behavior, the value proposition, or the go-to-market strategy. In general, substantial innovations have ten times the impact of incremental innovations; the impact of transformational innovations is ten times greater again. Substantial and transformational innovations need to be detected and tracked by companies.

A transformational innovation often provides a fundamental change in the business model, likely involving a new value proposition and a new way to manufacture, distribute, and/or market the offering. It is likely to make the assets and competencies of established firms irrelevant. The advent of steam power, which ultimately spelled the end of sail-powered transport, was a transformational innovation. The automobile, Southwest Airlines, the business model of Dell Computers, smartphones, Amazon.com, Uber, and Cirque du Soleil represent innovations that have transformed markets. Transformational innovations often attract customers who had been the sidelines because the prior offering was too expensive or lacked some critical element.

Substantial innovations are in between in newness and impact. They often represent a new generation of products, such as the Boeing 747 or the iPad, that make existing products obsolete for many customers. Cisco introduced a videoconference technology called telepresence that uses massive amounts of bandwidth to provide a high-fidelity experience and should expand the use of videoconferencing. In these cases, the basic value proposition and business model were enhanced but not changed. Substantial innovations are much more common than transformational innovations, but can still create major changes in the competitive landscape.

Innovations that are transformational or even substantial are often championed by new entrants into the industry, so it is important to monitor new, even small, firms and not let the large, established firms dominate the environmental analysis.[12] Incumbent firms—especially successful ones—have incentives to protect and improve their profitable niches in the market by extending current offerings with incremental innovations. Their people, culture, and mix of assets and competencies are unlikely to support a transformational innovation. As a result, when transformational innovations appear, the first reaction of incumbent firms is denial followed by discounting the new entrant's ability to reach and convert the market. This skepticism is why horse-drawn buggy manufacturers never became automobile firms, telegraph companies missed out on the telephone, and 3M and others felt that the early and primitive Xerox copy technology would never replace heat-sensitive copier paper. Chapter 13 will discuss how the substantial and transformational innovation can define new subcategories and lead to enduring success.

Workplace

Online communication platforms have increased employees' ability to work remotely.[13] Thirty-seven percent of U.S. workers reported having used a computer to work from home. Office workers are especially likely to be able to telecommute with 44 percent of white collar professionals reporting working remotely at least occasionally. Remote work can be a boon for employees when it increases their flexibility, but employees' ability to work remotely also means that they are increasingly expected to be "on call" for work outside of traditional business hours.

This blurring of the lines between work and leisure time is further augmented by the trend for companies to offer lifestyle "perks" to their employees. These perks range from onsite health care (Facebook), nap pods, and an errand running service (Google) to three catered meals a day and meditation classes (Twitter).[14] These more extreme examples still are limited primarily to technology companies, but firms in a wider range of industries are adopting employee perks, which, they hope, can increase both employee satisfaction and productivity.

New technologies, such as Slack, an instant messaging system designed for internal team collaboration, are now widely used by employees for all types of instant messaging inside companies. Launched in August 2013, Slack grew to 4 million daily users by October of 2016. Slack also appears to be crossing over from business use to personal use as a social media platform.[15]

Another important trend, which has been facilitated by improved technology, is the growth of the "sharing" or collaborative economy. This term refers to a business model in which online technologies enable people to get what they need from each other rather than from centralized institutions. Sharing economy companies such as Uber, Airbnb, and TaskRabbit provide a platform, such as an app, that enables people who are looking for a service to connect with another person who is willing to provide it. Originally the domain of small start-ups, established companies have seen the potential in this economic model and are beginning to add sharing style services to their core offerings.[16]

Sustainable Businesses

The sustainability trend described earlier applies to business as well. In one study by MIT and Boston Consulting Group in which nearly 3,000 executives from 113 countries were interviewed, two thirds of the firms said that sustainability was critically important to being competitive.[17] There are several drivers of "green." One driver is concerns about global warming and resource depletion. Many firms feel a responsibility to be part of the solution, including Unilever and Walmart. Unilever's CEO Paul Polman observed that climate change cost Unilever well over 200 million Euros in just one year and that is enough motivation to do something about the problem.[18] In response, Unilever has set a goal to cut their environmental impact in half by 2030.[19]

A second driver is the ability of green programs to provide functional benefits to firms in the form of cost savings from reduced energy consumption. Firms are often surprised at the extent to which green programs pay off. Walmart, whose green story is told in the insert, discovered, to its surprise, that an ambitious environmental program was associated with meaningful, tangible cost savings plus a positive sales response to green products. A third driver is a desire to be respected by customers and employees, both of which value a relationship with a firm that they admire.

WALMART TURNS GREEN

In 2005 Walmart began to develop green programs, an amazing turnaround for a company that had prided itself on low costs and prices first and foremost.[20] Through its partnership with the Environmental Defense fund and its own initiatives, Walmart has set and met numerous environmental goals over the past ten years.[21] The firm has set the goal to create zero waste across its global operations. It is working to achieve this goal through projects such as reducing in-store plastic bag usage, and as of 2016, 81 percent of the materials from operations in the United States were diverted from landfills. However, Walmart's most significant area of environmental impact is in how it can influence the thousands of

(continued)