

## Defining Your Company's Spectrum of Innovation

**Try characterizing your own company's 'spectrum of innovation'. What does such a portrayal suggest?**

**Is your company running on all cylinders? Strategy, culture and alignment are major factors.**

### A. Overview

Looking beyond corporate statements about their innovation we present an approach to portraying the full spectrum of innovative activities of a corporate entity or business segment. The hypothesis is that those companies which have a broad spectrum of innovation are more than likely to grow and prosper than those without a full deck. As the authors of a recent report state; firms engaged in R&D<sup>1</sup> - this being only one aspect of innovation - 'and close to the frontier of relevant technology are better placed to adopt or adapt ideas that originate elsewhere'.

We adopt Katzenbach's<sup>2</sup> characterization of three types of companies'; Need seekers, Market Readers and Technology Drivers and provide comment on how the spectrum of innovation has a different emphasis for each characterization. Significantly, a company's emphasis on the type of innovation migrates over time. Technology-Driven companies can move to become Market Readers or Need Seekers. **It is helpful to know what spot you now occupy and in what direction are you heading.**

**Starbucks spectrum of innovation is used as an example** to illustrate a use for the notion of a spectrum of innovation. Starbucks has a truly outstanding spectrum for a company in the retail industry and specializing in the making of a good 'brew' as well as its other product offerings and services. Not what one expects in this sector. Starbucks range of innovation speaks volumes about how they achieved outstanding growth, faltered, and recovered upon Schultz's return to the helm. Without this depth and breadth of knowledge about coffee, the company's prospects for growth and profit would be questionable.

Many of the world's most innovative companies such as GE, 3M and others are an agglomeration of businesses brought about by acquisition or native starts-ups and yet seemingly have a common view of their innovativeness. Somehow GE manages to transfer their innovative DNA over to – or upon – the acquired organization. No doubt each business segment would have its unique culture but, over time, similarities outweigh the differences. While the overall culture may well be classed as innovative, it would not be a surprise to find that profiles

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<sup>1</sup> Innovation Canada: A Call to Action, Published by the Publishing and Depository Services, Public Works and Government Services, 2011.

<sup>2</sup> Jon Katzenbach is a senior partner with Booz & Co and heads the Katzenbach Centre which focuses on innovative ideas in leadership, organization, culture and human capital.

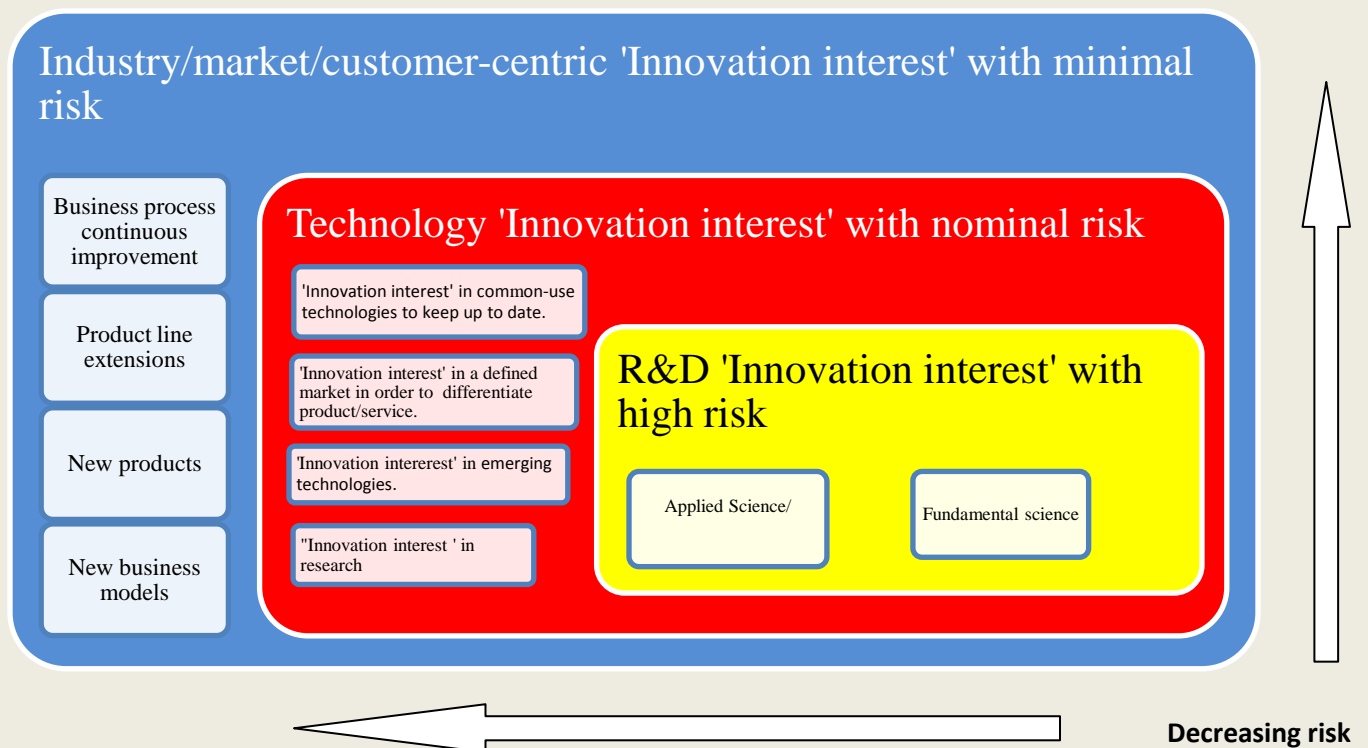
of the various business segments were quite different. Other less-decentralized companies or those without the disturbances brought about by mergers or acquisitions are more likely to have a more homogeneous culture. John Deere is an example.

Throughout this paper we use as examples only those companies which have been the subject of profiles or papers published on this site. These include; **GE, P&G, 3M, Nucor, RIM, Caltel, Starbucks, John Deere, Toyota, Reckitt Benckiser, Orgne, Massey Ferguson and BP.**

## B. The Spectrum of Innovation

Innovation is difficult to define and conversely there are many definitions – see Appendix A for more comments on definitions and understandings. The word ‘innovation’ has become common place and has a host of meanings. For the sake of discussion in this paper innovation embraces the exploration or adoption of new ideas from all sources whether this is the result of undertaking ‘fundamental science’ or making an improvement which would typically be referred to as a ‘continuous improvement’<sup>3</sup>.

### The Spectrum of Innovation



Innovation therefore refers to the experimentation and adoption of new ideas of all kinds. Inherent in the idea is, however, always the notion of change; grand or small, and therefore an assumption of risk at some level. Without risk, there is no innovation!

<sup>3</sup> Programmed, and an almost unbroken, flow of improvements realized under a scheme such as Kaizan, lean production, or total quality management (TQM). A term credited to the Japanese, and brought into existence in the mid 1960s.

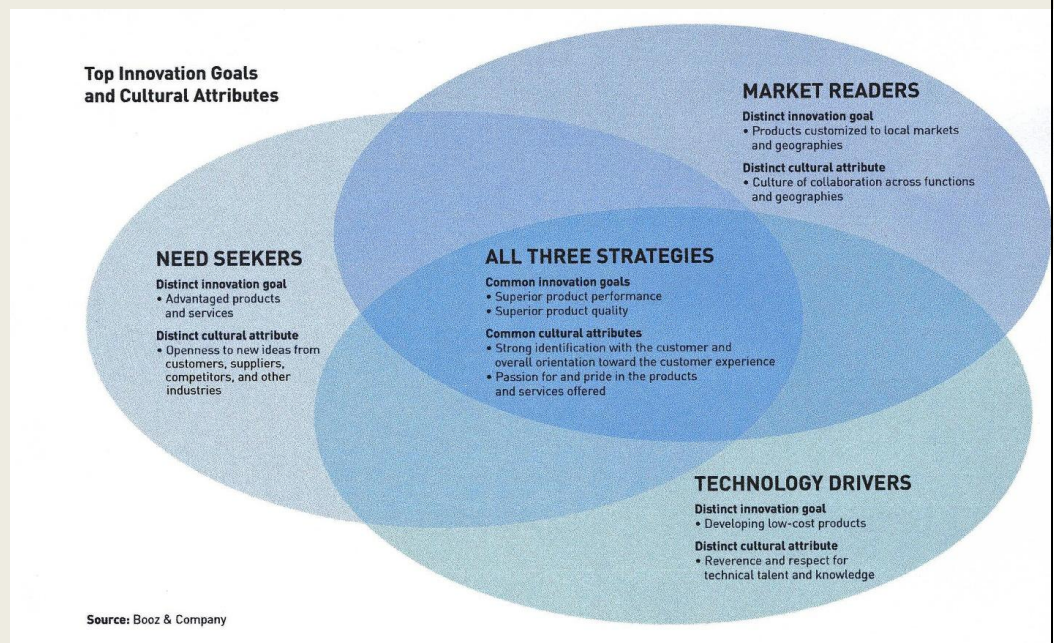
The term ‘innovation interest’ is used to denote that not all innovation is represented by the use of capital, nor spending, nor labour but can be emotional and may at times simply be thoughts – or interests - which do not result, for many reasons, in actions or outcomes in terms of new products or services. ‘Interests’ can still absorb time and thought.

### C. Adopting the Katzenbach Structure for Innovative Companies

Katzenbach<sup>4</sup> proposes three categories of innovative companies; Need Seekers, Market Readers, and Technology Drivers. Companies in each of these categories have a different view of their culture for innovation and place more emphasis on one area of the spectrum of innovation versus other areas. While there are often overlaps of nomenclature the distinctions among the three are clear.

What is also clear is that a company can transform itself over time moving from one category to another. Early on, for example, RIM was a technology-driven organization whereas, due to its heavy reliance on new ideas deriving from its first-tier customers, i.e. carriers and distributors, its emphasis has switched to incremental innovation. RIM has become more of a Need Seeker. Apple, at this point is clearly a technology-driven company relying on very fresh ideas born out of technology and creative minds most often without reference based on market research such as focus groups. Migration could also occur in reverse as RIM, for example, comes up with bright, successful new ideas, or Apple begins to rely too heavily on its current product offerings.

<sup>5</sup>**Need seekers** look for innovation through keeping in very close contact with their end-user base of current and potential customers. Corporate decisions on the allocation of investment interest are heavily weighted in favor of input from their market place. The focus is on finding an unfulfilled need. Once defined the innovation effort is focused on tailoring the company’s skill to coming up with new products and product-line extensions. Reckitt Benckiser, without an R&D department<sup>6</sup> and no CEO interest in R&D, is an example. P&G, a major competitor of Reckitt Benckiser, with its emphasis on open collaboration demonstrates a trait found within this category – i.e. an ‘openness to ideas from external sources’.



**Market readers** are more circumspect about market developments than ‘Need Seekers’. These companies watch closely not only the developments in their customer base but also developments

<sup>4</sup> Booz&co, The Global Innovation 1000, Why Culture is Key, Jaruzelski, Loehr and Holman publication

<sup>5</sup> Chart from Booz & Company

<sup>6</sup> See Profile at <http://www.corporateinnovationonline.com>

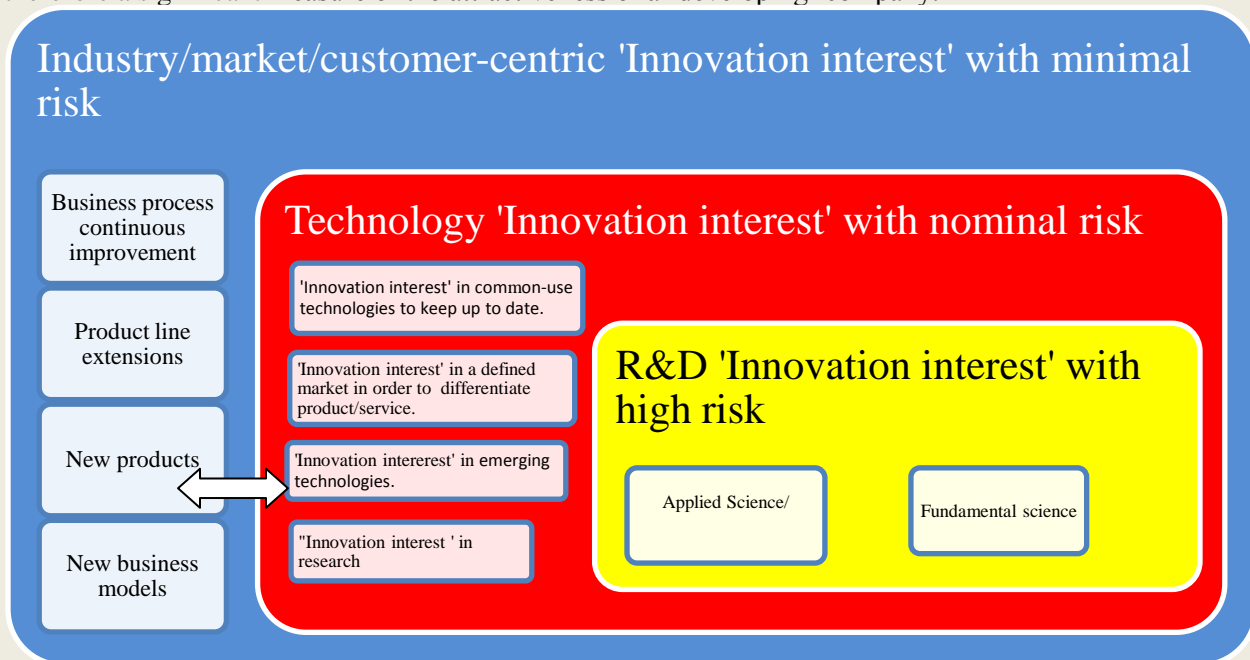
amongst their competitors. Incremental innovation is the result and success is brought about by being quick to market the ‘newness’. John Deere<sup>7</sup> and Celtel are examples.

**Technology drivers** look more inward to their own capabilities in technology and research for not only incremental change but, if possible, for breakthroughs. Their initiatives are characterized by the use of leading-edge technology resulting from their own ‘lab’ efforts often augmented by successful linkages with a community of academics and research institutions. 3M, GE, and Apple are good examples. Technology Drivers are always on the watch for breakthroughs – and focus therefore on ‘emerging technologies’.

A fourth group emerges at the intersection of the other three categories. The categorization is important if you are attempting to portray your own company’s spectrum of innovation. Nucor, by its own admission of not having a R&D department, would be an example of this fourth group. Nucor was hugely successful as a result of their successful introduction of the mini-mill – and were a technology-driven company - under Iverson. Hard to define so Nucor ends up in the ‘fourth’ group.

### D. Primary Efforts of Highly-innovative Companies

One of the differentiating features amongst the three categories is the area of technology investment. It seems that the ‘technology interest’ is the best measure of the potential for growth and profit; and therefore a significant measure of the attractiveness of a ‘developing’ company.



As an example, and what we now know about Apple, the company’s (Steve Job’s) emphasis was on ‘new products’ in addition to two of the ‘technology interests’; ‘emerging technologies’ and ‘technologies which differentiate product/service’ [See arrow in the above chart]. Apple products have been for the most part very different from most, if not all, competitors. By contrast, RIM (Research in Motion) emphasized the same turf as Apple but more recently has migrated their emphasis, by fault or by design, to ‘technologies in common use’ and to ‘product line extensions’. RIM has placed its interest in fundamental science with the Perimeter Institute but has yet to benefit significantly from this ‘innovation

<sup>7</sup> See Profile at <http://www.corporateinnovationonline.com>

interest'. The potential for long-term growth – and associated risk – is clearly with the company which works at the interface between 'emerging technologies' and 'new products' rather than 'product line' extensions for example. On the other hand companies which can rapidly leverage their advantage by multiplying an innovation offer the best opportunities for shorter-term growth. Starbucks, with their roll out of store after store is a classic example.

According to Katzenbach, Need Seekers are 'more than three times as likely to report that their innovation strategy is strongly aligned with their business strategy'. Need Seekers seek innovation which relate to "superior product performance" and "superior product quality", thus placing their innovation interest in the area of 'industry/market/customer-centric' investment. Put a different way, it is highly likely that the focus of the company is better-known throughout the organization than in the other two categories. Information is more easily communicated and understood. Financial performance is, allegedly, better than the other two models.

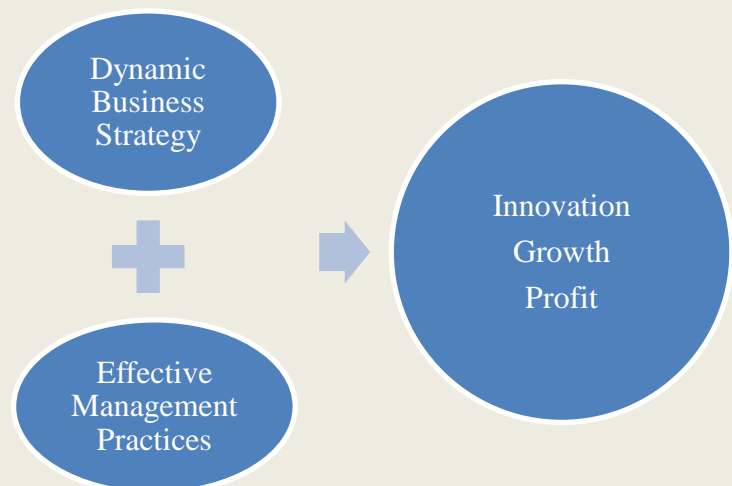
## E. Sustaining Innovation

One would be remiss in elaborating on the subject of corporate innovation if the organization's individual culture was not given equal prominence. All of the organizations which have been profiled note the importance of their culture which supported innovation over the long term. The recent Booz & Co. report is particularly relevant as it points out that 'culture is key' and that an alignment between strategy and culture is essential. Alignment within the organization is just as important. Two quotes bear repeating here.

Palensky<sup>8</sup> of 3M makes the strong. "That's the thing about cultures – they're built up a brick at a time, a point at a time, over decades. You need consistency; you need persistence, and need gentle, behind-the-scenes encouragement in addition to top-down support. And you can lose it very quickly".

The authors of this very germane report go on to state; 'The tighter the connections between strategy, culture and innovation, the more leverage your company will bring to bear in converting spending into marketplace results and superior long-term financial performance. Make sure that the innovative strategy is clearly articulated and communicated throughout the organization from the top all the way down to the lab bench'.

Effective management practice<sup>9</sup>s act to encourage innovation or, if you are unlucky enough, can act as barriers to real innovation. Communication can be improved upon by making use of the 'Spectrum of Innovation'. It is a tool for easy communication within and without the corporation.



<sup>8</sup> Strategy+business magazine published by Booz & Company Inc. 2011. Why Culture is Key. The most crucial factors are strategic alignment and a culture that supports innovation

<sup>9</sup> See 25-Factor analysis at <http://www.corporateinnovationonline.com> for a means of assessing your own company's management practices and how they support or detract from a culture of innovation

## F. Starbucks as an example

Parsing Starbucks innovation initiatives indicates clearly the full spectrum of their innovation. From continuous improvement through to applied science, Starbucks has an initiative.

### Starbucks Innovation Profile

Type of Innovation	Evidence of Innovation by Type	Comment
<b>Science</b>		
<b>Fundamental Science</b>	None	Not expected in this industry
<b>Applied Science</b>	VIA development based on the chemistry of 'freeze-dried' technology/ Roast curve relationship	Unusual depth for this industry
<b>Technology</b>		
<b>Research</b>	R&D spending as a % of sales/ Intent to be the 'coffee authority': maintaining a watchful eye on developments/'Know how'	Coffee is in Starbucks DNA
<b>Emerging technologies</b>	?	Unclear
<b>Differentiating technologies</b>	Quality of product/ R&D to develop less expensive soluble powders [eg. VIA]/ Sandwiches without a cheese smell/ Ethically-sourced coffee/ Merging coffee with a 'place'	Combination of 'technologies' provides the differentiation
<b>Common-use technologies</b>	Loyalty program/ Clover equipment/ Mastrena equipment to improve quality, speed, and view	Keeping up to date with technology
<b>New business models</b>		
<b>New products</b>	Store design/ Integrating coffee roasting with sales and with both bean and drink	Fundamental shifts in the industry
<b>Product extensions</b>	Store design [seating, wi-fi, comfort/'Street-named' stores/ Coffee quality and price/ Pike Place Roast/ Frappucino/ Coffee – 'bold'/ Sandwiches/ Branding realization [eg. Digital Ventures]/ VIA/ Renaming coffee to designate taste rather than bean	Probably the strongest Starbucks type of innovation
<b>Business/continuous improvement</b>	IT/ In-store information systems/ Mastrena = speed	This type of innovation has propelled growth
<b>Business/continuous improvement</b>	IT/ In-store information systems/ Mastrena = speed	Came as an afterthought after Starbucks decline

Appendix B sets out in more detail an explanation of the innovative activities of Starbucks which lead to the 'Spectrum of Innovation' above.

## Appendix A

### Definitions and Understandings

#### Science – Fundamental and Applied

##### R&D ‘Innovation interest’ with high risk

**Fundamental science**<sup>10</sup> (or basic science, pure science) is [science](#) that describes the most basic [objects](#), [forces](#), relations between them and laws governing them, such that all other phenomena may be in principle derived from them following the logic of [scientific reductionism](#). [Physics](#) is a typical fundamental science, [chemistry](#) is often included. There is a difference between fundamental science and [applied science](#) (or [practical science](#)).<sup>[1]</sup> Fundamental science, in contrast to applied science, is defined as a fundamental knowledge it develops. The progress of fundamental science is based on well controlled experiments and careful observation. Fundamental science is dependent upon deductions from demonstrated truths, or **is studied without regard to practical applications**. Fundamental science has traditionally been associated with the [natural sciences](#), however, research in the [social](#) and [behavioral sciences](#) can be deemed fundamental (e.g., cognitive neuroscience, personality).

**Applied science** is the application of scientific knowledge transferred into a physical environment. Examples include testing a theoretical model through the use of formal science or solving a practical problem through the use of natural science. Fields of [engineering](#) are closely related to applied sciences. Applied science is important for [technology](#) development. Its use in industrial settings is usually referred to as [research and development](#) (R&D).

Applied science differs from [fundamental science](#), which seeks to describe the most basic objects and forces, having less emphasis on practical applications. Applied science can be like biological science and physical science.

Very few private or public companies engage in **fundamental research**. The expectation is that this is the work of universities and privately funded research institutions.

**Applied science**, on the other hand, is basic to the innovativeness of most corporations and is carried out internally or through arrangements with outside research-oriented organizations.

Banerjee of HP Labs states that ‘A third of our research agenda is very basic research looking 10 years into the future. Another third is tied to current products, so it looks maybe six to eighteen months into the future. And the remaining third is in the middle – what we call applied research - which looks two to five years into the future and is tied to some applications, but not products’.

Booz&co. article on Why Culture is Key. Winter 2011.

<sup>10</sup> Definitions, for the most part, are courtesy of Wikipedia

# Technology

## Technology ‘Innovation interest’ with nominal risk

**Technology** is the making, usage and knowledge of [tools](#), techniques, [crafts](#), [systems](#) or methods of organization in order to solve a problem or serve some purpose. The term can either be applied generally or to specific areas: examples include *construction technology*, *medical technology*, and *information technology*. **Four technology interests** can be distinguished.

For a better understanding of technology, four types of technology interests are distinguished.

### 1. ‘Innovation interest’ in research

**Pure research, basic research, or fundamental research** is [research](#) carried out to increase understanding of fundamental principles. Many times the end results have no direct or immediate commercial benefits: pure research can be thought of as arising out of [curiosity](#). However, in the long term it is the basis for many commercial products and [applied research](#). Pure research is mainly carried out by universities but may be funded or participated in by private and public companies.

### 2. ‘Innovation interest’ in emerging technologies

In the [history of technology](#), **emerging technologies** are contemporary advances and innovation in various fields of [technology](#). Various *converging technologies* have emerged in the [technological convergence](#) of different systems evolving towards similar goals. Convergence can refer to previously separate technologies such as voice (and telephony features), data (and productivity applications) and video that now share resources and interact with each other, creating new efficiencies.

Emerging technologies are those technical innovations which represent progressive developments within a field for [competitive advantage](#);<sup>11</sup> converging technologies represent previously distinct fields which are in some way moving towards stronger inter-connection and similar goals. However, the opinion on the degree of impact, status, and economic viability of several emerging and converging technologies vary.

### 3. ‘Innovation interest’ in a defined market in order to differentiate product/service

**Technologies which provide competitive differentiation** and lie between in-common-use and emerging technologies, play an essential role in exploiting markets and new business opportunities<sup>11</sup>.

### 4. ‘Innovation interest’ in common-use technologies to keep up to date

**In-common-use** technologies are those which are essential to remain in business. Most if not all competitors would use these technologies and there is a complete understanding of their use. Little experimentation is required and their use provides no discernable competitive advantage.

Inherent in investing in any of these technologies is the notion of risk. Investing in common-use technologies is the least risky but should be constrained so as to keep up to competitors’ actions.

<sup>11</sup> Arthur D. Little Inc. notes

## Industry/market/customer-centric ‘Innovation interest’ with minimal risk

### New business models

A **business model** describes the [rationale](#) of how an [organization](#) creates, delivers, and captures value<sup>[1]</sup> - economic, social, or other forms of value. The process of business model design is part of [business strategy](#).

In theory and practice the term business model is used for a broad range of informal and formal descriptions to represent core aspects of a [business](#), including purpose, offerings, strategies, infrastructure, organizational structures, trading practices, and operational processes and policies. Hence, it gives a complete picture of an organization from high-level perspective

Various innovative investments do not necessarily involve science nor technology but are accomplished with lower risk. Highest risk is associated with the introduction of new business models and the least risk, in this category of ‘centric’ investment, is continuous improvement.

Whenever a business is established, it either explicitly or implicitly employs a particular business model that describes the design or architecture of the value creation, delivery, and capture mechanisms employed by the business enterprise. The essence of a business model is that it defines the manner by which the business enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit: it thus reflects management’s hypothesis about what customers want, how they want it, and how an enterprise can organize to best meet those needs, get paid for doing so, and make a profit.<sup>[2]</sup> Business models are used to describe and classify businesses (especially in an entrepreneurial setting), but they are also used by managers inside companies to explore possibilities for future development. Finally, well known business models operate as recipes for creative managers.<sup>[3]</sup>

### New products<sup>12</sup>

‘New products’ has various meanings in different industries. In [marketing](#), a product is anything that can be offered to a [market](#) that might satisfy a want or need.<sup>[5]</sup> In [retailing](#), products are called [merchandise](#). In [manufacturing](#), products are purchased as [raw materials](#) and sold as [finished goods](#). [Commodities](#) are usually raw materials such as metals and agricultural products, but a commodity can also be anything widely available in the open market. In [project management](#), products are the formal definition of the [project deliverables](#) that make up or contribute to delivering the objectives of the project. In insurance, the policies are considered products offered for sale by the insurance company that created the contract.

### Product line extensions

A **product line extension** is the use of an established product’s brand name for a new item in the same product category. Line Extensions occur when a company introduces additional items in the same product category under the same brand name such as new flavors, forms, colors, added ingredients, package sizes.

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<sup>12</sup> Courtesy of Wikipedia

This is as opposed to [brand extension](#) which is a new product in a totally different product category. Line extension occurs when the company lengthens its product line beyond its current range. The company can extend its product line down-market stretch, up-market stretch, or both ways.

## **Business process continuous improvement/ Business process improvement**

(BPI) is a systematic approach to help an [organization](#) optimize its underlying processes to achieve more efficient results. It should be noted that BPI focuses on "doing things right" more than it does on "doing the right thing". In essence, BPI attempts to reduce variation and/or waste in processes, so that the desired outcome can be achieved with better utilization of resources.

A **continuous improvement process (CIP or CI)** is an ongoing effort to improve products, services, or processes. These efforts can seek "incremental" improvement over time or "breakthrough" improvement all at once.<sup>[1]</sup> Delivery (customer valued) processes are constantly evaluated and improved in the light of their efficiency, effectiveness and flexibility. Some successful implementations use the approach known as [Kaizen](#) (the translation of kai ("change") zen ("good") is "improvement"). This method became famous by the book of Masaaki Imai "Kaizen: The Key to Japan's Competitive Success."

- The core principle of CIP is the (self) reflection of processes. (Feedback)
- The purpose of CIP is the identification, reduction, and elimination of suboptimal processes. (Efficiency)
- The emphasis of CIP is on incremental, continuous steps rather than giant leaps. (Evolution)

Key features of Kaizen:

- Improvements are based on many, small changes rather than the radical changes that might arise from Research and Development
- As the ideas come from the workers themselves, they are less likely to be radically different, and therefore easier to implement
- Small improvements are less likely to require major capital investment than major process changes
- The ideas come from the talents of the existing workforce, as opposed to using R&D, consultants or equipment – any of which could be very expensive
- All employees should continually be seeking ways to improve their own performance
- It helps encourage workers to take ownership for their work, and can help reinforce team working, thereby improving worker motivation.

The elements above are the more tactical elements of CIP. The more strategic elements include deciding how to increase the value of the delivery process output to the customer (Effectiveness) and how much flexibility is valuable in the process to meet changing needs.<sup>[2][3]</sup>

## Appendix B

### Background Information for Completing Starbucks Spectrum of Innovation

This examination of Starbucks innovations is organized under the following topics.

- R&D ‘Innovation interest’ with high risk.
- Technology ‘Innovation interest’ with nominal risk.
- New business models.
- New products.
- Product line extensions.
- Business process continuous improvement

The break out provides a comprehensive picture of the role which innovation has played in the growth and success of Starbucks.

Roasting and processing coffee is at the heart of the technology of Starbucks business. There is both a science component and much art associated with the process of making an exceptional brew. The combination of the science and the art is the ‘know how’ of the business and this is what Starbucks has brought to the market along with effective sourcing and a flair for retail marketing. Basic to the success of Starbucks is that it is, in the minds of millions of customers, a good tasting brew; and better than most!

Schultz stresses the influence which Aldo Lorenzi, the Proprietor of ‘That Shop in Montenapolene, in Milan, Italy, had on his thinking. Lorenzi wanted to pass on to the younger generation, the idea of a ‘shop or workshop’<sup>13</sup> in order to ‘give root to an idea’. The idea of tinkering, of exploring in-depth an idea, having a curious mind along with the desire to do something well, seems embedded in Lorenzi’s short statement. This is the essence of innovation - without even using the word!

#### **R&D ‘Innovation interest’ with high risk**

Starbucks has not engaged in ‘Fundamental Science (see chart), but has engaged in ‘Applied Science’ in a small but important area and this has laid the foundation for the business and the ability to engineer the product. The ‘know how’ has facilitated the formulation of new products, their refinement, and contributed to Starbucks’ reputation for quality. Two examples are noted.

- Research into the ability to have a high quality instant drink based on freeze-dry technology which had been earlier applied to blood testing procedures<sup>14</sup>.
- Roasting is accomplished with the use of roast curves; the result of extensive experimentation’ both science and taste’.

#### **Technology ‘Innovation interest’ with nominal risk**

There are four different forms of technology ‘innovation interest’.

##### **1.0 ‘Innovation interest’ in research**

Early on, as far back as 1982, Schultz began to learn ‘all about coffee’. Starbucks set up an R&D facility in 1993, referred to as tiny, but probably unique initiative in the retail coffee business. More recently the Annual Report notes that Starbucks research and development teams are responsible for the technical development of food and beverage products and new equipment. The Company spent approximately \$6.5

<sup>13</sup> Onward, Opening Chapter

<sup>14</sup> Onward, Chapter 27, p. 8.

million, \$7.2 million and \$7.0 million during fiscal 2009, 2008 and 2007, respectively, on technical research and development activities. This is in addition to customary product testing and product/process improvements in all areas of its business. **Starbucks demonstrates a long-term interest in R&D.**

## **2.0 ‘Innovation interest’ in emerging technologies**

Starbucks had made the point that it wishes to be the ‘coffee authority’, meaning that it needs to have, at all times, a definitive and deep knowledge – know how - of the complete supply chain for coffee. The company needs to be the best in the business.

## **3.0 ‘Innovation interest’ in a defined market in order to differentiate product/service**

Starbucks applies its know how to provide product (and services) which clearly differentiates the company from its competitors. Examples include; Pike Place Roast, VIA, Bold and a wide variety of sweetened drinks. Other examples include;

- R&D works to develop higher-quality but less-expensive soluble quality powders. Planning, research and testing had gone into the development of sandwiches – with a view of minimizing the ‘smell’ by product.
- The introduction of ‘ethically sourced coffee’ differentiates Starbucks from many of its competitors.

## **4.0 ‘Innovation interest’ in common-use technologies to keep up to date**

Starbucks has demonstrated that it is quite capable of not only going beyond common-use technologies, but is able to keep up with the latest process technologies appearing on the market. Its acquisition of equipment supplier Clover is a case in point. Acquisition of the technology allowed the company to keep up to date and advance its product and service quality. Other examples include;

- Starbucks has the best ‘combination of original technology and knowledge for procuring beans, roasting, blending and serving on a global scale’<sup>15</sup>.
- Starbucks builds on the ‘craft’ involved in the growing of coffee. The passing down of knowledge from generation to generation is another form of keeping up to date on current technology.
- No one in the industry has more control over the roasting process<sup>16</sup>.
- The ‘roast curve’ is the match between time and heat applied to a range of blends of coffee bean. Trial and tasting is used to get the best result; science and art. In the Kent plant Starbucks uses 11 different roast curves to meet unique roast and flavour profiles.
- The Clover brewer equipment manufacturer is acquired but turns out to be best applied to exotic, smaller-batch Reserve coffees.
- The replacement of the La Marzocco manual machine with the semi-automatic Verismo 801 manufactured by a Swiss company; Thermo-Plan.

## **New business models**

Starbucks has been at the forefront of introducing new business models to the retail coffee industry. Examples include.

- The original Starbucks did not sell beverages, only whole-bean and ground coffee in bags for home consumption.
- Starbucks moves to bring coffee to those outside the retail outlet channels; e.g. customers of Hyatt, Marriott, and in-stores such as Barnes and Noble, and Publix.
- Introduction of ‘Street-named’ stores obliquely connected to Starbucks; a concept which is just underway and its long-term results are not yet evident. Recent reports<sup>17</sup> suggest the unit is underperforming.

<sup>15</sup> Onward, Chapter 10, p. 6.

<sup>16</sup> Onward, Chapter 10, p. 7.

<sup>17</sup> Bloomberg Businessweek, April 25 – May 1, 2011.

- Schultz combines (in the year 2000) two ideas into one product/service; it is not just what you drink but where you drink – a winning combination.
- Closing down 7100 stores is a different business model; shutting down the whole operation even for a brief time, is significant in its action and perception and is here defined as a ‘business model’.
- Introducing rewards programs such as the Treat Receipt, the My Starbucks Rewards Card (2008), was significant for Starbucks but built on well established practices in other businesses.
- The establishment of Digital Ventures is a new model, built around the strength of the brand.
- VIA, because of its basic technology, allows for the establishment of a variety of new business models which are not dependent on the ‘store’ or an apparatus to prepare a brew.

### **New products**

Starbucks has introduced a large number of new products and service components, only a few of the more significant of which are mentioned here.

- Pike Place Roast - could be considered a product extension but, because of its significance -being the first in a line of many new drinks - is considered a new product because of the risk attendant with a new product introduction.
- Sorbetto, thought to be a potentially successful product but based on research conducted by an Italian company – launched in July 2008. Sorbetto came in with a flurry and then was allowed to fade away<sup>18</sup>. The plug is pulled after it was discovered that there were high shipping costs and baristas took a lot of time to clean up<sup>19</sup>.
- Mazagran – a new product but failed.
- Frappuccino – a new product and highly successful – accounted for \$2 billion in sales in 2009.
- VIA, as an instant coffee developed because of R&D effort, opens up a host of new markets and channels.
- The Tribute Blend developed for the company’s 40<sup>th</sup> anniversary, has attendant risk in the choice of beans as well as the concept itself. A test of newly formulated ‘limited edition reserve’ products akin to the marketing of wine.
- The breakfast or warm sandwich introduced in 2003 – to much comment. Months of planning and research for this launch went into this product but nothing would satisfy Schultz as he emphasised the need to retain, in store, a coffee ‘aroma’. He had wanted to stop this product in 2007, and finally got around to doing so when he assumed the role of ‘ceo’<sup>20</sup>. Breakfast sandwiches are returned to the stores in June, 2008<sup>21</sup> after having all their recipes updated.

### **Product line extensions**

The building of new store locations or the re-introduction of products, albeit with minor modifications are examples of product extensions. Starbucks considerable growth was dependent upon getting the formula right and then repeating it hundreds of times.

- Sandwich recipes redone during 2008 and reintroduced to stores in June 2008.
- First store in Beijing established in 1999 is an extension of the model developed in North America.
- Expansion of the retail store network globally.
- Limited-release Starbucks Reserve coffees is an extension of the already-in-place high quality coffees.

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<sup>18</sup> Schultz comment.

<sup>19</sup> Bloomberg Businessweek; April 25 – May 1, 2011

<sup>20</sup> Onward, Chapter 11, p. 3

<sup>21</sup> Onward, Chapter 26, p. 17

- Redefining coffee blends such as French Roast or Verona to naming products; Level One (Mild, tight, crisp) or Level Five (Bold, dark, intense), for example.

### **Business process continuous improvement**

Continuous improvement and 'lean' services, took a back seat to other forms of innovation until the need for large-scale cost-reduction loomed in 2008. Growth had been the object right up to 2008 and the number of store opening per day was astounding. In the passion for growth, the issues of cost-reduction, supply-chain discipline, and supporting information technology had either not been recognized or put to one side.

- Missed the technology revolution in terms of the adoption of advanced information systems and in-store management systems.
- Supply chain had not matured with the growth of the company.
- Lack of discipline (relatively undisciplined) in back end infrastructure and operations.
- The introduction of the Mastrena machine, now in almost 70% of U.S. -owned stores, is representative of improvements to the process of production but it also contributed to a product line extension. Its main contribution is to provide control to the baristas; the front line of Starbucks.
- Decision to bring back the grinding of coffee beans at the store level.
- Business process reengineering, continuous improvement, and cost reduction, as terms, all have somewhat of a negative overtone. There is a suggestion that criticism might not have been so easy to deliver to Schultz. Delivering bad news to a highly placed senior executive in some ways defines an organization. Michelle Gass is given credit for being 'unafraid to deliver bad news' during meetings with Schultz, strongly suggesting that Schultz did not take kindly to receiving bad news<sup>22</sup>.

For some, innovation has often meant only new products or new business models, and not internal and not-so-exciting business process improvements.

November 5, 2011

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<sup>22</sup> Bloomberg Businessweek, April 25 – May 1, 2011; Marketing, Starbucks Kid Brother Grows Up Fast