I, Jingxi Li, hereby submit this original work as part of the requirements for the degree of Master of Design in Design.

It is entitled:
Promoting traditional values in design-driven innovation in Chinese business strategies

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Promoting traditional values in design-driven innovation in Chinese business strategies

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Abstract

Innovation refers to incremental, radical changes in thinking, products and processes. Innovation, important to business, economics and technology, is extensively studied because it leads to an increase in companies’ organic revenue growth and their bottom lines. Although the importance of design driven innovation is acknowledged in the United States, the value of design in innovation is underestimated internationally, especially in a developing country like China. That is why it is essential to understand how design could drive innovation in a different cultural context. The purpose of this thesis is to raise an awareness of how design driven innovation could be used as an important innovation strategy to help Chinese companies gain sustainable benefits. To achieve this goal, the relationships among innovation, design driven innovation and the traditional values based in Chinese culture are illustrated and a successful design driven innovative Chinese Cosmetic Company is employed as case study in this thesis. As a conclusion, this thesis identifies a unique element, Chinese traditional values, that could be used as one of key elements to achieving successful innovation for Chinese companies. This research is not only significant for showing the possibilities for Chinese businesses to achieve innovation, but also for suggesting possible strategies for international companies dealing with emerging markets issues.
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Introduction

Designer is more likely than non-designers to solve problems in nontraditional ways. That is, they are more likely to employ lateral thinking as a methodology to solve problems rather than employing traditional linear thinking. One of the reasons for this that is design itself could be seen as an activity that encourage people to think outside of the box. People who think outside the box are more engaged in the thinking process itself and are less likely to be affected by self-doubt and preconceptions. Therefore, different and new perspectives resulting from out of box thinking will contribute to outcomes. That is why the outcomes of design are usually labeled as creative or innovative. Design could also be viewed as an activity that seeks innovation. Even through the outcomes might not always reach expectations; designers should always be innovation seekers. Seeing myself as a born innovation seeker, I chose this topic as the main theme in my thesis.

I come from China and am familiar with the phrase ”Made in China”. To me “Made in China” didn’t mean, “Designed in China”; there was few design innovation in China. For many years, Chinese companies have enjoyed their roles as mass production manufacturers. They also believe design is a luxury they can invest in in the future but not as essential to their business as is technology or energy right now. Not only the industry, but also the government holds the same opinion. This is could explain why the Chinese government set developing technology innovation as a main goal to achieving economic growth nationwide in their "Eleventh Five-Year Plan " for 2005-2010 (The new 11th Five-Year Guidelines).
Although technology driven innovation has played an important role in economic growth, that doesn’t mean the technology innovation is the only way to fuel economic growth. The Internet introduced its Chinese users to the outside world resulting in consumers who are more sophisticated than ever and more skilled in seeking out and purchasing whatever they want. Even more, these consumers are shifting from purchasing what they need to what they want. Robert Hayes, a professor of the Harvard School of Business stated, “Fifteen years ago, companies competed on price. Today it’s quality. Tomorrow it’s design” (Design Management Institute, 2008). Apple’s success in attracting consumers by providing innovative design solutions of iPod and iPhone could be the best cases to exemplify this statement.

This trend will leave Chinese companies in a difficult position. Even through they are facing the fact they will have to compete with international companies domestically and globally with innovation, they are still concerned if design would be a useful or usable tool to employ. This concern could be understood in two ways. In one way, researchers and industries have limited the definition of innovation, referring in most cases to technology innovation. The definition of innovation is misunderstood in China. On the other hand, studies of innovation in China are primarily focused on technology driven innovation. Therefore, it is essential to have a clear definition of all the types of innovation and raise awareness of design driven innovation among them.
The Purpose

When the i7410 cellphone released by Samsung in 2009, it was named an innovative product for its new inside projector function. Regardless of the discussion of whether it is a successful product, a Chinese cell phone company that first added project function into cellphone feature’s catalogue received no credit. This small Chinese cellphone company is only one of those cellphone companies, who are focusing on designing and manufacturing innovative cheap “Shanzhai” cellphones in Shenzhen, China. Although believing their design driven innovation solutions were not the best, IDEO still credited their creative and innovative ideas (Taniguchi & Wu).

The purpose of this thesis is to raise awareness of how design driven innovation could be used as an important innovation strategy to help Chinese companies gain sustainable profits. Since the definition of innovation is limited in China, the major challenges of this thesis were to illustrate the relationship between design and innovation and show how Chinese companies can achieve innovation through design. Therefore, before moving to the main argument and identifying the solutions for this issue, it is essential to provide a comprehensive understanding of what innovation is and to identify different types of innovation. Then, how design driven innovation could benefit Chinese companies will be described. Building upon the information supplied in these chapters, the following chapter will illustrate how traditional values could be the thing that connects consumers, companies and design driven innovation. In this chapter, the example of how a successful Chinese company employed traditional values to achieve
design driven innovation is described in detail. My conclusions will be presented in the
last chapter, as well as recommendations for further research and discussion.
What is innovation

Innovation Defined

The word innovation is defined as “an action or process of innovating” in the Oxford English Dictionary. Examples are new methods, ideas or products. Innovation can be viewed as a renewal process for something that has reached the end of its lifecycle. “Innovation can be treated as a change in the thought process for doing soothing, or the useful application of new inventions or discoveries” (Mckeown, 2008). This may lead to the confusion of innovation with invention. Invention was defined as “a new, useful process, machine, improvement, etc., that did not exist previously and that is recognized as the product of some unique intuition or genius, as distinguished from ordinary mechanical skill or craftsmanship” by U.S. Patent Law (Dictionary).

Schumpeter, an Austrian-American economist and political scientist, believed that innovation played a more important role in economics than did invention (Vernon W, 1959). He also stated that invention is about ideas made manifest while innovation is ideas applied in practice. He further stated that innovation is differentiated from invention by creating values as well as introducing new things.

Innovation is an important topic in economics, business, design and engineering. This thesis will focus on discussing innovation from an organizational perspective. Managers or scholars see innovation as a process beginning with two parts: idea generation and opportunity recognition (Harvard Business Essentials, 2003).
Ed Roberts, a MIT professor, believed that innovation is invention plus exploitation (Harvard Business Essentials, 2003). Therefore, innovation can be considered a process where ideas find business opportunities. This indicated that creativity is involved in the innovation process, which means creative ideas that make tangible differences will be recognized in this innovation process. In Amabile, Conti, Coon, Lazenby, & Herron’s paper, they suggested, “All innovation begins with creative ideas… We define innovation as the successful implementation of creative ideas within an organization” (Amabile, Conti, Coon, Lazenby, & Herron, 1996). A definition by Harvard professors from an organizational perspective is: “innovation is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes or services” (Harvard Business Essentials, 2003). Tigre added more details to the definition, stating: “Innovation is a set of practices obtained from empirical testing, or the simple combination of existing techniques carried out in order to improve processes of products that could achieve some advantage for the organization” (Escalfoni & Borges, 2008). And, Cris Beswick, an expert in innovation, defines innovation as “the successful exploitation of an idea that adds value to the customer and commercial return of the creator” (Beswick, Gallagher, Hamilton, Nelson, & O'Sullivan, 2010). As discussed above, despite the different definitions of what innovation is, there seems to be agreement on what characterizes innovation in an organizational context: (1) innovation originates from creative ideas; (2) these ideas lead to business opportunities; (3) these opportunities add value to both customers and organization.
Different types of innovation

Although the innovation has many definitions, when used by companies, the definitions become fluid. Each organization defines and interprets innovation to meet their needs.

Incremental and radical innovation

Traditionally, innovation has two classifications: Incremental and Radical. Incremental innovation is defined as follows, “to exploit existing forms or technologies”. In this case, incremental innovation means, “it either improves upon something that already exists or reconfigures an existing form or technology to serve some other purpose” (Harvard Business Essentials, 2003). Apple’s different generations of Macintosh Pro computers exemplify the use of incremental innovation. The latest generation of Macintosh Pro has an aluminum body and a larger capacity hard drive; and, the older version Macintosh Pro has a plastic body and a lower capacity of hard drive (Mac). They both share the same base. Incremental innovation is focused on the changes at the margins. These changes are small but steady continuing for a long period. Incremental innovation enhances product performance while it decreases costs.

In contrast, radical innovation “is something new to the world, and a departure from existing technology or methods” (Harvard Business Essentials, 2003). The iPod is the result of Apple’s use of radical innovation. They invented a new method of storing
music digitally instead of using magnetic tape. Radical innovation has breakthrough changes and takes abrupt leaps forward. The result is an entirely new thing with new or better features providing better performance at lower cost. Even though scientists and entrepreneurs have radical ideas, radical innovation is unpredictable. In other words, companies can meet radical innovation rather than seeking it. That is due to the characteristics of innovation: ideas that lead to business opportunities and opportunities that added value to both customers and organization. Companies may be uncertain about which of the radical ideas will be adopted by customers. Consumers who are used to old technologies, forms or lifestyles might be unwilling to switch to the new technology until the dust settles down. These consumers are the 75% of iPad2 buyers who are first buying an iPad after waiting for a year after the radical innovative iPad was released in 2010. Therefore, radical innovation usually takes a long time to germinate and develop.

**Disruptive and incremental innovation**

Procter and Gamble (P&G), an innovation role model for many companies, sees innovation in two ways: disruptive and incremental (Lafley & Charan, 2008). In a business context, they believe disruptive innovation “changes the game by creating entirely new consumption, making obsolete and transforming current markets” (Lafley & Charan, 2008). Disruptive innovation, which is not applied every year, creates new markets. In many cases, it is based on disruptive technology, which was used by a Harvard professor Clayton Christensen to describe a technology innovation that could displace the established technology and precipitate the decline of companies whose business models are based on it (Harvard Business Essentials, 2003). This illustrates
why, as a 23 billion dollar company, P&G only had a total of seventeen disruptive innovations since World War II. It is not surprising that P&G’s brands created by their disruptive innovation account for more than half of their current revenues and their value is substantial.

For P&G, incremental innovation is essential due to its ability to add value to their customers’ lives. Incremental innovation, which adds new benefits, happens frequently at P&G. They believe that disruptive innovation is necessary, but not sufficient to create profitable products that are desired by their consumers. The incremental innovation not only drives P&G’s sustainable growth, but also continually attracts new users. Using consistent incremental innovation, P&G creates “a combination of benefits that are meaningful to consumers, develops and improves the brand’s promise” (Lafley & Charan, 2008).

**Incremental, evolutionary and revolutionary innovation**

As discussed previously, innovation could be seen as an outcome result. That is why IDEO believes that innovation can be categorized into incremental, evolutionary, and revolutionary outcomes based on different intentions (Design Management Institute, 2008). IDEO, a respected design consultancy, believes that a company’s growth intentions will lead to different innovation approaches and innovation outcomes. Therefore, it is necessary to illustrate the relationship between growth intentions and innovation outcomes. Figure 1 shows an overall map of the growth intentions defined by IDEO.
Figure 1. Ways to grow.

Adapted from “Building design strategy: using design to achieve key business objectives” by T. Lockwood, & T. Walton, Eds, 2008.

It can be seen from the diagram, there are four methods of growth: Manage, Extend, Create and Adapt. They used two unique coordinate variables: “users” and “offerings”. While providing a more understandable graph, it also showed the emphasis on “companies” and their “consumers”. These four ways of growing led to three types of innovation. Figure 2 shows three archetypes of innovation drawn by IDEO.
Figure 2. Innovation outcomes

Adapted from “Building design strategy: using design to achieve key business objectives” by T. Lockwood, & T. Walton, Eds, 2008.

As seen in the diagram, incremental innovation deals with existing users with existing offerings; evolutionary innovation provides new offerings to existing users or provides existing offerings to new users; and revolutionary innovation is focuses on new offerings and new users.

It should be noted that, the way IDEO interprets innovation types, provides companies more precise approaches to achieving innovation outcomes. For example, the release of GPS can be seen as a radical innovation, the cellphone with a GPS feature can be seen as a result of both radical innovation and incremental innovation.
Market pull, technology push and design driven innovation

Innovation is the positive change that provides value to consumers. For companies, an important criteria used to evaluate the success of innovation is whether consumers buy it. It is essential, therefore, for companies to understand the needs of their consumers, for whom they will innovate. Roberto Verganti, a Harvard scholar, places innovation into one of three groups: market pull, technology push and design driven innovation (Verganti, 2009). He further characterized innovation as having two dimensions as shown in Figure 3.

Figure 3. Three innovation strategies

One dimension of innovation is based on the previous study of radical and incremental innovation, and the other dimension is market pull, technology push and design driven innovation. According to Verganti, this method is based on the assumption that products appeal to people and their needs in two parts: Performance and Meaning. Performance here means “the utilitarian function, provided by product performance and based on technological development” and meaning focuses on “profound psychological and cultural reasons people use product” (Verganti, 2009). In his study, he discovered that people don’t purchase products based on their meanings; but, they do use things for profound emotional, psychological and sociocultural reasons. Each product has a meaning to a consumer. In order to understand the real meaning people give to things, companies should look beyond different segments such as features, functions and performance. Although a common assumption is that meaning is not a subject for innovation, it should be. Verganti believed companies could achieve radical innovation through proposing different and unexpected meanings to their consumers. For example, Apple proposed new meanings to hearing music to their consumers in 2001 through its first generation iPod. Rather than just reaching out and finding technology substitutes for Sony’s Walkman, Apple provided new meanings for consumers who could now listen and produce their own music whenever and wherever they wanted.
According to Verganti, because of the absence of study of radical innovation in meanings, previous studies of innovation focused primarily on market pull and technology push innovation. Market pull innovation begins with “an analysis of user needs and then searches for technologies that can better satisfy them, or updates product languages to respond to existing trends”(Verganti, 2009). Market pull innovation is an effective incremental innovation since it is focuses on understanding consumers and satisfies their needs. Verganti believes that user centered approaches don’t lead to radical innovation of meanings. The aim of market pull innovation is not to question, explore or define a new meaning for consumers. While essential, it is never sufficient for companies to keep competitive by basing their innovation only on market pull.

Technology push innovation results from technological breakthroughs. For a long period, it became the dominant innovation used because of its disruptive impact on industries. Quantum leaps in product performance enabled by breakthrough technologies are often believed to give a long-term competitive advantage to many companies. The success of Apple, Whole Food and Wii left room for new possibilities in innovation. As discussed above, technological breakthroughs don’t occur regularly. Although some technology innovations are recognized by manufacturers as business opportunities, their consumers might not accept them. Companies using technology push innovation might assume that consumers buy products for the same reasons they did in the past. This assumption could be risky, especially in a fast developing international environment. The failure of Nokia in the cellphone market and Sony in the music industry exemplified this.
Verganti wrote about research and development (R&D), saying, “design driven innovation is the R&D process for meanings” (Verganti, 2009). Every product has a meaning. Victor Margolin and Richard Buchanan claimed “products embody notions of identity that are socially recognized and thus become tokens in the symbolic exchange of meaning” in their book *The Idea of Design* (Margolin & Buchanan, 1996). People use things not only for utilitarian purposes but also for profound emotional, psychological and sociocultural reasons. Verganti believed that design driven innovation leads to radical innovation, which is the one of the major sources of long-term competitive advantage. Design driven innovation is important and unique because “it is propelled by a firm’s vision about possible breakthrough meanings and product languages that people could love” (Verganti, 2009). Verganti declared that the meaning of products is not derived from market or communication, but through the R&D process. Studies in different disciplines, from psychology to sociology, showed that consumers, as human beings, are always looking for personal fulfillment-meaning in products or services and do not just value their utilitarian functions. During the R&D process, product meanings are developed as part of the design phase. Verganti claimed, as with technological innovation, innovation in meanings occurs in every industry. For the industries, for which innovation of meanings is critical to competition, design driven innovation is even more vital.

**Why design driven innovation**

As discussed above, types of innovation vary due to the different purposes and interpretations of organizations. I believe these interpretations are not basically different
from each other. In fact, they support and complete each other. The diverse types of innovation increase the difficulties for organizations to interpret and execute them in appropriate ways. Consequently, innovation is an intimidating issue for Chinese companies. Verganti’s approach to innovation in two dimensions paved a clearer way for companies to frame their innovation strategies and execute them step-by-step. In other words, when companies facing the innovation issues, they can not only access them through the macro level of analysis if the innovation is radical or incremental; moreover, they can also decide which strategies to use if they are going to achieve innovation through one of the three types: marketing pull, technology push or design driven.

**An inspiration and resource of innovation**

For many years, both Chinese industries and government held the belief that technology is the original source for innovation. They held the notion that radical innovation begins by introducing a breakthrough technology into industry. Although industries evolve slowly through several stages, leapfrog changes in product performance and functions occur early in the first stage. With the birth of a new product resulting from breakthrough technology, a company has to convince consumers of its benefit and prove its viability as well. Even through these companies risk failing, if they succeed, they will set up the standards for that product or even the entire industry. As a consequence, new competitors will use these standards. With the commoditization of product, innovation becomes incremental. While solving the technical problems and making sufficient use of the potential possibilities of technological breakthroughs, many companies believe that design should be considered when the product is mature. Clearly, when design is applied
during this late stage, it only takes a decorative role that enhances product experience. Once the product becomes fully developed and widely available, the consumer starts to wait for another round of radical innovation. In this scenario, many companies can only wait and follow the originator’s steps if they are not the ones who had the initial technology breakthroughs.

The innovation process leading up to the next breakthrough can take long time, once it happens; the competition tries to catch up. Even the company who succeeds in bringing a new product using breakthrough technology to the market can’t be guarantied that their innovation will succeed with consumers. For example, Creative is a Korean company that invented the first MP3 player; it failed to get any credit for it. Their innovation was hidden by the shadow of the hugely successful Apple iPod. For many Chinese companies, Apple is their role model for innovation. No one would doubt that Apple’s success is not built primarily upon a technology domain; but on the contrary, on its outstanding design solutions. Apple didn’t invent the technology for the MP3 player but every one thought it did; Apple didn’t invent smartphone technology but every one thought it did. The iPod and the iPhone, many would argue, are milestone for MP3 players and smart phones. They took market shares from Nokia and Motorola, leader in their respective businesses. Many people are impressed with Apple’s designs and believe this is the critical reason why they buy Apple products. Design has become a powerful tool in Apple’s hand.
Although Apple’s success built a halo around design, many Chinese companies insist that design is a luxury. Chinese companies for a long time have been successful copying other’s products. Since they can’t on longer rely on this method to generate profits, cost cutting would be the first policy they follow when facing fierce competition. This would be a reliable solution if Chinese consumers were on the same page as they are; however, this is not always the case. The Chinese consumers suddenly became rapidly informed with the development of the Internet.

Attracted by the huge number of potential consumers, many international companies started doing business in and with China during the last few decades. They brought not only better products and services but also raised consumers’ awareness of current industry values. At the same time, China’s booming economy has produced Chinese consumers with continuously rising spending power. Cost is still an issue consumer keep in mind when purchasing, but it is not as important a factor as it once was. Informed consumers with more money to spend should influence how Chinese companies consider what their core competence is and how to achieve it in the long term.

As discussed before, innovation is considered a very effective strategy used by companies to achieve sustainable profits. Design driven innovation, one type of innovation, could be a powerful tool for Chinese companies to use. Just as technology push innovation offers opportunities, design driven innovation helps companies envision their innovation radically and incrementally. This presents the necessary focus for design
driven innovation and how Chinese companies achieve this will be described in the following chapters.
Design driven innovation

Definition

Design driven innovation is the innovation that results in radical new meanings (Verganti, 2009). Design driven innovation, as I stated previously, is the R&D process that brings radical new meanings to products and services. Design driven innovation allows companies to focus on issues other than appearance, function, and performance. It does not reinforce the meanings of what people currently expect from a certain product or service, such as that an MP3 player is a smaller version of a Walkman. Instead it proposes an unexpected new meaning: a new way to listen and store music, any time and/or any place. For example, people who bought cellphones when they were first introduced had a concern that they might be in an emergency situation and a cellphone would give them the ability to get help (Norman, Emotional design: why we love (or hate) everyday things, 2005). Today the cellphone doesn’t just mean a tool for emergency use and basic communication. People use it as a communication device in new ways that are a radical change from the original meaning of the cellphone.

Innovating using meaning as a guiding principle allows firms to step back from users and look at the big picture. This broader perspective enables companies to treat their consumers as human beings, instead of as merely users. It will help companies observe the sociocultural and technical contexts in which people are evolving. By observing people in each context, firms can gain a better understanding of how people
make their purchase decisions and how the technological changes will influence their behaviors. By understanding these contexts, companies can propose new meanings and build new scenarios for their products and services. By doing this, companies are empowered to look forward and envision meanings that cater to unique desires of their consumers. Compared to user-centered innovation, frequently used in design and marketing, design driven innovation doesn’t originate with users. It is a push innovation that envisions new meanings and proposes them to users. These proposals are not mere fantasies but well thought out ideas that will bring sustainable profits to companies.

Apple’s successful use of design as an innovation strategy led to many interpretations of how they achieved their success. Although their innovation process is proprietary, one certainty is that their innovation doesn’t rely on the user-centered approach. In spite of the fact that they never asked people what they wanted, their innovation process gave people exactly what they wanted.

**Value of design driven innovation**

Design is considered difficult to control from the managerial perspective of the business world, particularly in China (Design Management Institute, 2008). Although the fact that design can increase consumer satisfaction, build up brand loyalty, improve usability and improve sustainability, the Chinese companies are not convinced of the value of design. Fortunately, the study conducted by Julie Hertenstein and Marjorie Platt with DMI in the mid 1990s provided solid evidence that “’good design’ is a characteristic of a company and indicates many financial successes in a variety of industries (Design Management Institute, 2008). In their study, they evaluated selected companies from
four industries by using traditional financial ratios, such as return on assets and net cash flows to sales. They found out that the companies rated as having good design, having used design as a key strategy, were stronger in virtually all-financial measures. This could explain why, in another study conducted in 2003-2004 of 1,500 British businesses across all sizes and sectors, design was rated as the second most important factor for success.

More important, according to Verganti, Design driven innovation has significant implications in a company’s economy: profits, assets, investments, and shareholder value (Figure 4).

![Figure 4. Model of the value of design driven innovation](image-url)

By boosting sales volume and yielding higher profit margins per unit, design driven innovation can increase a company’s profits. For example, after Apple’s introduction of iPod, they sold over 200 million units worldwide and gained over a 75% market share of the portable music player market in the USA (Nystedt, 2006). Usually, a company can increase prices or cut costs to achieve a higher profit margin. By employing design driven innovation, companies can provide their consumers with products that had radical innovation of meanings. Once consumers fall in love with the products, they are willing to pay more money for them. Design driven innovation also had a positive impact on corporate assets. Products or services result in intimate interactions between companies and their consumers. A product with a radical innovation in meaning could be reflected in product sense and product language, which communicates with consumers and enhances their user experience at same time. In The Game Changer, A.G. Lafley and Ram Charan stated that there are two moments of truth in people’s decision-making in their purchasing process (Lafley & Charan, 2008). The first moment of truth is the moment consumers decide to purchase a product for the first time; the second moment of truth is the moment they use the product, communicate it and make a second time purchase decision. The second moment of truth is not only the moment consumers commit to the product they used but also the moment the company’s brand loyalty is built up. A unique product, which had a radical innovation in meaning, could aid a company to create its brand value directly. This could further explain why design driven innovation
has a positive contribution to corporate assets. Even more, design driven innovation could help company to build a brand halo that enhances a company’s other products, which ends in additional and sustainable profits. Apple exemplifies this very well. After Apple’s huge success with the iPod, not only were people’s expectations of and confidence in the iPhone higher, but also the sales of the Mac Book Pro laptop significantly increased. According to Business Week, many consumers claimed that they bought iPhones, Mac Book Pro laptops and even iPads after their positive experience with their first Apple product, the iPod.

**Meanings and design**

Meanings are the subjects of the R&D process (Verganti, 2009). R&D is one step in the design driven innovation process that results in new product and service meanings. Products attract people for two reasons (Figure 5): one is product utility, which refers to the function of products and the technology behind that function; another is meaning, which derives from product sense and product language (Verganti, 2009).
People have profound psychological and cultural motives on both individual and social levels for buying and using particular products. On the individual level, motivation is linked to psychological and emotional meaning; on the social level, motivation is linked to symbolic and cultural meaning. Product language includes product materials, color, form, texture, smell and name. Product language helps to build up product sense using the elements above. As a catalyst, design creates meaning through combining product sense and language effectively.

To describe the relationship between meaning and design, it is necessary for me to discuss briefly what I mean by design. Given the fact that there are a great number of Chinese companies that believe design is not needed for innovation, I am going to show how from a business perspective these companies would benefit if they did. I will show how to interpret and leverage design to facilitate innovation in China. The belief among
people is that engineers are in charge of technical functioning of products and designers use form to make products beautiful. During the early years, design was considered as a creative activity that balanced form and function. The International Council of Societies of Industrial Design (ICSID) defines design as follows: “Design is a creative activity whose aim is to establish the multi-faceted qualities of objects, processes, services, and their system in whole life cycles. Therefore, design is the central factor of innovative humanization of technologies and the crucial factor of cultural and economic exchange” (Definition of design). Moreover, by extension, design is connecting with branding, users behaviors, consumers’ needs, business strategy and organization strategy as well. Although each element is relevant to different parts of design, it could be seen that “…design …means making something, distinguishing it by a sign, giving it significance, designating its relation to other things, owners, users or goods” (Krippendorff, 1989). In this thesis, I define design as does Verganti, which means, “making sense of things”, which is not only dealing with beautiful forms or colors, but anticipating people’s needs and proposing a vision as well (Verganti, 2009).

As discussed previously, design creates radical new meanings for products through product language and product sense. Donald A Norman claimed that there are three levels of design in his book Emotional Design: Visual Design, Behavioral Design and Reflective Design (Norman, Emotional design : why we love (or hate) everyday things, 2005). Visual Design is the first level, which primarily deals with aesthetics, form, color, material and styling; Behavioral Design is the second level, which includes technology, engineering, function and usability; Reflective Design is driven by the
desirability of products and involves cultural and social concerns. I would like to unite Verganti’s definition of meaning and Norman’s three levels of design theory to demonstrate how Chinese companies can achieve design driven innovation. Based on the discussion before, visual design could help a company build its product language; reflective design could help a company create its product sense (Figure 6).

![Model of the two levels of design in design driven innovation](image)

*Figure 6. Model of the two levels of design in design driven innovation*

Visual design focuses on physical features such as appearance but also the feeling the product gives you. This means that the principles of visual design are both natural and cultural. Reflective design concerns message, culture and desire.

There are two things that should be noted in this discussion. First, what people desire is different from what people need (Norman, Emotional design: why we love (or hate) everyday things, 2005). Needs are those things that are essential for a particular activity, for example: a key is essential to locking and unlocking a keyed lock. Desire is an emotional reaction that can be affected by culture, advertising and self-image. Second, culture is an import issue both in visual design and reflective design. Although
visual design is natural and focuses on the appearance of a product, aesthetic standards vary by culture. In reflective design, culture plays an even more important role. The above discussion shows Chinese companies it is necessary to focus on cultural issues in order to achieve design driven innovation.

One could argue that Chinese companies should have tremendous knowledge of Chinese culture since they are cultural insiders. This could be partly true. For one reason, many studies have been showed that cultural insiders are used to considering their culture as a convention. In this case, they either ignore the uniqueness of their culture or take it for granted. For another reason, with the rapid development of the Chinese economy and growth of the middle class, Chinese culture is influenced and changed largely by the Chinese market development. Studies showed that there are three stages of economic development that result in different product expectations (Mooij, Global marketing and advertising : understanding cultural paradoxes, 2010). In a developing market, the level at which some of China was, people’s consumption behaviors concerning basic consumer goods are rationally based. At this stage, the value of a product is the primary concern issue during the purchase making process while culture plays only a small role in it. When the economic and cultural standard reaches a higher level with the emergence of the middle class, the level at which some of China is now, consumers have higher and more diverse expectations for products both aesthetically and functionally. The middle class includes those earning between $5000 and $15000 annually as defined by most global financial organizations (Pannozzo). In this emerging market, culture began to play a more important role in differentiating market segments. When the market is well
developed and society is matured, the awareness of people of their own cultural values will rise. Consumers will expect more than just improved product appearance and function but also the consideration of cultural identity and self-expression in the product (Mooij, Consumer behavior and culture: consequences for global marketing and advertising, 2011).

Some Chinese companies did a good job in considering the importance of culture and how culture could play a big role in their business. Their focusing on culture in an organizational context, however, made culture a less important element for design driven innovation. A study conducted by Yue Zhang indicated that culture, functioning as a filter, will greatly influence and change design through feedbacks based on a cultural values. In Yue Zhang’s thesis, Design for Global Markets Balancing Unilateral Global Brands with Local Culture Values, she stated that there are four aspects of a culture that should be considered in the design field (Zhang, 2009). The first cultural aspect that should be considered is how developed the economy is or modern a particular society is. Not only basic survival needs, but also moral, spiritual and social needs have a significant impact on people’s values. These values have an effect on consumption behaviors. The second cultural aspect is historical tradition, which is how people behave and believe now is affected by their previous experiences. As individuals, our first influences come from our parents’ educational and social experiences. This pattern allowed cultural traditions to be passed down from parents to their children, from generation to generation. The third cultural aspect is individual society relationship. The fourth cultural aspect is the rapid
change in social dynamics. Design, therefore, acting as a bearer of culture, reflects cultural values and projects personal and social identity, lifestyle and values.

It could be deduced from the previous discussion that culture is a resource and inspiration for design. This leads to another question: how can Chinese companies achieve design driven innovation through the understanding of culture and how can culture values fuel profits for Chinese companies? There is no single answer to this question. Innovation and culture are both complex and intangible issues that managers must consider. Fortunately for Chinese companies, they were able to observe P&G, a leading international innovation company, a company that did a very successful job in connecting innovation and culture through their products. By taking a cultural perspective, P&G was able to obtain the deeper insights they needed to pursue successful innovation opportunities in various markets (Lafley & Charan, 2008).

When P&G tried to introduce a very popular American feminine care product in Mexico, they had difficulties (Mc Graw Hill-Higher Education). They had difficulty getting tampons accepted as an alternative to sanitary pads in Mexico. The reasons for the low acceptance of tampons vary, but among them two reasons stood out. One is Catholicism, the other is the traditional value of maintaining virginity. Many Mexican women would worry that the method of using tampons has a potential risk of conflicting with their cultural values. After this situation became known, P&G did not try to push their Mexican consumers to break with their beliefs and traditional values. Instead they researched the needs and desires of their market within their cultural context to give them
a product they found acceptable and desirable. Also learning from another marketing failure, during which P&G released a cheaper version of an existing American product into Mexico, P&G began to immerse itself into the local culture, to understand their consumers. In this case, the difference they realized is that women need different feminine products in different cultural contexts. During their research, they discovered that women in Mexico changed pads less often because of economic concerns. They also have infrequent access to facilities and travel under very crowded conditions. The following features must be included in the final product: comfort, odor control and large capacity. The most important things P&G found out about their Mexican consumers was that they have a strong preference for products they think are natural and they all seem to share stories passed down from their grandmothers about herbal remedies. By understanding and translating these insights into a new lower cost feminine product, which emphasized odor control and natural ingredients, P&G successfully grew its market and increased its profit margin in the beauty business in Mexico. This story illustrates how P&G successfully achieved innovation through their understanding and translating the traditional values of their target consumers into well-developed products. The feminine care story is only one of P&G’s many innovation success stories that resulted from considering traditional values when developing new products for foreign markets (Lafley & Charan, 2008). These examples inspire Chinese companies showing how it would be possible for them to achieve design driven innovation by incorporating traditional values during the design process.
Why traditional values

An Asian trend: Incorporating traditional values into a company’s strategy

Historically China, an Asian country, is considered to be a dominant cultural influence in the region; recently the cultural exchange has flowed more bi-directionally. Experts argue that one of the most complex aspects of Asian culture is the relationship between traditional Asian and western cultures. Therefore, China’s companies could benefit tremendously by studying how other Asian companies, such as those in Japan and South Korea, incorporate traditional values into their design strategies. Honda is one such example.

Honda became the Japan’s largest motorcycle manufacturer in 1955. Honda entered the American market when it was still a small manufacturer compared to America’s automobile manufacturers. Honda’s history of entering this highly competitive market and achieving success would be an example for Chinese companies to study. At the time Honda faced similar challenges that Chinese companies face today. When Honda entered the American market in the 1960s, they hadn’t yet achieved the high level of technology with which they compete in the world market today. Starting with low priced motorcycles, they created their market in the U.S. step by step, gradually developing their products for the low end of the market to the high-end. Many
researchers believed that Honda’s success was due to their unique business strategies and their approaches to unique market segments. It is no doubt that the Civic automobile could be considered to exemplify Honda’s success. The Civic is a line of subcompact and subsequently compact cars designed and manufactured by Honda. With a spacious interior despite its overall small dimensions, Civic was competitive with its slick style and economical price. They found a market niche that American manufacturers didn’t target. They understood that people believed automobiles would get them around more quickly than would mass transit. This could be achieved with a compact car. They not only found the gap between motorcycles and full sized American automobiles; they effectively filled the gap by providing new compact car models for the market. The main factor contributing to Civic’s popularity is that it’s compact. This, at the time, unique characteristic could be seen in many Japanese designs and art works. Because of the limited space in Japan, one of the important of Japanese traditional values is compactness. This traditional value has been incorporated in many simple, compact, elegant, sophisticated Japanese products. Even though strong technological research provided a cohesive support for Japan’s products, the features derived from traditional values listed above helped Japan gain acceptance national and globally.

Honda’s success illustrated how an Asian company became competitive globally by incorporating their unique cultural issues, particularly: traditional values. Fortunately, Honda is not the only company that exemplifies this argument. Other companies from South Korea, Singapore and Japan were successful globally, by incorporating their unique cultural or traditional values in the products they brought to market. This not only gave Chinese companies examples they could and should learn from, but also started a
trend that Chinese companies should follow.

**A China trend Incorporating traditional values into a company’s strategy**

With nearly 4,000 years of continuous history, China is one of the world's oldest civilizations. China is a country with ethical roots and a long history. Traditional values are part of China’s culture, and they have played a significant role in Chinese people’s lives from the past to the present. Although each dynasty has had its own culture, these traditional values have been passed down from generation to generation. Modernization and globalization, however, have spread western culture to China and dramatically influenced Chinese people’s lives in different ways. Cultural studies show that, with rapid modernization, cultural values from western countries are influencing non-Western values, and developed countries are influencing developing countries’ culture (Mooij, Global marketing and advertising : understanding cultural paradoxes, 2010). However, these cultural development processes are determined and limited by the traditions within the target culture. As Zhang (2009) argues, the acceptance of cultural inputs varies depending on the target culture. For example, Zhang notes that the Chinese culture, with its long history and distance from modern Western culture, is less likely to be shaken. Tradition values, rooted in this culture, are less likely to be weakened as well.
Zhang’s work shows there is little doubt that technology and economic development spur cross-cultural communication. On one hand, the modernization of global culture may conflict with local culture and traditions; on the other hand, technology could also provide new means to reinforce the tradition (Zhang, 2009). An interesting example of this phenomenon I have observed is the popularity of celebrating Christmas in China, a traditional way to celebrate the New Year in western countries. Many young people in China welcome it as a holiday because they see it as an occasion for the reunion of friends. As contrast, Chinese Spring Festival, the traditional Chinese way to celebrate New Year, is viewed as a holiday for families only.

This interesting phenomenon illustrates that traditional values are important to the Chinese people and will become even more important to them in the future. In Yue Zhang’s thesis, she discusses the cultural development process with modernization’s cultural influence in a global context (Zhang, 2009). The more developed a country is, the more cultural communication occurs and the more educated people become. At the same time, as the sense of belonging and awareness of local culture values increases, modernization becomes less likely to affect weak traditional values. Modernization’s largest influence on local culture will weaken after reaching its maximum influence, and the local culture will eventually search for its own traditions (Zhang, 2009).
In this case, the innovation will be applied to enhance local culture values or reinforce traditional values other than the changing local values. Muji, a Japanese retail company that sells a wide variety of household and consumer goods, would be the best example of this scenario. Because of geographical factors, Japan absorbed tremendous cultural influence from the United States, China, and other countries. These cultures had a strong influence on Japan’s traditional culture for a long period. After World War II, the rapid development of Japan’s economy spurred many ambitious Japanese companies to seek an advantageously unique identity and presence in the global environment (Hara, 2007)
As one of these companies, Muji not only absorbed these cultural influences, but also incorporated their traditional values. By embracing these values, and by avoiding the waste typical of many product-manufacturing and distribution companies—that is, waste in the form of unnecessary functionality, excessive decoration, and needless packaging—Muji framed their own philosophy of simplicity and offered innovative products that excelled in quality at lower prices (About Muji). As one of the most successful companies to apply and utilize traditional values in their innovation processes and philosophies, Muji earned a great reputation nationally and globally.

For Chinese companies, traditional values could become a substantial resource for their design-driven innovation. As China’s economy booms, the markets will mature and consumers will shift their focuses from functional needs to emotional needs. In this process, culture will change from valuing its traditions to absorbing other cultural influences, only to shift back again to valuing its traditions (Zhang, 2009).
Traditional values in HERBORIST

Introduction to the study

In this work I investigate the role of traditional values in Design Driven innovation through a case study of a Chinese cosmetic company, HERBORIST. The purpose of this study is to illustrate the how traditional values can be the resources that lead to design driven innovation. Using a case study method, this study succeeded in providing the inspiration for further studies that can be conducted in this realm. The case study of HERBORIST suggests that traditional values can be considered in a strategy level and be the inspiration and resource for companies to achieve innovation, especially design driven innovation in China. Therefore, it is hypothesized that understanding and utilizing traditional values in China would benefit companies who tried to promote new meanings to their consumers through design driven innovation.

Significance of the Study

The value of this research study is that it helps Chinese companies to understand the significance of traditional values in innovation and illuminates how traditional values played a major role in design driven innovation. Moreover, this study shows traditional values have substantial research potential for Chinese companies and international corporations to investigate in the future. The results of this work may be used to employ traditional values as a major area for understanding consumers and achieving design
driven innovation in an organizational or educational context for further studies. Consequently, this research is important for considering traditional values in terms of design driven innovation and contributing a fresh perspective of traditional values to the literature.

**Background**

For this thesis work, the researcher investigated over 30 Chinese companies across four industries: automobiles, cellphones, the Internet and beauty care. In order to select the Chinese company, two criteria needed to be meet. The first one is the company should be a Chinese company that is innovative in their industries. Although there is no sharp standard to evaluate if a company is innovative or not, it is still difficult to identify many Chinese companies as innovative by any standard. For example, in the auto industry, the market is dominated by international brands like Volkswagen and GM. Even though many Chinese auto companies bloomed fast during last ten years, their market shares in China are still very low compared to other international brands. The blooming of China’s economy made China became the largest auto consumption county in 2009 (Ying, 2010). However, other than BYD Automobile Co Ltd, a Chinese automobile manufacturer based in Shenzhen that gained a global innovative reputation for its environmentally friendly F3DM plug-in hybrid car in 2010, most Chinese auto firms are unknown globally (Company Profile).

The second criterion is that the company’s innovation strategy incorporates an understanding of Chinese Cultures. As this thesis discussed before, technology driven
innovation is the major area where most Chinese innovation is centered. In the cellphone industry, many Chinese companies are becoming innovative in recent years. This is partly because these companies were the OEM for many international companies like Nokia, Samsung and Apple. These Chinese companies obtained a lot of technology and information during these experiences. However, their focus on the technology side made them lose the big picture. They are focusing on chasing and competing with those international brands on technology innovation rather than stepping back and looking at the unique culture resources they have. Therefore, these companies are easy to trap into innovation dilemma that their innovation will not be able to reach their profit expectation.

Fortunately, HERBORIST, one of the brands of Shanghai JIAHUA United Co., Ltd, stands out among these Chinese Companies for its successful applying traditional values in their corporation strategy, most important, in their innovation, design driven innovation. Its international success improved again that how Chinese Companies could gain tremendous benefits from the understanding of traditional values (Brands).
The history of Shanghai JiaHua United Co., Ltd

Shanghai JiaHua United Co., Ltd is China’s Procter and Gamble (P&G). Like P&G, Shanghai JiaHua United has a long history, having been established in 1898 as Hong Kong Kwong Sang. When the famous “Shanghai VIVE” brand of toilet water was crowned with the Panama Award, Kwong Sang became a bellwether of the national cosmetics industry. From 1949 to 1978, the Shanghai branch of Hong Kong Kwong Sang, merged with a number of companies including, China Xie Ji Cosmetic Factory, the pioneer producer of toilet water in Mainland China; Shanghai Star Perfume Plant; and Oriental Chemical Industrial Association to form Shanghai Star Household Chemicals Manufacturing Plant, which is the origin of “Jahwa.” Two of the company’s brands “Friendship” and “Yashuang” were the earliest popular skin-care products in New China.

From 1978 to 1990, Jahwa developed at a more rapid pace and climbed to fixed assets over RMB 60 million, sales volume of RMB 450 million, and profit and tax of RMB 105 million, thus enabling Jahwa to be the largest cosmetic company in the domestic market. In 1991, Shanghai Jahwa was forced to cooperate with SC Johnson to produce two brands “Ruby” and “MAXAM.” These products for the combined company, Shanghai Johnson Co., Ltd, fared poorly on the market, however. Despite initial success, by 1995, sales of Ruby and MAXAM had sharply decreased by RMB 250 million. Because of the low sales, Shanghai Jahwa started to think about the development strategy of national brands. In order to strengthen its national brands, Shanghai Jahwa bought “MAXAM” and “Ruby” from SC Johnson. Meanwhile, Shanghai Household Chemicals Plant was restructured as Shanghai Jahwa United Co. Ltd., which was the
second development that would have far-reaching significance for Shanghai Jahwa. In January of 1999, as part of the Large Group strategy of Shanghai Industry, Shanghai Jahwa United Co. Ltd acquired Shanghai Daily Chemicals (Group) Co. Ltd, which officially announced the founding of Shanghai Jahwa (Group) Co. Ltd. In 2001, Shanghai Jahwa was successfully listed on the Shanghai Stock Exchange, which created a platform for Jahwa to raise capital and laid a firm foundation for Jahwa to step towards the world stage (About Jahwa).

Boasting comprehensive competitive strength with powerful R&D and brand capabilities, Jahwa became the only Chinese daily chemicals enterprise that was able to compete with international companies from both the West and the East.

**HERBORIST’s profile**

As one of the brands in Shanghai JiaHua United Co., Ltd, HERBORIST was established in 1995. HERBORIST is a unique brand that values classic Chinese cosmetics and integrates Traditional Chinese Medicine into the latest fruits of modern biotechnology. With added value placed on holistic balance, HERBORIST brings natural and efficient hair and skin care supplies to the consumers. Drawing upon the essence of Chinese notions of “nature and balance”, HERBORIST helps consumers experience the beauty of nature, cleaness, and health (About herborist)
In 2008, HERBORIST ‘s 49 euros Tai Chi Mud Mask were sold out for the first time in less than a month at Champs Elysees, France's Sephora's flagship store. Competing with all high-end international brands—including Chanel, Dior, and other great French skin care brands—HERBORIST’s mask ranked among the top-five bestselling skin care products (Review). As the only original Chinese brand from Jahwa Group, the total sales of HERBORIST’s full range of products entered the shop’s top-ten skin care brands.

This might be normal for some famous brands; however, it is not the typical case for Chinese cosmetics companies. China's high-end market was almost monopolized by L’Oreal cosmetics, LVMH, Estee Lauder, and Shiseido, the four biggest foreign Companies. At the same time, those well-known Chinese cosmetics companies were facing possible ruin. Aside from Jahwa, by 2008, almost every famous Chinese brand,
from MININURSE, Aoqili to C-BONS, Dabao, were all acquired by international brands. As some national brands disappeared from consumers’ memory, others struggled in the snatch at the low-end market. As the only Chinese brand in the high end and middle class market among all these global competitors, HERBORIST took a risky but successful journey. In 2008, the revenue of Jahwa cosmetics grew by 23.8%, 67% of which HERBORIST produced. Looking at the years 2004, 2005, and 2006, HERBORIST sales growth rates were 36%, 93%, and 100% respectively. By the end of 2007, HERBORIST sales achieved 4.2 millions while the number of their stores expanded from 100 in 2005 to 400 in 2007.

There has been a "Worship" mentality in China’ Cosmetics market in last decades. The city's famous shopping malls are generally occupied by the best international brands. One reason for this fact is that these brands are well accepted by Chinese consumers. Therefore, many local brands are tying to follow the trend and even decorate their brands with foreign names. Fortunately, HERBORIST rejected those temptations, which created only short-term profits, by placing emphasis on establishing an original Chinese brand with a global reputation that truly understands Chinese cultures and traditional values.

The cornerstone of HERBORIST is the application of traditional Chinese medicine theory in their product. By understanding the "Tai Chi", "yin and yang" and other Eastern concepts rooted in traditional values, HERBORIST proposed a uniquely balanced concept to their consumers. As one of the quintessential aspects of Chinese
culture, Chinese medicine literature contains numerous methods of beauty. For over 1600 years, Chinese medicine not only informed people’s appreciation for traditional Chinese values, but also built a solid trust and belief in the idea that fashion trends are hard to shake. As this thesis discusses above, although modernization will have an influence on local culture and tradition, there is no way to change consumer multinational backgrounds. Therefore, while the tradition may create barriers for globalization and modernization, it also creates a kind of fortress for Chinese companies. Jahwa applied their understanding of traditional values and their extensive experience in Chinese medicine research and development to successfully develop China's first set of Chinese herbal medicine with a full sense of modern high-grade skin care products.
HERBORIST’s innovation

Create the new meaning of cosmetics

HERBORIST is the first Chinese cosmetics company to sell their products at Sephora, the largest cosmetics retailer in the world. By collaborating with Sephora, HERBORIST is not only successfully selling their products in France, but also bringing a unique Chinese cosmetics culture to the world of beauty. HERBORIST may not be able to maintain their success if they do not keep being innovative and delivering innovative products to their consumers.

When China’s cosmetic industry opened to foreign competitors, it suddenly experienced heavy competition. By the late 20th century, the main competition came from Procter & Gamble and Unilever. Some large multinational companies also took this opportunity to acquire a number of Chinese chemical enterprises. Data show that foreign brands make up over 60% of China’s domestic high-end cosmetics market share and over 90% of the sales. In this climate, HERBORIST faced a tough challenge. Fortunately, Jahwa’s previous failed experience with SC Johnson taught them that merely adopting high technology and applying it to China’s market was not sufficient to increase their market share.

Therefore, when Jahwa established HERBORIST, it went in a new direction.
Instead, it innovatively interpreted traditional Chinese medicine and medical science, translating it into their cosmetics products. Their innovation included not only the technological innovation that applied traditional Chinese medicine to extract the ingredients, but also proposed a new meaning of cosmetics to Chinese consumers, a meaning that beauty is gained by using natural and healthy products. They understand that the tradition of Chinese medicine favors prevention over treatment. In addition, it promotes natural beauty and encourages gaining it from the inside not applying it in the outside.

Previously, China’s beauty trend in the late 20th and early 21th was different. It could be seen on television and in fashion magazines; Chinese consumers believed that cosmetics were the magic tools needed to make them beautiful. Most important, they should appear obviously made up. A person with striking make up would be considered beautiful. Consumers had a little knowledge of their skin, skin care, skin care products and cosmetics. This lack of information led to a belief that the more famous a brand is, for example: Chanel, Dior and Olay, the better their products are. Consumers were easily persuaded by advertisements rather than making decisions based on information and knowledge of their skin’s particular needs. Meanwhile, although adding herbal ingredients to cosmetics is normal for many international brands, such as The Body Shop, Kiehl’s and Lush, the idea of using cosmetics to achieve a natural look was not accepted by the Chinese consumer during that period.
Fortunately, HERBORIST didn’t follow the current trend, but instead promoted a new meaning for cosmetics, as described above, to their consumers. As the first herbal cosmetics manufacturer in China, HERBORIST believed that beauty is about nature and balance, both of which could be achieved through the use of their traditional Chinese medicine ingredients. By following the classics of Chinese cosmetology, adopting integral ideas, and combining the peculiar herbal essence of China and the latest modern biotechnical achievements, HERBORIST provides consumers with beauty care products that create beauty from within.

Additionally, they believed that beauty came from one’s lifestyle not simply from applying makeup. Unlike in the United States and in other countries, cosmetics products in China were sold in department stores. There were few stand-alone brand or cosmetics stores in China. What HERBORIST did was to act like the Apple computer stores of the cosmetics industry. They opened HERBORIST brand stores in different cities that provide professional skin consultants for their customers. Although HERBORIST products still sell in department stores, the unique way of treating their customers in the brand store attracted many new ones. While in an enjoyable shopping environment, they provided their consumers with skin tests and educated them about skin care. Even more, what they spread was not only the message of beauty and skin care information, but also those values that were rooted in Chinese culture: balance and nature.

Since HERBORIST targets the high-end market, they understand that most of their consumers are well-educated white-collar working women. In China, these women
are called “Bai gu jing”. It refers to those women who are successful at work, attractive, and work hard to balance their family lives and careers. Therefore, HERBORIST provides them with more than skin care products. They have spas available where other needs can be met. By observing the rituals of the Chinese health and beauty care and using the natural essence of Chinese herbs, HERBORIST Spa combines secret ancient and contemporary techniques and herbal hydrotherapy together with various essential oils to promote the secret of beauty resulting in physical and mental balance for their consumers.

HERBORIST achieved their innovation through design driven innovation by promoting a new meaning to their consumers, a meaning that their consumers can achieve beauty through balance and nature. Not following the aesthetic standard set by international brands, they envisioned, created, adhered and still stick to their own standard. Most important, they employed traditional values to achieve their design driven innovation. The result is new customers for a Chinese brand that is able to compete with large international brands.

**Employing traditional values at HERBORIST**

Today, the application of traditional values in HERBORIST’s innovation strategy seems logical; it was, however, a rough road HERBORIST went down to achieve it during the past ten years. When HERBORIST was first established, the first question Jahwa faced was whether applying traditional values, for example: Chinese herbal medicine, as HERBORIST’s innovation strategy was feasible for the brand. Although
facing financial barriers when building HERBORIST, the biggest concern was whether the concept that employing traditional values in cosmetic products would be accepted by Chinese consumers.

As discussed previously in this thesis, these concerns were due to two things. The first is that after the opening of the Chinese cosmetic market, international brands flooded the market with their well-developed skin care and cosmetic products. These companies were fully prepared with full sets of products that targeted consumers at all levels and no doubt surprised the local Chinese cosmetic companies with their variety. The second is that China’s economy was still in an early stage of development and modernization had not yet reached its maximum effect. During this stage of modernization, those international brands were very attractive to Chinese consumers. On one hand these brands introduced Chinese consumers to new items they had never seen or only seen in Hollywood movies; on the other hand, these brands were so competitive that they set the rules for the Chinese cosmetic market. These two things were considered as the main factors why several Chinese cosmetic companies were acquired by foreign brands or went bankrupt because of the poor operation in spite of the fast growth of the whole market, during which domestic sales grew from 200 million RMB in 1982 to over 50 billion RMB in 2003 (Industry).

With this concern at the beginning, HERBORIST didn’t feel confident applying traditional values to their innovation. Fortunately, the Jahwa team was brave enough and brought what we call “design thinking” to its business. The main idea of design thinking
is to define the opportunity and test it through fast prototyping. They then chose to develop the opportunity, which they believed would give them the best result. The Jahwa team actually established two brands at the same time, one is HERBORIST and the other is DISTANCE. Unlike HERBORIST, which offers a full line of skin care products, DISTANCE concentrates on perfume. DISTANCE targets the Chinese consumer who likes both perfume and the prestige of foreign brands. DISTANCE perfume scents were designed by experienced western masters; the package was designed in a western style (Xiang, 2009). In addition, the quality and the price of the perfume were kept at the same level as those of international brands. Surprisingly, even though the market response was positive and the Jahwa team made its best effort, DISTANCE failed soon after launching. There were many reasons for this failure; however, Jahwa realized that no matter how well they copy western style and follow the trends set by international brands, Chinese consumers would not buy Jahwa products if their brand didn’t offer something unique. Through these market tests, Jahwa discovered the unique and special values of Chinese culture, and identified the uniqueness of traditional values.

Applying Chinese traditional medicine to the cosmetics industry

The cosmetic industry is always considered to be a part of Fashion industry. For many Chinese companies and consumers, they believed that fashion is the opposite of tradition and traditional values would conflict with fashion. As time passed, this opinion gradually changed. Many international brands use tradition as an inspiration for their product design. In addition, the success of the Beijing Olympic Games effectively
broadcasted unique Chinese traditions to the world. Although HERBORIST’s application of traditional values to their cosmetics lines is well accepted today, this was not the case at beginning.

Although HERBORIST realized that employing traditional values to their cosmetics lines could not only help build up a unique Chinese cosmetic brand, but also differentiate themselves from other international brands, they were not sure just how they could make the connection between traditional values and cosmetics. The success of The Body Shop’s natural, environmentally minded and intimate cosmetics shop inspired the HERBORIST team. The idea of using the ingredients of Chinese traditional medicine in their cosmetics came to the team. Chinese traditional medicine is a label that covers a broad range of traditional medicine practices, including various forms of herbal medicine, acupuncture and massage therapy. It is a system for balancing the various functions of the body. The goal of Chinese traditional medicine is to achieve balance through the use of natural products, which HERBORIST believed is what they should convey to their Chinese consumers through their products.

As a part of traditional values, the appreciation of Chinese traditional medicine is quite high among the Chinese. This fact, however, doesn’t necessarily guarantee that applying the theory of Chinese traditional medicine to HERBORIST’s products will result in success. Chinese people did believe in traditional medicine for its quality and results it promised. The color of Chinese traditional medicine is always dark brown or another earthy color, colors which are visually considered to be “dirty” in China. Asians,
especially the Chinese, prefer and appreciate “white” skin color to “tan” skin color. There are proverbs that describe the importance of being white. Therefore, it is difficult for people to understand how “dirty” ingredients would be used in a cosmetic product line meant to appeal to a population that expects the products they buy to give them “white” skin. Keeping this in mind, HERBORIST did not simply transfer Chinese traditional medicine ingredients into their products, but integrated Chinese traditional medicine into their products by extracting the essential elements using current biotechnological methods. These elements in combination with the perceived value of holistic balance were incorporated into products designed to appeal to Chinese market. For example, one of their best selling products, the T’ai Chi Detoxifying & Nutrient Clay mask, contains extracts from several Chinese herbs, including the peony root (Figure 9).

Figure 9. HERBORIST’s T’ai Chi Detoxifying & Nutrient Clay mask

It is composed of both detoxifying clay for deep cleansing as well as nourishing nutrient clay. HERBORIST innovatively designed the mask so that its two components could be presented in two colors, black and white, representing the iconic Tai Chi symbol. The
white component cleans and the black part reveals the face’s radiance. This T’ai Chi Detoxifying & Nutrient Clay musk brought a new experience to skin care and a radical product to the market.

**Applying traditional values in both visual design and reflective design**

The success of HERBORIST indicated how a Chinese company could achieve design driven innovation by promoting new meanings of products to their consumers. As an inspiration and source, it is essential for Chinese companies to apply traditional values to achieve design driven innovation. At this point I will illustrate how traditional values benefited HERBORIST in both visual design level and reflective design level.

As discussed previously, visual design focuses not only on physical features such as appearance but also the emotions elicited when seeing it. Today HERBORIST’s package designs are simple, contemporary, and elegant, perceived as uniquely Chinese, in contrast to their designs at the beginning.

HERBORIST’s packages received their current design after collaboration with a design firm under the direction of Sephora. Before working with Sephora, their packages were very poorly designed. HERBORIST had no standard visual identity. Consumers were not happy with HERBORIST’s initial designs and were delighted with the results from their collaboration with Sephora.
Indeed, the unique qualities that applying Chinese traditional medicine and helping Chinese women to achieve beauty through nature and balance were not visible in their visual identity system. Although a fabulous package does not guarantee a good product inside, a company selling good products in poorly designed packages will not attract consumers either, particularly when the market suddenly becomes competitive. After being turned down initially by Sephora to carry their product line, HERBORIST turned to a French design company, centdegrés, for help. Centdegrés, which served all high-end brands like Hermes, Givenchy and Burberry, was selected. Problems started when centdegrés’ first concept was presented. Lacking an understanding of Chinese culture, their visual identity focused on using Chinese Royal colors, red and green, which typified the western impression of China. This concept conflicted with HERBORIST’s “simple”, “natural” and “balance” requirements. In order to solve the problem, HERBORIST not only invited centdegrés’ designers to visit Shanghai and view local historical architectures, but also selected several designers from HERBORIST to work collaboratively with centdegrés’ designers in France. From conversation about everything from Chinese culture to Chinese movies, designers from centdegrés learned about Chinese culture. This iconic collaborative design work resulted in the very successful HERBORIST package designs we see today. It can be told from their package designs that HERBORIST is about “balance” and “nature”. Their packages are simply designed, using a white background and featuring geometric curves in various green colors. Chinese traditional medicine was symbolized on the package by a circle covered with a graphic pattern of herbs (Figure 10).
This holistic design solution not only helped HERBORIST win an international package design award, but also attracted many international customers. HERBORIST’s French consumers claimed that they were attracted by HERBORIST’s packages that conveyed a Zen feeling and a traditional Chinese style.

Reflective design concerns message, culture and desire. HERBORIST successfully employed traditional values rooted in Chinese culture, to create new meanings of their cosmetic products. In the first place, they understand the value of Chinese traditional medicine and the appreciation for it by Chinese people. By combining this value and appreciation and transforming these issues into their products, the unique products that resulted and were placed on the market effectively reflected Chinese culture. In the second place, HERBORIST understood that the aesthetic of real beauty in Asia emphasizes subtlety. Even through the idea of balance and nature had not been applied in many fields, such as cosmetics, people’s lives in China was built upon those philosophies.
By applying these traditional values into their cosmetics products, HERBORIST created a new meaning of beauty and satisfied their Chinese consumers’ desires as well. This desire was to be naturally beautiful. Chinese consumers may not have realized that this was their particular desire in the late 20th century. The popularity of Korean television shows in China created a new trend: the beautiful natural look. Through those Korea actresses, Chinese consumers realized the beauty of the natural look, which comes from natural looking skin with little make up. This trend stimulated their desire for HERBORIST products even more.
Conclusion

Innovation is an undisputed catalyst for company growth (Harvard Business Essentials, 2003). While this topic has been widely discussed in economics, business, design and engineering, the discussion of innovation in this thesis focuses on an organizational perspective. Despite different definitions, innovation in an organizational context has these characteristics: (1) innovation originates from creative ideas; (2) these ideas lead to business opportunities; (3) these opportunities add value to both customers and organization.

Although innovation has many definitions, when used by companies, the definitions become fluid. Each organization defines and interprets innovation to meet their needs. In this thesis, the researcher demonstrated four different interpretations of innovation: (1) Incremental and Radical Innovation; (2) Disruptive and Incremental Innovation; (3) Incremental, evolutionary and revolutionary innovation; (4) Market pull, technology push and design driven innovation. Among these different interpretations of innovation, the theory of market pull, technology push and design driven innovation was selected for its approach because it paved a clearer way for companies to frame their innovation strategies and execute them step-by-step.

For many years, both Chinese industry and government held the belief that technology is the original source for innovation. They held the notion that radical innovation begins by introducing a breakthrough technology into industry. Throughout
the discussion in this thesis, the researcher believed that design driven innovation, one
type of innovation, could be a powerful tool for Chinese companies to use. Just as
technology push innovation offers opportunities, design driven innovation helps
companies envision their innovation radically and incrementally. Design driven
innovation is the innovation that results in radical new meanings (Verganti, 2009).

Design driven innovation does not reinforce the meanings of what people
currently expect from a certain product or service, instead, it proposes an unexpected new
meaning. In addition, it has significant implications in a company’s economy: profits,
assets, investments, and shareholder value.

Products attract people for two reasons: one is product utility, which refers to the
function of products and the technology behind that function; another is meaning, which
derives from product sense and product language (Verganti, 2009). Design, making sense
of things, creates radical new meanings for products through product language and
product sense. In this thesis, the researcher unites Verganti’s definition of the meaning of
product and Norman’s three levels of design theory to demonstrate how Chinese
companies can achieve design driven innovation. Based on Norman’s three levels of
design, visual design could help a company build its product language; reflective design
could help a company create its product sense.

Culture is an import issue both in visual design and reflective design as discussed
in this thesis. As one of the four aspects of a culture that should be considered in the
design field, traditional values was picked by the researcher for further discussion in this thesis. The case of P&G’s successful innovation that resulted from considering traditional values when developing new products for foreign markets inspires Chinese companies to achieve design driven innovation by incorporating traditional values during the design process.

Traditional values, as part of cultural value, play a significant role in Chinese people’s life from the past to the present. Modernization and globalization spread western culture to China and dramatically influenced Chinese people’s life. The more developed a country is, the more cross-culture communication occurs and more people become educated. While the sense of belonging and awareness of local culture values increases, modernization is less effective in weakening traditional values. Modernization’s large influence on local culture will weaken after reaching the maximum, at the same time, local culture will search for its own traditions. In this case, innovation will be applied to enhance local culture values or reinforce traditional values rather than changing local values. For Chinese companies, traditional values could become a substantial resource for their design driven innovation. As China’s economy booms, the markets will mature and consumers will shift their focuses from functional needs to emotional needs. In this process, culture changes from valuing its traditions to absorbing other cultural influences, then shifting back to revaluing its traditions.

In this thesis, the researcher investigates the role of traditional values in Design Driven innovation through a case study of a Chinese cosmetic company, HERBORIST,
one of the brands of Shanghai JIAHUA United Co., Ltd. In researching over 30 companies, HERBORIST stands out among these Chinese Companies for its successful application of traditional values in their corporate strategy, most importantly, in their innovation, especially design driven innovation. Its international success proves again how Chinese companies can gain tremendous benefit from the understanding of traditional values.

HERBORIST is a unique brand that values classic Chinese cosmetics and integrates Chinese Traditional Medicine into the latest fruits of modern biotechnology. By understanding the "Tai Chi", "yin and yang" and other Eastern concepts rooted in traditional values, HERBORIST proposed a new meaning of cosmetics to Chinese consumers. As the first herbal cosmetics manufacturer in China, HERBORIST believes that beauty is about nature and balance, both of which can be achieved through the use of their traditional Chinese medicine ingredients. By following the classics of Chinese cosmetology, adopting integral ideas, and combining the peculiar herbal essence of China and the latest modern biotechnical achievements, HERBORIST provides consumers with beauty care products that create beauty from within.

The case study of HERBORIST suggests that traditional values can be considered from a strategic standpoint, becoming the inspiration and resource for companies to achieve innovation, especially design driven innovation in China. The value of this research study is that it helps Chinese companies to understand the significance of traditional values in innovation and illuminates how traditional values play a major role
in design driven innovation. Moreover, this study shows traditional values have substantial research potential for Chinese companies and international corporations to investigate in the future. The results of this work may be used to employ traditional values as a major area for understanding consumers and achieving design driven innovation in an organizational or educational context for further studies. Consequently, this research is important for considering traditional values in terms of design driven innovation and contributing a fresh perspective on traditional values to the literature.
Discussion

China is one of the world’s fastest-growing economies. With this growth, Chinese companies are facing more challenges than ever. This growing market attracts more international companies whose goods flood the Chinese market and compete with local companies. Meanwhile, many Chinese companies are struggling with their own strategies while they try to impress the world market with their innovative work. Haier and Lenovo are the most well known companies. Haier began its international journey by introducing cheap but well made products to the world market. With cheapest products on the market, Haier employed a price strategy to increase its market share. Lenovo attempted to increase its share of the world market by its well-known acquisition of IBM’s PC computer segment. Although Lenovo received a lot of publicity with its IBM purchase, and many consumers noticed this acquisition, Lenovo did little to promote their association with IBM. Contrary to the Lenovo’s expectation, the acquisition of Think Pad computers was not a shortcut to acquiring an increased share of innovation market. After acquisition, Lenovo with its poor understanding of its new brand failed to innovate the Think Pad; the Think Pad became even less competitive in the global market especially in the face of Apple’s fast growing laptop market share that resulted in a 1% decrease in the PC market.

In contrast, HERBORIST did a good job approaching its global market and understanding its international consumers. By understanding and incorporating traditional values into their design driven innovation, they became competitive in China and the global market with unique cultural advantages. After experiencing previous
failure both when collaborating with SC Johnson and employing foreign companies to take charge of their package solutions, HERBORIST became the innovators that really understand the power of culture and the value of traditional values in business. Because fashion is a social trend leader, and HERBORIST is an associated business, they needed to produce high end products. After facing and surmounting industry barriers, HERBORIST’s success became an example for other Chinese companies.

Many researchers believe that China’s current industry status is similar to Japan’s status in the 1970s. Japanese companies’ successes in the global market are very good case studies for Chinese companies. Their ability, using low prices, to convince global consumers to enter the market and then move to the high-end market by incorporating their understanding of their culture into design solutions is a good example for Chinese companies to follow. Most important, Japanese companies such as Honda, drew the unique element-traditional values from Japanese culture and translated them effectively into their products. These companies identified the particular traditional values that was useful to them and translated these distinctly in their products. These cases showed possibilities for Chinese companies to employ traditional values in their innovation strategies from the automobile industry to fashion industry.

HERBORIST’s success of employing traditional values into their design driven innovation could be considered to be a vanguard for many Chinese companies. One could argue that HERBORIST ‘s success can’t be separated from China’s long history of traditional medicine. Companies in different industries may have a difficult time
integrating traditional values into their innovation strategies if they are in the industries that lack long histories. This researcher believed that this is partly true. Companies, whose industries have long histories, such as furniture, lighting and ceramics, should follow HERBORIST’s steps and methods of achieving innovation by incorporating traditional values into their products. Companies, without these long histories, they can still employ traditional values to achieve innovation by following the examples of companies like Honda and Muji. Japan had a short automobile history when Honda was first built up. Since the traditional values are rooted in the local culture, Honda took a unique element, compactness, from their traditional values and successfully translated it into their innovative products. This indicated that no matter what industry the company is in, they need to identify a unique element that they are going to focus on and then translate their interpretations into innovative design solutions. This also suggested that researchers further study traditional values from an organizational perspective and create a possible toolkit for identifying traditional values in a contemporary context. After all, this researcher firmly believes that traditional values can and will play a very important role in helping Chinese companies achieve innovation, particularly design driven innovation.

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