



THE PROMISE OF STRATEGIC INNOVATION

An Innovation System Overview

FROM RAMSHACKLE TO DESIGNED

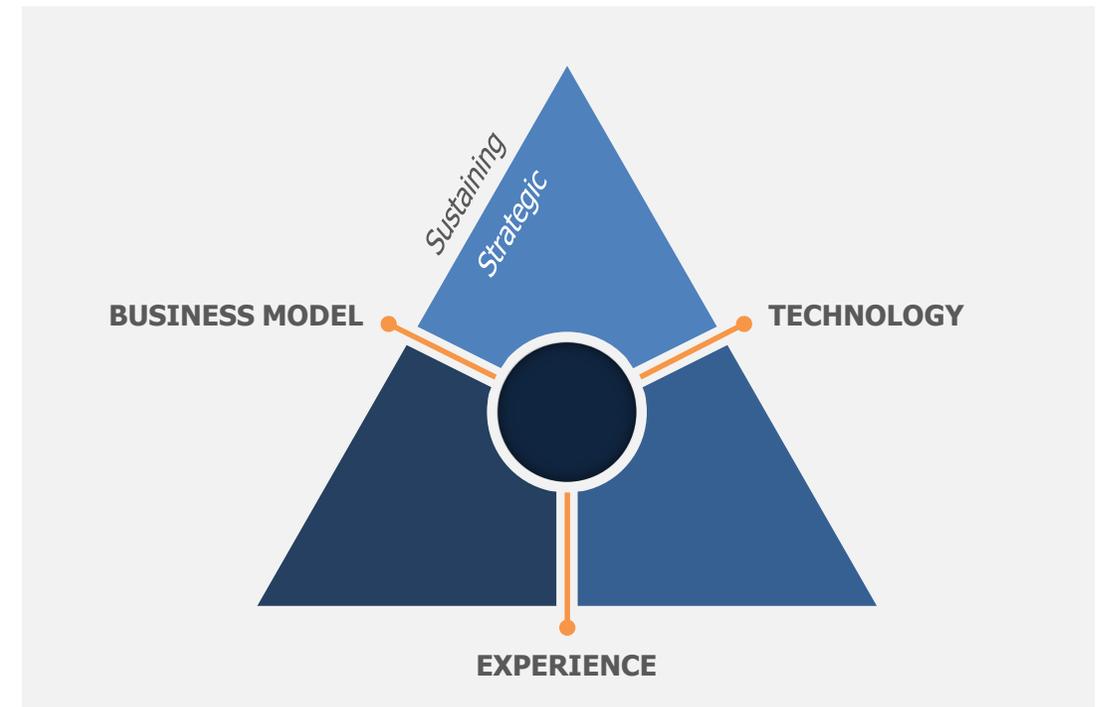
Many corporate innovation systems today

A ramshackle collection of processes, methods and tools, cobbled together over the years in an ad-hoc fashion by a succession of leaders operating under different strategies.



A holistic, integrated innovation system

Well integrated and comprehensive systems are designed to manage rapid transformation and turn the VUCA world into opportunities.



CHANGE STARTS AT THE TOP

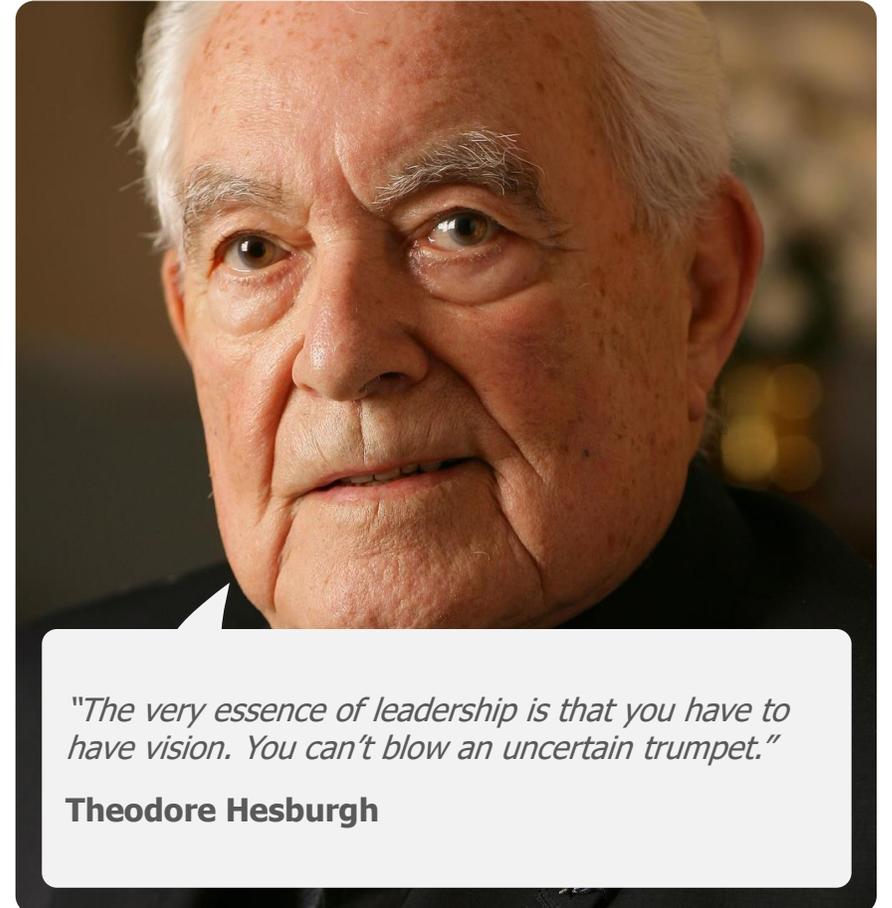
Executive team commitment

When the organization's leaders are fully behind transformation, it becomes possible – if not, it's often impossible.

Executive team commitment requires the following:

- *A true belief in the potential of transformation*
- *An understanding of, and commitment to, the effort and resources it takes to achieve the objectives*
- *The ability to distinguish between exploration and exploitation and to adopt the appropriate "frame"*
- *An acceptance of the importance of their mindset and behavior in achieving transformation*

When executive teams truly embrace these principles, change isn't just just likely, it becomes inevitable.



"The very essence of leadership is that you have to have vision. You can't blow an uncertain trumpet."

Theodore Hesburgh

THE PROBLEM IDENTIFIED

Without a long-term perspective, companies fall behind

One of the key problems large corporations face, is understanding how to create and pursue *strategic opportunities* – opportunities which power long-term growth. Without this long-term perspective, companies risk falling behind.

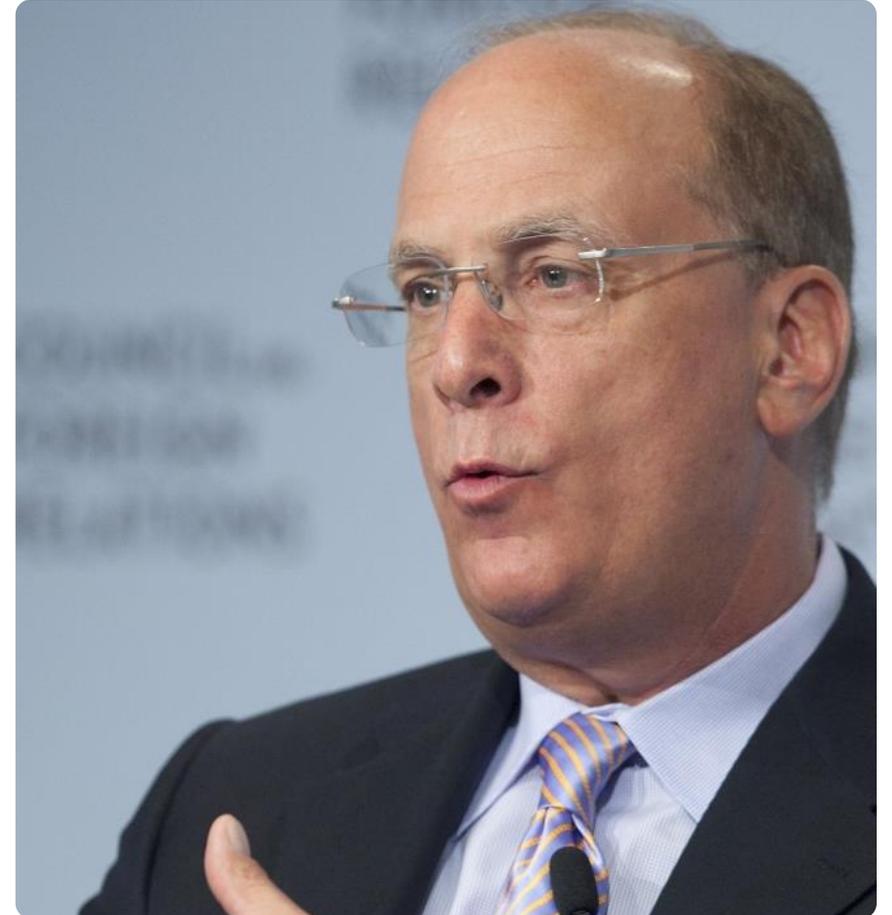
"I have written to the CEO's of leading companies urging resistance to the powerful forces of short-termism afflicting corporate behavior. Many companies continue to engage in practices that may undermine their ability to invest for the future."

Larry Fink - Blackrock

Transformational opportunities are realized only once every ten years ... not enough to achieve growth objectives.

There are many opportunities that are overlooked or passed over that others then often exploit.

Large organizations haven't delivered the goods needed to achieve the growth anticipated by stakeholders.



ACCELERATED GROWTH IS THE IMPERATIVE

An Innovation System provides the means to harness uncertainty for competitive advantage

Companies must simultaneously pursue Sustaining and Strategic innovation but Strategic Innovation is by far the most difficult to achieve. Success requires an Innovation Strategy, System and Culture.

Sustaining Innovations drive Baseline Growth

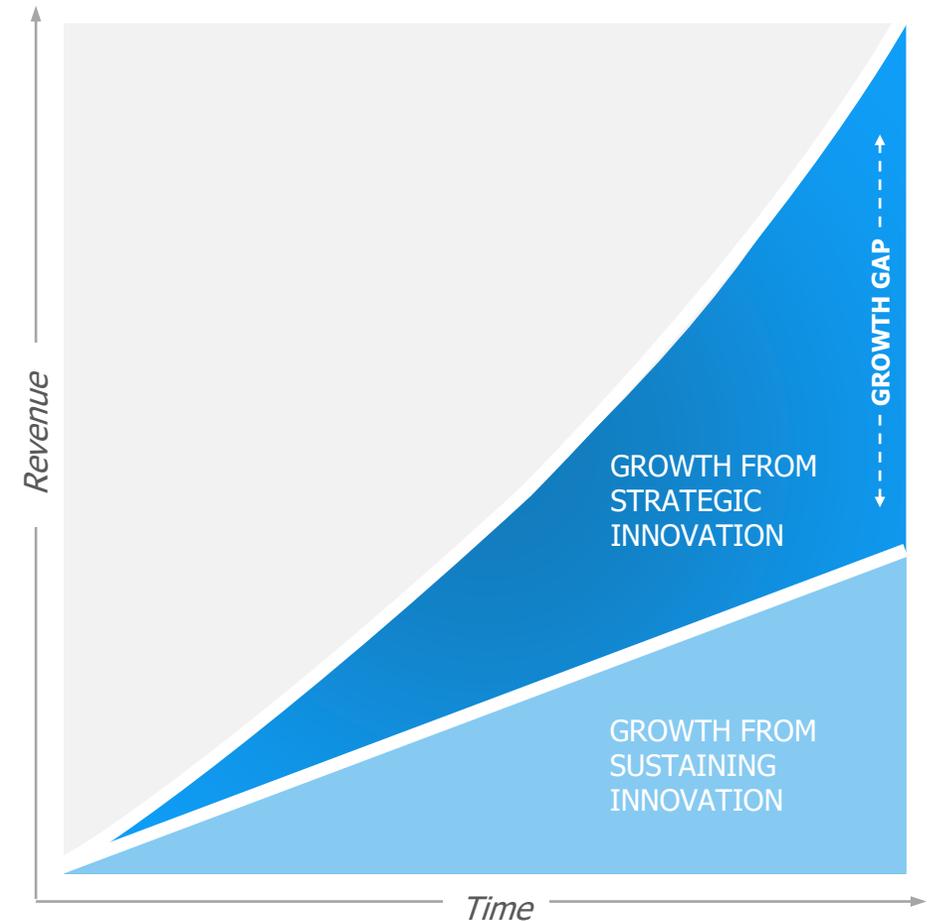
Risk dominates uncertainty

Often the incremental types of opportunities that business units are already working on, powering current growth.

Strategic Innovations drive Accelerated Growth

Uncertainty dominates risk

Drives the kind of growth that shareholders demand – growth above GDP, or multiples above baseline growth.



MANAGING UNCERTAINTY

Uncertainty is inevitable

Not only is it inevitable, for innovation to succeed, it needs to be sought out and embraced.

Uncertainty must be made visible

What is visible gets attention. Making uncertainty visible focuses attention on the right things.

Visible uncertainty drives new knowledge

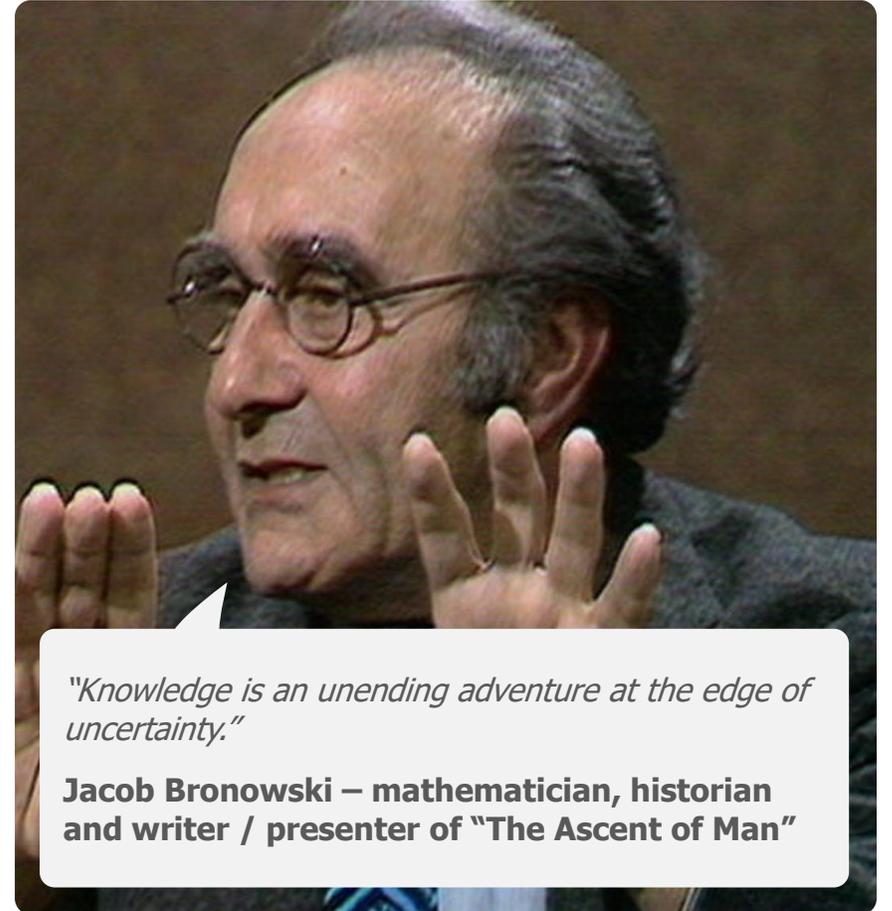
The reduction of uncertainty requires learning. New knowledge leads to insight and understanding.

Risk

We don't know what is going to happen next, but we do know what the possible distribution looks like.

Uncertainty

We don't know what is going to happen next, and we do not even know what the possible distribution looks like.



"Knowledge is an unending adventure at the edge of uncertainty."

Jacob Bronowski – mathematician, historian and writer / presenter of "The Ascent of Man"

TYPES OF INNOVATION

Strategic Innovation enables the organization to deliver Accelerated Growth

Innovations can be classified in three ways – each has its own challenges, and requires its own capabilities:



Sustaining Innovations

Necessary to stay competitive in the *short-term*.
Challenge is preventing adoption by competitors.



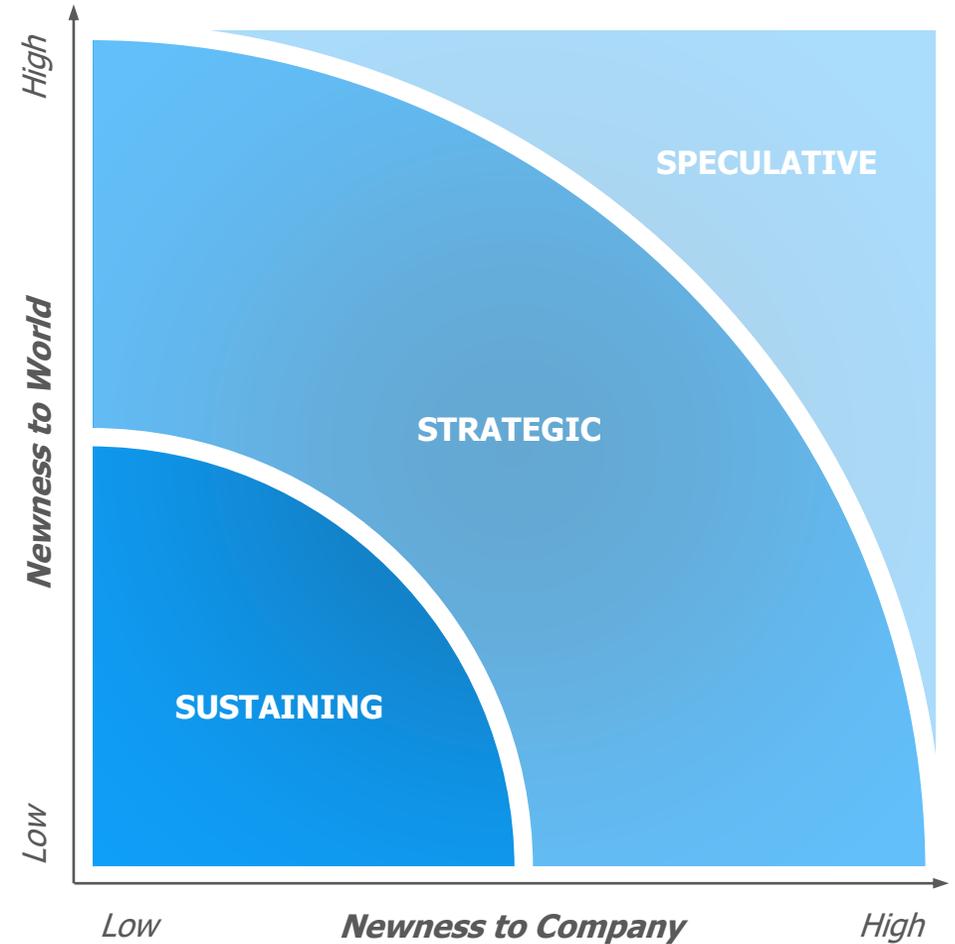
Strategic Innovations

Necessary to stay competitive in the *long-term*.
Challenges are external adoption and internal resistance.



Speculative Innovations

Optional for those companies with a high capacity for risk and a long-term vision.



STRATEGIC INNOVATION IS NEEDED

Strategic Innovation drives Accelerated Growth

Research shows that corporate investments in strategic innovation see a 61% profitability return.

But as the chart to the right shows, the vast majority of corporate investments are for Sustaining (Incremental) Innovation efforts.

INNOVATION TYPE	INVESTMENTS	PROFITABILITY
Incremental Product Development Projects	86%	39%
Strategic Innovation Projects	14%	61%

Source: Kim and Mauborgne, Harvard Business Review

- *A large majority of strategic innovations come from a minority of firms ... so a competency can be developed. It's not just luck*
- *Those firms that successfully commercialize strategic innovations also are the ones with the most sustaining innovations.*
- *Dominant firms in the industry (highest mkt share, assets, profits) commercialized significantly more strategic innovations than non-dominant firms.*
- *Original inventing companies introduced 75% of the breakthroughs studied in the pharmaceutical industry ... the argument that fast second is better is not empirically supported.*
- *Number of patent applications by the firm was NOT correlated with strategic innovation success.*
- *Strategic innovations achieved more than three times the NPV of technological breakthroughs alone.*

Source: Sorescu, Chandy and Prabhu, JM Oct 2003

AN INNOVATION SYSTEM

More than just a set of tools

Most companies have adopted various tools and methods on their innovation journey, but very few have actually built an integrated innovation system from the ground up. Research shows that companies that build a holistic Innovation System will perform better at both sustaining and strategic innovation.



Innovation System

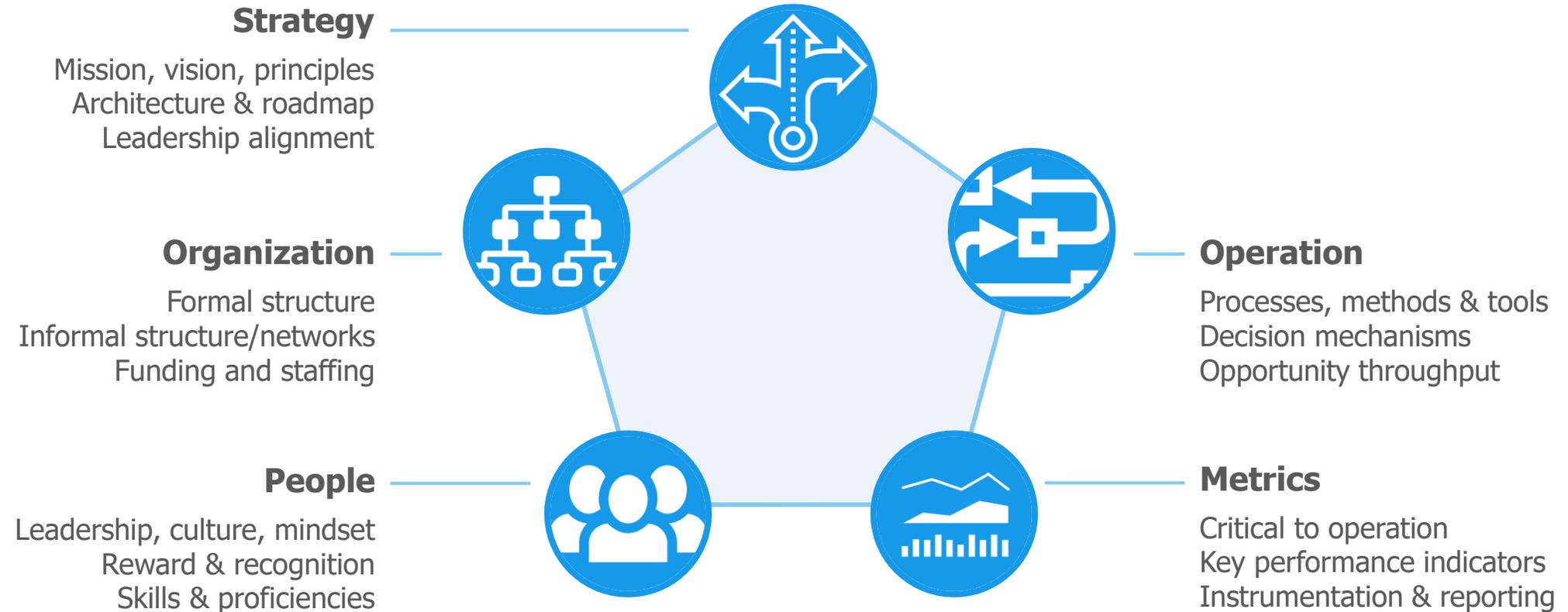
A holistic integration of the strategy, the people, the operation, and the organization that consistently creates sustaining and strategic opportunities ensuring long-term, accelerated growth.

"Innovation is a systems problem. A mistake many companies make is to look for one solution to the problem - e.g. open innovation or design thinking. That's a little bit like saying I'm going to build a car and here are the sparkplugs... Building an capacity for innovation is like bespoke tailoring - you build it from the ground up. What works for Apple isn't necessarily going to work for your company. You have to find your own path."

-Gary Pisano – Harvard Business School



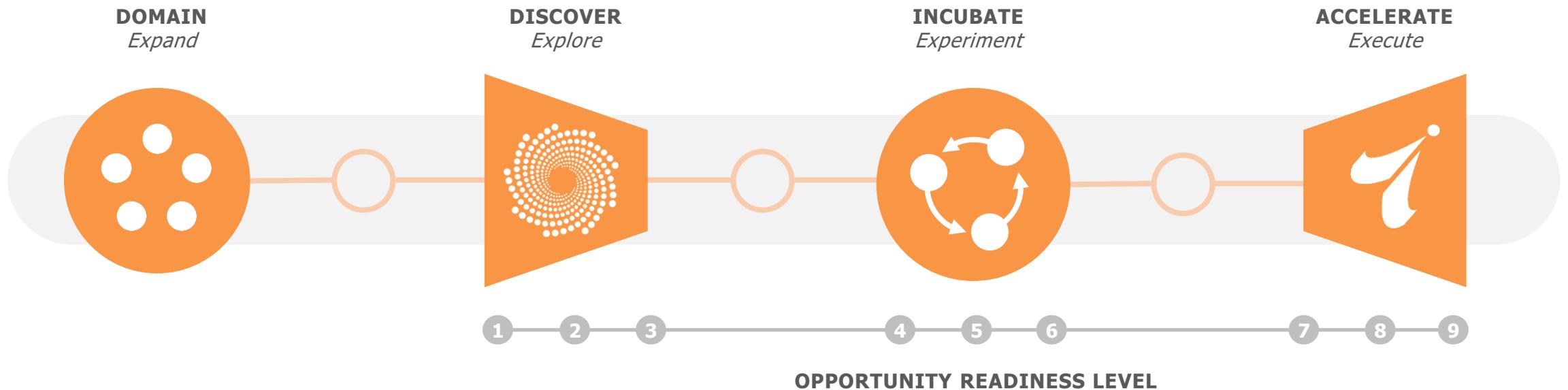
FIVE INNOVATION SYSTEM DIMENSIONS



THE STRATEGIC INNOVATION PIPELINE

Creating Strategic Opportunities

Start with strategic intent, discover new opportunities, incubate and shape the best, then accelerate survivors to scale*.



*based on work by Gina O'Connor

DOES YOUR INNOVATION PORTFOLIO DELIVER

Lack of confidence

You don't know if your portfolio is strategic enough to prepare you well for the future.

Lack of balance

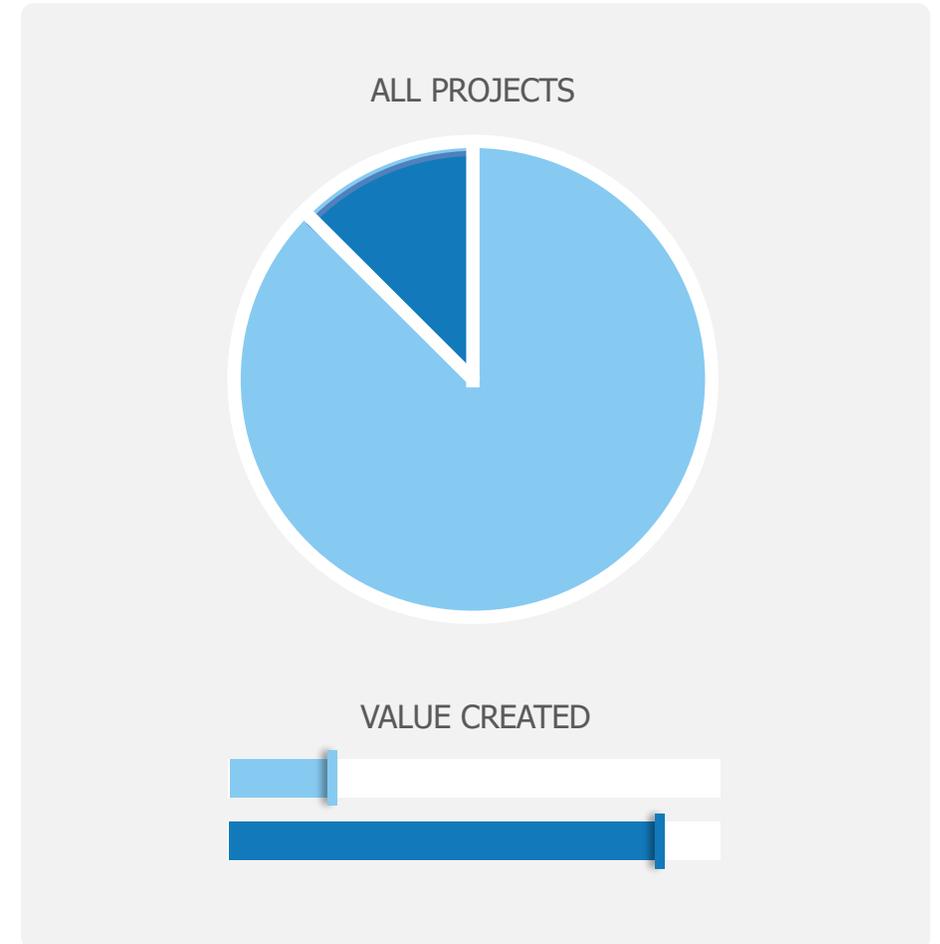
Your high-impact projects are the ones that will achieve your growth goals, but they are also the most problematic.

Lack of options

Sustaining innovation processes (e.g. NPD) are not sufficient to deal with high-uncertainty, high-impact opportunities.

"Only about 10% of the projects in your portfolio are truly innovative... but about 80% of the new value creation comes from these innovative launches."

Stephen King, Portfolio Manager and Head of Innovation Support, Nestle R&D



CHALLENGES OF STRATEGIC INNOVATION

Executives struggle with how to reliably deliver short term expectations while also taking the risks that come with the territory of strategic innovation...

...and often lack faith that the organization knows HOW to deliver on strategic innovation.

The practice of “innovation theater” over many years has left most companies with a disconnected set of methods & tools.

Clear view of 2 to 10-year future trends & scenarios

New internal capabilities

More collaboration with external entities

Key insights not limited to ‘voice of the customer’

Test & learn approach to development and launch

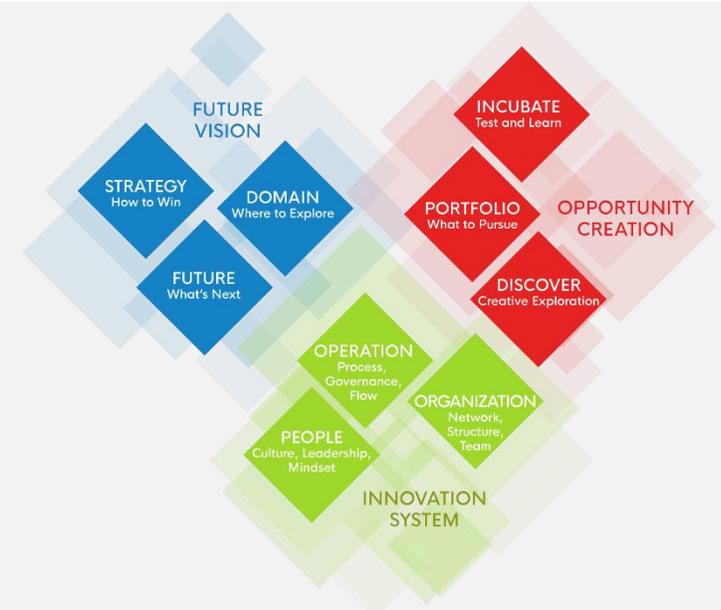
New decision-making methodologies

New metrics for decision-making and for success

Cultural contrast with operating units

THE INOVO GROUP

With Inovo as collaboration partner and guide, organizations transform their innovation offerings, cultures & capabilities.



For more information, check out our website at www.theinovogroup.com or drop us a line at +1 (888) 464-6686.