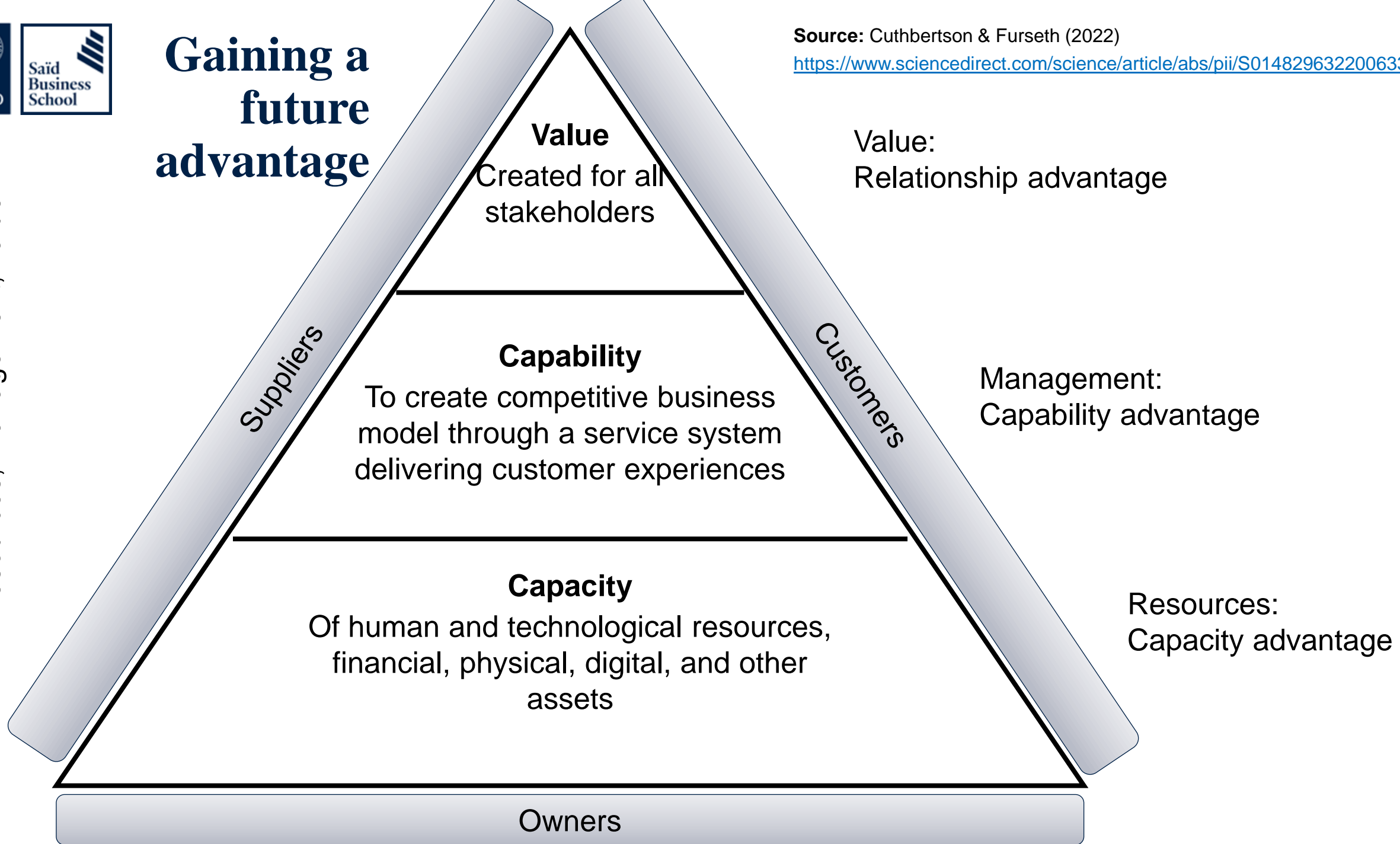
# From the future to the present (backcasting)



What does it mean for what we do in the following months and years?

# Gaining a future advantage

Strategic layers for competitive advantage:  
Resources, management, value



Source: Cuthbertson & Furseth (2022)

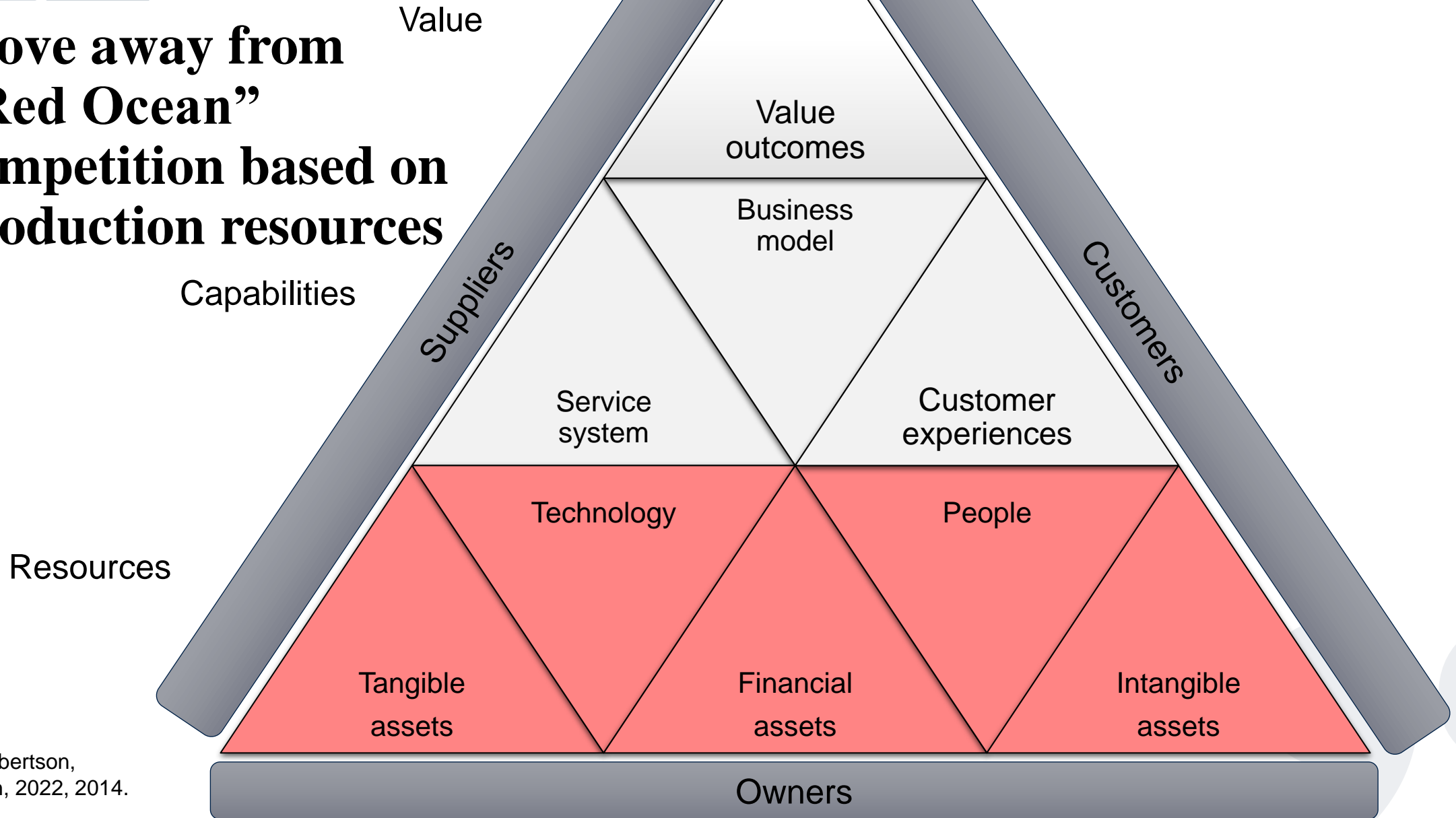
<https://www.sciencedirect.com/science/article/abs/pii/S0148296322006330>

# Moving from a product to a service perspective

What do customers buy?

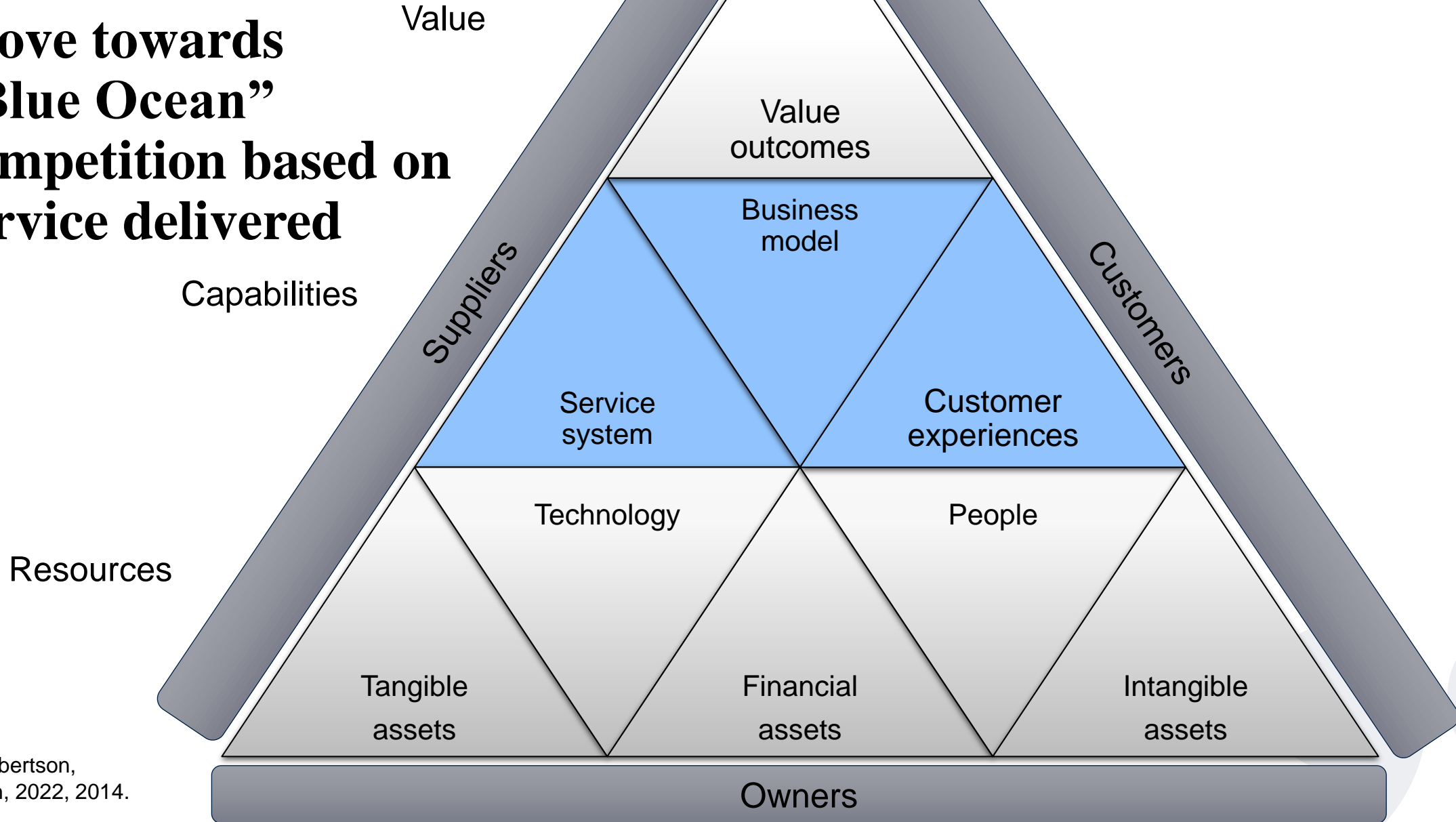
Products	Services
Things	Core competencies
Embedded with value	Potential value
Profit from production	Profit from relationships
Away from the market	In the market
Can be stored	Cannot be stored

# Move away from “Red Ocean” competition based on production resources



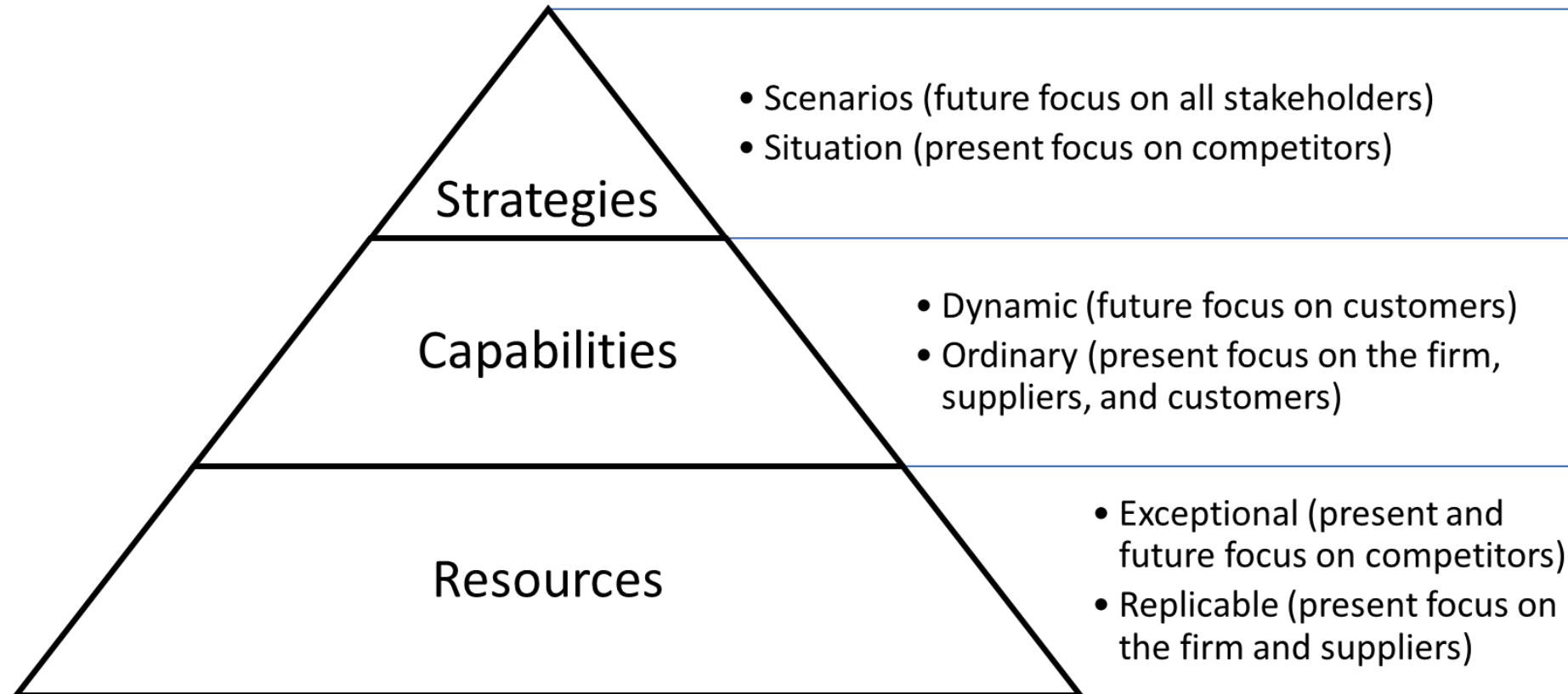
Layers of Innovation: resources, capabilities, value

# Move towards “Blue Ocean” competition based on service delivered



Layers of Innovation: resources, capabilities, value

# Strategies-Capabilities-Resources: today and tomorrow



# How to develop dynamic capabilities?

**NAME OF FIRM**

**Dynamic capabilities**

**Areas of business  
activity**

**Customer  
experiences**

**Service  
system**

**Business  
model**

**Organizational  
learning**

**Transformation of  
existing resources**

**Integration of new  
strategic assets**

		<b>Dynamic capabilities</b>		
		<b>Organizational learning</b>	<b>Transformation of existing resources</b>	<b>Integration of new strategic assets</b>
<b>Areas of business activity</b>	<b>Customer experiences</b>			
	<b>Service system</b>			
	<b>Business model</b>			



# Apple

## Dynamic capabilities

**Areas of business activity**

	<b>Organizational learning</b>	<b>Transformation of existing resources</b>	<b>Integration of new strategic assets</b>
<b>Customer experiences</b>	Design focus and agile ways of working drive dynamic capabilities	Functional structure drives dynamic capabilities	New technology developments and acquisitions drive dynamic capabilities
<b>Service system</b>			
<b>Business model</b>	Antitrust disputes impact dynamic capabilities	One P&L drives dynamic capabilities	Antitrust issues impact dynamic capabilities

**Microsoft**

**Dynamic capabilities**

**Areas of business activity**

**Customer experiences**

**Service system**

**Business model**

**Organizational learning**

**Transformation of existing resources**

**Integration of new strategic assets**

Growth mindset and agile working drive dynamic capabilities

Growth mindset and engineering focus drive dynamic capabilities

Acquisitions and high risk projects drive dynamic capabilities

Networking effect and antitrust disputes impact dynamic capabilities

Integrated business model drives dynamic capabilities

Antitrust issues impact dynamic capabilities

## Alphabet/Google

## Dynamic capabilities

Areas of business activity

**Customer experiences**

**Service system**

**Business model**

	<b>Organizational learning</b>	<b>Transformation of existing resources</b>	<b>Integration of new strategic assets</b>
	Innovation focus and agile working drive dynamic capabilities	Functional structure and collaborative technologies drive dynamic capabilities	“Moonshot” projects and acquisitions drive dynamic capabilities
	Antitrust disputes impact dynamic capabilities	Integrated advertising business model drives dynamic capabilities	Antitrust issues impact dynamic capabilities

## Amazon

## Dynamic capabilities

### Areas of business activity

		Dynamic capabilities		
		Organizational learning	Transformation of existing resources	Integration of new strategic assets
<b>Customer experiences</b>	<b>Service system</b>	Customer-centricity and agile working drive dynamic capabilities	Operational excellence based on customer metrics drive dynamic capabilities	Passion for invention and acquisitions drive dynamic capabilities
	<b>Business model</b>	Antitrust disputes impact dynamic capabilities	Corporate level, long-term, business model drives dynamic capabilities	Antitrust issues impact dynamic capabilities

**Meta/Facebook**

**Dynamic capabilities**

		<b>Dynamic capabilities</b>		
		<b>Organizational learning</b>	<b>Transformation of existing resources</b>	<b>Integration of new strategic assets</b>
<b>Areas of business activity</b>	<b>Customer experiences</b>	“Move fast” culture and agile working drive dynamic capabilities	“Move fast” culture and hackathons drive dynamic capabilities	Internal R&D supported by acquisitions drive dynamic capabilities
	<b>Service system</b>			
	<b>Business model</b>	Antitrust disputes impact dynamic capabilities	Antitrust disputes impact dynamic capabilities	Antitrust issues impact dynamic capabilities

# How to develop dynamic capabilities

## Summary

## Dynamic capabilities

Areas of business activity

	Organizational learning	Transformation of existing resources	Integration of new strategic assets
<b>Customer experiences</b>	Functional (non-product) structure combined with agile ways of working		One P&L decision-making body to review and sign off on organizational functions and innovation initiatives
<b>Service system</b>			
<b>Business model</b>	Open innovation combined with acquisition of firms with talent and IPR		Questioning customer, competitor, and competition authority actions

# Major drivers of dynamic capabilities

	<b>Service system delivering customer experiences (operational focus on today)</b>	<b>Business model (strategic focus on tomorrow)</b>
<b>Internal</b>	Functional (non-product) structure combined with agile ways of working	One P&L decision-making body to review and sign off on organizational functions and innovation initiatives
<b>External</b>	Open innovation combined with acquisition of firms with talent and IPR	Questioning customer, competitor, and competition authority actions



Temporal focus	Past	Present	Future
Dominant perspective	Owners	Customers & Competitors	Stakeholders
Cost focus	Marginal	Transactional	Dynamic
Dominant value creation	Physical goods	Goods and services	Digital services
Theory of the firm	Classical and Neoclassical theories	TCE, RBV, Agency theory	DCs, Institutional theory
Significant authors	Smith, Ricardo, Marshall, Walras	Coase, Williamson, Porter, Barney, Berle & Means, Eisenhardt	Schumpeter, Teece, Pisano, Schuen



# Reflections on today

Has technology always dominated business?

Has innovation always dominated business?

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## 'Magnificent Seven' tech stocks drive US equity domination to new highs

Handful of companies propel all of this year's gains in the MSCI All-Country World index



Apple, Microsoft, Meta, Amazon, Alphabet, Nvidia and Tesla have been labelled the 'magnificent seven' stocks © FT montage

Nicholas Megaw in New York OCTOBER 24 2023

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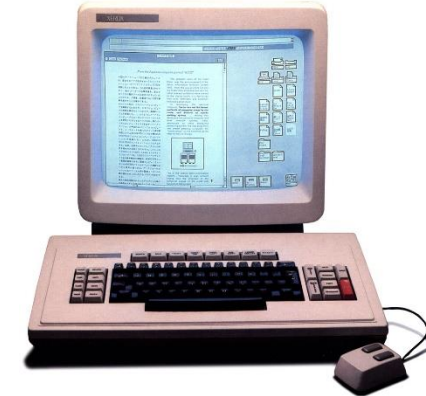
Seven large US tech companies have driven all of the gains in global stocks this year, pushing the US dominance of equity markets to new heights.

The so-called "magnificent seven" — Apple, Microsoft, Meta, Amazon, Alphabet, Nvidia and Tesla — have been propping up the S&P 500 index of blue-chip US companies for most of the year because of investor excitement about the growth of [artificial intelligence](#).

# Innovation requires implementation

**Xerox PARC illustrates how disconnects between industrial research laboratories and the rest of the corporation can stymie innovation**

Year	PC-related ideas invented by PARC	Winner
1971	Laser printing	HP
1972	First object-oriented programming language, Smalltalk	
1973	First personal computer, Xerox Alto (WYSIWYG editors, GUIs, bitmapped displays and simultaneous file storage); Ethernet networking	IBM
1974	Word-processing with WYSIWUG editing, cut-and-paste,	MS
1975	GUI with icons, pop-up menus and overlapping windows, controlled with point-and-click interaction	Apple
1982	First fibre-optic local area network (LAN)	
1987	Unicode standard	
1988	Mobile computing	Apple
1992	Internet standards	



Xerox Star (1981)



IBM PC (1981)

# Reflections on today

## The Magnificent Seven's Diverging Fortunes

Share price performance over the past six months (% change)

— NVIDIA   
 — Alphabet   
 — Apple   
 — Meta   
 — Microsoft   
 — Amazon   
 — Tesla



Source: S&P  
© FT



# Reflections on today



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Apple, Microsoft, Meta, Amazon, Alphabet, Nvidia and Tesla have been labelled the 'magnificent seven' stocks © FT montage

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# Conclusions

- Innovation has been transformed through digital and service perspectives
- Focus on the future customer not the current competitor
- Separate the business model from the service system delivering customer experiences

