Three Steps for Aligning Business Strategy with Innovation Strategy

by Lucio Pieroni

The list of most innovative companies in the world contains some household names, many of which achieve this lofty status year after year: Apple and Samsung in consumer electronics, Google and Microsoft in software, P&G and 3M in consumer products, and GE in engineering products. Interestingly, few of these revered companies boast R&D spending in line with their fame, proving that effectiveness and results are more important than spending when it comes to innovation.

So what do these companies have that make them more effective than their peers? First, a focus on understanding the customer and meeting consumer desires via the use of design thinking. Second, their ability to create a strong link between business strategy and innovation strategy.

What does it mean to connect business strategy with innovation strategy? We've identified three main areas required to achieve this alignment.

Understand the impact of your growth strategy on innovation

There are no universal targets when it comes to innovation. Instead, targets should be derived from a contextual analysis of your business and your growth aspirations. Are your growth expectations in line with or exceeding market growth? How quickly is innovation adopted in your markets? How competitive is your business? Is your product planning aligned with your customer roadmaps? How should you balance your project portfolio in response? Do you need to focus more on winning in your current categories via strengthening the competitiveness of your products, expanding in existing categories or creating new-to-the-world domains? Answer these questions and capture your responses in a balanced scorecard to first understand where you stand relative to your industry, and then to regularly track progress versus your objectives.

Identify search fields to focus ideation

Next, you need to develop a strategy of where to play. Search fields are domains rich in innovation potential. They establish a “true north” that connects ideas and technologies back to the fundamental needs of your customers or consumers and emerging trends in your business. To be actionable, these search fields need to be fleshed out to show the link between needs and trends on one side and product benefits, performance attributes and functionalities on the other. Search fields help focus customer / consumer deep-dives, ideation and technology development in the areas that matter most. They provide a better understanding of the business you are in, going beyond current products or technology applications to explore completely new product categories and business models.

For example, coffee manufacturers could have seized the energy drink market had they understood that they were in the business of invigoration, but they were so focused on coffee that they missed the connection between the fundamental customer need and the opportunity to grow beyond their current business.

Transform your organization to deliver innovation results

The previous two areas identify the “what” of an innovation strategy. Next, you need to identify the “how.” How do you operationalize innovation? Have you done an honest assessment of your innovation performance? What skills are required to close the gap? How do you capture insights and use big data? What diversity do you need to engineer in your organization? How is your organization structured? Do you handle innovative projects differently from the ones that sustain current business? If yes, how do you ensure adoption of these projects back into the business? Do you take a holistic, integrated view of your innovation or do you focus on a series of disconnected, stand-alone processes that sometimes seem to veer you away from your strategic goals? Who is in charge of designing a more innovative organization?

The most innovative companies have two well-established organizational characteristics. First, the role of Chief Innovation Officer, the fastest-growing position in the corporate world. Second, a dedicated innovation team, strongly connected and in synergy with the organization that manages the day-to-day company business.

Leading companies have the ability not only to master the three areas described above, but to continuously sustain them. They understand that mastering innovation is a journey and not a destination. And they do not sit on their laurels. Their mantra is that “The moment you stop innovating, you start to slip in the business of innovation.” Can you say that your company has a clear innovation strategy, a holistic innovation transformation and the capacity to sustain both over time?
Are you relentlessly focused on results?

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