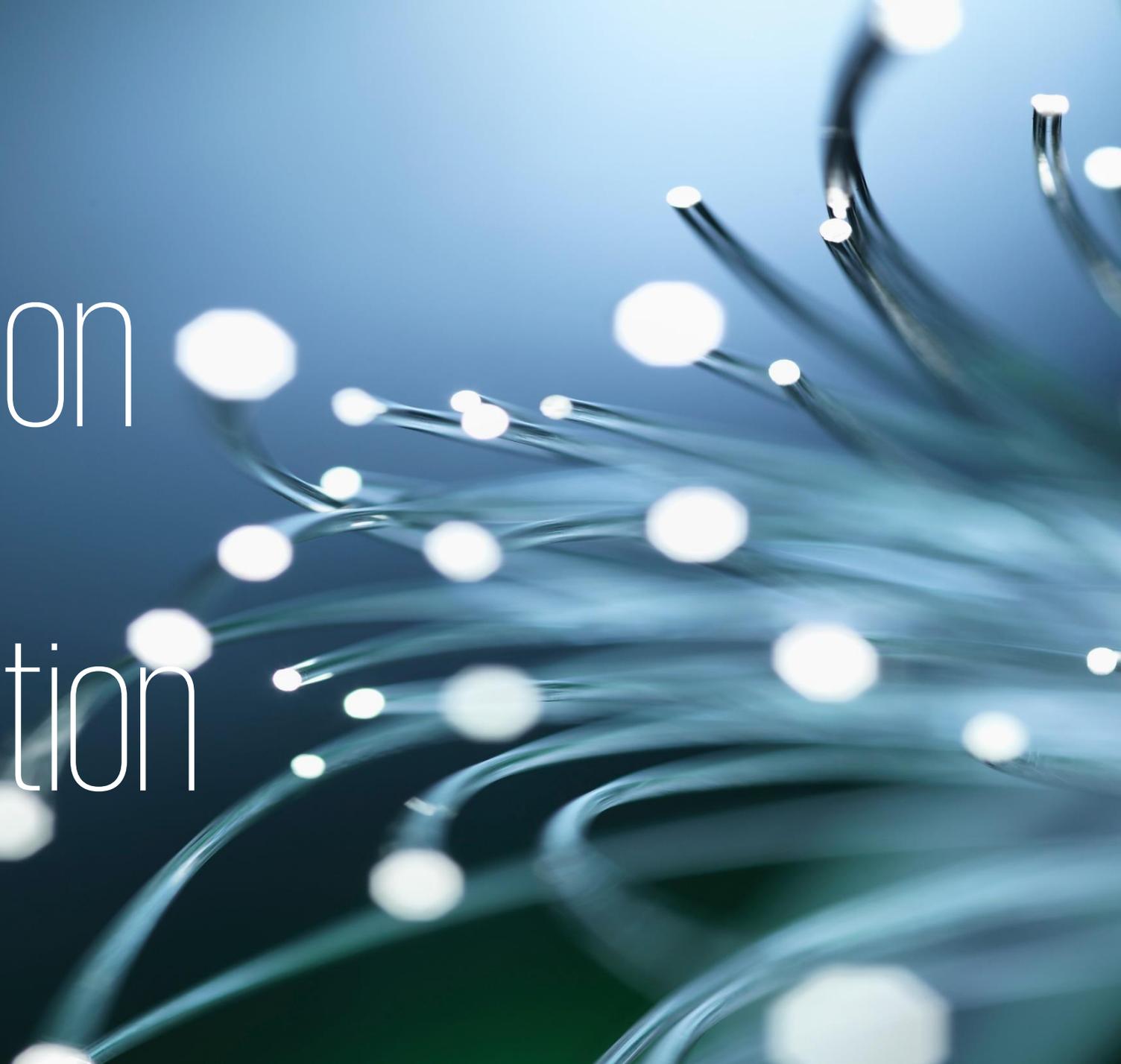




Definition of Innovation

Montreal, September 12, 2018



Definition of innovation

1. Incremental innovation
2. Adjacent innovation
3. Transformational innovation
4. Innovation efforts

Incremental innovation

Sometimes called “Core or “Horizon One” (H1) innovations, these typically serve existing customers or markets. They may involve new, improved, refined, or “incrementally better” products or services. These innovations are usually closely tied to the core business. An example of incremental innovation might be Coca-Cola's recent local flavor launch, which included locally-sourced flavors such as “Georgia Peach” and “California Raspberry”; the company’s “specialty soda” segment was up 8 percent in 2016, while most other carbonated soft drinks stayed flat that year.

Adjacent innovation

These innovations, often called “Horizon Two” or H2 innovations, typically involve expansion to an “adjacent” business or customer segment. These innovations usually leverage the company’s expertise, but do so in new or innovative ways.

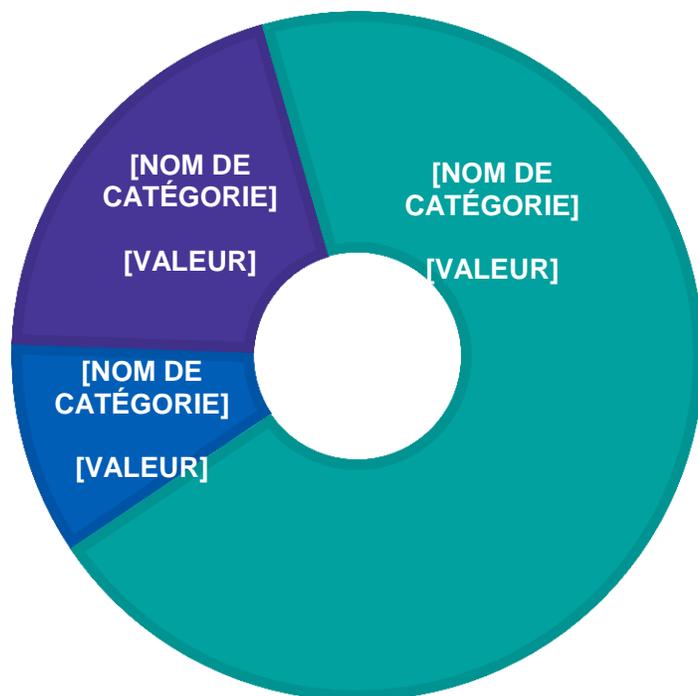
Two examples of adjacent innovations might be General Motors’ new “Maven” car-sharing subscription service, or Nike’s “NikePlus” membership program. Both offerings leverage their companies’ core expertise, but introduce new business models to appeal to new demographics and new customers.

Transformational innovation

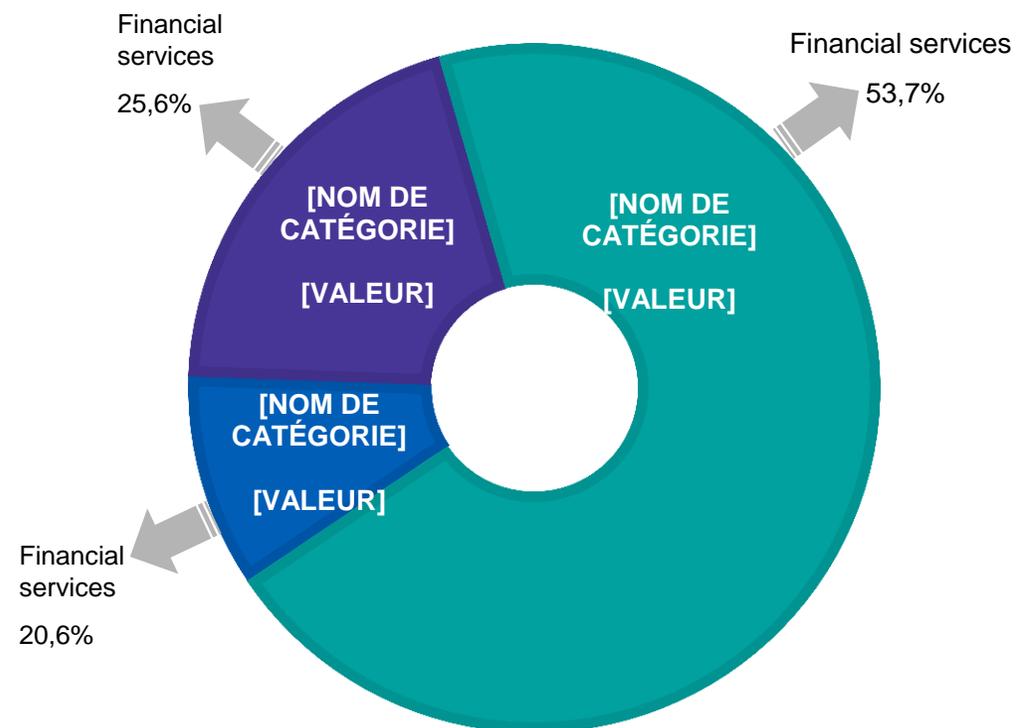
Sometimes called “Breakthrough”, “Horizon 3” or disruptive innovation, transformational innovation involves the creation of entirely new businesses to serve new markets and new customers. Considered the most high-risk style of innovation, transformational innovation often requires new capabilities, and yields totally new products and markets. The most frequently cited example of transformational innovation comes from Amazon, which launched a cloud-based service called Amazon Web Services or AWS in 2006. The on-demand computing platform, which was a completely new business unrelated to its core ecommerce business, generated more than \$17 billion in revenue in 2017.

Innovation efforts

CONVENTIONAL WISDOM



TODAY'S REALITY





Thank you



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