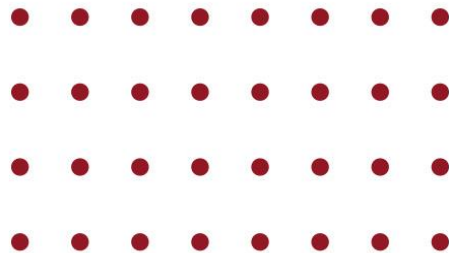


Strategic Management of
Enterprise and Digital
Innovation

Building An Innovation Strategy



Reminder:

Formative Assessment 4

=> Thursday 31 OCT- at 2PM

and

Summative assessment 1: Due
Wednesday 6 Nov at 2 PM

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- **Innovation Strategy**
- **Tools of Innovation Strategy**
- **Incremental vs Radical**
- **Developing An Innovation Strategy**



Innovation Strategy

An Innovation Strategy:

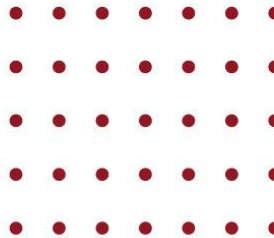
1. Determines **when and where** innovation is required to meet the aims of the organization
2. Lays out in broad terms **how** it is to be achieved.
3. Shows how the Innovation strategy is **aligned** to the overall business strategy.



Innovation Strategy as a guide...?!

An Innovation strategy is needed so that **it guides different aspects of the organisation:**

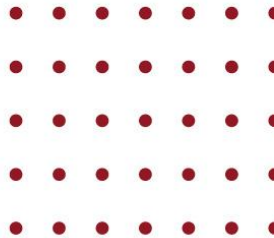
- **Idea Generation:** through setting goals for internal work, approval of research programmes and sponsorship of partnerships with others to explore new opportunities.
- **Idea Selection & Prioritization:** guides project selection and prioritization through the criteria used in selecting projects, and perhaps directly by designating funds for strategically important work.
- **Organisation, Culture and People:** Innovation strategy also guides **recruitment** and **training** and provides the framework for major investments in implementation.



Benefits of Innovation Strategy

An innovation strategy can help an organization in four ways:

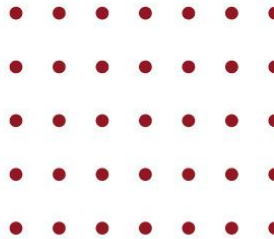
- 1. Improving existing products:** Taking existing products and increasing their performance along dimensions of value that matter to target consumers.
- 2. Developing new products:** Creating new products and services to serve existing consumers or to target entirely new markets.
- 3. Optimizing revenues:** Increasing revenues and profits by implementing new pricing options or business models.
- 4. Optimizing costs:** Reducing costs and overhead by implementing cost saving initiatives and restructuring operations.



Long Term View of Innovation Strategy

Innovation strategy must be constructed so that organisations:

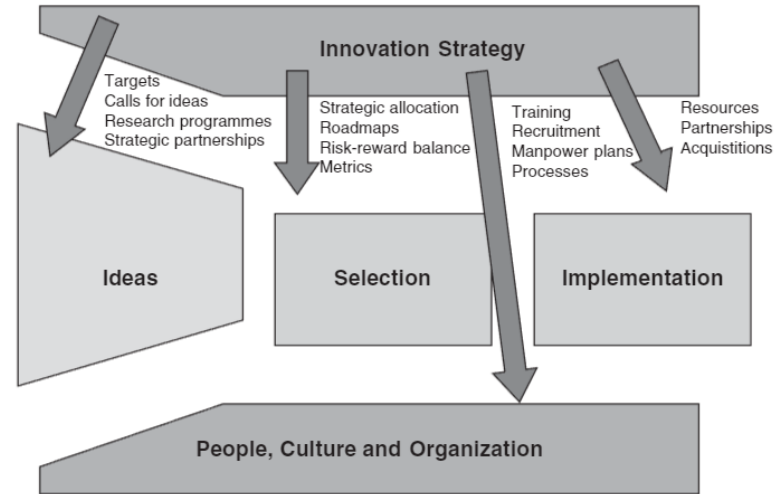
- Can take a long-term view of innovation.
- Can have time to **look far enough ahead to see the most serious potential threats and opportunities** that are arising slowly.
- Can be **prepared well before the need** becomes pressing.



Pentathlon Framework

Goffin & Mitchel (2017) Pentathlon Model gives a framework what influences innovation. In this way innovation strategy

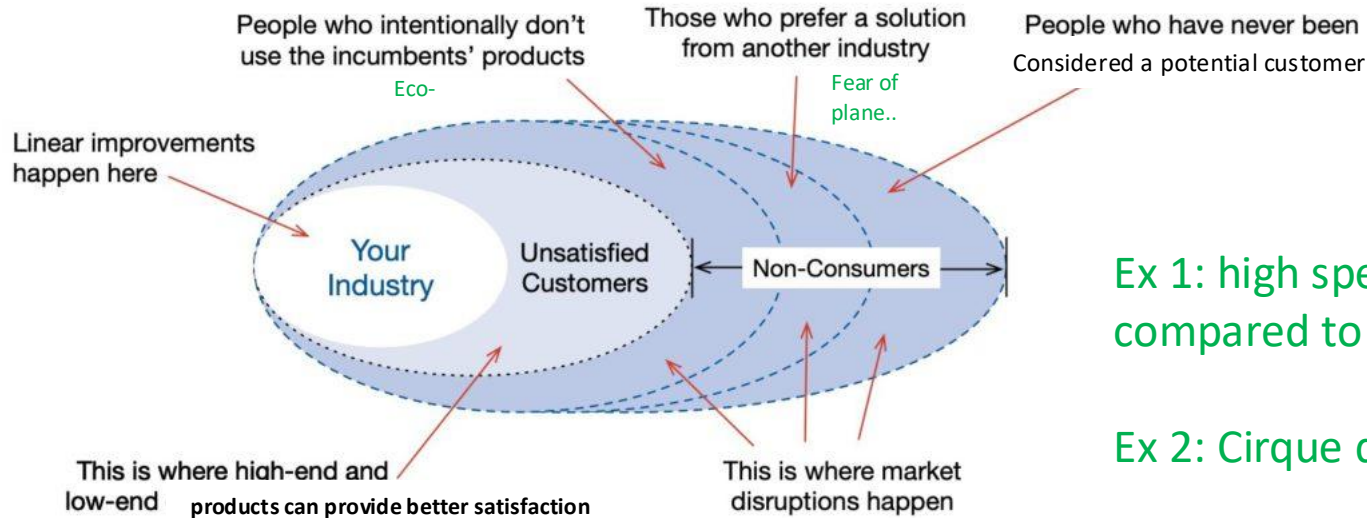
1. Aligns to the strategy of the organisation.
2. shapes the ideas generation, selection and implementation.
3. It also incorporates the people, culture and organisation.



Goffin & Mitchel (2017)

Field For Innovation Strategy

An Innovation Strategy needs to include **what is going on in the industry** whilst **identifying gaps of non-consumers** that can be **targeted for disruption**.



Ex 1: high speed trains compared to old trains.

Ex 2: Cirque du Soleil

Schilling (2019)

Value Innovation/Blue Ocean Strategy

Competing in the same game is not always the best policy. Sometimes, the best innovation strategy is to outflank the competition by offering a significantly different mix of benefits to a new market space.

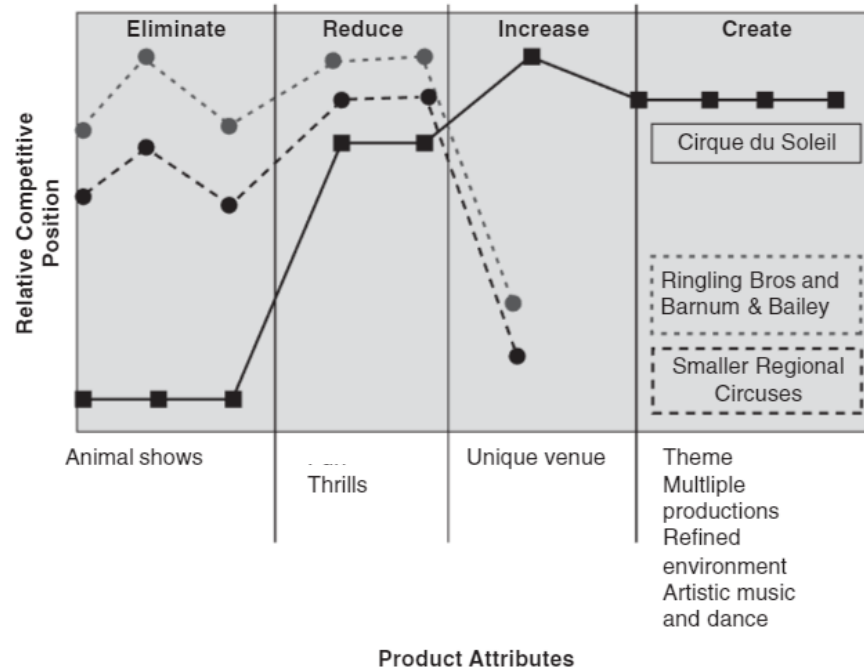


FIGURE 4.15: Value Gap Analysis for Circuses and Cirque du Soleil

Source: reprinted by permission of Harvard Business School Press. Adapted from *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant* by W. Chan Kim and Renée Mauborgne. Boston, MA 2005, pp 43. Copyright © 2005 by the Harvard Business School Publishing Corporation; all rights reserved³⁶.

Case Example: Dyson Company

Dyson company was established in 1991 producing very innovative solutions for the home market.

1. Its approach to innovation is to totally **radically shift a household product**.
2. They enter **highly saturated market**.
3. They **reinvent** what it means to have that appliance.
4. Make the appliance a **premium product**.
5. By 2018, they had 12,000 employees.

The Dyson logo, featuring the word "dyson" in a bold, lowercase, sans-serif font.

Scenario Analysis

Scenario planning helps organizations make sense of the future by developing a small number of alternative scenarios:

- Understand the **range of futures** that might occur.
- Find indicators to give **early warning of which scenario is evolving**.
- Prepare the way for **possible disruptive changes**.
- Avoid strategies that could be disastrous in some scenarios.
- Find some **strategies that are valid for all likely scenarios**.

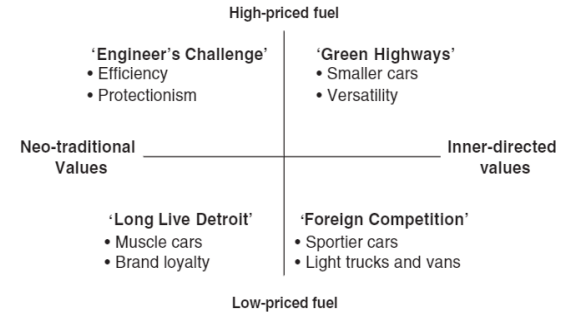


FIGURE 4.3: Scenarios for Entry-level Vehicle Design, Detroit 1980

Source: adapted from Schwartz and Ogilvy in Chapter 4 of: L. Fahey and R. Randall (eds) *Learning from the Future: Competitive foresight scenarios* (Chichester: John Wiley, 1998). Copyright © 1998 John Wiley & Sons, Incorporated. Reproduced with permission¹⁹.

Goffin & Mitchel (2017)

Strategic Landscape Mapping

The strategic landscape map is a tool for taking a broad view of the future.

This can be done by:

- creating a diagram divided horizontally into several layers
- These represent all the **significant aspects of the business that will remain important** over the period being examined.

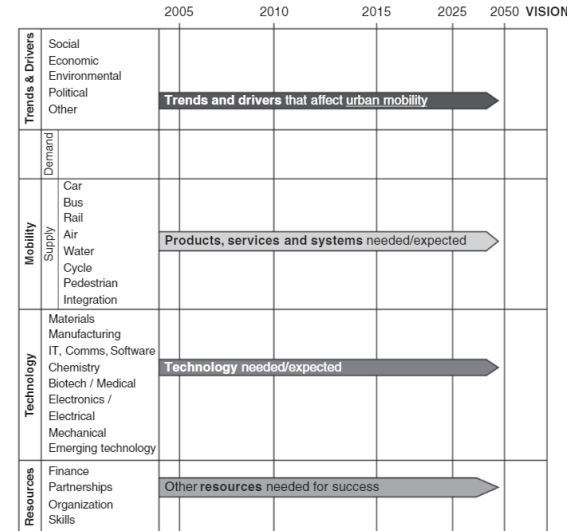


FIGURE 4.4: Strategic Landscape Structure for a Study of Urban Mobility

Source: copyright © Robert Phaal. Reproduced with permission.

Business Model Canvas

A helpful tool for visualizing this context of an innovation is the Business Model Canvas which depicts all the main elements of the business model, allowing managers to assess the complete proposal in the round.

Managers should ask:

- Can the value of the core innovation be enhanced by changes to other parts of the business model?
- Are the parts of the business model mutually reinforcing?

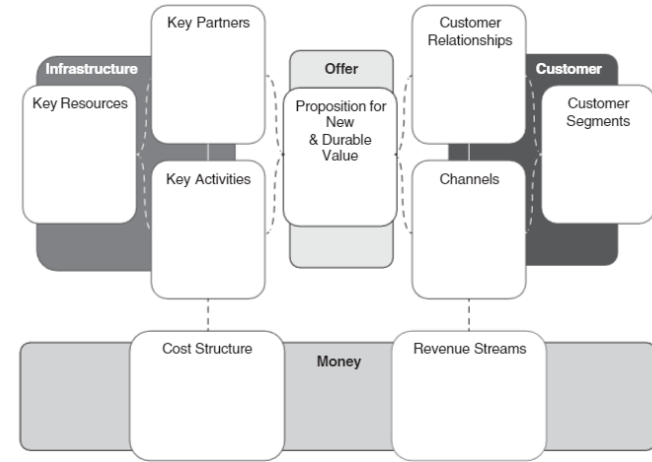


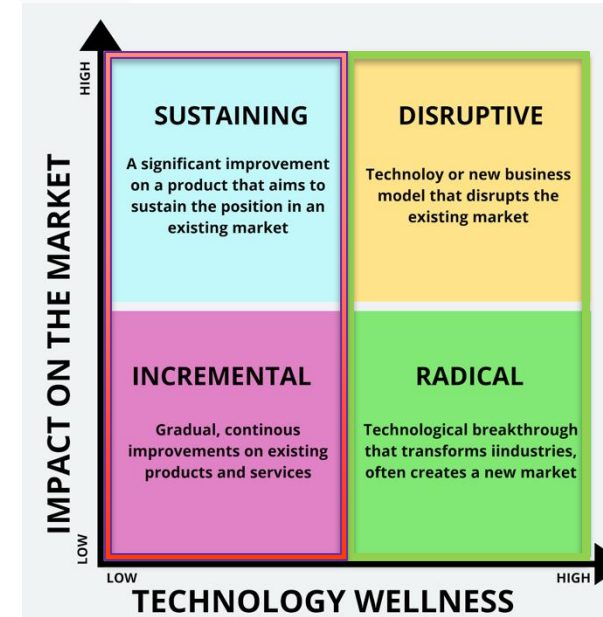
FIGURE 4.9: Business Model Canvas

Source: adapted from Osterwalder, A. and Pigneur, Y., *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers* (Hoboken, NJ: John Wiley, 2010). Copyright © 2010 John Wiley & Sons, Incorporated. Reprinted with permission.

Types Of Innovation Strategy

There are different approaches to innovation:

- **Incremental:** gradual improvement of what is happening.
- **Ex: Smart phones models and TVs in the last 14 years**
- **Sustaining:** is continuous incremental innovation that leads to a sustained position in the market.
Example: **Automobile Fuel Efficiency Improvement & safety (Also TVs and mobiles)**
 - Automakers continually invest in R&D to make significant improvements in fuel efficiency, reducing emissions, and enhancing safety features in their vehicles. These innovations help sustain their market position and meet evolving consumer demands
- **Radical:** technological breakthrough that transforms industry.
Example: **Development of the Internet**
 - The creation of the internet was a revolutionary technological breakthrough that transformed various industries, including communication, commerce, and entertainment. It opened up new possibilities and entirely reshaped the way people connect, share information, and conduct business.
- **Disruptive:** typically starts with a radical innovation where the New business model disrupts the market. Netflix-

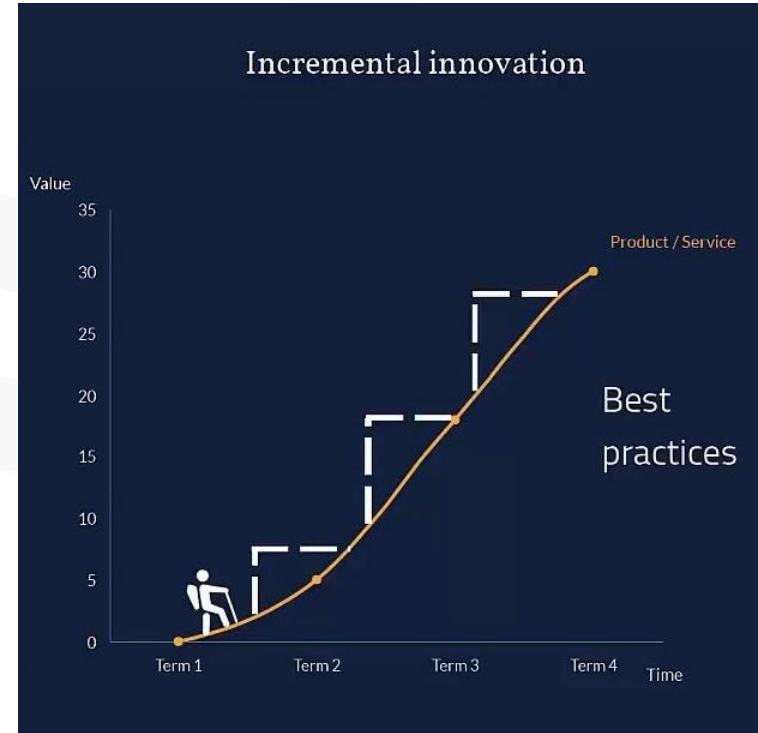


Strategy For Executives (2022)

Incremental Philosophy

Given the conditions of **uncertainty**,
‘incrementalists’ argue our ability both to
comprehend the present and to predict the
future is therefore inevitably limited.
Also to have continuous sales to people
upgrading to the latest model.
→ **Developing one step at a time**

Incremental strategies which explicitly recognize that the firm has imperfect knowledge of its environment, of its own strengths and weaknesses, and of the likely rates and directions of change in the future.

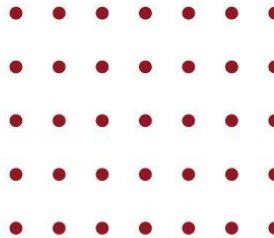


Incrementalist Strategy

The Incremental Strategy looks at developing one step at a time, from which a firm sets its next objective, tests, implements and adjusts.

The most efficient procedure is to:

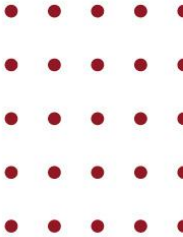
1. Make slow/small steps (or changes) towards the stated objective.
2. Measure and evaluate the effects of the steps (changes).
3. Adjust (if necessary) the objective and decide on the next step (change).



Implications For Management

When applying the incremental strategy, management need to change their approaches:

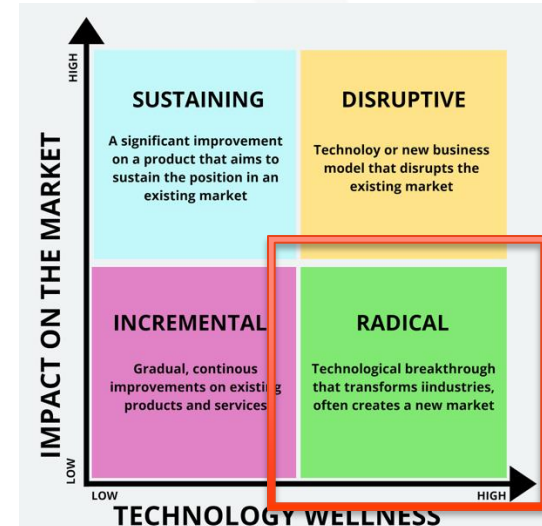
1. Given uncertainty, explore the implications of a range of possible future trends.
2. Ensure broad participation and informal channels of communication.
3. Encourage the use of multiple sources of information, debate and skepticism.
4. Expect to change strategies in the light of new (and often unexpected) evidence



Radical Innovation (or Breakthrough Innovation)

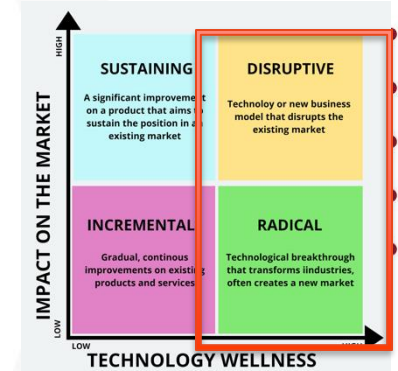
Radical or breakthrough innovation involves a significant change in the business model and technology of an organisation.

Example: **Netflix – The internet**



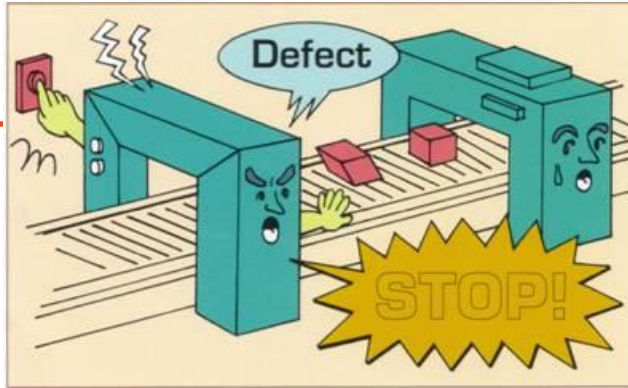
Types Of Breakthrough innovation cont...

- **Technological breakthrough:** A new technology that ends up dominating the incumbent technology. **Ex: The internet**
- **Business model breakthrough:** A new way to create value through the exploitation of business opportunities. **Ex: Uber**
- **Design breakthrough:** A new way to design a product without changing it profoundly. This is related to the interface between the product and the customer, which is an important factor of adoption. **(The flat TV)**
- **Process breakthrough:** A new way to do things (manufacturing, logistics, value chain, etc.) **EX: JIT** (Just in time manufacturing: Producing the elements needed, in the amounts needed, just when they are needed.. => Eliminate stock (concept) **PTO...**

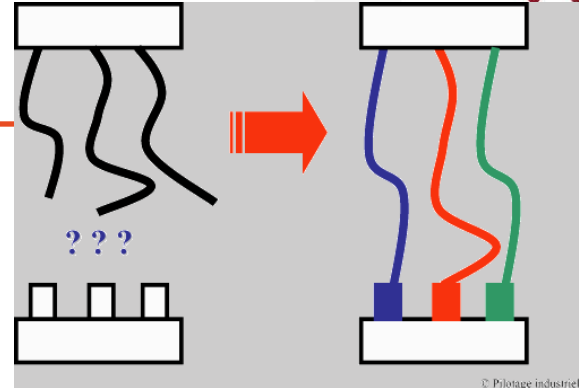


Other Process breakthrough examples:

Jidoka: A sensor is installed in the machines to detect errors and even stop production if it is not able to correct the defects.



Poka yoke: A mechanism that helps operators to avoid mistakes.



Disruptive Innovation Strategy.

See complete explanation in previous lesson.

Disruptive technologies may initially offer products that have poorer performance on the accepted features but other advantages such as price, size or convenience.

They are first used either among the least demanding users in the lower tier of the market or in new markets currently too small, or offering too low margins, to attract established companies.

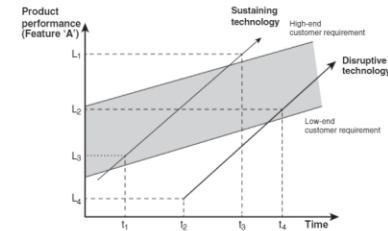


FIGURE 4.16: The Development of Sustaining and Disruptive Technologies
Source: reprinted by permission of Harvard Business School Press. Adapted from *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail* by Clayton M. Christensen, Boston, MA 1997, pp 11. Copyright © 1997 by the Harvard Business School Publishing Corporation; all rights reserved.

Goffin & Mitchel (2017)

Case Example on disruptive innovation: Dyson Vacuum Cleaner

Dyson Vacuum Cleaner has a story that could teach about innovation and how companies look at it:

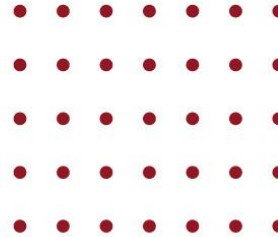
1. James Dyson, the eventual founder, bought a Hoover and the internal bag eventually created problems.
2. He went out to create a vacuum cleaner without a bag and devised [a cyclone system](#) to achieve this.
3. The company he worked with said that if the bigger players didn't invent it then it is not viable.
4. He kept going on and licensed his idea to a Japanese company.
5. With the money he founded Dyson Appliances. The idea took off and became a high end product in the market.



Implications For Management: Why wouldn't most companies work on creating a disruptive or breakthrough innovation?

Due to the greater risks involved and
higher levels of uncertainty, larger
enterprises often neglect/avoid
working on disruptive innovation.

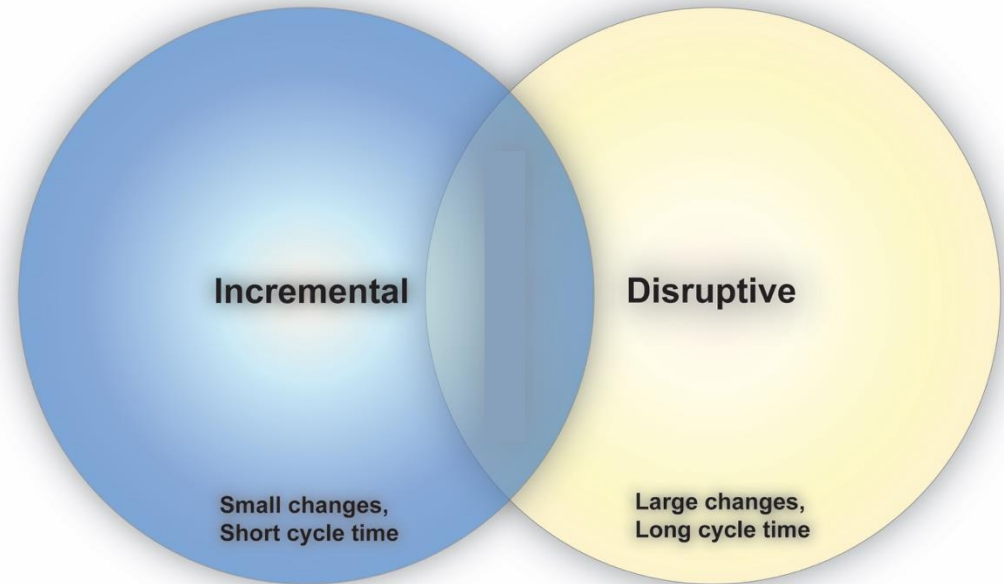
There can be a higher level of uncertainty
associated with disruptive innovation, yet it is
sometimes necessary in order to secure the long-
term viability of an organisation



Choosing Radical vs Incremental

Choosing whether the project will choose a radical or incremental will depend on the:

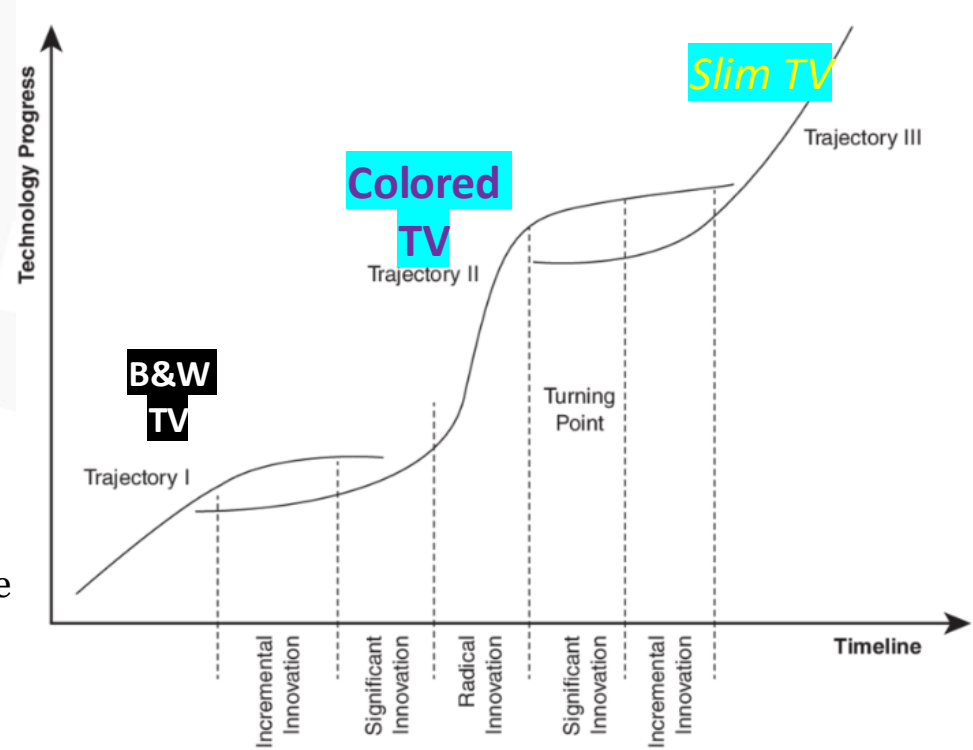
- Learning curve
- Complementary assets
- Project complexity
- Standards



Incremental To Radical To Incremental

Innovation in the long term require both incremental and radical break throughs:

1. A problem is first improved incrementally
2. Then there is a plateau that creates challenges
3. Creativity comes in and people find a radical way to do something.
4. This changes the market till things stabilize
5. This again moves to incremental, and the cycle continues.



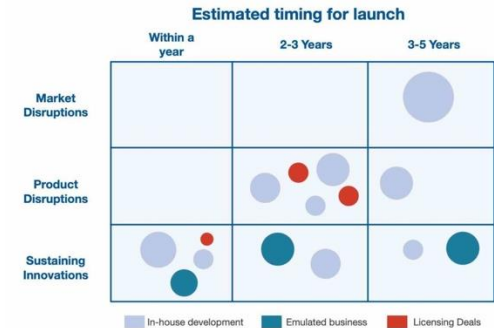
Schilling (2019)

Portfolio Of Innovations

A large organisation will need both types of innovation:

1. **Incremental innovations** bring in cash flow that is more stable.
2. **Radical Innovation** open new possibilities, markets and ventures.

That is why it may be good to have a portfolio of innovations so that a company **distributes the risk and maximizes reward.**



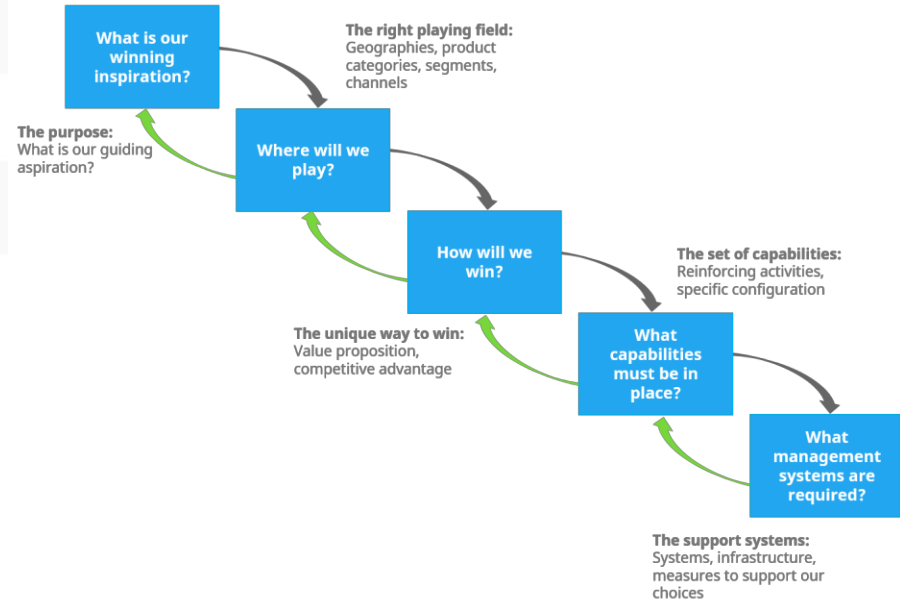
Strategy For Executives (2022)

Elements of An Innovation Strategy

An Innovation Strategy will look at:

1. A winning **business model** for success.
2. **Market:** choice of market where the firm will play in.
3. **Winning Strategy:** choose the strategy for winning over competition.
4. **Capabilities needed:** determine what capabilities are needed to be able to succeed?
5. **Management Systems & structure needed:** determine what strategies in management are going to be needed.

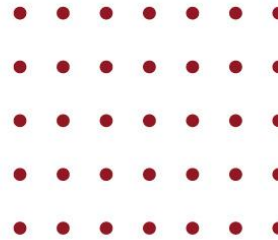
The Strategy Choice Cascade



What Does An Innovation Strategy Include?

To develop a innovation based strategy have the following elements:

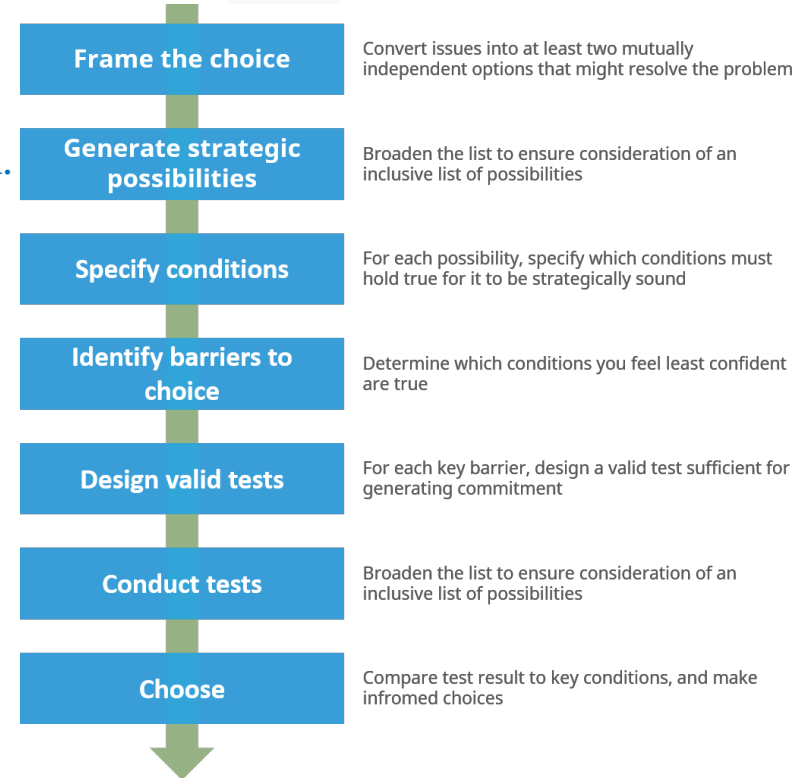
1. **Target Market:** who are the markets and customers we are aiming to work with.
2. **Value Proposition:** [what problem are we solving](#) and how are we solving it.
3. **Capacity Assessment:** what are [our strengths and weaknesses](#) of the internal orgnisation.
4. **Strategic Implication:** how will the innovation help the company improve its competitiveness, relevance and [achieve](#) its [vision](#).
5. **Innovation Style:** choosing the [radical vs incremental](#) way of implementing the innovation strategy.



Creating An Innovation Strategy

When it comes to create an innovation:

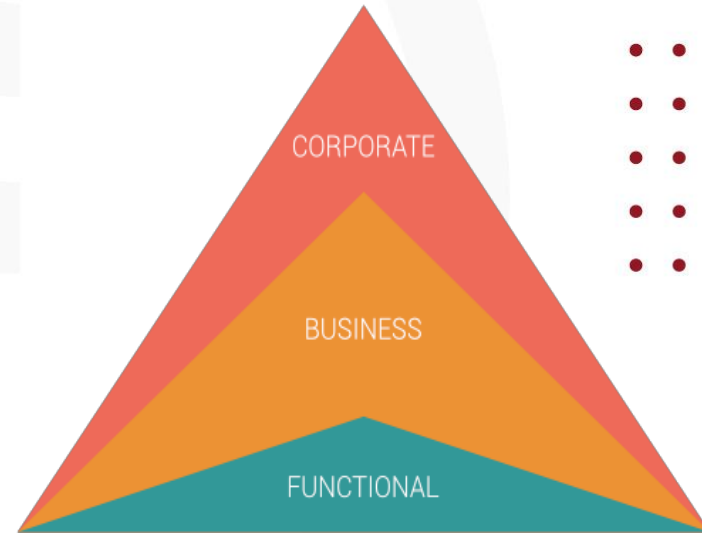
- **Give Context:** show the opportunities around innovation.
- **Expansion Plan:** evaluate how innovation may expand and foster more opportunities.
- **Conditions & Overcoming Barriers:** evaluate under which conditions are we likely to succeed.
- **Design & Conduct Tests:** test the ideas to validate the hypothesis of success developed by the organisation.
- **Choose:** choose which ideas are worth going forward.



Breaking Down Strategy

An Innovation strategy needs to then be broken down into:

- **Link with Corporate Strategy:** determine how will the overall company benefit from innovation.
- **Clear Business Strategy:** determine how the innovation will support a winning market.
- **Operational/functional Strategy:** what are the day to day activities that need to be adjusted.



Case Example: the Airblade

Dyson continued its trend of re-inventing old technologies:

1. In 2007 it started working on how to reinvent the hand dryers at airports.
2. They noted that they were weak and were not effective.
3. They used a blower that threw air at 400mph and that scraped water from hands using air.
4. Although a premium product, it changed the technology of hand dryers.

This shows that an innovation does not need to be totally original to be disruptive. The mechanics of this product is completely new and this opened the door to many markets.



Summary

- As innovation is expensive, costly and risky, having an innovation strategy helps prioritise actions.
- Many innovations tend to be incremental, a simple next stage improvement, that is stable.
- An innovation strategy supports organisations to generate ideas, select ideas and implement in a way that develops competitiveness.
- Radical innovations happen when the benefit of incremental innovation plateaus and then it is time for a breakthrough.
- One question organisations ask is whether their innovation is going to move with incremental or radical innovation.
- For larger organisations an innovation strategy will also support multiple innovations and how this will be implemented.

Discussion Questions

Let's test our knowledge!

- What is an innovation strategy?
- What are the benefits of innovation strategy?
- What makes an incremental strategy different to a radical strategy?
- How can organisations deal with multiple innovations?
- What is the process of creating an innovation strategy?

References

Goffin, K., & Mitchell, R., (2017) Innovation Management: Effective Strategy & Implementation. Palgrave.

Schilling, M. (2019). Strategic Management of Technological Innovation (6th ed). McGraw-Hill Education.

Strategy For Executives (2022) What is Innovation Strategy?
<https://strategyforexecs.com/innovation-strategy/>