STRATEGY

A Simple Tool You Need to Manage Innovation

by Bansi Nagji and Geoff Tuff

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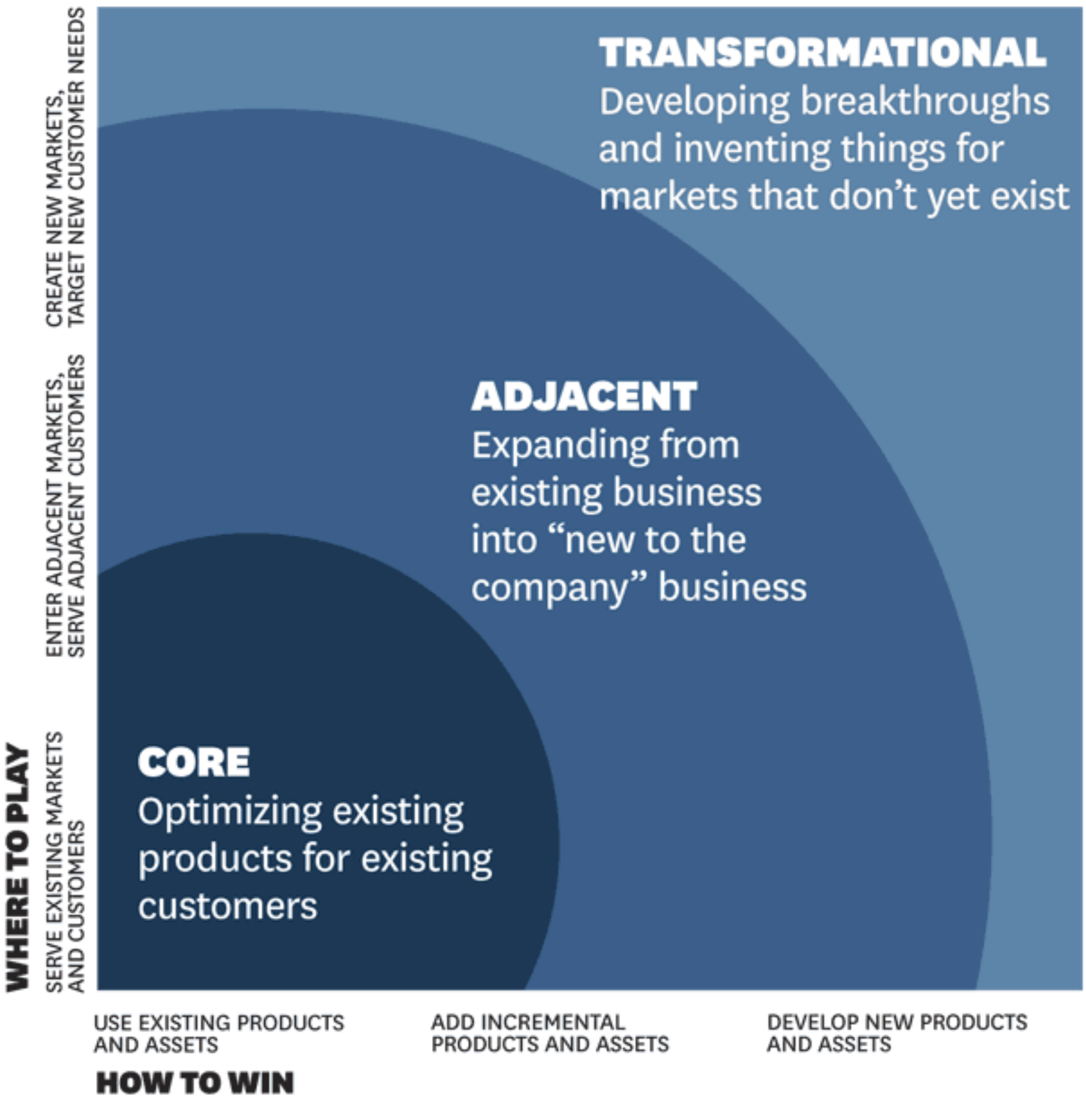
Management knows it and so does Wall Street: The year-to-year viability of a company depends on its ability to innovate. Yet many companies have not yet learned to manage innovation strategically. The companies we've found to have the strongest innovation track records do things differently: Rather than hoping that their future will emerge from a collection of ad hoc, stand-alone efforts that compete with one another for time, money, attention, and prestige, they manage for "total innovation."

One tool we've developed to help companies manage their innovation portfolio is the Innovation Ambition Matrix (see the chart below). It is a refinement of a classic diagram devised by the mathematician H. Igor Ansoff to help companies allocate funds among growth initiatives. Ansoff's matrix clarified the notion that tactics should differ according to whether a firm was launching a new product, entering a new market, or both. Our version replaces Ansoff's binary choices of product and market (old versus new) with a range of values. This acknowledges that the novelty of a company's offerings (on the x axis) and the novelty of its customer markets (on the y axis) are a matter of degree. We have overlaid three levels of distance from the company's current, bottom-left reality.



In the band of activity at the lower left of the matrix are **core innovation initiatives** — efforts to make incremental changes to existing products and incremental inroads into new markets. Whether in the form of new packaging (such as Nabisco's 100-calorie packets of Oreos for on-the-go snackers), slight reformulations (as when Dow AgroSciences launched one of its herbicides as a liquid suspension rather than a dry powder), or added service convenience (for example, replacing pallets with shrink-wrapping to reduce shipping charges), such innovations draw on assets the company already has in place.

At the opposite corner of the matrix are **transformational initiatives**, designed to create new offers — if not whole new businesses — to serve new markets and customer needs. These are the innovations that, when successful, make headlines: Think of iTunes, the Tata Nano, and the Starbucks in-store experience. These sorts of innovations, also called breakthrough, disruptive, or game changing, generally require that the company call on unfamiliar assets — for example, building capabilities to gain a deeper understanding of customers, to communicate about products that have no direct antecedents, and to develop markets that aren't yet mature.

In the middle are **adjacent innovations**, which can share characteristics with core and transformational innovations. An adjacent innovation involves leveraging something the company does well into a new space. Procter & Gamble's Swiffer is a case in point. It arose from a set of needs P&G knew well and built on customers' assumption that the proper tool for cleaning floors is a long-handled mop. But it used a novel technology to take the solution to a new customer set and generate new revenue streams. Adjacent innovations allow a company to draw on existing capabilities but necessitate putting those capabilities to new uses. They require fresh, proprietary insight into customer needs, demand trends, market structure, competitive dynamics, technology trends, and other market variables.

The Innovation Ambition Matrix offers no inherent prescription. Its power lies in the two exercises it facilitates:

- First, it gives managers a framework for surveying all the initiatives the business has under way: How many are being pursued in each realm, and how much investment is going to each type of innovation?
- Second, it gives managers a way to discuss the right overall ambition for the

company's innovation portfolio.

For one company — say, a consumer goods producer — succeeding as a great innovator might mean investing in initiatives that tend toward the lower left, such as small extensions to existing product lines. A high-tech company might move toward the upper right, taking bigger risks on more-audacious innovations for the chance of bigger payoffs. Although this may sound obvious, few organizations think about the best level of innovation to target, and fewer still manage to achieve it.

This blog post was excerpted from Bansi Nagji and Geoff Tuff's article "Managing Your Innovation Portfolio" in the May issue of the magazine.

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