Innovating with purpose requires a clear strategy that aligns with business goals. Easier said than done. Here are three pragmatic starting points for an innovation strategy that delivers on growth expectations.

**Step 1: Define business and functional strategy.**

Strategy has been called the “most overused and misunderstood word in business,” so the most natural place to start is by describing the relevant strategy types.

**Business strategy** resides at the business unit or enterprise level of an organization and describes the overall business model and strategic direction of the firm. Its purpose is to select the markets that the business will serve and to guide the business functions to achieve competitive advantage.

The functional level is the operating divisions and departments, such as sales, marketing, R&D and operations. **Functional strategies** are made up of decision rules and means to achieve a competitive advantage. In other words, functional strategies operationalize the business strategy.

![Diagram of Business Strategy and Functional Strategies](image)

**Figure 1**

Although the visual representation of these levels is usually hierarchical, Figure 1 portrays them as interactive and iterative. Successful strategy development and execution requires a multi-directional collaboration and communication flow that facilitates alignment between business and functional strategies, as well as within functional strategies.
Step 2: Remember that innovation is a business function.

Peter Drucker once stated that “because [a business’s] purpose is to create a customer, [it] has two – and only two – functions: marketing and innovation. Marketing and innovation create value, all the rest are costs.” His opinion illustrates the need for a formal innovation strategy.

As shown in Figure 2, innovation strategy defines how innovation will contribute to the business goals and strategy. It translates high-level business objectives into specific goals, direction and metrics for innovation. It identifies “where to play” and “how to win” with innovation, and just as importantly, defines “where not to play.”

Figure 2

Step 3: Formulate your innovation strategy with a top-down and bottom-up approach.

The most effective innovation strategies recognize the need for (a) top-down guidance for innovation efforts and (b) ways to adjust the course based on bottom-up insights.

Although the result is not “simple and tidy” (Cooper, Edgett, & Kleinschmidt, 2002) – as is the case with many modern strategy frameworks – this type of approach is required to enable the alignment of business and innovation strategies.
From a top-down perspective, an innovation strategy should address these five key topics:

1. **Where to play** – Identify which markets/categories, consumers/customers, end users and need states are the most attractive opportunity areas for innovation.

2. **How to win** – Provide guidance on how to achieve competitive differentiation through product, service, commercial, and business model innovation. Additionally, it should identify what technologies are required and determine how to enter new markets.

3. **Goals** – Define “innovation success” for the business unit as a whole, usually in terms of sales and profits derived from new products. Other goals may include keeping the core business vital and growing, or nurturing disruptive innovation to create new categories or reframe mature categories.

4. **Resources and capability alignment** – Ensure capabilities are sufficient and aligned to deliver on the desired future state of innovation. Core capabilities include strategy, insights, discovery, development, launch management, data management and collaboration. Capabilities that align and transform include change management for people, processes, and technologies.

5. **Portfolio objectives** – Determine appropriate portfolio mix – in terms of product, service, commercial, and business model innovation – and R&D resource commitments (e.g., FTE’s, budget, capital) to operationalize the innovation strategy.

The bottom-up component is a continuous feedback loop to adjust strategy based on lessons learned from in-market results and new insights (e.g., market, customer, regulatory, technology). For example, product managers who understand product lifecycles can inform the organization of new rival technologies that might eventually overtake their markets. They can then facilitate the transition away from mature technologies before S-curves collide.

Beyond the core, attractive new platforms that are identified through category expansion or white space exploration can revise the future direction of the business and strategy. Strategy informs innovation efforts which in turn can generate new insights that inform strategy; it is an iterative process.

The common metaphor that explains innovation in context of Darwin’s Theory of Evolution suggests that innovation strategy can make or break a company. For example, Tim Kastelle argues that "for an organization to do well over time, it needs to be adaptable. This means that unless its environment is unusually stable, it needs to generate variety." Innovation strategy provides direction and appropriate resources to enable an accurate and timely adaptation of the company to its competitive environment.

Does your organization have a clear innovation strategy with organizational alignment? If not, this may be the time to pause and chart the course.