

Radical cost innovation

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Costovation: Innovation That Gives Your Customers Exactly What They Want and Nothing More by Stephen Wunker and Jennifer Luo Law (HarperCollins Leadership, 2018).

Stephen Wunker is the managing director of New Markets Advisors. He is a long-term collaborator with disruptive innovation guru, Clayton Christensen and was formerly a consultant with Bain & Co. Jennifer Luo Law is an associate principal at New Markets Advisors and a former Fulbright scholar. Their book, *Costovation: Innovation That Gives Your Customers Exactly What They Want and Nothing More* develops the idea that organizations can achieve competitive advantage by introducing innovations that radically lower costs while more efficiently delivering the quality and features customers need. Although the innovation process they propose may radically change the cost leadership of a market, the impact of the products and services it delivers, while significant, does not rise to the level of disruptive innovation celebrated by Clayton Christensen.[1] Rather, costovation focuses on the customer's "job to be done." Thus it approaches innovation as an adaptation of the existing operations of a firm, unlike the market-creating innovations contemplated by product designers that may require unique new technologies, new business models and new customers.

Costovation is written in four parts:

- The concept of costovation.
- The three characteristics of costovation – breakthrough

perspective (Chapter 2), relentless focus (Chapter 3) and willingness to blur boundaries (Chapter 4)).

- A playbook: how to introduce costovation in an organization.
- How costovation links to the greater industry and strategic contexts of a firm.

The authors utilize Altshuller's Theory of Inventive Problem Solving (TRIZ) to put forth a five-step process of developing a breakthrough perspective. The five steps are: 1) Examining your industry from a 60,000-foot view, 2) Studying your offering through a microscope (a detailed view), 3) Looking through the customers' eyes, 4) Reframing the way of looking at the customers and 5) Rethinking the approach to the value chain.[2]

To a casual reader, the five steps may come across as highly abstract, but the *Costovation* authors bring them to life with examples. For example, a high-level view of the retail flower industry revealed that perishable blossoms spent two weeks being traded from producer to shipper to wholesaler to retailer on their way to the customer. The Bouqs Company, a flower industry startup, produced a radical improvement in cost and quality by reconfiguring its supply chain for delivery from farmers to customers; it's business model: "Only Eco-Friendly Farms. Fresh From Farm. Next/Same Day Available."

In the chapter on the relentless focus, the second characteristic of

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costovation, the authors identify four focal areas: customer segment, job to be done, area of business, and attribute. Their examples of companies that achieved competitive advantage using this approach include:

- Planet Fitness, whose objective was to become the gym of choice for first-time and casual gym goers.
- Capitec, which identified the first-time customers as a distinct market segment and did away with cashiers in its banking operations.
- Pivot Desk, an office-sharing market place, which makes use of unused commercial space.
- Warby Parker, which disrupted the eyewear industry by distributing glasses through the postal system.

I must admit I cringed when I read the example of American Express, once an exemplar of customer focus, but in recent times unable to effectively resolve conflicts with customers like Costco.

The third facet of costovation, willingness to blur boundaries, is perhaps the least developed, and the five places to look to make this happen come across as perfunctory. The concept of blurring the boundaries encourages costovation practitioners to take a magnifying lens to how their offerings are made, delivered and sold. Thus the five places to look for are: product, manufacturing, delivery mode, sales mode and partnerships. Familiar examples include Trader Joes, which features a frequently updated array of

innovative private label products and Wayfair, which eliminated its warehouses.

In their formatting, the authors approach their chapters as if they are independent, stand-alone lessons. Their ‘Try This’ boxes in Chapter 2 are indeed great vehicles for communicating abstract ideas. The authors focus on crafting innovations and their approach is operational, not blue-sky strategic thinking. In this way, they aim to zero in on what a firm can actually do to most efficiently deliver what the customer needs and wants. Wunker appears to have learned the right lessons at Bain Consulting and has carried them over to his book.

The book is most useful for a novice, although best introduced through a workshop in industrial settings or as a supplementary text in the UG/MBA introductory courses on management of innovation. For the seasoned manager or someone conversant with the literature on innovation, the themes developed in the book may look quite familiar. Veteran systems oriented “Supply chainers,” for example, are likely thoroughly acquainted with the costovation perspective, and Blue Ocean Strategists, though they emphasize the search for unique markets, will endorse *Costovation's* relentless focus on the customer.[3]

Although many of the authors' cases will be familiar to practitioners from news reports, I found their obscure examples more interesting. That said, many of these are from startups or smaller business units, for example The Bouqs Company, Planet Fitness, Wayfair or Indochino. Such illustrations left me wondering why

large companies continue to find it difficult to simultaneously promote operational excellence and innovation. To those of us who have argued that firms need to move into the strategic experimentation stage[4] and adopt agile learning, *Costovation* offers too little guidance. But though we may want more advice about how to navigate intra-firm politics to sustain growth-producing innovation, in fairness, the authors did not promise to deliver this insight.

The examples they offer are a great aid for teachers of innovation. The check list for getting started with costovation at the end of the book and their enumeration of low-cost ways to test an idea are likely to be useful to communicate next steps to the operational folks, who will ultimately be the agents of costovation.

Notes

1. Christensen, C.M. and Raynor, M.E. (2003), *The Innovator's Solution: Creating and Sustaining Successful Growth* (Harvard Business School Press, Boston, MA.).
2. Alshuller, G.S. (1984) *Creativity as an Exact Science: the Theory of the Solution of Inventive Problems*, translated by Williams, A. Gordon (Breach Science Publishers, Inc.).
3. Kim, W.C. and Mauborgne, R. (2017), *Blue Ocean Shift - Beyond Competing: Proven Steps to Inspire Confidence and Seize New Growth*, (New York, HachetteBooks).
4. Narayanan, V.K.M. Buche and Benedict Kemmerer. “From Strategic Management to Strategic Experimentation: The Convergence of IT, Knowledge Management and Strategy” (in Luis Joia (Eds), *IT-Based Management: Challenges and Solutions*, 2002.