Innovation Toolbox
Strategy

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1.0 INTRODUCTION

Innovation Strategies are different from “Classical” business strategies due to the need to accommodate uncertainty. This uncertainty occurs due to the difficulty in predicting the steps, time and impact of the innovation. Therefore many common approaches used to develop a Classical business strategy are inappropriate for innovative businesses.

1.1 What is an innovation strategy?

An innovative strategy guides decisions on how resources are to be used to meet a firm’s objectives for innovation and thereby deliver value and build competitive advantage.

Strategic matters include analysis of a company’s competitive and technological environment; assessment of its external challenges and opportunities; and where its distinctive advantages lie. It involves prioritizing and developing the right technological innovations by ensuring the appropriate resources, capabilities and processes are used to best effect in delivering value.

The extent to which this can be achieved will vary in relation to the desired outcome of the innovation and the type of innovation.
2.0 DEVELOPING AN INNOVATION STRATEGY

There are many different types of innovation (refer Why Innovate) and the type of innovation employed will be determined by the innovation strategy. The innovation strategy is in-turn determined by the growth phase of your company, where it is heading and the desired outcome of the innovation.

2.1 Growth Phase of your company

Mehrdad Baghai, Stephen Coley and David White in their book “The Alchemy of Growth”¹ define the three horizons for growth. The three horizons provide a framework to think about growth in a way that balances the competing demands of focusing on the present whilst investing for the future. The three horizons are not giant leaps but incremental steps in growing your business.

- **Horizon 1** – is about extending and defending your core business. The focus is on operational improvements for short term performance.
- **Horizon 2** – is about bringing ideas to fruition and building emerging businesses.
- **Horizon 3** – is about creating viable options for future businesses.

As your business grows you will need to extend and defend your core business from competitors. However as more competitors enter the market you will need to look for alternate business opportunities. Finally you need to establish an environment where ideas are nurtured for future business development. The horizons are repeated over time as your future business options become core businesses.

The stage of your business will impact on your ability to achieve your desired outcome. For example you may wish to create a large research and development section in your company to generate new ideas for the future, however the current culture is at horizon 1: focused on operation improvements to the core business. It will take significant resources and time to develop an environment that will foster research and development within your company. Therefore your innovation strategy should take into account what phase of growth you are in and where you are heading.

2.2 Desired outcome

Your innovation strategy is determined by what you want to achieve from the innovation process. Whether that be:

- **Develop a new product** – you may see an opportunity for a radical change in the type of products currently offered on the market.
- **Protect market share** – in a dynamic global environment continuous innovation is required in many instances just to maintain market share.
- **Expand market share** – you may want to expand market share through e.g. offering existing products in a different market.
- **Sell or license to another organisation** – you may be looking at an exit strategy whereby once the innovation is developed you do not have the capabilities or resources to gain full value from the innovation and seek to sell or license the innovation.
- **Create greater staff retention** – a commitment to innovation can motivate and retain skilled staff through providing staff with a challenging and creative environment.
- **Improve operational efficiency** – you may wish to reduce costs through streamlining your operations.
- **Increased recognition in the marketplace** – you may wish to increase your profile in the marketplace through an innovative marketing strategy.

The type of innovation and the level of risk you attribute to that innovation will vary depending on whether you are seeking to double your business or maintain your current level of revenue or profit. Your company may in-fact pursue multiple outcomes and therefore will require multiple strategies.

Once you have determined your intended outcome and how this fits within the growth phase of your company, start to think about the type of innovation strategy that will best achieve your outcome.
3.0 TYPES OF INNOVATION STRATEGY

Companies rarely comply with ideal types of innovation strategy. However, the ideal types of innovation strategies can provide a starting point for the development of your innovation strategy. The ideal types of innovation strategy can be classed as proactive, active, reactive and passive\(^2\). Each is described in greater detail below.

**Proactive** - Companies with proactive innovation strategies tend to have strong research orientation; they will often have first mover advantage and be a technology market leader. These companies access knowledge from a broad range of sources and take big bets/high risks. Companies like Dupont, Apple and Singapore Airlines have proactive innovation strategies.

The types of technological innovation used in a proactive innovation strategy are radical and incremental. Radical innovations (as described in *Why Innovate*) are breakthroughs that change the nature of products and services. Incremental innovation is the constant technological or process changes that lead to improved performance of products and services.

**Active** - An active innovation strategy involves defending existing technologies and markets but with the preparedness to respond quickly once markets and technologies are proven. These companies have mainly incremental innovation with in-house applied R & D. Companies with active innovation strategies also have broad sources of knowledge and have medium to low risk exposure. They tend to hedge their bets and include companies such as Microsoft, Dell and British Airways.

**Reactive** - The reactive innovation strategy is used by companies that are followers and have a focus on operations, have a wait and see approach and look for low risk opportunities. They will copy proven innovation. Companies with reactive innovation strategies use entirely incremental innovators and include budget airlines such as

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Ryanair which has successfully copied the no frills service model of Southwest Airlines.

**Passive** - Companies with passive innovation strategies wait until their customers demand a change in their products or services. Many of the companies that supply to automotive companies have passive innovation strategies as they wait for the automotive companies to demand changes to specification before implementing these changes.
4.0 INTEGRATING YOUR BUSINESS STRATEGY

We have discussed knowing your end game, types of innovation and their importance in developing an innovation strategy, there is also the development of an environment/culture that will foster innovation. The development of a framework to support innovation includes:

- Integrating innovation into business objectives
- Taking a holistic approach to innovation
- Establishing strong channels of communication
- Developing an environment of trust

**Integrate Innovation into business objectives**

Global surveys have found that the top motivators for innovation are leaders who encourage and protect innovation and top executives who spend their time actively managing and driving innovation. Inhibition of innovation commonly occurs where executives pay lip service to innovation but do nothing about it.

For an innovation strategy to be effective there needs to be an integration of innovation into senior leaders’ agenda. By developing performance metrics and targets for innovation senior management integrate innovation into their normal pattern of business. This routine also creates an environment where managers and floor staff are comfortable with innovating, thereby making better use of an existing talent for innovation.

**Taking a Holistic approach to innovation**

Innovation is not resigned to just product development but can be in process improvement, organizational structure, business model and marketing.

For example the innovative organisation 3M which is best known for household brands such as Post-it Note, Scotch Guard and Scotch Tape has developed an environment of innovation which permeates every function of the firm so that accidental discoveries are captured and applied. For example, the accidental discovery of a new adhesive that was applied innovatively to give us Post-it Notes. 3M embedded innovation within the organisation by

encouraging technical staff to spend 15% of their time on projects of their own choosing or initiative.

Look to the overall organisation and to stakeholders such as suppliers and clients when developing your innovation strategy. Bring in different departments into the innovation process and create strong communication channels throughout the organisation and beyond as discussed below. Look at your skills and the skills of your staff. Can more effective teams be developed through combing right brain (imaginative) and left brain (logical) people together to create a team that can better achieve the company’s strategy. Pixar’s John Walker (Producer) and Brad Bird (Director) provide a creative tension that sharpens the resulting movies.

4.1 Establishing strong channels of communication

An organisations’ formal and informal communication networks will determine its innovation effectiveness. Effective networks allow people with different kinds of knowledge and ways of tackling problems to cross-fertilise ideas. Since new ideas seem to spur more new ideas, networks generate a cycle of innovation. When developing your innovation strategy think about how you can create conditions that allow innovation to become part of daily discussions. This could be achieved through adjusting existing organisational networks so that they become more decentralised, adding innovation to the agenda item of leadership meetings so that innovation is regularly discussed and training and professional development programs to encourage the use of creativity tools and techniques.

4.2 Developing an environment of trust

A key part of innovation is the fostering of ideas and the development of an environment in which employees are encouraged to take risks and test their ideas. Think about how this can

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5 Barsh J., Capozzi MM., Davidson J., Leadership and innovation, The McKinsey Quarterly, Number 1, 2008
be achieved and built into your innovation strategy. It can be as simple as acknowledging employees' ideas and encouraging them to pursue ideas that add value to the business.
5.0 PROTOTYPING

While many of the innovation strategy examples are large organisations with a large research and development department this does not preclude you from being innovative. Initial testing through the development of a prototype is a great way to cheaply take an idea and develop a physical product that can be tested further and either accepted or discarded with minimal cost.

The development of a web site for mothers in Knoxville (see below box) is a great example of a step wise process which limits the costs of diving into full development before the demand from both customers and advertisers is determined.

Anthony, Johnson and Sinfield in their article “Driving Growth through Innovation” provide the example of a team at the E.W. Scripps Co. who had an idea to create a web site targeting local mothers. The team’s first key assumption that required testing was whether there was a need for the website in local markets. Focus groups made up of on-staff mothers (cheap and quick) confirmed this assumption. The Scripps team then needed to determine whether advertisers would be interested in buying space on the website. The Scripps team made a mock-up of the site and showed it to advertisers. Once they realized they had enough interest from advertisers they built the site (http://knoxmoms.com/).

6.0 DRIVING INNOVATION

Authors, Collins and Porras summarize their findings from 3M and provide five takeaways to drive Innovation at any business:

1. "Give it a try--and quick!" - Essentially echoing on having a process to try out a lot of stuff, and keeping what really works. The key here is to do something. Keep on trying something new.

2. "Accept that mistakes will be made." - Learn from the mistakes quickly, and move on. Failures are part and parcel of what creates new innovation. Don't repeat the same mistakes.

3. "Take small steps." - Experiment, but on a small scale. When something looks promising, go all out and seize the opportunity. This way one can do plenty of inexpensive experiments that create a funnel of would-be innovations.

4. "Give people the room they need." - Without entrepreneurship, there is no experiment. Without experiment there is no success or failure. People need some time, incentives, job security and room to experiment.

5. "Mechanisms - build that ticking clock!" - How do you harness creativity and build innovation? It cannot happen simply by chance. Companies need to create practices and tangible mechanisms to experiment, try out new ideas and innovate.

These takeaways highlight the key areas of developing an innovation strategy that will assist you to achieve your desired outcome. By building an innovation strategy that will enable these drivers of innovation to be achieved will put you on the path to becoming an innovative organisation like 3M.
7.0 SUMMARY

- Clearly define what you want to achieve out of this cycle of innovation.
- How does this fit with the current stage of the company’s growth and where the company is heading.
- Some ideal types of innovation strategies are proactive, active, reactive and passive.
- Look at what type of innovation strategy will best suit your desired outcome and your company’s stage of development.
- Think of ways to limit the cost of innovating such as developing prototypes and staging the development process so that you do not over-commit to ideas before they are proven.
- Give it a try; accept mistakes will be made; Take small steps; give people the space to innovate; Build mechanisms to harness innovation.
- Use the development of the innovation strategy as an opportunity to develop a culture of creativity within your organisation.