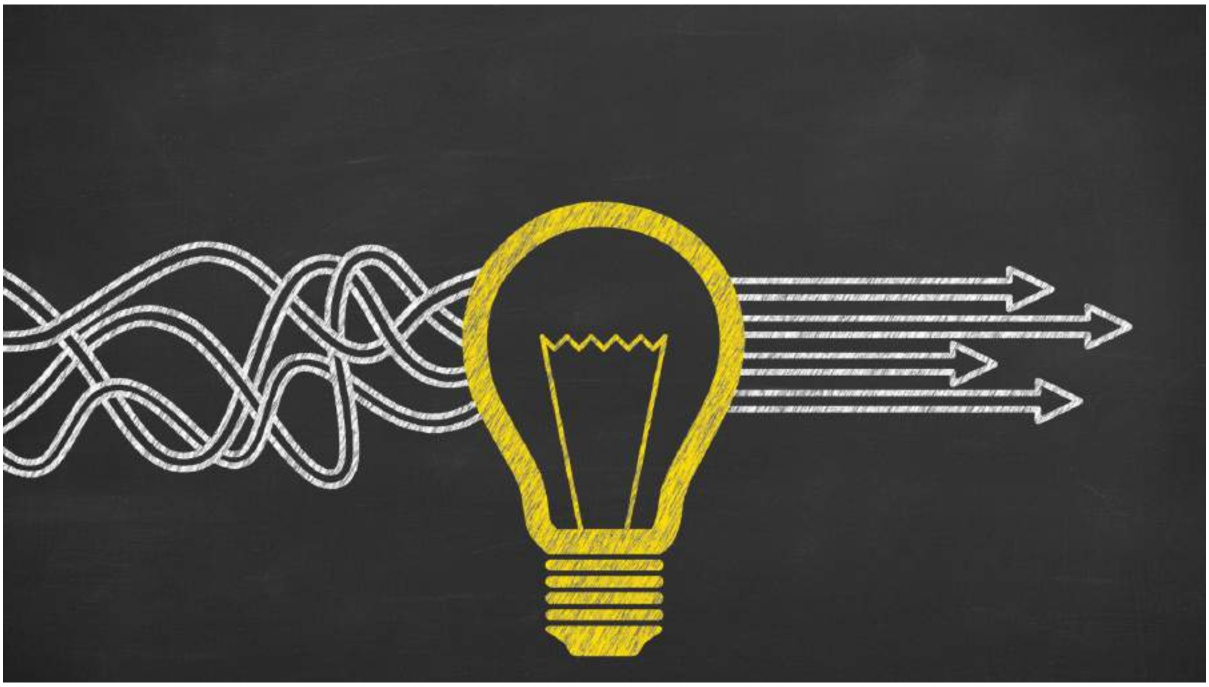


Getting Your Innovation Strategy Right

How the Innovation Strategy Matrix can help your business to accelerate innovation and growth

Stuart Cross, June 2021

Business leaders are constantly exhorted to innovate, as a route to sustainable growth. Innovation, however, covers a vast scope of activity, from minor product improvements to bet-the-farm transformational moves.

So, what kind of innovation should managers pursue? In this paper I set out four broad types of innovation and the circumstances in which they are most likely to succeed. I also suggest that you should pursue a portfolio strategy approach to drive innovation and growth for your business.

The Innovation Strategy Matrix

Managers setting an innovation strategy must answer two key questions:

1. Should we focus innovation on our existing core markets or on developing products and services in new markets?

2. How revolutionary should our innovations be? Should they be *Sustaining Innovations* (those that improve existing products and services and help to develop and drive the growth and profitability of existing markets, but don't threaten their existence), or should they be *Disruptive Innovations* (which, as their name suggests, can disrupt, transform and even replace entire industries).

As a result, there are four broad innovation strategy options, as set out in Figure 1.

Figure 1: The innovation strategy matrix

Type of Innovation			
	Disruptive	**Cannibaliser**	**Disruptor**
	Sustaining	**Enhancer**	**Challenger**
		Existing	New
		Markets	

The 4 Innovation Strategy Options

Each of the four strategies has its own strengths and risks (see Figure 2). There is no right or wrong approach and most companies pursue a mix of innovation initiatives. The key to success is to match your focus and investments to your internal capabilities and your external environment.

Figure 2: Summary of the 4 innovation strategies

Strategy	Aim	Situation	Benefits	Risks
Enhancer	Build sales and brand in existing core markets	Relatively steady state market with little risk of disruption	Opportunity to grow sales and profits in a well-understood market	Can miss disruptive changes and opportunities in the market
Challenger	Accelerate growth by moving into new markets	Limited growth opportunities in core markets; the company possesses the capabilities and/or brand to challenge existing players	Provides access to new customers, markets and profit pools	Management can overestimate the company's ability to succeed in a new market
Disruptor	Create new customer value, markets and business models that threaten existing players and market leaders	Significant levels of unmet customer need and/or new technology enables fundamental shift in business models	Access to new markets and can gain a large market share from leadership	A focus on high-risk, disruptive innovations in new markets may consume excessive time, resources and investment
Cannibaliser	Change the rules of the game in existing core markets	Highly dynamic market with technology and/or challenger threats	Enhances long-term market position	The shift to a new disruptive model may fail, but could still cannibalise existing revenue streams

Enhancer Strategy

This is the most common type of innovation and represents the main innovation focus of most businesses. It covers both line and brand extensions such as Coca-Cola's development of Diet Coke and Coke Zero, as well as the development of new, better product and service ranges. Gillette's stream of new, better razor offerings – Sensor, Sensor Excel, Mach 3, Fusion and Pro Glide – is a highly successful example of maximising market share and sales and profit performance through an *Enhancer* strategy.

A focus on *Enhancers* works best in relatively stable markets. Historically, Gillette has been able to dominate the global wet-shave market with their innovation strategy, but, more recently, Gillette's singular focus on Enhancers has made the company susceptible to two disruptive challengers. Over the past decade, both Harry's and Dollar Shave Club have challenged Gillette with subscription shaving services. As a result, Gillette's share of the $3.5 billion global shaving market fell from 70% to 54% between 2010 and 2018, while Unilever acquired Dollar Shave Club for $1billion.

Gillette is still the market leader and a hugely valuable brand, but it has had to adapt to new market realities, including the launch of its own subscription service, as well as reducing the price of its replacement razors.

Whether these steps will be sufficient to halt its slide in market share, only time will tell, but in 2019 Gillette's owner, Procter & Gamble, had to write down the brand's value by $8 billion.

Challenger Strategy

Where companies move into new markets, offering sustaining innovations, they pursue a *Challenger* strategy, looking to compete with existing players under the current 'rules of play'. Starbucks' offerings of ready-to-drink coffees, coffee capsules, ground coffee, instant coffee and coffee beans for drinking at home is an example of a *Challenger* strategy. The company has created new ranges outside of its core coffee shop business, but not in a way that threatens these markets. Starbucks is relying on the loyalty of its existing customer base, their enjoyment of Starbucks coffee and the strength of the Starbucks brand to win share from existing players.

The key to success with a *Challenger* strategy is to have the underlying capabilities and/or brand that enables you to compete effectively. Whitbread's caapbilities in hospitality, for instance, enabled the business to move out of running pubs to establishing Costa Coffee and Premier Inn as two of the UK's leading hospitality brands. In contrast, despite owning a trusted brand and being the UK market leader in retail pharmacy, Boots was unable to create a successful dentistry business as it did not have the underlying know-how to create a winning business model in that market.

Boots' managers are not alone in over-estimating the strength of their capabilities and brand. Tesco, for example, invested around $1 billion in its failed US grocer brand, *Fresh & Easy*. Despite being the UK market leader and sending managers out to the US to research the market in detail, *Fresh & Easy* failed to attract enough customers away from existing players such as Trader Joe's. US shoppers were bemused by *Fresh & Easy's* name ("*Sounds like a deodorant*" one woman said), felt that the stores were too down-market and reported that the shops lacked fresh fruit and vegetables.[1]

Disruptor Strategy

Needless to say, it is extremely difficult to both disrupt existing markets or to create completely new ones. That's particularly true for existing businesses, which is why the companies that are willing to take the time and effort to overcome the inevitable barriers of disruption are most likely to be new starters.

That said, it is not impossible for established, successful businesses to create new disruptive innovations and enterprises. Amazon, for instance, led the market in the development of cloud computing services through Amazon Web Services, gaining a lead on other hi-tech giants such as Microsoft, Google and IBM. Fifteen years since its launch, Gartner still rate AWS as #1 for the completeness of its cloud computing vision and its operational excellence.

Disruptor moves can have a transformational impact on a company's performance. Apple's launch of iTunes and the iPod took the business into the music market for the first time, but its success both transformed the music industry and Apple's own fortunes. Apple's move may have been a response to the threat of the company's core personal computer business from Microsoft, but it regenerated the company in a way that no-one, not even Steve Jobs, could have forecast.

As with challenger innovations, *Disruptor* companies need the core capabilities necessary to win in the new market. *Disruptors* also need a culture and organisation that encourages and rewards risk-taking. Disruptor moves are not for the faint of heart and need leaders that have both a desire to

[1] *Why Tesco's Fresh & Easy Turned Americans Off*, The Guardian, 5 December 2012

do something radically new and revolutionary as well as the commercial acumen and discipline to deliver a winning model. As Steve Jobs once put it, "*I've always been attracted to the more revolutionary changes. I don't know why. Because they're harder. They're much more stressful emotionally. And you usually go through a period where everybody tells you that you've completely failed.*"[2]

Cannibaliser Strategy

As markets become more dynamic and unpredictable, clinging onto a *Enhancer* strategy becomes less attractive. Instead, a *Cannibaliser* approach, where you disrupt your own market and business model, can become the best way forward.

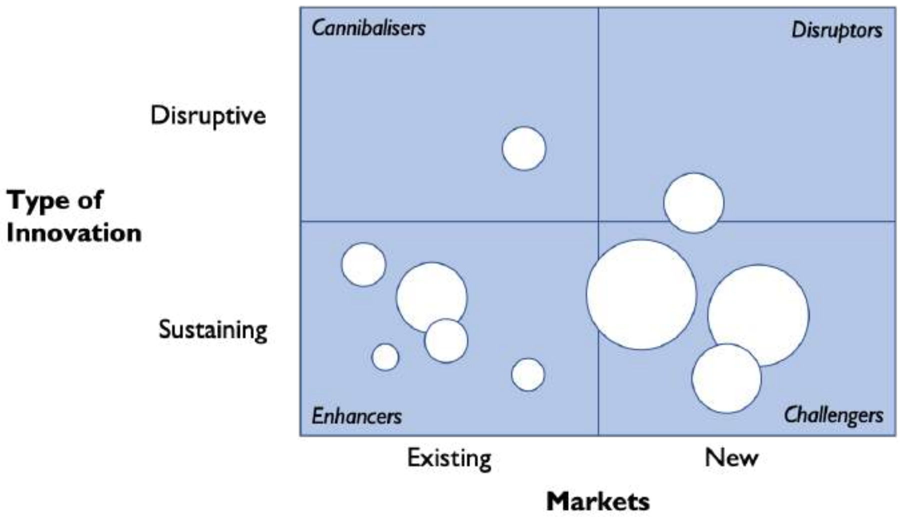
Companies that fail to make this move, such as Blockbuster and Kodak, can end up failing completely, but for those that are sufficiently brave, agile and focused, you can transform your business. Despite Apple's phenomenal success with the iPod, for example, the company disrupted the personal MP3 player market when it launched the iPhone. Similarly, Charles Schwab, the discount broker, was able to sustain its success by replacing its telephone-based service with an on-line model, further undermining the full-service, commission-based offerings of players such as Merrill Lynch.

The risks facing *Cannibalisers* are obvious – you may trash your existing business without making the leap to a successful new business model. As a result, many business leaders are reluctant to pursue this strategy.

As we have seen, successful businesses such as HMV, Kodak and Blockbuster failed to execute their own *Cannibaliser* innovation strategy. The inertia of their existing business models, even when under severe threat, was a huge disincentive to take the right action.

Indeed, Microsoft may have beaten Amazon to the leadership of the new, cloud computing market if Steve Ballmer, then the CEO of Microsoft, hadn't resisted the idea fearing that it would cannibalise the Windows and Office business that was contributing 80% of the company's revenues.[3]

Figure 3: Innovation Portfolio Analysis



Each bubble represents an innovation project.
The relative size of the bubble reflects the total current-year investment

[2] As quoted in *Driving Eureka*, Doug Hall, Clerisy Press, 2018

[3] *A Look Back At 10 Years of Microsoft Azure*, Janakiram MSV, Forbes.com

Getting Your Innovation Strategy Right

Given the uncertainty, dynamism and turbulence in many markets, the best strategy is to create and pursue a portfolio of initiatives across the four innovation approaches. Getting your innovation strategy right is therefore not a question of picking a single approach, but finding the right balance of investment and activity across the four innovation strategies.

The Innovation Strategy Matrix can help you to do this. Figure 3, for example, sets out the innovation portfolio of a UK retailer. The business had delivered relatively flat sales over several years, despite reasonable market growth and profitability.

As management used the matrix to review its innovation approach, its analysis led to the following questions:

- Are we doing enough innovation to deliver meaningful growth?
- Are we over-investing in *Challenger* initiatives, at the expense of *Enhancers*?
- Are we being ambitious enough with our innovation, and should we be putting more effort and investment into disruptive innovations?

The result of the subsequent discussions was a decision to increase overall innovation activity, with a focus on driving investment and returns from *Enhancers*. The CEO also established a new initiative and team to identify potential external threats to the business and to develop more *Disruptor* ideas.

The pandemic has changed market dynamics, re-set customer priorities and established new competitive threats. Consequently, it is even more important that you spend time ensuring that your business is well-positioned to both weather any storms and to exploit new opportunities.

Using the Innovation Strategy Matrix can help you to better understand your innovation activity, clarify its likely impact and rebalance your investments to drive better returns and accelerate growth. In short, it can help you to get your innovation strategy right.

About Stuart Cross

Stuart Cross is a consultant and coach who helps market-leading companies accelerate growth. Since its launch in 2006 his firm, Morgan Cross Consulting, has attracted clients including Walgreens Boots Alliance, Green King, Dunelm, GSK, DFS, Morrisons and TD Ameritrade.

"I have worked with Stuart Cross for over a decade. Stuart has always helped me to think and act differently, and that is the key to innovation in any leadership role." **Alex Gourlay, Chief Operating Officer, Walgreens Boots Alliance**

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