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The Differences between Product and Process Innovation and Implications for Marketing Strategy

Organizations cannot remain still; in markets becoming increasingly globalized, effective performance depends on the successful management of innovation. However, the existing marketing literature has not sufficiently discussed the differences between various types of innovation (i.e., product vs. process innovation). Previous marketing researchers have focused more on product innovation than on process innovation, while more and more studies are emphasizing the importance of process innovation. This paper discusses the various definitions of these two types of innovation, as well as the differences between them. By making several suggestions regarding the differences, we suggest important research directions for strategic marketing contexts and offer important implications for organizations and managers.

Keywords: Product Innovation, Process Innovation, Marketing Strategy, Sustainable Competitive Advantage

Why is innovation important? The view that innovation is the central feature of competition in capitalist economies is widely held (Sciulli 1998). Due to the force of competition and changing consumer needs, the long-term survival and growth of a firm depends on its ability to develop new products and new methods (or processes) of organization (Zander and Kogut 1995). Particularly in today’s business environment, where every aspect of business – technology, government regulation, and global competition – is in a state of flux, there may be no executive task more vital than the sustained management of innovation and change. These rapid changes in the marketplace make it increasingly difficult for businesses to think long term and to constantly anticipate tomorrow’s definitions of value, which include the right mix of quality, service, product characteristics, and price (Sciulli 1998). To compete in this ever-changing environment, companies must create new products and processes. To dominate, they must adopt innovation as a way of corporate life.

Although the concept of innovation is very important in marketing research contexts, there are relatively few studies about innovation in marketing arenas. Few studies in marketing have examined innovation, and most of those that do are focused on product-related innovation. Marketing researchers have tried to explain how innovation can attract and influence the minds of customers, and how firms can achieve a competitive advantage from innovation. All this research, however, emphasizes innovation based on new product development and improvement. In addition, previous marketing studies do not fully discuss discrete types of innovation and the differences between types.

At the most basic level, there are two types of innovation: product innovation, or changes in the products a company makes; and process innovation, a wholesale change in the way products are made and provided. Product and process innovations are distinguished based on the different areas and activities that each of them affect within a firm (Gopalakrishnan and Damanpour 1997; Ettlie and Reza 1992). However, little research has examined the respective parameters of these innovation types, including under which conditions each type of innovation is more important. The present discussion facilitates a better understanding among researchers of the different characteristics of innovation and the implications for marketing.

Accordingly, this paper discusses the two types of innovation together with the differences between the two concepts. Through this discussion, several propositions are advanced, and implications are thereby discussed in terms of strategic marketing research issues for practitioners and researchers. To achieve these goals, several examples from the automobile industry are provided. The automobile industry has been selected because it is one of the largest and most important global industries. It is also highly sensitive to and related to both types of innovation.¹

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