



# Innovation Strategy

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Innovation Leader Study Group

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## Developing Our Business Unit's Innovation Strategy

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- Asked to develop a position by central strategy team
- To do this, we assessed:
  - What has been done so far
  - Strategic priorities
  - Core Business Unit processes
  - Innovation support capabilities and resources (pan-corporation)
  - External best practices
- Aligned on core concepts and language
- Benchmarked Innovation: Carnegie Mellon Capability Maturity Model

## Guidelines for Business Unit Innovation Strategy

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- ❑ Align with business strategy and core processes
- ❑ Balance portfolio across multiple innovation dimensions:
  - Types (Doblin): Product, Operations, Customer Experience
  - Ambition (Nagi/Tuff): 70% Core / 20% Adjacent / 10% Transform
  - Capabilities (Pisano): Routine, Radical, Disruptive and Architectural
  - Risk Profile (McGrath): Technical & Market Uncertainties
  - Engagement Approach: Internal vs. External
  - Organizational Coordination: Distributed vs. Centralized
- ❑ Focus on desired outcomes from increased innovation maturity
  - Driving key growth priorities, customer value, industry leadership, differentiation, connectedness, cultural agility, employee engagement...

## Business Unit Innovation Strategy – Summary

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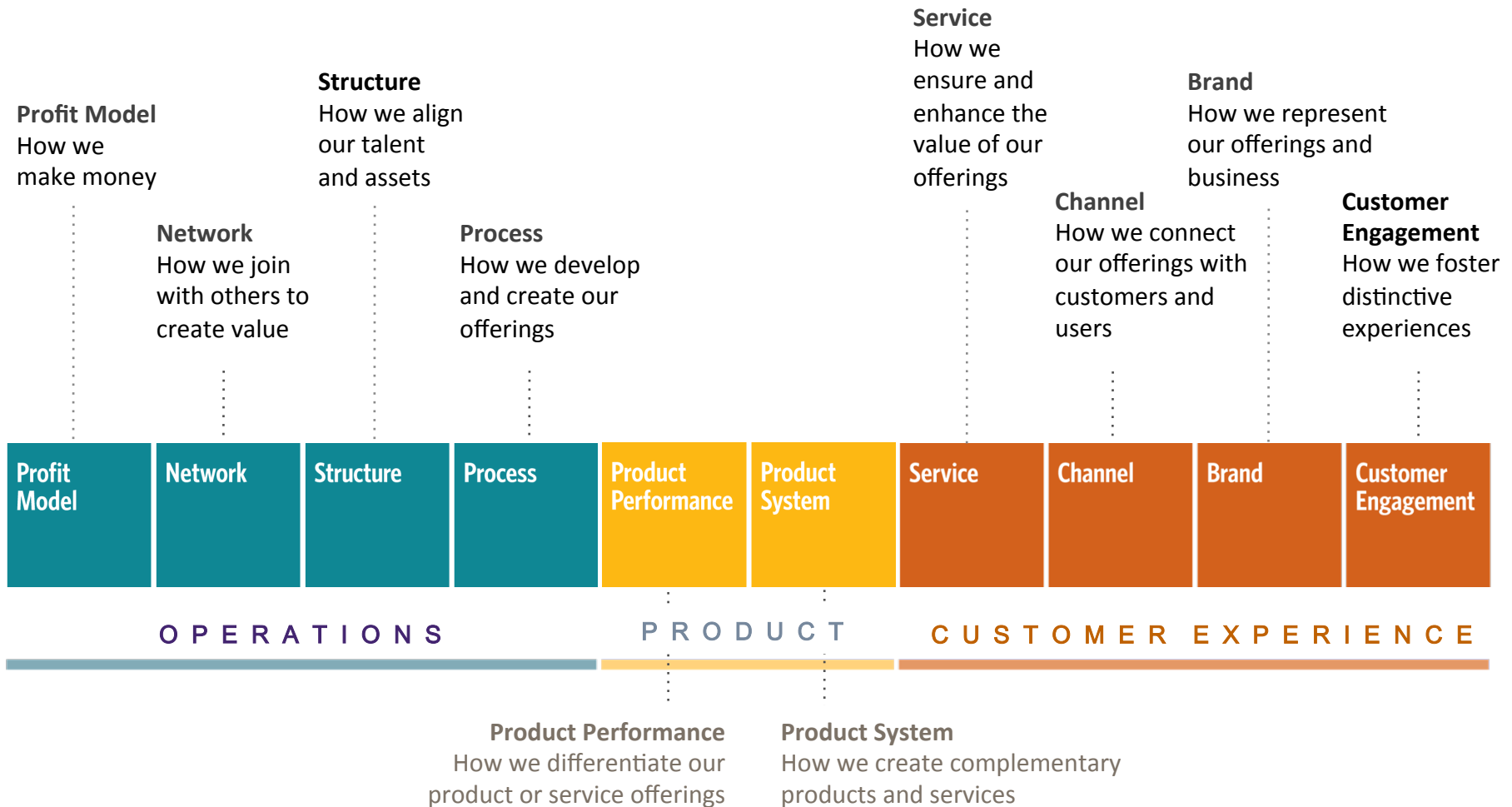
- Accelerate growth by innovating more comprehensively and systematically in key areas of strategic market opportunity for BU
- Better synchronize innovation activities with existing core processes
- Target distributed activities at incremental innovation goals
- Bet on bigger centralized projects targeting adjacent and transformational innovation, focusing on strategic growth areas
- Measure distributed and centralized initiatives separately
- Shift investment to 70/20/10 mix (core/adjacent/transformational)

# Appendix

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- Context on Innovation Frameworks and Dimensions

# Full Range of Innovation By Type – Dublin



Adapted from *Ten Types of Innovation: The Discipline of Building Breakthroughs* (Wiley, 2013)

# Full Range of Innovation By Capability - Pisano

## The Innovation Landscape Map

When creating an innovation strategy, companies have a choice about how much to focus on technological innovation and how much to invest in business model innovation. This matrix, which considers how a potential innovation fits with a company's existing business model and technical capabilities, can assist with that decision.

<p>REQUIRES <b>NEW</b> BUSINESS MODEL</p>	<p><b>DISRUPTIVE</b></p> <ul style="list-style-type: none"> <li>• Open source software FOR SOFTWARE COMPANIES</li> <li>• Video on demand FOR DVD RENTAL SERVICES</li> <li>• Ride-sharing services FOR TAXI AND LIMO COMPANIES</li> </ul>	<p><b>ARCHITECTURAL</b></p> <ul style="list-style-type: none"> <li>• Personalized medicine FOR PHARMACEUTICAL COMPANIES</li> <li>• Digital imaging FOR POLAROID AND KODAK</li> <li>• Internet search FOR NEWSPAPERS</li> </ul>
<p>LEVERAGES <b>EXISTING</b> BUSINESS MODEL</p>	<p><b>ROUTINE</b></p> <ul style="list-style-type: none"> <li>• A next-generation 3 series FOR BMW</li> <li>• A new index fund FOR VANGUARD</li> <li>• A new 3-D animated film FOR PIXAR</li> </ul> <p>LEVERAGES <b>EXISTING</b> TECHNICAL COMPETENCES</p>	<p><b>RADICAL</b></p> <ul style="list-style-type: none"> <li>• Biotechnology FOR PHARMACEUTICAL COMPANIES</li> <li>• Jet engines FOR AIRCRAFT MANUFACTURERS</li> <li>• Fiber-optic cable FOR TELECOMMUNICATIONS COMPANIES</li> </ul> <p>REQUIRES <b>NEW</b> TECHNICAL COMPETENCES</p>

**SOURCE** CORNING; GARY P. PISANO  
**FROM** "YOU NEED AN INNOVATION STRATEGY," JUNE 2015

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# Full Range of Innovation By Ambition – Nagi / Tuff

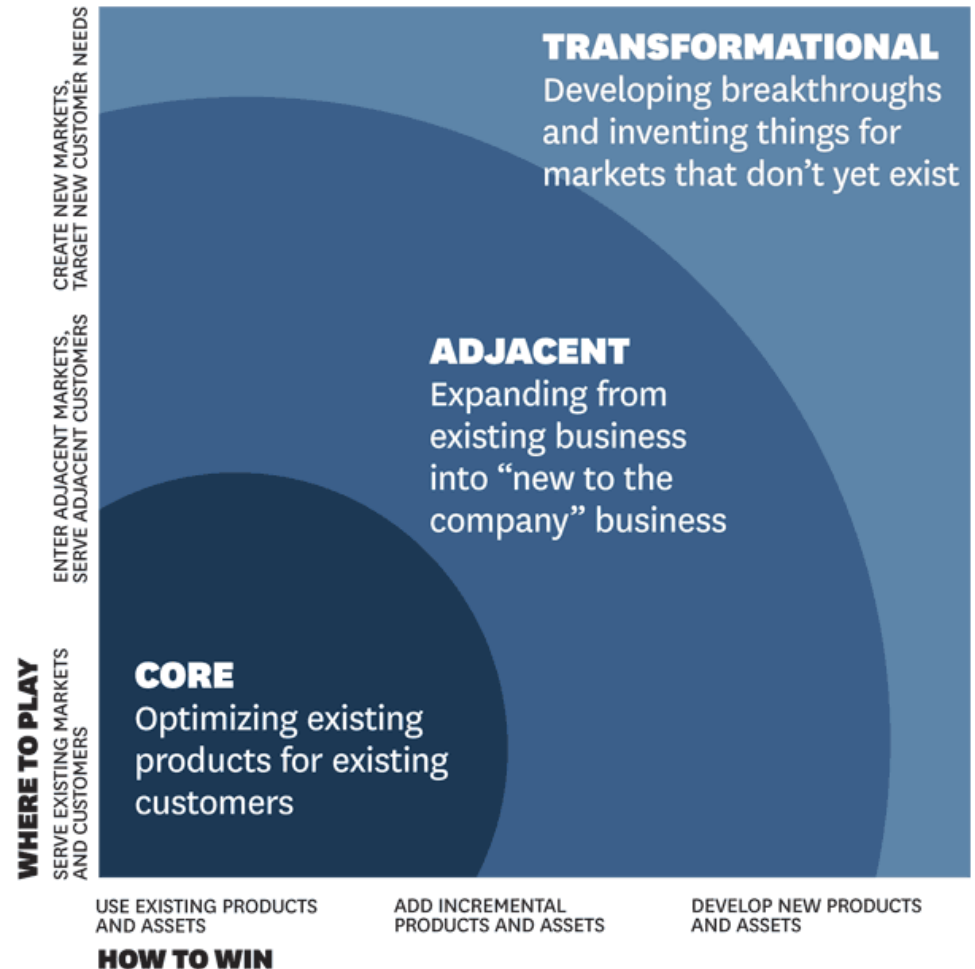
Firms that excel at total innovation management simultaneously invest at three levels of ambition, carefully managing the balance among them.

Average allocations of high-performing firms<sup>1</sup>:

- 70% to enhancements of core offerings
- 20% to adjacent opportunities
- 10% to transformational initiatives<sup>2</sup>

<sup>1</sup> Firms that outperformed their peers, typically realizing a P/E premium of 10% to 20%

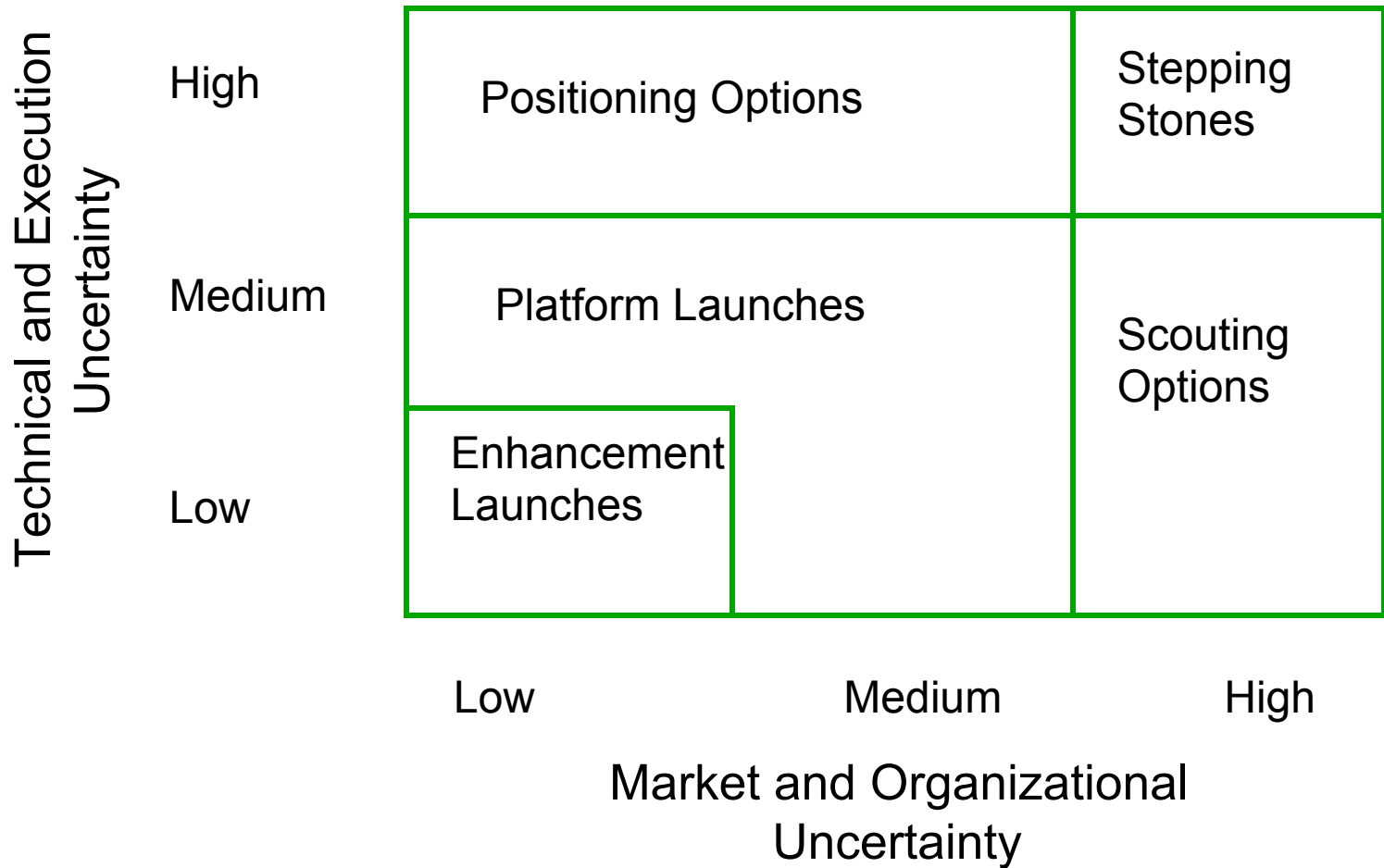
<sup>2</sup> Transformational efforts: not generally managed with a funnel approach; they require a nonlinear process in which potential alternatives remain undefined for a long period of time. A stage-gate process is lethal to transformational innovation





# Full Range of Innovation By Risk Profile – McGrath

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Source: Rita Gunther McGrath



# Sustained Innovation Capability Maturity Model

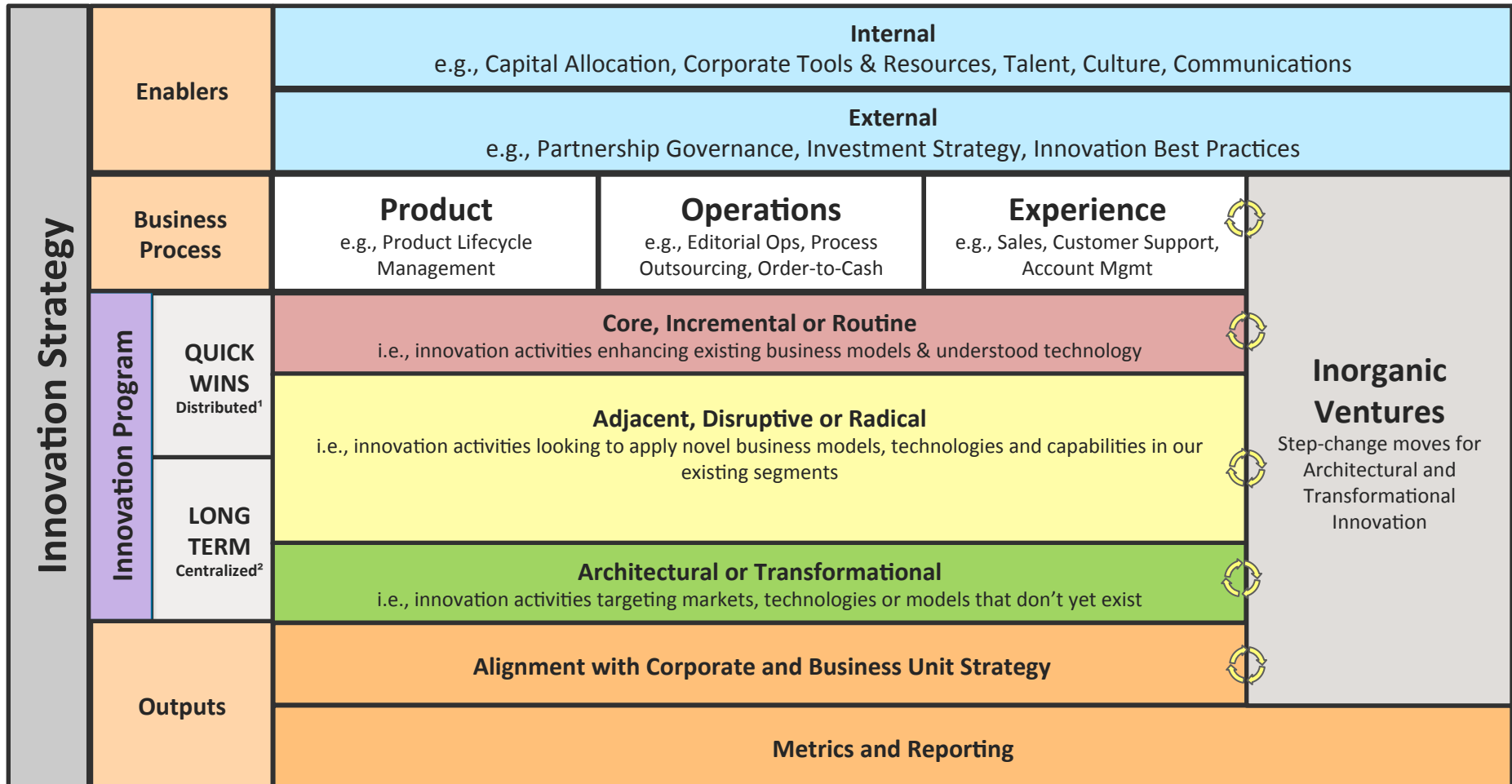
Level Parameter	1- Ad-hoc (with Islands of Structure)	2-Strategic & Emerging (Repeatable in Pockets)	3-Defined and Standardized	4-Infused (Systemic within Enterprise)	5-Shared (Industry and Societal Infusion)
<b>Culture</b>	Heroic efforts	Innovative “culture” in pockets	Empowered experimentation	Cross-boundary collaboration and leverage of resources	Seamless internal and external innovation
<b>Strategic Planning</b>	Ad Hoc processes	Little alignment between “innovation” groups/projects and innovation in core processes	Business units are working on incremental innovation. Central group(s) focus on transformational innovation	Strong formal links between strategy, centralized innovation activities and innovation occurring in core processes.	Processes encourage external collaboration
<b>Communication &amp; Thought Leadership</b>	Little communication	Frequent communication but not strategically coordinated	Communication throughout organization is becoming coordinated and regular	Communication of innovation activities is widespread and understood.	Industry-level communication
<b>Innovation Program Maturity</b>	Innovation projects (not program)	Innovation program not supported through organization	Innovation program supported but separate	Innovation program part of core strategy	Innovation program acts as network orchestrator
<b>Metrics</b>	No innovation metrics	Metrics measure activity	Metrics measure output	Metrics measure impact on core	Metrics measure impact on industry

Source: Adaptation of the Carnegie Mellon Capability Maturity Model

# Innovation Strategy: Getting to Level 5

## Vision and Framework

Target distributed efforts for quick wins in incremental improvements. Launch central projects for disruptive or transformational innovation. Both driven by strategic priorities.



1 **Distributed** activities leverage participation from innovators or champions with other responsibilities in their group or function

2 **Centralized** activities are performed by groups whose mission is to deliver on one or more innovation project (s)

These two approaches are complementary (e.g., central innovation groups can draw from distributed resources and vice versa)