CHAPTER 1

A Product Innovation Strategy for Your Business

> I find the great thing in this world is not so much where we stand, as in which direction we are moving: To reach the port of heaven, we must sail sometimes with the wind and sometimes against it but we must sail, and not drift, and not lie at anchor.
>
> Oliver Wendell Holmes
> *The Autocrat of the Breakfast Table*, 1858

The Best Strategy Ever?

The MP3 player has been the fastest growing new consumer product ever introduced.[1] The speed of iPod's growth has been staggering, with Apple reaching 50 million iPods sold globally in only 4.5 years since its introduction. By contrast, it took Sony ten years to sell 50 million Walkmans. Apple has also driven the MP3 market, whose cumulative sales reached $200 million by the end of 2006, of which Apple was responsible for one quarter (and hit a 70 percent market share in the US). Compare that market growth to wireless phones, which took 12 years to reach sales of 50 million, or digital cameras, or cell phones which had much slower starts. In the last quarter of 2008, 22 million iPods were sold, representing 42 percent of Apple's revenue. The growth continues.[2]

So how did Apple pull off this amazing coup? Contrary to popular belief, Apple *was not the innovator* in this industry – it did not invent the portable MP3 player. Indeed, when the iPod was introduced in November of 2001, there were more than 50 companies selling portable MP3 players in the US; many were Asian companies relying on the Internet to market their products.

Apple's success where others failed was due to a brilliantly conceived innovation strategy that was superbly executed. In broadest terms, Apple saw the growing market need, and then identified and solved the major problems with existing MP3 players: size, storage capacity, user interface, and the shortage of legally downloadable music. In solving the problems, Apple leveraged its unique strengths perfectly: Its ability to vertically integrate and deliver an "amalgam of hardware, software and content that made buying, storing and playing music virtually effortless. Apple achieved this by relying on its legendary expertise in hardware and software but without going into the music business".[3] Apple also positioned the iPod cleverly, targeting its loyal customer base of young, media- and tech-savvy people (Apple's original target market) with a product that almost became a fashion statement. Apple used its effective system of distribution channels, maintained its high-quality image and avoided price discounting.

Sony, which had dominated the portable music market since the introduction of the Walkman in 1979, possessed many strengths and competencies as well: size, brand name and image, distribution and market presence, technology, and manufacturing capabilities. But it selected a strategy that missed the boat. As if Sony had not learned anything from its failed Betamax strategy, instead of attacking the embryonic but growing MP3 market, it rejected the opportunity. Instead Sony tried to defend its languishing digital mini-disc player and establish it as the next device to supplant the declining CD player, the Discman. The rest is history.

Apple's successful iPod "imitation strategy" has had a huge impact on the company's fortunes. Its revenue more than tripled from 2001 to 2006, while the income statement went from a $20 million loss in profits to plus $2 billion… another case of brilliant innovation strategy, flawlessly executed (to Sony's chagrin, whose case of a poorly conceived strategy was doomed to failure). Brilliant strategy rules again!

Win the Battle, But Lose the War?

Unlike Apple, but like its rivals, most companies lack an effective innovation strategy. Ask any senior executive what their company's innovation strategy is and you'll most likely get one of three responses:

1. A blank stare or look of bewilderment, like "what's this guy talking about?",
2. An outline of their business plan, which is really a financial plan that says little about direction for product innovation,
3. A list of this year's major product development initiatives.

All three responses indicate a failure to comprehend what an innovation strategy is or does. An innovation strategy is not a financial plan, and it is not a business strategy (although the business strategy and innovation strategy are closely linked, and in some businesses, the innovation strategy is embedded within the business strategy). A list of active development projects is not an innovation strategy either – these are the tactics and deal with the short term, often the manifestation of the strategy, but not the strategy per se. So if these or similar responses describe your business, then keep reading!

Tactics and Strategy: What If . . .

- What if your business had implemented a world-class idea-to-launch system – a process to guide development projects from idea-to-market?
- What if you had a superb portfolio management system to help select projects – to help your executives make the right new product development investment decisions?
- And what if you had created a very positive climate and culture for innovation within your business, with senior management strongly supporting innovation at every opportunity?

Would the result be a high performing business in terms of new products? Not necessarily. One of the most important drivers of success in product innovation is missing: One of the four points of performance of the *Innovation Diamond*™, namely your innovation strategy (Exhibit 1.1). And that driver makes the difference between winning individual new product battles and winning the entire product innovation war.[4,5]

Your business's product innovation strategy charts the strategy for your business's entire new product effort. It is the master plan: It provides the direction for your enterprise's new product developments, and it is the essential link between your product development effort and your total business strategy.[6]

The Innovation Diamond

Our major benchmarking research on high performing businesses reveals that there are *four major drivers* of performance. We refer to them as the Innovation Diamond.[7] These four points of best practice stand out as common denominators among the top performing businesses. The four points of the Innovation Diamond are:

1. ***Product Innovation and Technology Strategy:*** Top performers put a product innovation and technology strategy in place, driven by the leadership team and the strategic vision of the business. This product innovation strategy provides focus, guides the business's product development direction, and steers resource allocation, investment decisions and project selection. They have a strategic focus.
2. ***Resource Commitment and Portfolio Management:*** Top performers commit sufficient resources to their total product innovation effort and to individual initiatives. Further, they boast an effective portfolio management system that helps the leadership team allocate these resources to the right areas and to the right development projects.[8]
3. ***Idea-to-Launch System – Stage-Gate®:*** The Stage-Gate system exists in top performing businesses, which drives new product projects from the idea phase through to launch and beyond.[9] This idea-to-launch system

emphasizes feeding the innovation funnel with robust ideas, solid front-end homework on development projects (including voice-of-customer input), tough Go/Kill decision points from end to end, and quality of execution throughout. At the same time, the system in top performers is agile, flexible, scalable and adaptable.[10]

4. ***Climate, Culture, Teams and Leadership:*** Senior managers in top performing businesses create a positive climate and culture for innovation and entrepreneurship, foster effective cross-functional new product project teams, and are themselves properly engaged in the product development decision making process. They create the right environment for innovation.

These are the principal practices that separate the best performers in product innovation from the rest, as identified in our research. Procter & Gamble (P&G) is one company that has implemented their version of the Innovation Diamond.[11] Consider a success story within P&G that illustrates how these points of performance impact on business results.

EXHIBIT 1.1: The Innovation Diamond shows the four drivers of performance in product innovation – the common denominators of top performing firms.

The Cosmetics Business Story at P&G

Procter & Gamble's cosmetics business is a case in point where a dramatic turnaround was achieved via a disciplined, holistic and strategic approach to new product management. The story took shape when P&G acquired *Oil of Olay*, a skin cream as part of the Richardson-Vicks purchase in 1985, and then the *Cover Girl* and *Clarion* cosmetics brands in 1989. Two years later *Max Factor* was acquired.

P&G then applied its tried-and-true approach of leveraging scale and a new product strategy consisting of a few, big new products. But there was no effective innovation strategy: Efforts were scattered and unfocused as the business tried to do everything in many different product categories and segments. So, by 1994, management was forced to retreat and retrench. P&G dropped the Clarion line, and through much of the 1990s, senior management at P&G wondered if they should be in the cosmetic business at all. A new cosmetics line under the *Oil of Olay* banner was attempted; but the new line failed, and the entire cosmetics business continued to decline.

The business turnaround started in the late 1990s, when management turned to their *Initiatives Diamond* (shown in Exhibit 1.2).[12] The first element of P&G's Diamond is a product innovation strategy. Indeed, the real breakthrough occurred when the leadership team began a rigorous strategic planning process leading to clearly defined goals, objectives, strategies and measures. A much more concentrated innovation strategy was selected which focused on lips, face and eyes, rather than rest of the body. A second facet of strategy focused on getting the supply chain under control by applying end-to-end supply chain management. The supply chain was streamlined so that production and shipments were tied to market demand. As a result, time in the supply chain was reduced, thereby eliminating much of the product obsolescence generated with each new product launch.

Next, management applied the second element of P&G's Initiatives Diamond: their SIMPL new product Stage-Gate process. SIMPL is a methodology for driving new product projects from the idea phase through

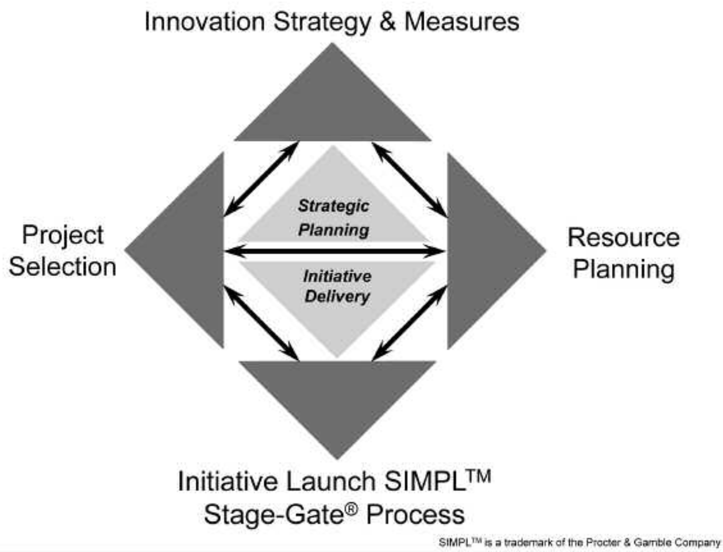

EXHIBIT 1.2: Procter & Gamble Company's Initiatives Diamond serves as a guide to each business's new product efforts.

to launch, and incorporates many P&G best practices. It is a rigorous product launch process using stage-and-gate decision making, complete with clear Go/Kill criteria and timing requirements. One resulting big success is *Outlast* by *Cover Girl* (a kiss-proof, long-lasting lipstick that uses a unique two-part application system, first a color and then a gloss, to produce an enduring lip color). A second winner – *Lipfinity* by *Max Factor* – was also introduced, again using the SIMPL idea-to-launch system. And the *Oil of Olay* line has been leveraged successfully, again using the focused innovation strategy, this time concentrating on facial lines that come with aging. *Oil of Olay's Regenerist* has been a huge success, which has taken this tired brand from sales of $200 million in 1985 to $2 billion today.[13]

Portfolio management, a third element of P&G's Initiatives Diamond, was employed to enable management to look at the entire portfolio of new product initiatives to achieve the right balance and mix. Through portfolio management, the business built a pipeline of new and improved products that established the needed initiative rhythm for each product line (face, lips, eyes) – new products and upgrades timed to create news and excitement in the market. This "launch and sustain" portfolio approach was a key part of winning in the marketplace.

Today, P&G's cosmetics business is a healthy, growing, and profitable enterprise. Performance results have significantly improved since the late 1990s, and the business is seen as a key growth engine for P&G. But the turnaround did not happen by chance. One key to success was getting new products right – the development of an integrated business and product innovation strategy, coupled with an effective idea-to-launch process (SIMPL) and first-rate portfolio management to ensure a steady stream of the right kinds of new and improved products.

Are Innovation Diamond Drivers Missing In Your Business?

How does your business fare on these drivers in the Innovation Diamond? Many companies have implemented idea-to-launch processes (an estimated 73 percent of product developers in the US now employ a stage-and-gate system); and our research reveals that most companies understand the need for fostering the right climate and culture for innovation. Similarly, portfolio management – making the right project investment decisions – is a hot topic among leading product development companies, although our research reveals that many have yet to figure out how to do portfolio management properly. But the weakest link, and the vital missing success driver, is the *product innovation and technology strategy* shown in Exhibit 1.1.

Consider the facts in Exhibit 1.3. Here you see what percentage of businesses we studied that had each of the key elements of a product innovation strategy in place for their business:[14]

- Just over one-third have clearly defined and articulated new product objectives for the business – which means that almost two-thirds of firms do not!
- Less than half of businesses define the role that new products will play in achieving their overall business goals. Defining their product

innovation objectives, and what role innovation would play in achieving the business goals, was the kick-start to success in P&G's cosmetic business.

- Just over one-third have a long-term commitment to and strategy for product innovation. The great majority have short-term and tactical outlooks, for example, strategy boils down to a list of active projects in their development pipeline.
- The majority of businesses define areas of strategic focus for their innovation efforts, but many executives expressed concern that these areas of focus were poorly chosen and perhaps were the wrong areas (much like Sony's poor choices in the MP3 example).
- Only one-quarter of businesses translate strategy into reality by making vital spending decisions. For example, few companies use the powerful technique of strategic buckets to ensure the right balance and mix of development initiatives. Strategic product

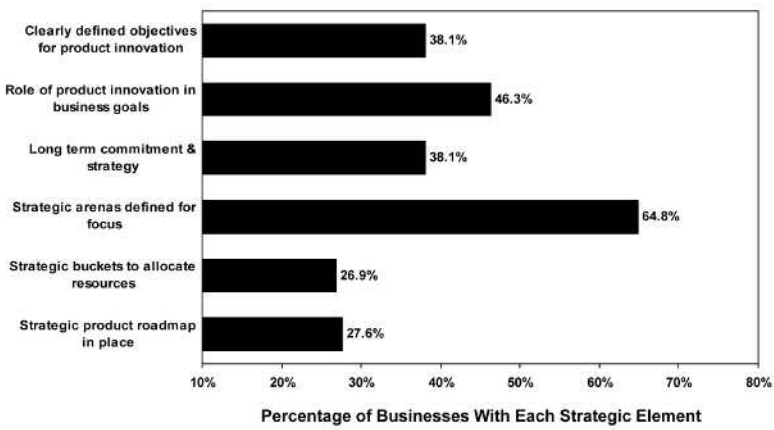

EXHIBIT 1.3: These are the key elements of a Product Innovation Strategy, and they are missing in most businesses.

roadmapping, a method that earmarks resources for major development initiatives over five-to-seven years, is missing in the majority of firms.

The next section begins with a definition of what the word "strategy" means. We then look at the hard evidence in support of strategy – facts that make it imperative that you and your leadership team develop a product innovation strategy for your business. We show how some types of strategies are closely linked to business performance. Next, the elements or components of an innovation strategy are defined, followed by a glimpse into some of the broad strategic options that your business might choose in product innovation. So let's move forward and play the role of the General, looking at strategy and direction for the business's entire new product effort. Let's go win the innovation war!

What is a Product Innovation Strategy?

The Meaning of "Strategy"

Many people use the word "strategy" incorrectly, because they don't understand what the word means and what a good strategy is. Broadly speaking, a product innovation strategy is a master plan that guides your business's new product efforts. But how does one specifically define or describe a product innovation strategy?

The term "strategy" is derived from the Greek word *stratēgos*, which in turn is derived from two words: *stratos* (army) and *ago* (ancient Greek for "leading"). *Stratēgos* referred to a "military commander" during the age of Athenian democracy. Not surprisingly, much of history's development and writing on strategy is from military sources. For example, classic texts such as Sun Tzu's *The Art of War* written in China 2,500 years ago, the political strategy of Niccolo Machiavelli's *The Prince* written in 1513, or Carl von Clausewitz's *On War* published in 1832 are still well-known and highly influential in military circles today.

In the last half of the twentieth century, the concept of strategic management was applied to organizations, typically to business firms and corporations. Thus, as business managers and executives, we are relative novices when it comes to strategy and strategic concepts; so it is little wonder that most of us struggle a bit. Nonetheless, many of our principles of business strategy are derived from the development and practice of military strategy over the centuries. For example, from the *United States Army Field Manual,* here are some strategic principles:[15]

- *Objective*: Direct every military operation toward a clearly defined, decisive and attainable objective
- *Offensive*: Seize, retain and exploit the initiative
- *Mass*: Concentrate combat power at the decisive place and time
- *Economy of force*: Allocate minimum essential combat power to secondary efforts
- *Unity of command*: For every objective, ensure unity of effort under one responsible commander
- *Simplicity*: Prepare clear, uncomplicated plans and clear, concise orders to ensure thorough understanding.

Some of these principles sound uncannily familiar to business strategists, and they should as our strategy theories and principles are largely based on military principles. The field of product innovation strategy, or the company's "offensive strategy", has particularly close links to military strategy. For example, the need for focus and for defining strategic arenas is based on the principle of "mass", noted above; our "strategic buckets" concept is about deployment of resources to arenas; "roadmapping", a popular concept today in business, comes from the General's view of how to achieve the objective. Even the term "strategic arena" has a military connection. So on occasion, we use military analogies and terms, not because we are war-like, but simply because of the history and derivation of modern strategic concepts in businesses today.

In a business context, strategy has been defined as "the schemes whereby a firm's resources and advantages are managed (deployed) in order to surprise and surpass competitors or to exploit opportunities".[16] Strategic change is defined as "a realignment of a firm's product-market environment".[17] Strategy is closely tied to product and market specification. That is, strategy is about choosing the markets to target and choosing the products to target them with.[18]

In this book, "business strategy" refers to the business's overall strategy. Product innovation strategy is a component of, or flows from, that business strategy, and deals specifically with new products and new services.[19] And by product innovation strategy, we do not mean a vaguely worded statement of intent, one that approaches a vision or mission statement. We mean operational, action-specific strategies that include defined objectives, arenas of strategic focus, deployment decisions, and attack and entry plans. If these principles are good enough for our Generals, they are good enough for us.

What Strategy Looks Like

The Innovation Diamond in Exhibit 1.1 shows the important drivers of product innovation performance, but it does not show all the pieces necessary to make innovation happen in your business. And sometimes it gets confusing when one tries to fit the pieces together. We are often asked, "What's the difference between portfolio management and pipeline management?" or "How does project management fit in?" Exhibit 1.4 does a comprehensive job of outlining just where the pieces all fit, and it also provides brief definitions of each of these pieces.

It all begins with your business strategy (top of Exhibit 1.4) which defines the overall direction of the organization. This strategy drives the product innovation and technology strategy which, in turn, drives portfolio management. Portfolio management operationalizes the innovation strategy by making spending decisions (for example, strategic buckets and strategic product roadmaps). Next, pipeline management, which is tactical rather than strategic, prioritizes projects and makes resource allocations to specific projects. The new product idea-to-launch process (stage-and-gate system) guides, directs and accelerates individual projects,

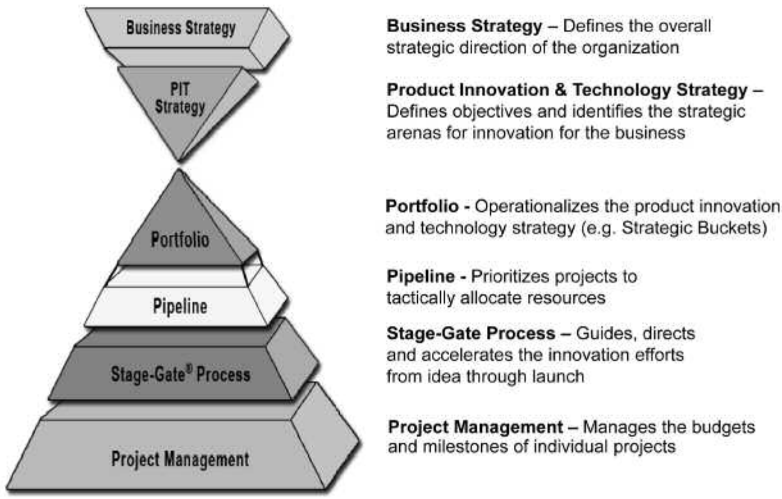

EXHIBIT 1.4: From strategy (top), all else flows. The Product Innovation Strategy flows from, or is part of, the Business Strategy for the organization and it, in turn, drives the Portfolio (project selection) and development pipeline.

kills bad projects, and drives good ones forward. Finally, project management, the most tactical of all systems in Exhibit 1.4, manages the budgets and milestones of individual projects.

Why Have a Product Innovation Strategy At All?

Developing a product innovation strategy is hard work. It involves many people, especially top management. Why go to all the effort? Most of us can probably name countless companies that do not appear to have a master plan for their new product effort. How do they get by?

Running an innovation program without a strategy is like running a war without a military strategy. There's no direction, and the results are often highly unsatisfactory. On occasion, unplanned efforts do succeed, but it is largely owing to good luck or, perhaps, brilliantly-executed tactics.

A new product effort without a strategy will inevitably lead to a number of ad hoc decisions made independently of one another. New product and research and development (R&D) projects are often initiated solely on their individual merits with little regard to their fit into the grander scheme. Portfolio management is all but impossible, for example. The result is that the business finds itself in unrelated or unwanted markets, products, and technologies. In other words, there is no focus; it is a scattergun effort (much like P&G's first years in the cosmetics business).

Objectives and Role – The Necessary Link to Your Overall Business Strategy

What type of direction does a product innovation strategy give a business's new product efforts? First, the objectives of your product innovation strategy tie your product development effort tightly to your overall business strategy. New product development, so often viewed in a "hands-off" fashion by senior management, becomes a central part of the business strategy, a key plank in the overall strategic platform.

The question of spending commitments on new products is dealt with by defining the role and objectives of the new product effort. Too often the R&D or new product budget is easy prey in hard economic times.

Spending on development and new product marketing tends to be viewed as discretionary expenditures, something that can be slashed if need be. However, if you establish product innovation as a central facet of your business's overall strategy, and if you firmly define the role and objectives of product innovation, cutting the R&D budget becomes much less arbitrary. Consequently, there is a continuity of resource commitment to new products.

The Strategic Arenas – Guiding the War Effort

A second facet of the product innovation strategy, the definition of arenas, is critical to guiding and focusing your new product efforts. The first step in your idea-to-launch new product process is idea generation. But where does one search for new product ideas? Unless the arenas are defined, the idea search is undirected, unfocused, and ineffective.

Your business's product innovation strategy is also fundamental to project selection and portfolio management. Strategy drives the entire project selection process. Without a definition of your playing fields – the arenas of strategic focus – good luck in trying to make effective project screening decisions.

The definition of arenas also guides long-term resource and personnel planning. If certain markets are designated as top priority, then the business can acquire resources, people, skills, and knowledge to enable it to attack those markets. Similarly, if certain technologies are singled out as arenas, the business can hire and acquire resources and technologies to bolster its abilities in those fields, or perhaps even seek alliances with other firms. Resource building doesn't happen overnight. One can't buy a sales force on a moment's notice, and one can't acquire a critical mass of key researchers or engineers in a certain technology at the local supermarket. Putting the right people, resources, and skills in place takes both lead time and direction.

The Evidence in Support of Strategy

The argument in favor of a product innovation strategy, although logical, may be somewhat theoretical. One can't help but think of all those companies that have made it without a grand strategy. Further, the notion of deciding what's in versus what's out of bounds is foreign to many businesses.[20]

So where is the evidence to support having a product innovation strategy? The studies that have looked at businesses' new product strategies have a clear and consistent message: A product innovation strategy at the business unit or company level is critical to ongoing and continual success, and some strategies clearly work better than others. Consider these facts:

1. Ten best management practices were identified in a study of 79 leading R&D organizations.[21] Near the top of the list is "use a formal development process", an endorsement of the use of stage-and-gate processes. Even higher on the list is "coordinate long-range business planning and R&D plans" – a call for a new product or R&D plan for the business that meshes with the business plan. Although adoption of these best practices varies widely by company, the study revealed that high performers tend to embrace these best practices more than do low performers.
2. Booz, Allen & Hamilton's study of new product practices found that businesses most likely to succeed in the development and launch of new products are those that implement a company-specific approach, driven by business objectives and strategies, with a *well-defined product innovation strategy* at its core – see Exhibit 1.5. The product innovation strategy was viewed as instrumental to the effective identification of market and product opportunities.[22] The authors of this study explain why having a product innovation strategy is tied to success:

> "A product innovation strategy links the new product process to company objectives, and provides focus for idea or concept generation and for establishing appropriate screening criteria. The outcome of this strategy analysis is a set of strategic roles, used not to generate specific new product ideas, but to help identify markets for which new products will be developed. These market opportunities provide the set of product and market requirements from which new product ideas are generated. In addition, strategic roles provide guidelines for new product performance measurement criteria. Performance thresholds tied to strategic roles provide a more precise means of screening new product ideas."

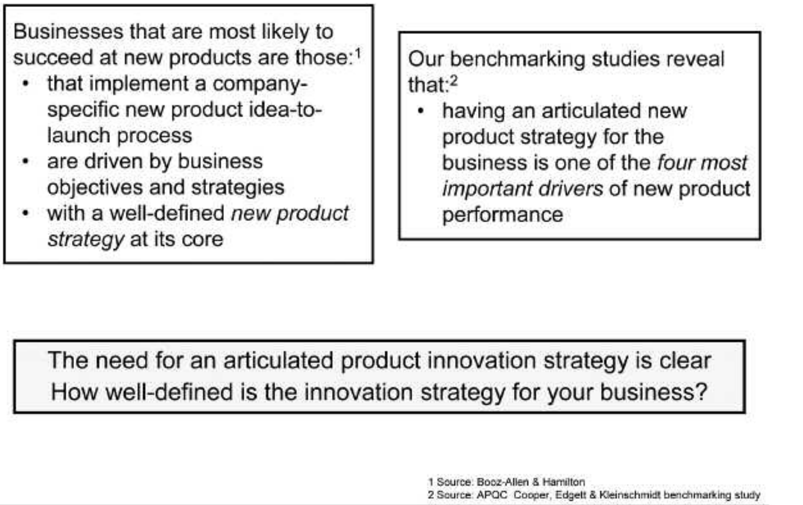

Exhibit 1.5: Having a product innovation strategy for your business is vital to success, according to several major studies of innovation results.

3. In a major benchmarking study we found that having an articulated product innovation strategy is one of the four important drivers of new product performance (the Innovation Diamond in Exhibit 1.1).[23] Top performing businesses in product innovation have a defined product innovation strategy. Such a strategy specifies objectives and the role of new products. It defines arenas of strategic focus and thrust (and their priorities), it outlines a product roadmap and has a longer term orientation. Look at the results in Exhibit 1.6: Top performers have these strategic elements in place much more so than do poor performers. As a result, these businesses achieve better new product results. They are better able to meet their new product sales and profit objectives; their new product effort has a much greater positive impact on the business; and, they achieve higher success rates at launch.
4. The performance impact of product innovation strategies in 120 businesses was investigated in one of our own studies that probed deeply firms' product innovation strategies.[24] This study is the first

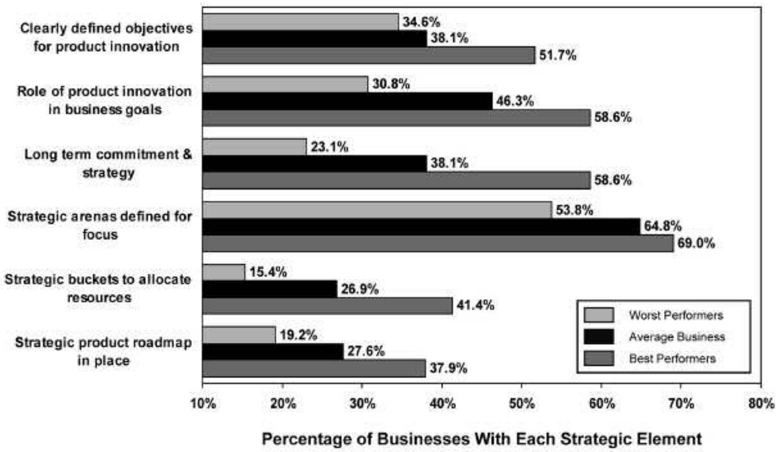

EXHIBIT 1.6: Top performing businesses have a Product Innovation and Technology Strategy complete with these key elements above; poor performers do not.

published investigation undertaken on a large number of businesses that considers many strategy dimensions, and how the strategy of the business's new product effort is tied to performance results. The overriding conclusion is that product innovation strategy and performance are strongly linked. The types of markets, products and technologies that firms elect, and the orientation and direction of their product innovation efforts, have a pronounced impact on success and profitability. Strategy really does count!

Four strategic thrusts, or themes, were identified as common denominators among businesses that outperform the rest in product innovation (Exhibit 1.7):

1. Focused on one or a few key areas (as opposed to scattergun)
2. Strong technology and technologically driven
3. Strongly market focused, with solid market inputs
4. Offensive (as opposed to defensive).

1. **A focused new product effort is more successful**
    - Developing new products that are focused on one or a few areas (markets, sectors, applications)
    - Developing new products that are closely related (linked) to each other
    - Opposite of a highly diverse or scatter-gun approach
2. **Technologically driven strategies do better**
    - Having strong technology and technological prowess
    - Employing sophisticated development technologies
    - Developing high-technology, technically complex new products
3. **Market-focused strategies do better**
    - Proactive in market-need identification
    - Highly sensitive to market needs and wants, solid market inputs and insights
    - Products are developed closely in tune with market wants
4. **An offensive orientation outperforms a defensive stance**
    - Viewing their new product initiatives as aggressive ones
    - Aimed at growth and gaining market share (rather than merely protecting a position)

EXHIBIT 1.7: Four strategic thrusts or themes lead to better product innovation performance.

These four "winning thrusts" or themes make sense; they are certainly feasible, as witnessed by the significant minority of firms that had adopted them successfully; and they are not mutually exclusive (that is, a business can adopt two or three of these themes at the same time). Based on the four themes uncovered in this study, we identified three innovation strategy types. Each is explained here and illustrated in Exhibits 1.8-1.10:

- *Type A:* The strategy that yields best performance results is labeled the *Differentiated Strategy* in Exhibit 1.8. It is a technologically sophisticated and aggressive effort, very focused, with a strong market orientation. In this strategy, the business targets attractive high-growth, high-potential markets with premium-priced, strongly differentiated, superior and high-quality products. This strategy leads to the highest percentage of sales by new products (47 percent versus 35 percent for the other businesses); the highest success rates at launch; higher profitability levels; and greater new product impact on the business's sales and profits.

Type A – The Differentiated Strategy (15.6% of businesses)

- A technologically sophisticated and driven one
- A high degree of product fit and focus
- A strong market focus
- Targets attractive high-growth, high-potential markets where competition is weaker
- New products – premium-priced, strong differentiation
- High-quality products that meet customer needs better
- Products that offer unique benefits to the customer

Leads to the best results:

- The highest percentage of sales by new products
- The highest success rates at launch
- A higher profitability level
- Greater new product impact on the business's sales and profits

EXHIBIT 1.8: Strategy Type A yields the best results in product innovation, but represents only 15 percent of businesses.

- *Type B:* The next best strategy is the *Low-Budget Conservative Strategy* outlined in Exhibit 1.9. It is characterized by low relative R&D spending and features me-too, undifferentiated new products; but it has a highly focused and a "stay-close-to-home" approach. New products match the business's production and technological skills and resources, fitting into the business's existing product lines, and are aimed at familiar and existing markets. This type of strategy achieves respectable results. The business's new product effort is profitable relative to spending, but yields a low proportion of sales by new products and has a low impact on the business's sales and profits. This conservative strategy results in an efficient, safe, and profitable new product effort, but one lacking a dramatic impact on the business.
- *Type C:* This is the most popular strategy. It is the one employed consciously or unconsciously by more of the businesses and is displayed in Exhibit 1.10 as *The Technology Push Strategy*. These businesses have a technologically sophisticated and innovative new product effort, are strongly R&D oriented, and are proactive in

Type B – The Low-Budget Conservative Strategy (23.8% of businesses)

- Low R&D spending
- Develop copy-cat, me too, undifferentiated new products
- Efforts are focused
- Highly synergistic with the base business
- A 'stay-close-to-home' approach

They achieve moderately positive results:

- A high proportion of successes; low failure and kill rates
- Profitable
- Yields a low proportion of sales by new products and has a low impact on the business's sales and profits

This conservative strategy results in an efficient, safe and profitable new product effort

- But one lacking a dramatic impact on the business

EXHIBIT 1.9: Strategy Type B is much more conservative, and yields good results, but not as good as Type A.

acquiring new development technologies and generating new product ideas. The innovation effort is strongly offensive (versus defensive) and viewed as a leading edge of the business's overall strategy. The new products developed here are innovative, high-technology, technically complex, and often the result of high-risk and venturesome projects. But these businesses totally lack a market orientation: The development process is dominated by the technical community, and customer input is noticeable by its absence. Consequently, poor markets are chosen – low potential, small size, low growth and minimal need. And, the projects tend to be "step-out", far removed from the company's existing product lines, internal strengths and competencies. The results are predicable; costly, inefficient innovation projects plagued by high failure rates.

We identified two more strategies which yield even worse results. The point is that there is a strong connection between the product innovation strategy (whether that strategy is elected by design or by accident) and the

Type C – The Technology Push Strategy (26.2% of businesses)

- The most popular strategy
- A technologically driven approach to product innovation
- Firms are technologically sophisticated, technology oriented & innovative
- New product effort lacks a strong market focus and market inputs
- Little fit, synergy or focus in the types of products and markets – scattergun

Leads to mediocre performance results:

- Fails to meet the business's new product objectives
- Yields a high proportion of project cancellations and failures
- Less profitable than Type A or B above

Technology Push strategy produces a technologically aggressive, moderately high-impact effort...

- But is costly, inefficient and plagued by failures
- Because of:
  - A lack of focus
  - A lack of marketing orientation & input

EXHIBIT 1.10: Strategy Type C is the most popular strategy, but yields inferior results compared to Types A or B.

performance results it achieves. Obviously, conceiving and pursing a deliberate innovation strategy, perhaps similar to Type A or B above, is certain to yield better results. We recommend incorporating some of the key thrusts we identified: For example, keeping the strategy technologically driven combined with a strong market focus, concentrating on a few key areas and taking an offensive (as opposed to defensive) approach.

Convinced yet? Yes, there are always a few outlier firms that defy the rule and get lucky now and then without much of a strategy for innovation. But if sustained, consistent and long-term performance is the goal, then all the evidence points to the need for a clearly defined, carefully crafted innovation strategy for the business as one of the keys to success.

The Elements of a Product Innovation Strategy and Their Impacts

Six elements of a product innovation strategy strongly distinguish the top performing businesses in product innovation (Exhibit 1.6). These strategy elements also provide insights into how to go about developing a product innovation strategy for your business. They are the basis for the ideal logical flow or “thought process” to guide your leadership team in developing an insightful product innovation strategy (Exhibit 1.11). So let’s look at each of these elements, what they are and why they are so critical:

1. Objectives and Role: Begin with your goals! The business’s product innovation strategy specifies the objectives of the new product effort, and it indicates the role that product innovation will play in helping the company achieve its business objectives. It answers the question: How do new products and product innovation fit into our business’s overall plan? A statement such as “By the year 2012, 30 percent of our business’s sales will come from new products” is a typical objective. Sub-objectives can also be stated, such as the desired number of major new product introductions, expected success rates, and desired financial returns from new products.

This ingredient of strategy – having clear objectives – would seem fairly basic. What is surprising is how many businesses lack clear, written objectives for their overall new product efforts. Note the mediocre scores in Exhibit 1.6: On average, only 38.1 percent of businesses proficiently define such product innovation objectives. By contrast, the majority (51.7 percent) of best performers do spell out their new product objectives; and, the worst performers are quite weak here with only 34.6 percent defining objectives. Having clearly articulated product innovation objectives for your business is, thus, a mandatory best practice.

Another key best practice is to ensure that the role of new products in achieving the business’s goals is clear and communicated to all (also highlighted in Exhibit 1.6). The whole point of having goals is so that everyone involved in the activity has a common purpose, something to work toward. Yet, far too often, personnel who work on new product projects are not aware of their business's new product objectives, or the role that new products will play in achieving the total business objectives. What we witness here are very mediocre practices: Only 46.3 percent of businesses define and communicate the role of product innovation in realizing their business goals. However, 58.6 percent of best performers do define this role (versus only 30.8 percent of the worst performers), and this element of an innovation strategy is the most strongly correlated with new product performance. It is clearly a best practice. (More on defining innovation objectives in the next chapter).

2. ***Arenas and Strategic Thrust:*** Focus is the key to an effective product innovation strategy. Your product innovation strategy specifies where you'll attack or, perhaps more importantly, where you won't attack. Thus the concept of *strategic arenas* is at the heart of a new product strategy – the markets, industry sectors, applications, product types or technologies on which your business will focus its new product efforts, as shown in the top part of Exhibit 1.11. This is similar to the *principle of mass* in military strategy; the resources must be concentrated at a decisive place and time. The key battlefields must be defined!

Here, businesses on average do a solid job, with 64.8 percent identifying and designating strategic arenas in order to help focus their product development efforts (Exhibit 1.6). Best performers define strategic arenas more so than do worst performers: 69.0 percent versus 53.8 percent; and, this strategy element is again strongly correlated with performance.

The specification of these arenas – what is "in bounds" and what is "out of bounds" – is fundamental to spelling out the direction or strategic thrust of the business's product development effort. It is the result of identifying and assessing product innovation opportunities at the strategic level. Without arenas defined, the search for specific new product ideas or opportunities is unfocused. Over time, the portfolio of new product projects is likely to contain a lot of unrelated projects, in many different

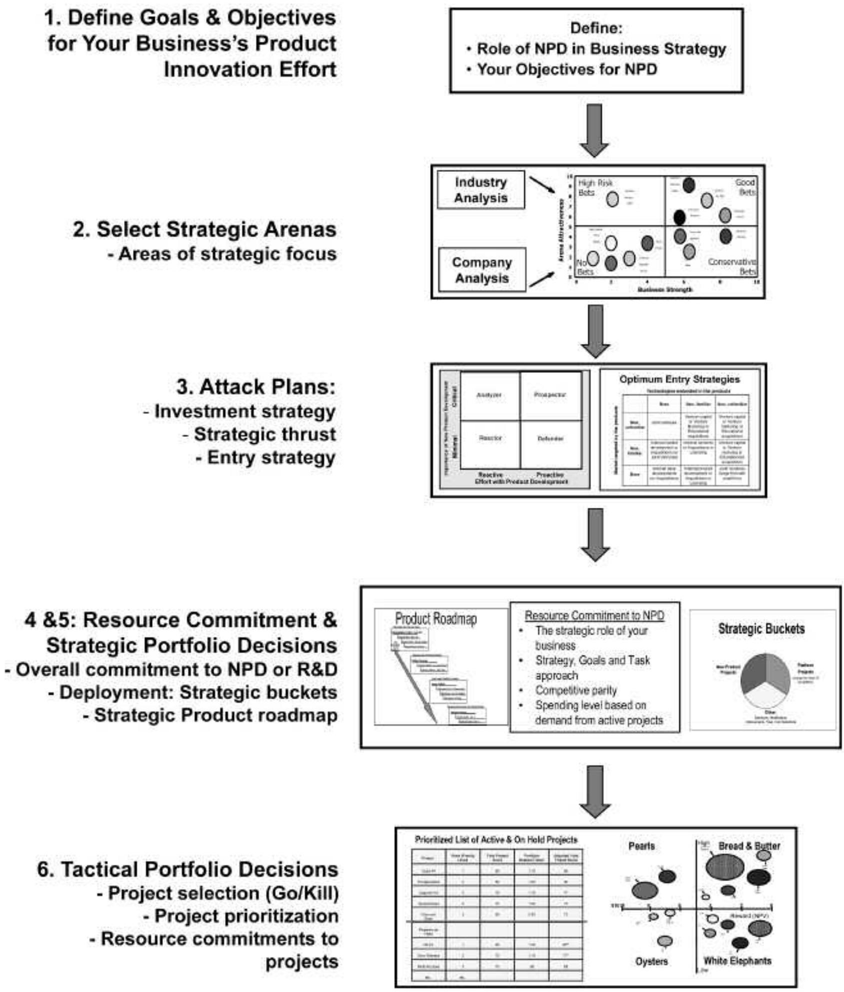

Exhibit 1.11: The first major steps in crafting a Product Innovation Strategy for your business includes defining objectives, selecting strategic arenas, and developing attack plans. After the strategic arenas are selected and the general attack plans are decided, the critical spending and deployment decisions must be made. Tactics (not part of strategy) logically flow next.

markets, technologies or product-types – a scatter-gun effort. The results are predicable – a not-so-profitable new product effort.

> *Example:* One DuPont polymers business faced exactly this problem; much money spent on R&D, but no focus because there was no strategy or defined arenas. Senior management recognized the deficiency. Management first identified a number of possible arenas (product-market-technology areas) which might be "in bounds". They assessed each in terms of their market attractiveness and the opportunity for leveraging the business's core competencies. They then selected several arenas and began to focus their new product initiatives within these chosen arenas.

(More on the definition and selection of arenas in Chapters 3 and 4.)

3. Attack Strategy and Entry Strategy: The issue of how to attack each strategic arena should also be part of your product innovation strategy (Exhibit 1.11). For example, the strategy may be to be quite aggressive and be the industry innovator, the first to the market with new products; or, the attack strategy may be to be a "fast follower", waiting and watching, and rapidly copying and improving upon competitive entries. Other strategies focus on being low cost versus a differentiator versus a niche player. The global dimension is part of the attack plan: whether to adopt a global, "glocal" or regional strategic approach to product development. Additionally, when planning to enter a new arena, entry strategies must be crafted. They can include internal product development, licensing, joint venturing, partnering, alliances and even acquisitions of other firms (more on attack plans in Chapter 5).

4. Deployment – Spending Commitments, Priorities and Strategic Buckets: Strategy becomes real when you start spending money! So, your product innovation strategy must deal with deployment of resources – with how much to spend on product innovation; and it should indicate the relative emphasis, or strategic priorities, accorded each strategic arena where you will focus your efforts (Exhibit 1.11). Thus, an important facet of a product innovation strategy is resource commitment and allocation. The ear-marking buckets of resources (funds or person-days targeted at different strategic arenas or project types) helps to ensure the strategic alignment of product innovation with your overall business goals.[25]

Many best-in-class companies use the concept of strategic buckets to help in this deployment decision. But the use of strategic buckets is a decidedly weak area overall with only 26.9 percent of businesses doing this well. The use of strategic buckets is clearly a best practice, with 41.4 percent of best performers employing this strategic buckets approach and only 15.4 of worst performers. (More on how to develop strategic buckets in Chapter 5).

***5. The Strategic Product Roadmap – Major Initiatives and Platform Developments*:** A strategic roadmap is an effective way to map out a series of major initiatives in an attack plan. A roadmap is simply a management group's view of how to get where they want to go or to achieve their desired objective.[26]

Your product innovation strategy should, therefore, map out the planned assaults – your major new product initiatives and their timing – that are required in order to succeed in a certain market or sector. This should be in the form of a *strategic product roadmap*[1]. This roadmap may also specify the platform developments required for these new products. Additionally, the development or acquisition of new technologies may be laid out in the form of a technology roadmap.

The use of roadmaps is a weak area generally, with only 27.6 percent of businesses developing product roadmaps proficiently. About twice as many best performers (37.9 percent) use product roadmaps than do worst performers (19.2 percent). (Roadmaps are the topic of Chapter 6.)

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[1] The term "product roadmap" has come to have many meanings in business. Here we mean a *strategic* roadmap, which lays out the major initiatives and platforms envisioned into the future – as opposed to a tactical roadmap, which lists each and every product, extension, modification, tweak, etc.

Once these five strategy steps are complete, management can then deal with the next level of decision making: Translating strategy into reality; namely making the tactical decisions (bottom of Exhibit 1.11).[27]

6. Tactical: Individual Project Selection: Tactical decisions focus on individual projects, but obviously follow from the strategic decisions. Questions typically addressed are: What specific new product projects should you undertake? What resources should be allocated to each? What are their relative priorities? Even when a product roadmap has been sketched out strategically (above), it tends to be conceptual and directional; one still must look at each and every project and decide whether or not it is really a Go. And while resource spending splits (also known as buckets) are useful directional guides, Go decisions on specific projects must still be made. (The book does not go into tactical project selection, but a robust strategy goes a long way to helping make these tactical decisions).

Wrap-Up

Doing business without a strategy is like engaging in battle without a plan. Our major benchmarking study's results strongly support this adage. So do other investigations. Clearly, those businesses that lack goals for their total new product effort, where arenas of strategic focus have not been defined, and where the strategy is little more than a short term list of projects (no strategic product roadmap), are at a decided disadvantage.

Do what the top performers do. Set goals and objectives for your business's product innovation effort (e.g., the percentage of sales from new products). Tie your goals for product innovation firmly to your business's goals. And make these goals clear to everyone involved in your organization.

You can emulate the best performers by specifying strategic arenas. These are areas of strategic focus defined in terms of markets, technologies and product-types or categories. And map out your attack strategies: how you plan to enter and win in each arena.

Then consider going several steps further. Move toward strategic buckets and decide priorities and spending splits across these arenas, and spending splits across other strategic dimensions. These will be your deployment decisions. Lastly, develop strategic product roadmaps that lay out the direction of your major development initiatives over the next few years.

In the next chapters, we begin the journey of how to develop some of these strategic elements and how to craft them into a winning product innovation strategy for your business . . . so read on!