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To win market share, don't try to influence what brand of product people buy. Change how they use the product in the first place.

In today's fast-moving marketplace, companies typically compete by improving their products in small ways. They make them visually more attractive, or more reliable, or less costly. Maybe they tinker with the marketing.

The result is predictable: Competitors make a countermove—and in the end, market share moves slightly, if at all.

In thinking small, though, companies miss out on the chance to win big. Instead of trying to influence what brand people buy, they should be focusing on what people buy.

Real innovation involves creating categories or subcategories with distinctly new value propositions.

They change the competences and strategies required to compete and, at their most powerful, transform markets by making competing products irrelevant. The Prius hybrid, for example, developed with new technology from Japan's Toyota Motor Corp., has made other cars irrelevant for some buyers, and has helped Toyota establish itself as a leader in industry efforts to make more environmentally friendly cars.

Often, important innovations come from smaller companies, whose success with a new idea can catch much bigger competitors flat-footed. Today's beverage arena, for example, has undergone dramatic change in recent years, thanks largely to innovations by smaller players in the sector. Indeed, PepsiCo Inc. and Coca-Cola Co. missed out on much of the high growth in sports and health drinks through the 1980s and '90s, focusing instead on their long-established dueling colas for much of that time. Among the big winners that Coke and Pepsi eventually were forced

to acquire were Gatorade, bought by Pepsi as part of its acquisition of Quaker Oats Co. in 2001; the Odwalla line of juices and other health drinks, which Coca-Cola acquired in 2001; and SoBe, formerly the South Beach Beverage Co., a maker of juice blends and teas purchased by Pepsi in 2000.

While creating new product categories and subcategories is not always possible—and can be risky—research has shown it produces far greater rewards than sticking with the tried and true. In 2004, two professors at the French business school Insead made a study of 108 business launches over a recent five-year period, some 14% of which represented innovations that went beyond incremental improvements in an existing market space. The study, by W. Chan Kim and Renee Mauborgne, found that those 14% produced 38% of the revenue and 61% of the profits for the entire group.

Innovating 101

So how does a firm identify, or better yet, drive, these real innovations, without depending on technological breakthroughs? Here are some ways:

Augment the offering with a feature or service that consumers will regard as essential.

Westin Hotels, a property of Starwood Hotels & Resorts Worldwide Inc., created a subcategory of hotels that offer a premium bedroom experience with its Heavenly Bed, a pillow-like mattress filled with down, and, later, the Heavenly Shower, extra roomy and with dual shower heads. General Motors Corp.'s OnStar service, which allows motorists to get help or get directions, has changed automobile buying criteria for some.

Provide faster access to new products. Two successful clothing retail chains, Zara, part of Spain's Inditex SA, and American Apparel Inc., have innovated in fashion

by keeping design and manufacturing primarily in their home markets, Spain and the U.S., respectively. This helps the companies deliver new fashions into their stores much faster than some of their competitors.

Find an underserved segment. That's what Clif Bar Inc. did with the Luna energy bar for women, introduced in 1999. Clif Bar still markets the Luna as the first nutritional bar with a taste, texture and nutritional ingredients chosen to appeal to women.

Expand the offering from components to systems.

This is what software companies do when they go from selling isolated applications to offering a system to handle all of the customer's related needs. Microsoft Corp.'s Office suite, for one, bundles features such as word processing, spreadsheets, calendars and email.

Market a new and distinct use or application. Bayer Corp. helped create a new market for itself by offering the regular use of Bayer Low Dose aspirin as a way to ward off heart attacks. The innovation brought new users into the market.

New and ...Just How Improved?

Whether your company has hit on a possible innovation, or your biggest rival has just unveiled one, answering these questions can help you assess the innovation's potential:

- **How attractive** is the innovation to the marketplace?
- **Will it appeal** to a large and profitable segment?
- **Can a dominant** position be obtained?
- **Will competitors** be attracted to the subcategory?
- **Will it be** strategically difficult for rivals to avoid it?
- **Will competitors** be able to overcome the entry barriers and develop the needed assets and competences to compete successfully?
- **How long** will the barriers last?

Create a new product form or delivery method.

Packaging yogurt in Go-Gurt's colorful nine-inch tube helped Yoplait, a subsidiary of General Mills Inc., forge ahead of Danone SA's Dannon, a brand that Yoplait had trailed for decades. Go-Gurt's tube changed what parents were buying, making yogurt easier and more fun for kids to eat. Similarly, the invention of cereal bars, in response to a society on the run, succeeded in changing where and how consumers bought and ate cereal.

Capture a market need, whether latent or visible.

There was no general outcry for upscale coffeehouses when Starbucks Corp. started building its chain of stores that delivered consistent high-quality coffee in a social and aesthetically pleasing environment.

Beer Wars

The Japanese beer market provides a detailed, and dramatic, look at the ability of real innovations to affect a market. For the past three decades, the market has been hypercompetitive, with roughly four to 10 new-product introductions each year, aggressive advertising, packaging innovations, and sales promotions. Yet during this period, the market-share trajectory of the two major competitors—Kirin Brewery Co. and Asahi Breweries Ltd.—changed only four times: Three were due to the introduction of new subcategories, while the fourth was due to a repositioning of a subcategory. This is an amazing commentary on what drives market dynamics.

The first of the three innovations to shake up the sector was dry beer, first marketed as a distinct new segment by Asahi Breweries in 1987.

Kirin, which makes Kirin lager, was the dominant brewer in Japan from 1971 to 1986, with a steady market share of about 60% over that period. The brewer was closely associated with the rich, somewhat bitter taste of its flagship pasteurized beer. But the introduction of Asahi Super Dry in 1987 offered a beer with a sharper, more refreshing taste, and less aftertaste. The new product, which contained more alcohol and less sugar than lager, and

a special yeast, appealed to a new, younger generation of beer drinkers.

Dry beer was a phenomenon. In just a few years, as other brewers also started marketing it, dry beer captured between a quarter and a third of Japanese beer sales. (In contrast, it took 18 years for light beer to gain 25% of the U.S. market.) The main beneficiary was Asahi Breweries, which was perceived as the authentic brewer of dry beer. Thanks to Asahi Super Dry, Asahi's market share in 1988 doubled to more than 20%, while Kirin's fell to 50%.

Kirin unsuccessfully tried to push back with Kirin Draft Dry in 1988. But having sold Japan's leading lager for decades, Kirin may have lacked credibility in the dry-beer space. Asahi also managed to force Kirin and other brewers to drop similarities in their dry-beer packaging and commercial messages—an effort that helped Asahi emphasize its position as the authentic dry-beer innovator.

Kirin says that soon after introducing Draft Dry, it shifted its priorities to meeting other consumer needs it had identified. Those attempts to create a new subcategory produced a hit the following year.

Ichiban to the Rescue

With Kirin Ichiban—the market's second major innovation—Kirin in 1990 introduced a new and expensive brewing process that uses more malt, filtering at low temperature, and, most important, only liquid from the first pressing of the malt. The resulting taste was milder and smoother than Kirin Lager. Ichiban presented a distinctly new value proposition: a very different taste that involved a new set of assets, skills, and strategies to produce. The cost of the process, the power of the brand, and Kirin's distribution clout presented major obstacles to competitors. Indeed, Kirin's rivals so far have not duplicated Ichiban, despite its success.

Asahi, for its part, says that's because brewers have wanted to pursue their own strategies—and because they now well know the dangers of trying to copy a rival's successful innovation, as happened with the scramble over dry beer in 1988.

Ichiban stopped the decline of Kirin's overall market share from 1990 to 1995. But in the period that followed, from 1995 to 1998, Asahi continued to build on the success of Super Dry, lifting its market share eight points to just over 35%. Asahi, by now the only dry beer maker, accomplished this by repositioning the dry subcategory with marketing that emphasized freshness, being the No. 1 draft beer in Japan, and having a global presence. Kirin, meanwhile, struggled during this period, with its market share falling nine points to around 39%. Perhaps irritated by Asahi Super Dry's claim to having the No. 1 draft beer, Kirin converted its brewing process, changed the brand name of Kirin Lager to Kirin Lager Draft, and tried to make it more appealing to a younger clientele. In the process, Kirin's image became confused and its core customer base disaffected.

Hello, Happoshu

Kirin was able to halt further market-share erosion in the late '90s thanks to a third innovation to cause a major shift in market shares: happoshu beer, a subcategory introduced by Suntory Ltd. in 1994 that contains a lot less malt than most Japanese beers, and thus qualifies for a significantly lower tax rate. The beer's popularity was quickly established, based on good taste at a low price.

The first happoshu, Hops Draft, created by Suntory in 1994, ultimately proved little more than a footnote in the segment. But the subcategory got traction in 1998 when other brewers entered the fray, most notably Kirin and its Tanrei brand. Tanrei helped Kirin hold on to its spot as Japan's top brewer from 1998 to 2000 as overall sales of happoshu increased to about a fifth of the overall beer market by early 2001.

That same year, Asahi finally entered the segment, but could not dislodge Kirin in this category. Nevertheless, thanks largely to the continued success of Super Dry, Asahi in 2001 passed Kirin to become Japan's overall No. 1 brewer with a market share among Japan's five major breweries that Asahi put at 38.7%.

By 2005, Kirin had taken leadership in the low-malt

subcategory with both Tanrei and a no-malt beer which had an even lower price. As a result, for the past few years, Kirin and Asahi have each at times laid claim to being Japan's No. 1 brewer by market share.

Driving Forces

For a different look at how powerful real innovations can be, consider a brief history of the U.S. auto market, in which a dozen or so innovations each changed the way consumers bought and thought of cars: Henry Ford's Model T, which in 1913 rolled off the first moving assembly line, revolutionizing mass production; the enclosed car, an early winner being the affordable Hudson Essex in 1921; GM's marketing strategy of combining multiple brands in one large corporation; the ability to buy cars in installments, making them more affordable; automatic transmissions, which made cars easier to drive; rental cars, creating a market for short-term use; Ford's 1955 introduction of the Thunderbird, an affordable two-seat personal luxury car; the Volkswagen Beetle, a 1960s icon, of which more than 21 million were sold; inexpensive and reliable Japanese cars of the 1970s; and finally, the vehicles at the heart of three key market shifts since the 1980s—the minivan, for its convenience; SUVs, for power; and hybrids, for their better mileage and lower emissions.

The innovators behind each of these developments achieved above-average profits that sometimes extended for years. In particular, the Chrysler minivan, which was introduced in late 1983, sold more than 200,000 cars in its first year, maintained leadership in the subcategory it invented for at least a decade, and was a critical contributor to the company's survival.

Other innovations that have supported high returns for companies that were early market leaders: Charles Schwab Corp.'s OneSource, a mutual-funds supermarket with no transaction fees; Cirque du Soleil, the acrobatic group whose dramatics breathed new life into the circus business; Southwest Airlines Co., which specializes in point-to-point, no-frills service; Home Depot Inc., which sells advice and home-improvement products for the do-it-yourselfer;

Cable News Network, which put 24/7 news on television; and Apple Inc.'s iPod and iTunes, the music player and online music store that have helped rewrite the rules for marketing music.

Advantage, Innovator

The high returns that innovations produce are sometimes the result of advantages the innovator already holds: entry barriers based on technology, assets and expertise, the loyalty of a customer base, and an image as the originator of the innovation.

Other times innovators extend their profits because their rivals are held back by the curses of success and size. Competitors in an established market, for example, may believe that participating in a new subcategory will cannibalize their existing business. When Chrysler invented the minivan, for example, its peers decided to protect their station-wagon businesses rather than invest in a new line of vehicles. Chrysler, on the other hand, with a weak position in station wagons, had little to lose.

Alternatively, big companies may believe that an emerging subcategory will be too small to materially affect their business. Such thinking held Coca-Cola and PepsiCo back while the new health- and sport-drink categories were blossoming.

Innovators need to be aware that their challenge is not only to create an offering and brand, but to create, manage, and protect the perception of the new subcategory.

The ideal way is to make the brand synonymous with the subcategory. The assumption should be that competitors are irrelevant because they lack visibility, credibility, and authenticity.

The inevitable result will be that the innovator is also considered the most relevant brand—perhaps the only relevant brand—for the subcategory.

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