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Innovation

The Missing Link Between Strategy and Innovation

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by David L. Rogers

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Established companies know they must innovate to find growth in the digital era. So, in recent years, large companies have set up innovation labs, accelerators, hackathons, and open innovation programs to look beyond their core, pursue disruptive ideas, iterate, and experiment.

Yet, most of these efforts produce little in the way of results. Corporate teams are outrun by startups. Innovation labs are shut down after failing to deliver growth at a scale that matters to the business.

Why does this keep happening? And what can be done? In 20 years of researching digital strategy and advising dozens of Fortune 500 companies, I've repeatedly seen that the root cause of this failure is the missing link between strategy and innovation.

Corporate innovation cannot begin with blue-sky thinking and proceed with the independence of a startup. Instead, companies must learn to link every innovation effort to two pillars of strategy: a clear set of growth priorities, and an understanding of the firm's unique advantages.

By linking innovation to strategy at every step along the way, from greenlighting to scaling up, established businesses can leverage their strengths to deliver innovation that drives bottom-line growth.

Define Your Strategic Priorities

The first strategy question that must be central to any corporate innovation effort is: What are the strategic priorities that matter most to our business? In my book, *The Digital Transformation Roadmap*, I suggest two lenses for defining strategic priorities: problems and opportunities.

The problem lens draws from the common wisdom of Silicon Valley entrepreneurs to "fall in love with the problem" you are seeking to solve, and not the solution you expect will solve it. This could be a problem to solve for the customer (e.g., difficulty in placing an order or in personalizing a product). Or it could be a problem to solve for the business (e.g., high customer attrition, difficulty forecasting demand, or inaccuracy in packing orders).

One company I've seen take this approach is Walmart. I've interviewed senior executives over several years about their strategy, innovation process, and transformation of the business. The company has decided that a key customer problem to solve is online ordering of groceries — a category that is important to Walmart's business, and where the existing customer experience has left much to be desired.

The opportunity lens is another way to define a strategic growth priority. This could be an opportunity for the business to expand into a new market or sector (such as Amazon's decision to explore cloud computing, which ultimately led to the launch of Amazon Web Services). Or it could be an opportunity to delight the customer with an unexpected benefit or reward.

Walmart, for example, defined an opportunity to let customers shop by texting a virtual assistant (who would help research products, propose options, and then place the order for the best product). The goal was to delight the customer and shift their habits away from Amazon Prime.

Any problem or opportunity, if sufficiently important to your business, may be defined as a strategic priority for growth. The point is to pick the problems and opportunities that matter most to your particular business and to your customers.

Define Your Unique Advantages

The second strategy question that should be central to any corporate innovation effort is: What unique advantages does our business hold over competitors? These could be physical assets, data, network effects, intellectual property, brand reputation, or other strengths that distinguish your business, add value to your products, and give you a competitive edge. Disney, for example, has a unique advantage from its iconic stories and characters, which it exploits in various business models — from film to streaming, theme parks, and merchandise.

Leveraging preexisting strengths will help you build competitive moats around new ventures and give you a “right to win” against others who bring similar innovations to the market. To truly matter, each advantage must be both distinctive (objectively superior to most peer companies) and strategic (providing a clear benefit when competing with others).

One of Walmart’s unique advantages is the proximity of its retail stores to end consumers: 90% of the U.S. population lives within 10 miles of a Walmart. The company is exploring digital business models that leverage this physical footprint — from mini fulfillment centers that support its ecommerce division, to a digital advertising network linked to in-store displays.

Knowing your unique advantages is especially critical when an established business looks to innovate beyond its core. How did Alibaba, as an online retail business, decide to move into digital payments? As a senior executive at their finance division explained to me, it started with a customer problem to solve: Its own customers needed ways to pay each other on its marketplace. But Alibaba also had a unique ability to solve this problem thanks to its large existing customer base and its rich user data.

Embedding Strategy into the Innovation Process

The key to linking strategy and innovation is to embed these two strategic principles into every step of your corporate innovation efforts. That includes innovation labs, accelerators, and hackathons, as well as innovation projects within the core business itself. Making this linkage work requires rethinking corporate innovation across five steps:

1. Set strategy at different levels.
The first step is to assemble a multi-functional team at the C-suite level, with representatives from various departments. They should carefully assess the unique advantages of your business. Then, they should define

a set of strategic priorities for the next one to three years, based on the firm's advantages, its competitive landscape, and deep insights into customer needs.

Once strategy is set at the enterprise level, the leadership of each business unit and each function (marketing, supply chain, etc.) should translate this into a strategy for their own level of the business.

Strategy should be regularly revisited (I suggest a brief quarterly review, and deeper annual review) to update priorities or adjust to changes in competitive advantage.

2. Share your strategy with all employees.
The next step is to share this strategy with employees throughout the organization — both those in dedicated innovation roles and those pursuing innovation within the regular work of their function or line of business. Virtual forums, strategy workshops, and every means of communication should be used to ensure everyone knows what problems the business is looking to solve and what unique advantages it is hoping to leverage.

3. Greenlight projects based on strategic fit.
Whenever an innovation idea is proposed — whether in a startup accelerator or a regional marketing team — it must include a clear problem statement: "What problem are we solving, and for whom?" Each proposed innovation should then be evaluated for strategic fit.

It's not enough that your lab proposes "a great idea" for a "disruptive" innovation where "we see a huge TAM (total addressable market)." Instead, every proposed new venture must answer two questions: Does it relate to a strategic priority? And would it potentially leverage one of our unique advantages? Only innovations that match your strategy agenda should be greenlit — i.e., given an initial round of funding or added to a backlog of ventures to try next.

4. Rapidly validate through experimentation.

For greenlit ideas, your next step is to define the key business model hypotheses and conduct quick, low-cost experiments to validate them. Who is the optimal customer? How do they experience the problem you are solving for? Does your solution drive adoption? Can you deliver it at scale? Do you have any competitive advantage? Can you capture value and turn a profit?

When Walmart began to focus on online groceries, it launched pilots for a variety of different approaches to the same problem. It learned that some delivery models scaled better than others. It also found that customers preferred an annual fee to a charge per delivery, and that price was critical to customer adoption.

5. Scale up the few that work and quickly shutter the majority that don't.

Funding of new innovations must be iterative as well. Every team whose idea is approved should be required to return in 90 days with market data and a request for more funding.

Walmart's innovation that let customers shop by text, dubbed "Jet black," showed early product-market fit. Customers loved the experience and started to switch from ordering on Amazon. But with further testing, Walmart found no path to deliver a scalable, profitable offering. The innovation was shut down and learning shared within the organization.

In Walmart's grocery efforts, many pilots were shut down as well. But a few proved highly successful in the marketplace, eventually launching as a subscription service (Walmart+) and a buy-online-pickup-at-store offering (Pickup Today). Walmart continues to experiment with new approaches to reinvent the online grocery experience (such as Walmart InHome) to match evolving customer needs.

Innovation that Delivers Results

There are no crystal balls in innovation. Just like a VC firm investing in startups, you won't know in advance which new ventures will work. This is why innovation depends on portfolio investing, experimentation, and iterative funding. But for corporate innovation, one more thing is essential: Every venture must start from an idea that fits the strengths and strategy of the corporate parent.

In too many companies, we see an innovation team allowed to pursue its own agenda and imagine itself to be a separate island from the rest of the company. The results are always disappointing: a lot of creative ideas, but a failure to deliver meaningful growth. The root problem is the disconnect between strategy and innovation.

To succeed, corporate innovation needs to be bounded by a clear set of strategic priorities that matter to the business. And it needs to play to the strengths of the firm — whether data, customer relationships, or supply chains — that will enable it to outcompete others attempting the same idea.

The five-step approach we have seen can be used by any business to link its strategy process to its innovation process — from greenlighting to innovation metrics and resource allocation. By doing so, every established business can leverage its own strengths to deliver meaningful growth at scale.

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