

The Causes of Market Innovation Risk and the Application of a Proper Management Mode

Zhang Zhengyi

School of Management, Wuhan University of Technology, Wuhan, 430070, P. R. China

(E-mail: Yn.zzy@163.com)

Abstract Market innovation, an integral part of enterprise innovation, is the key factor in the sustainable development of the enterprise and in the enhancement of its core competitiveness. However, market innovation of enterprise is still in exploration and risks are inevitable. Based on the analyses of enterprise market innovation and market innovation risks, this article blazes a new path in the research which divides the risks in enterprise market innovation into five categories covering product innovation, price innovation, marketing innovation, demand innovation, and institutional innovation. Definitions are given on each kind of risk, risk point, and the causes of the risk. The influences of the risks on business and the formation of the risks are discussed. Further, the management mode of market innovation risks are explored from a macroscopic perspective on the basis of the studies of the features of market innovation risks.

Key words Market innovation risks; Causes of formation; The management mode of risks

1 Introduction

The study of market innovation risks has been the focus at home and abroad. However, previous researches are lack of pertinence. There are only sporadic documents, without specialized article published. This research aims at market innovation risks in business in an innovative approach based on the relevant findings, in which market innovation risks, the classifications, risk points and the causes of risks are defined, their influences on business are discussed, and the causes of the risks are analyzed. Further, the management mode of market innovation risks is explored from a macroscopic perspective on the basis of the studies of the features of market innovation risks.

2 Market Innovation and the Risks

Simply speaking, market innovation means that the enterprise changes market activities via reorganizing the original market elements or introducing new market elements. Market innovation is an integral part business innovation, during which new markets are constantly developed and market and the subjects of market undergo dynamic changes. Market innovation of the enterprise is generally divided into five categories covering product innovation, price innovation, marketing innovation, demand innovation, and institutional innovation, as illustrated in Table 1:

Table 1 Classification of Market Innovation

Category of Innovation	Specific Contents
Product Innovation	Development of new market via new and unique products or services, including the improvement of old products and the development of new products
Price Innovation	The process to cope with competition and to expand market via the instrument of price, including the measures of high price and low price.
Marketing Innovation	The process of seek marketing strategies to make innovations or breakthroughs in terms of the changes of market and the strengths of enterprise in resources and economy.
Demand Innovation	The process of creating business opportunities and seeking more customers via new technologies, new ideas and new products.
Institutional Innovation	The process in which the enterprise takes new measures to adapt to the inside and outside changes.

Enterprise market innovation is still in the stage of exploration and it is highly risky which is seen in the following aspects: (1) the innovation process undergoes great changes along with the changes of market and innovative activities; (2) the innovative achievements cannot be valid until they are testified as practicable in the market, which means that the process is highly risky. The classification of market innovation risks can be drawn from that of market innovation. The definitions of each innovation risk, the risk points, the source of risk, and the influences of risk on enterprise are illustrated as follows in Table 2:

Market innovation starts and ends with market. The success of innovation is ultimately testified by whether the enterprise can take larger shares of the market. In this sense, market is the key factor for the innovational activities. It is highly imperative to conduct sufficient market investigations and to make proper predictions before decision-making so as to find out the appropriate way, time, and scale for the innovation.

Table 2 Different Kinds of Market Innovation Risks

Kinds of Risk	Definition	Risk Point	Source of Risk	Influence
Product Innovation Risk	The risks in the course of new product / service development	Decision-making on Product; The gap in the product properties; Product lifecycle; Product cost	inside	great
Price Innovation Risk	The risks in the course of pricing or price adjustment	Pricing risk; Price fluctuation risk	inside	Fairly great
Marketing Innovation Risk	The risks in the innovative course of marketing approaches, means, institutions or ideas	Customer satisfaction degree risk; human resources risk; efficiency risk; the risk in the effectiveness of channels	inside	Great
Demand Innovation Risk	The risks in the course of creating new opportunities or developing more customers via new technologies, measures and ideas	Customer demand risk; Risk in answer to changes; Communication risk; Risk in technical process	outside	Average
Institutional Innovation Risk	Risks in the process in which the enterprise takes new measures to adapt to the inside and outside changes, generally including the macroscopic and the microscopic risks	Policy risk; Industry risk; Environment monitoring risk; Credit risk; Risk in organizational structure	Inside and outside	Fairly great

3 The Analyses of the Causes of Risks in Enterprise Market Innovation

Enterprise market innovation aims to change the target market and win a larger share of the market so as to expand production marketing via reorganizing the original market elements or introducing new market elements. Because market undergoes dynamic changes, the analyses of the causes of risks must be based on a dynamic study. With reference to the current findings, the causes of risks in market innovation are respectively summarized as follows:

3.1 The analyses of the causes of risks in product innovation

Product innovation is an integral part of enterprise market innovation and it is also the key element of innovative activities. Product innovation is actually the development of new market via new and unique products or services, including the improvement of old products and the development of new products. The risks are seen in ① the course of innovation; ② the innovation itself; and ③ the fact that the innovative achievements cannot be valid until they are testified as practicable in the market. The causes of the risks are found as follows:

3.1.1 The risk from the problems of the innovated product

There may be problems of the innovated products, such as disqualification, unstable performance, failure to meet the demands of customers, failure to set themselves apart from the counterparts, failure to outdo the counterparts in property and cost, poor selling points, and even the defects in property. These problems loom as intangible risks.

3.1.2 The risk from inaccurate positioning of the innovated product

Positioning of the innovated product includes pricing and target market. Pricing is immediately connected with the fate of the innovated product. If the price is set too high, the customer will not accept it and the market will not be developed so that selling will be hindered. If the price is set too low, the enterprise will benefit little. The selection of target market is also of key importance to product innovation. If the selection is too broad, there is little pertinence, which will in turn affect marketing. Conversely, if the market is too small, the marketing cost will rise so that marketing will be hindered.

3.1.3 The risk from inaccurate timing in the promotion of the innovated product in market

The timing of product promotion must be proper. Otherwise there will be great losses if the innovated product is promoted too early or too late. Customers may not have enough time to understand

the product if it is promoted too early in the market. Moreover, in such circumstances, the enterprise will have to put in a fairly large amount of cost for marketing. If the product is promoted too late, chances are that the business opportunities will get lost, the marketing of the enterprise will be hindered, and economic profit will undergo great losses.

3.1.4 The risk from prolonged cycle of product innovation

Generally, product innovation has a cycle which includes the four stages of investigation, design, production and marketing. There is a time lag during this process. The longer the cycle, the more risks there may be. It is imperative for the enterprise to shorten the innovative cycle.

3.2 The analyses of risks from price innovation

Price innovation risk refers to that of the enterprise in the course of pricing or price adjustment, which usually appears after a large-scale price adjustment. It is a typical chance risk. When the price changes toward one direction, it may cause losses to the enterprise. On the contrary, when the price changes toward the other direction, it may bring profits to the enterprise. Price innovation risk chiefly includes pricing risk and price fluctuation risk.

3.2.1 The risk from inaccurate pricing

Price is an important factor by which a customer will decide whether to buy the product or not. Generally, the price of a product is set with reference to the factors of the business affiliation, the features of the product, market demand, and the strength of the enterprise. Pricing too high or too low will be disadvantageous to the enterprise.

3.2.2 The risk from excessive or too frequent price adjustment

Considering that price is of key importance to product marketing, the risks from excessive or too frequent price adjustment will possibly cause economic loss and affect the reputation of the enterprise so that the share of market will be endangered. It is important that the enterprise keep stable pricing, avoiding excessive or too frequent price adjustment.

3.3 The analyses of the causes of the risk in marketing innovation

Marketing innovation has become the nuclear element for the enterprise to develop market and to improve its competitiveness. It is also an inevitable choice for the enterprise to promote the development. Marketing innovation will change radically the original market structure and will establish a new marketing pattern. However, the risk of marketing innovation is ubiquitous. The causes of such risks are found as follows:

3.3.1 The risk from improper policy-decision in marketing innovation

The Market is complex and changeable so that the marketing strategy of the enterprise must subject to proper change and adjustment. When marketing innovation becomes a routine of daily work, the importance of decision-making becomes obvious. Compared with other forms of market-oriented innovations, marketing innovation, due to its great number, frequency and influence, will owe heavily to decision-making. If the decision is made improperly, it means the waste of human and material resources and the unnecessary increase of cost, which will certainly lead to the failure of marketing.

3.3.2 The risk from ineffective implementation of marketing innovation

Marketing department and staff are the starter and performer of marketing innovation. Once the decision of marketing innovation is made, the task is handed down to the marketing department. The performance of the marketing department in the implementation of the strategy will be the key factor to success. The force of implementation is closely related to the establishment of the marketing department, the institutional construction, and the qualifications of the staff, which are also the origins of risk. In other words, well-qualified staff, with strong adaptability and affinity, will surely enjoy the advantages to win over in the marketing of the new products. Otherwise, with inadequate staff members of marketing, it is very difficult for the enterprise to develop the market.

3.4 The analyses of the causes of risks in demand innovation

The risk in demand innovation refers to that of the enterprise in the process of creating business opportunities and seeking more clients via new technologies, new ideas and new products. The causes of the risk are seen as follows:

3.4.1 The risk from inadequate investigations on demand

Demand innovation must follow the change in market and must attach great importance to the demand of customers, which is the prerequisite of success in marketing innovation. The change of market demand innovation must be exactly based on the investigations of market and the corresponding analyses. Investigations must follow exactly the situations of market. Otherwise, the findings will go astray, which will pose impending risks.

3.4.2 The risk from ineffective information circulation

Information circulation is of decisive importance in demand innovation. The smooth flow of information depends heavily on the effectiveness of message transmission. If the process of information transmission between the enterprise and the customers is prolonged, the message will fail to function properly, which will in turn affect the response from the enterprise. If the channel of message transmission is too narrow, though possibly favorable to a fast transmission within a restricted scope and possibly effective to a quick response from the enterprise, it is hard for the message to be transmitted to all the customers. Consequently, the message will not be effective and the innovation will be thus hindered.

3.4.3 The risk from inefficient adjustment of the customer's demand

Customers' demands may vary from time to time. Some of the changes, such as the demands of customers to improve the quality and to enhance the efficiency of fast post, will mean the increase of cost on the part of the enterprise. Other changes will not lead to the increase of cost, such as the customers' favor of fashion, and their changes of flavor or ideas in health. Whatever changes there may be, it is important for the enterprise to show quick response.

3.5 The analyses of the causes of risk in institutional innovation

The uncertainty and complexity in institutional innovation requires a strong sense of risk on the part of the enterprise. The awareness of risk actually means a technical reflection of institutional innovation. Among all the risks in an enterprise, institutional innovation risk is extremely special because most of the institutional risks are objectively present rather than subjectively caused. The reasons are seen as follows:

3.5.1 Institutional risk objectively existent in market

The objective institutional risk in market includes the macroscopic and microscopic risks. The former includes political risk, legal risk, policy risk, industry risk, and disaster risk while the latter, environment monitoring risk, credit risk, risk in organizational structure. These risks, objectively existent, are formed in the social or market environment, free from the will of enterprise.

3.5.2 Institutional risk inevitable in the course of market economy

Institutional innovation of market can improve the efficiency of market exchange and resource allocation, and will bring about a series of benefits such as the increase of investment benefit, market risk pooling, realization of economic scale, and reduction of exchange cost. Meanwhile, institutional innovation is complementary. Benefit and risk coexist. Moreover, once institutional innovation is completed, it will bring about the entire change in institutions concerned. Such a change can be favorable or unfavorable to the development of market, which means the risk to market economy.

4 The Management Mode of Enterprise Market Innovation from a Macroscopic Perspective

There are three theoretical modes in enterprise market innovation: ① the insurance management mode, drawing the experiences from risk management of insurance to study innovation risk management; ② the institution management mode, borrowing the ideas and practices from enterprise risk management to cope with market innovation risk; ③ the comprehensive management mode, by means of the optimized theories and practices of various approaches. Considering the complexity and variability of market innovation risk, the management modes in enterprise market innovation must be studied from the macroscopic perspective.

4.1 The insurance management mode of market innovation risk

The insurance management mode of market innovation risk is inferred from the theories of insurance risk management and it is generally classified as the following approaches:

Risk avoidance. It means to avoid the risks via specific measures. However, risk avoidance is temporary and cannot be the best approach to coping with the risks.

Risk acceptance. It means the intentional acceptance of the risks, without any measures to deal with the risks, for these risks can be ignored considering the ability of the enterprise to put up with the risks after careful evaluations.

Risk Diversification. This means the diversification of risks via different approaches so as to reduce the damage to the minimum. Diversification can be cheaper but it can only reduce the non-system risk rather than system risk.

Risk Transference. Risk cannot be totally eradicated. However, it can be transferred via different approaches, such as the "risk conduction".

Risk Budget. Like financial budget, risk budget means the distribution of the risks to different

departments downwards.

4.2 The institutional management mode of market innovation risk

The enterprise is in a market environment full of fierce competitions. Considering the risks, the enterprise is expected to improve its effectiveness of market innovation and to reduce risk losses based on the studies of both the inside and outside conditions and by means of the enhancement of information acquisition, the improvement of organizational system, establishment of risk monitoring mechanism, and the application of effective preventions.

Moreover, it is of vital importance to establish sophisticated systems of market investigation and marketing information. During the course of operations, great importance must be attached to scientific management and prediction, the development of new products oriented to the market, the improvement of organizational management, the optimization of innovative process, and the application of proper theories and methods.

4.3 The comprehensive management mode of market innovation risk

Generally, market innovation risk is divided into two categories. One is system risk, which means the risks from inside, or from the innovation system itself because of the changes in some key factors. The other is environmental risk, which refers to the risks from outside, or from the factors outside of the system because changes take place radically. Analyses and studies of the risks and the corresponding preventive measures are aimed at the control of the risks.

The comprehensive risk management mode aims at the development of core ability and the enhancement of lasting competitiveness. With value creation as the ultimate goal, it attaches great importance to the proper integration of the key elements in management such as technology, organization, market, strategy, culture, institution, and approaches. The contents of the comprehensive risk management in market innovation lie with the coordination of the key elements of management, time, space and staff members, which highlights individual participation and comprehensive management.

5 Conclusion

Market innovation is complex because of the complex nature of market. Risk is objectively present in the course of market innovation. Actually, the market innovation of the enterprise develops along with its struggle against risks. It is thus imperative that the enterprise improve its management, develop its new product with consideration to the demands of customers, and start effective marketing strategies against risk so as to make possible its innovative activities. This study blazes a new path in the research of risks of the enterprise in market innovation in that the discussions and analyses of the causes of risks and the proposal of the management mode are exclusively the findings of this research work. There were no similar publications before. Still, considering the complexity and variability of the market, further researches are expected as to the exploration of market innovation risks.

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