

IMAGINATION IN MARKETING

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Rapid, non-linear change is a key feature in today's marketplace. The pace at which knowledge is created, disseminated and rendered obsolete is constantly increasing. Knowledge, therefore, is only a momentary competitive advantage that rapidly becomes a commodity, often in discontinuous iterations. This results in a shift in the nature of value creation away from "knowledge-based application capabilities" and towards "creativity-based transformation capabilities." Marketers, while generally recognizing this direction of change are unclear about how to adapt to it. The objective of this paper is to present a framework to help direct a company's product strategy and value-generating capabilities for the future. To do so, the construct of "imaginative intensity" is introduced and described. Several propositions are advanced to provide a framework for harnessing imagination-based value, which is critical for an organization's product strategy and innovation capabilities. Directions for future research are presented.

INTRODUCTION

Marketplace demands change rapidly. Schumpeterian "gales of creative destruction" relentlessly batter an organization's value-generating systems. Global hyper-competition rapidly renders an organization's offerings obsolete. Volatility and transience dominate the business environment.

Gaps between the environment and an organization cause organizations to decline and even die. When gaps occur between the environment and an organization, foresighted competitors that have filled these gaps steal market share away from the organization. Moreover, as the pace of change intensifies, it is increasingly difficult for an organization to catch up with competitors once it has fallen behind. It is important that an organization and its offerings stay ahead of environmental change to ensure that such gaps never occur and to create gaps for competitors and potential entrants. When an organization creates gaps for competitors, it causes them to react, rather than

set the marketplace agenda. This results in capability and infrastructural challenges for competitors, and a potential competitive advantage for the organization.

In today's business world, there is a distinct shift in the nature of value creation, away from knowledge-based application capabilities and toward creativity-based transformation capabilities. In a world of accelerating commoditization of competencies, past success is often less important than creative renewal. Skills are often less critical than entrepreneurial ingenuity. Emerging technologies help to disseminate new ideas and products extremely quickly. An organization's "rate of idea generation and utilization," a concept we term "imaginative intensity" is therefore critical for its future success. "Imaginative intensity" is a fundamental requisite for an organization's product strategy and innovation capabilities.

THE AGE OF IMAGINATION IN MARKETING

When so-called "business ages" start and end is the subject of considerable debate among business historians. What is clear is that, from time to time, the nature of value creation and wealth generation changes. The agricultural

age, industrial age, information age and knowledge economy are the labels given to successive time periods as the nature of value creation changed over the years (Peters 2001; Murakami 2000).

Some (e.g., Masciarelli 2006) believe that we still live in the “knowledge economy.” However, there are several indications that business has moved beyond the “knowledge economy.” In this paper, we suggest that knowledge is increasingly becoming commoditized and that we live in “the age of imagination.”

Knowledge today is a pre-requisite for participating in the marketplace. It is, in itself, however, only a momentary competitive advantage that usually rapidly becomes commoditized. Knowledge is defined as “what is known” (*American Heritage Dictionary* 2000). The collective knowledge of an organization relates to its familiarity with, and understanding of a subject, often with the ability to put it to productive use. Knowledge creation and integration have been critical to a firm’s success in any historical period. In recent years, however, (i) the pace at which knowledge is being created has rapidly increased; (ii) the pace at which knowledge becomes obsolete has rapidly increased; and (iii) the pace of diffusion of knowledge has rapidly increased. The exponential increase in the rate of the creation and obsolescence of knowledge is mostly because of the exponential growth in communications over the years, and results in increasingly rapid changes in the basis for value creation. Knowledge assets, or even “competencies,” by themselves are temporal and are, therefore, unsustainable sources of competitive advantage in the long run. Knowledge, in and of itself, is consequently unlikely to be the critical source of future wealth creation. In other words, an organization is unlikely to differentiate its products or protect its markets from competitors simply on the basis of its knowledge assets.

Hamel (2001, 2006) is more outspoken on the issue:

“And it’s a complete mistake to say that knowledge is the most critical resource in the New Economy. Knowledge today is a commodity. You can buy it by the yard from just about anywhere.” (Hamel and Bernhut (2001, p.42)

“It’s tough to build eye-popping differentiation out of lower-order human capabilities like obedience, diligence and raw-intelligence- things that are themselves becoming global commodities, available for next to nothing in places like Guangzhou, Bangalore and Manila.” (Hamel 2006, p.80)

Even if the knowledge assets are proprietary or protected (such as with a patent) the proliferation of knowledge-rich hyper-competition in global markets ensures that those knowledge assets are likely to be rendered obsolete unless they are advanced or re-invented. Furthermore, in the past, if a successful company fell behind on cutting-edge knowledge in the marketplace, it could use its past financial or structural might to fight back competition and reclaim its leadership. Today, the pace of change makes that increasingly difficult. Organizations that fall behind find it ever more problematic to catch up.

“Commoditization” is the process that transforms the market for something that is unique into one that is undifferentiated and driven by price competition (Wikipedia 2006). In other words, as monopolistic competition turns to perfect competition, the inherent knowledge associated with an organization’s offerings will not have the power to influence prices or prevent its customers from moving to lower-cost competitors. Moreover, as knowledge and intelligence become widely available globally (as noted in the comment below), and as new knowledge is disseminated ever more rapidly, profit margins shrink and may even disappear, as competitors with lower

costs, but with access to the same knowledge base, enter the market.

“The world has arrived at a rare strategic inflection point where nearly half its population—living in China, India and Russia—have been integrated into the global market economy, many of them highly educated workers, who can do just about any job in the world. We’re talking about three billion people.” (Barrett 2004, c.f. Peters 2001).

The integration of Asia and many former communist countries into the global economy has resulted in a situation of oversupply in global markets, accompanied consequently by falling prices. This is especially a serious situation for developed countries, where companies have two choices: either to match costs and wages in low-wage countries that have access to the same knowledge base, or find other ways to move up the value-added ladder. In summary, knowledge is a critical factor in the today’s economy, but only as a pre-requisite for participating in the marketplace, not as a sustainable source of future value creation. Future value creation is likely to be achieved only through the creation and integration of new knowledge.

Marketing Is in the “Age of Imagination”

The single most significant way to prevent an organization’s value-generating concept from becoming commoditized is to change that value-generating concept before circumstances in the environment force the organization to do so. That way, both low- and high-cost competitors lose the ability to utilize the knowledge base of prior value-generating concepts, as “game-changing” concepts take their place. These “game-changing” concepts could be the result of product or business model innovation.

The incessant need in organizations for ideas that produce “game-changing” value-generating concepts thus cannot be over emphasized. “Imagination” is the process of producing

ideas. It involves (i) the creation of new knowledge, (ii) the creative application of knowledge or (iii) the creative integration of knowledge to generate new value. In other words, imagination involves both knowledge and creativity. “Imaginative intensity” is the “rate” at which imagination is unleashed. The “imaginative intensity” of an organization is reflected in the numbers of ideas, trials, ventures and market successes it achieves per period of time.

The nature of value generation has, over the past 500 years, moved from being derived from agricultural-based assets (the agricultural age) to manufacturing-based assets (the industrial age) to information-based assets (the information age) to knowledge-based assets (the knowledge economy) and, now, to creativity-based assets (the age of imagination). Acknowledgement of this focus on creativity is growing, although it has somewhat vaguely been described in marketing literature thus far.

To create value in the future, marketers will have to understand that past knowledge assets are less important than the capability for continuous regeneration. Structural stability will be less important than entrepreneurial ingenuity. The human imagination and the value systems that support it will be central to business enterprise. Ten propositions relevant to the “age of imaginative intensity” will be now be presented.

Proposition 1: Imagination is widely available in most organizations, but most companies barely utilize it.

Senior marketing managers have a tendency to assume that it is solely their responsibility to generate ideas for designing the future product line for the organization. Similarly, they assume that the creation of future strategic marketing initiatives lies within their domain. As a result, the average employee is disenfranchised from idea generation, and the vast creative potential available in the organization is often wasted.

The average individual in an organization has high intellect and creativity. Imagination is widely available throughout an organization. The problem is not with the availability of imagination in organizations, but with senior marketing managers' willingness, or perhaps insecurity, to utilize it. Senior marketing managers often wrongly assume that only they are capable of coming up with good, practical ideas. Hamel (1996, 1999) compares this mistaken notion with that followed in old centrally-planned Soviet style economies, and contrasts that with Silicon Valley-style thinking, where almost anyone with imagination and passion can find capital to bring their ideas to market. He argues that no one in Silicon Valley assumes that the next great idea is going to come from the person who came up with the last great idea. This has resulted in perhaps the largest creation of wealth in the shortest period of time. There is both a strategic interest and moral cause in utilizing the imagination of average employees in an organization and involving them in its future product strategy. Few organizations have adequately-developed systems to support the ideas of its people, and consequently to develop its full innovation capabilities.

Proposition 2: In managing innovation projects, marketers need to focus on achieving at least one success, rather than on avoiding failures.

Marketing innovation, and the successful introduction of new products, is a long and risky process, involving multiple experimental and testing stages. Despite numerous control mechanisms, the probability of success of any given product is considerably less than that of failure. In a recent study (Hesselbein, Goldsmith and Somerville 2002), it was observed that it took three thousand raw ideas to develop nine projects, of which only one of them succeeded at the end.

Yet, many marketers still do not understand this fundamental principle. The model followed by the average venture capitalist in Silicon Valley is to make sure that he has at least one success,

not to make sure that there are no failures (Hamel 1999). By contrast, many marketing managers do not risk trying anything new unless they perceive a high probability of success for the project. This is hardly the formula for successful innovation. Success in bringing innovative products to market is a function of the number of experiments carried out by the firm, where the vast majority of experiments fail. The focus of an organization therefore should be trying as many new experiments as feasible, not on trying to avoid failures.

Innovation is epitomized by uncertainty. An idea essentially is a hypothesis. Such ideas need to be tested in order to determine if a given idea is worthy for the marketplace. That is, there is an inherent gap between imaginative ideas and the real world. Unless businesses are willing to accept the risks of failure, they are likely to be made extinct by innovative and aggressive newcomers who are willing to take such risks.

Proposition 3: "Marketing science" is not a substitute for imagination. Sole reliance on "marketing science" hinders innovation. "Marketing science" should be viewed as a method of evaluating imagination-driven decisions and assessing the risk involved.

There is a tendency in organizations to rely too much on "scientific analysis" when making business decisions. While this may appear to be a rigorous decision-making technique, the complex human and societal factors that are inherent in good business decisions are often ignored in such a technique. This approach also seems to imply that, if good business decisions can be made this way, then a computer rather than a human being would be more effective. Sole reliance on marketing science stifles the imaginative aspects of marketing decision making and smothers innovation.

Disproportionate reliance on scientific analysis also assumes that customers, partners and employees are perfectly rational. On the contrary, it now appears that emotional factors

are as important as cognitive factors in most customer decisions (Bakamitsos 2006; Erevelles 1998). The management-by-numbers mindset may have been useful in the industrial age, but today's business environment demands organizational cultures that value imagination and entrepreneurial capital, in addition to scientific analysis.

Marketing research and teaching methods in business schools may also suffer from the placement of a disproportionate emphasis on stringent management-by-numbers analysis and technical training at the expense of creativity, emotion and entrepreneurial thinking. Bennis and O'Toole (2005) suggest that over-using the scientific model in business is due to the "faulty assumption" (p.98) that business is an academic discipline like chemistry rather than a profession like law. Business decisions, they note, involve "messy, incomplete data," which may not be taken into account in purely quantitative analyses. Business academics, they argue, suffer from "physics envy," constantly trying to make their discipline more scientifically stringent than it should be. Worse, quantitative analyses tend to structure problems in terms of what is already known, and thus miss the imagination-driven visualization of the future. Analysis thus based on the past is bound to lead to faulty conclusions for the future, where environmental realities are different than the past.

This is not to say that imagination-originated decision making should ignore rigorous quantitative analysis. Rather, marketing science has an important role: to analyze the wisdom and rationality in an imagination-driven decision. Imagination should be supported by sound analysis. We need both creativity and rigor.

Proposition 4: The creation of new value through linear improvements will be limited in the future. Non-linear ideas and business models are needed to create future value.

"Breakthrough," rather than incremental innovations are required to create a competitive

advantage in the marketplace where knowledge is instantaneously disseminated and rapidly commoditized. Thus, markets that rely on linear improvement are likely to find themselves lagging in their market space rather quickly. While companies often say they desire breakthrough innovations, their product strategy is generally characterized mostly through incremental improvements to their current offerings. Von Hippel, Thomke and Sonnack (1999) suggest that the major reasons for this is because companies focus on short-term growth or because they have no effective system in their organizations to achieve radical change.

Another problem with linear improvement is that the focus is on defending old value-generating propositions as opposed to creating new ones. This delays the decision to change value-generating propositions before circumstances in the marketplace force a company to do so and often before it's too late. Thus, basing product strategy on incremental improvement may help a company's short-term growth prospects, but actually jeopardize its long-term prospects.

Under an incremental improvement strategy, organizations often judge themselves based on past, predictable performance benchmarks, and thus fail to realize the potentially large returns that may be achieved with a radical new offering or business model. In many companies, innovation strategy is cautiously designed to preclude surprises and minimize risk. This approach limits innovation to incremental improvements such as product enhancement, line extensions or economies of scale. While less risky, such change usually has a lower rate of return and limited future potential when compared with more risky, non-linear change.

Proposition 5: Imagination and execution are both necessary for successful marketing innovation.

Organizations often make incremental improvements by focusing their attention on

execution. That is, they strive continuously to make their current operations more efficient. They make improvements in existing products, processes or systems. There is a danger that such a focus tends to preserve the past and, as a result, miss future opportunities.

Other organizations err at the other extreme. They are highly capable of generating new ideas that may define the future of their industries, but do not have the discipline or diligence to execute their ideas. Such behaviors create opportunities for “second movers,” with more effective implementation skills, to steal markets from them.

Implementation is the process that turns ideas into action. A good product or business model does not necessarily guarantee success. Rather, “the missing link between aspirations and results” is disciplined execution (Bossidy and Charan 2004). Two products or business models may seem structurally similar, but produce different results in practice because of implementation. Imagination is important, but would break down without proper implementation. There is a gap between ideas and reality that can be bridged only if sufficient thought and work is expended on the application.

Martin (2000) suggests that 70 percent of new strategic initiatives fail at the implementation stage. In order to overcome this obstacle, effective innovators should think through the implementation stage even while they are formulating their ideas and strategy. Contingency plans need to be created for experiments that do not materialize as planned. “Execution” is often mistaken for a tactical issue. Execution is a strategic issue, central to the innovation capability and success of a firm.

Effective implementation involves a thorough understanding of relevant marketplace information. Inconvenient facts need to be taken into account, and alternative execution options evaluated. Creative visionaries that ignore implementation are destined to fail (Drucker 1998). Aspirational concepts need to

be made operational. Imagination is irrelevant without effective execution, and execution is irrelevant without good imagination. An organization would be dysfunctional if it has strengths in one and not the other.

Proposition 6: Innovation is not just a function for R&D. Rather, everyone in the organization is responsible for innovation.

The essence of innovation involves both the development of “new ideas by people” and the engagement of those ideas “within an institutional order” (Van de Ven 1986). It is shortsighted for a company to restrict innovation to just a few presumably qualified people in an organization. Indeed, the “innovativeness” of an organization is not just reflected in the qualifications or productivity of its technical staff; it is better defined by its openness to imagination (Hurley and Hult 1998). It is unlikely that people in an organization will truly be open to new ideas if they do not perceive themselves as having a stake in defining the future of the organization, or if they perceive the ideas to be thrust upon them from “above.”

The other reason for moving the function of innovation beyond the scientists in R&D is that scientists are usually more disassociated from customer needs than those on the front line. They are less able to understand the desires of customers or to articulate desires that perhaps even customers cannot articulate, which is where true innovation lies. Moreover, their innovations are likely to be product-centric rather than customer-centric. Hamel (2006) notes that one of the major hallmarks of innovative organizations is that they harness the intellect of every employee, rather than viewing them as cogs in a “soulless” machine. They succeed in turning them into innovators and change agents by trusting them to solve problems rather than directing them from above. Innovation results from generating creative enthusiasm at all levels in an organization Tichy (2002).

Proposition 7: Creative imitation involves imagination, and is a type of innovation.

There is innovation in creative imitation. Business culture often disparages “copycats” who are not the first to come up with an idea, but eventually become more successful in the marketplace. The creative *application or implementation* of innovation is a bonafide strategy to achieve market leadership (Drucker 1985). Perhaps this is because imagination is relevant from a business standpoint only if it creates value in the mind of the customer.

“Creative imitators” do not just merely copy their competitors. Rather, they add value by developing a product, service or business model to satisfy customer needs better than the original innovator. Creative imitators observe consumer needs carefully, and exploit opportunities to best address unmet needs. They perceive opportunities that are not necessarily new as much as not previously seen (Yu 2000).

One of the reasons creative imitators or so-called “second movers” achieve market success is because the “first movers” do not have a good enough business model or the marketing capabilities to support their innovation. In other words, an innovation can fail no matter how good it is, if marketing capability and business model imagination do not also exist to support it. For example, Henry Ford did not invent the automobile, but achieved market leadership through making cars available to the average customer through mass production. Xerox was the pioneer in the icon-organized desktop system, but Apple was better able to bring it to market, yet was ultimately out-manuevered by Microsoft’s marketing prowess and business model.

More generally, creative imitators are usually better at analyzing market needs and finding better ways for consumers to buy and use products. They focus more on customers than on products. Customer-driven innovation is at least as important for business success as product-driven innovation. This is similar to the

concept of “Schumpeterian entrepreneurship,” where an entrepreneur is able to take advantage of inequalities by advancing another’s product or concept by satisfying market needs in a new or more preferred manner (Lau, Chan and Ho 2004). The Schumpeterian idea of “creative response” involves the recombination of ideas to create a uniquely advantageous position by creating new models for unfulfilled desires.

Proposition 8: Disagreement and diversity are needed to stimulate innovation.

A major barrier inhibiting imagination is a lack of disagreement and diversity within an organization (Drucker 2001). Effective organizations embrace conflict during the innovation process. Diversity in gender, age, ethnicity, education or expertise within an organization leads to differing viewpoints that more often than not results in more creative solutions. In addition, external voices such as those of customers, suppliers and even competitors can only enhance the imaginative intensity of an organization.

In recent years, the issue of disagreement and conflict in innovation has more thoroughly been studied. Song, Dyer and Thieme (2006), for example, distinguish between constructive and destructive conflict in organizations, and suggest that conflict has to be managed well to facilitate innovation. In companies that succeed in creating an atmosphere of constructive conflict, disagreements do not ruin relationships within the organization or inhibit people from working together. Landau, Landau and Landau (2001) suggest that two forces, diversity and interdependence, if properly handled, engender conflict that enhances creative thinking, while attaining the goals of the organization. Heterogeneity among team members that share a common goal is therefore conducive to the innovativeness of the team.

Organizations can also use technology to take advantage of cultural, structural and institutional differences across the globe to stimulate imagination through diversity of knowledge (Doz, Santos and Williamson 2004).

Knowledge advantages of one country are combined with those of another (e.g., design and engineering) to enhance product innovation. Trans-national teams scattered around the globe create a dynamic environment where differences in values and cultures are leveraged to stimulate imagination.

Proposition 9: Imagination is more important than capital assets for the creation of future wealth. People are more important than capital for innovation.

The nature of wealth in the marketplace today lies in ideas and imagination. Some organizations do not understand this concept even today. Consider the market value and previous year's revenues (in parentheses in US\$ billion) of the following companies on January 24, 2007:

<u>List A:</u>	
Microsoft	\$302.2B (\$45.4B)
Pfizer	\$190.1B (\$52.2B)
Google	\$146.7B (\$9.3B)
Coca-Cola	\$112.8B (\$23.7B)
<u>List B:</u>	
General Motors	\$18.0B (\$206.7B)
Union Pacific	\$26.5B (\$15.2B)
Sears Holding	\$27.3B (\$52.8B)
US Steel	\$7.9B (\$15.4B)

The difference in stockholder value between List A and List B is starkly visible. It may seem strange to some that Google, a company whose stock has been traded publicly only since 2004, can theoretically buy General Motors, a company that currently makes more cars than any other company in the world (Kageyama 2007), eight times over, or that Coca-Cola, a company that generates most of its revenues through flavored water can theoretically buy General Motors six times over.

For those who understand the value of imagination, however, these numbers are not surprising. While there are many differences, structural and otherwise, between the companies on List A and List B, we highlight one critical difference. The companies on List A have few tangible assets; their major

asset is the human imagination. For example, Coca-Cola's main asset is the brand name Coca-Cola, while most of its tangible assets (e.g., bottling plants) are owned by subsidiaries or private owners (Sellers 1996; Anders 2002; Wade 2006). In other words, Coca-Cola's basic asset is the "marketing imagination" in the brand name, Coca-Cola.

Proposition 10: Benchmarking limits imagination.

One of the most widely used practices in business is benchmarking, the process of identifying and adopting noteworthy standards and norms from different organizations, with the goal of matching them and enhancing the performance of one's organization (Kumar, Antony and Dhakar 2006; Vorhies and Morgan 2005). Benchmarking entails continuous, albeit incremental improvement (Eid, Trueman and Ahmed 2006), and is mainly useful in raising the existing standards in an organization. By definition, this involves dwelling in the past as opposed to re-inventing the future. Similarly "internal benchmarking" (see Vitasek 2006) shackles the organization to its current or past standards or procedures. Companies are reaching the "limits of incrementalism," which results in a high incidence of "strategy convergence" within an industry (Hamel 1996). Non-differentiation is hardly the path to market leadership. As opposed to performing similar functions *better* than competitors do, organizations should get *different* by innovating new business models.

Benchmarking undoubtedly has its advantages and place in achieving operational effectiveness, especially for organizations with lagging performance in an industry. Benchmarking, however, limits imagination. Practitioners of benchmarking erroneously equate noteworthy industry norms, however stellar they may be, with the "best" possible outcomes in the industry. In doing so, they shortsightedly pre-set the upper bounds of their performance with that already in existence, and pre-empt the possibility that "game-changing"

imagination may result in performance dramatically superior to industry norms.

FUTURE DIRECTIONS

We propose three issues that should be explored further in the future. The first relates to the issue of productivity versus what we term the “imaginativity” of organizations. (“Imaginativity” is an index of “imaginative intensity” or rate of idea generation and utilization in organizations. “Imaginativity” gains are likely to influence productivity gains, but it is less likely that productivity will influence imaginativity.) Organizations, have, in the past, been focused on improving their productivity. In other words, the goal has usually been on getting marginally better in the future. Yet, in an age often characterized by discontinuous, non-linear change and the commoditization of skills, we believe that organizations (and nations) with the highest rates of “imaginativity” will create more new wealth than those with just high rates of productivity. This issue should be of concern to organizations and nations that in recent years have used the ubiquitous dissemination of knowledge to achieve remarkable gains in productivity, but have limited capabilities in original “imaginativity.”

We also believe that more consideration needs to be given to businesses having “moving competencies,” and perhaps “portfolios of moving competencies.” While the intuitive logic and strengths of the concept of the “core competence” of an organization (see Prahalad and Hamel 1990) are obvious, the concept may be more useful in an environment characterized by continuous, linear change rather than one characterized by discontinuous, non-linear change. A core competence, after all, will have rapidly diminishing returns in an environment characterized by rapid non-linear change. Moreover, managers have misconstrued the concept to express disinterest in opportunities outside their “core” areas of competence and to justify incremental improvement within their organizations. Perhaps, at the very least, the concept needs to be re-visited and qualified.

Thirdly, we believe that marketers need to take a deeper view of competition than one that is solely focused at the product level. Competition today is increasingly less among products, and more among imaginative business models and strategies. Consider the competitive dynamics between Starbucks and Nescafe, Netflix and Blockbuster or Apple iTunes and Tower Records. While both essentially sell the same product, the former member of each pair has a more imaginative and consequently more lucrative business model. We therefore believe that marketing strategists should move beyond the concept of “product life cycles” and further study “strategy life cycles.” The intuition here is that both products and strategies have a limited life expectancy, and consequently new products and strategies need to constantly be introduced to remain competitive. Lack of imaginative intensity has resulted in widespread “strategy convergence” and commoditization in many industries. For example, it is difficult to perceive a substantial difference between one airline seat and another.

CONCLUSION

In conclusion, a key factor that will distinguish great companies from mediocre companies in the future will not be their “knowledge assets,” but their ability to understand and apply the concept of “imaginative intensity.” Great marketers will know how to create an “atmosphere” among their people where the human imagination is allowed to flourish and grow. Companies that do not understand this concept are in danger of being supplanted by more imaginative competitors from countries anywhere in the world. We no longer are in a “knowledge economy.” We are in the early stages of the “age of imaginative intensity.”

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