

# Formulating an innovation strategy

Innovation, Management and Entrepreneurship (BMAN73112)



## Learning Outcomes

### Lecture 5: Formulating an innovation strategy

By the end of this unit you will be able to:

- Understand what an **innovation strategy** is and why it is important in supporting corporate and business strategy.
- Identify different **types of innovation strategy** options that firms can select.
- Put in practice the **Product Life Cycle theory** to help managers in strategic decision-making

## 1. What is an innovation strategy?



“ An innovation strategy guides decisions on how resources are used to meet firm objectives for innovation (like build value for the company) and deliver value and build competitive advantage.

The innovation strategy will take into consideration the following aspects:

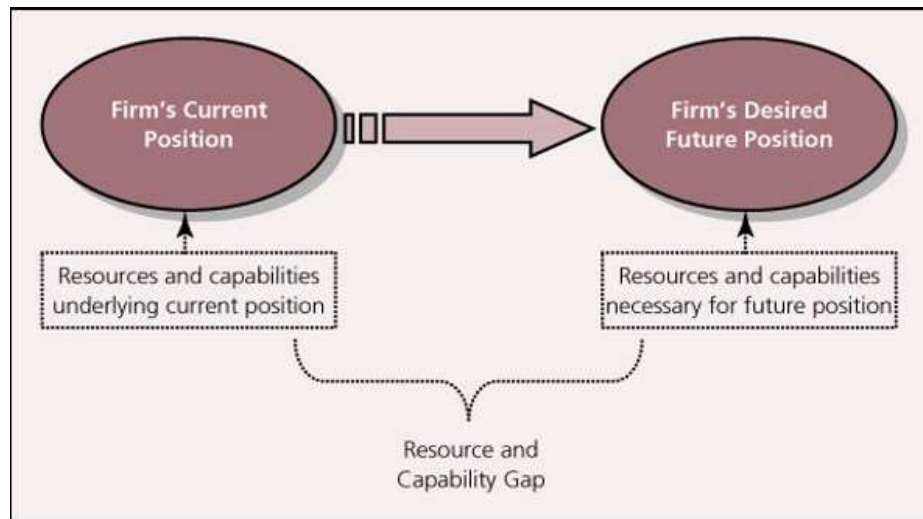
- It's crafting is supported by a number of **innovative capabilities** that steer the configuration of a firm's resources. And how a firm will do that? It has to understand what firms resources are. Innovative capabilities relate to the competitive advantage of firms based on its resources and organization routines and culture which are often unique to and difficult to identify by the firm.
- It entails **judgement** about which kinds of innovation processes are most appropriate for the firm's current circumstances and future ambitions. There are a range of processes in the firm to be understood and judge: product development processes, manufacturing innovation processes, business innovation processes, business modelling, business innovation modelling,...
- It identifies **technologies and markets** the firm should best develop and exploit to create and capture value. This is done within the limits of resources available (human resources, financial resources, infrastructures,...) to the firm to support its wider corporate and business strategy objectives, organisation and culture. Therefore, the innovation strategy is best designed at the corporate centre, specially if there is a large, multidivisional company. In

a small company, the innovation strategy could be integrated in the regular business strategy.

The firm will design a coherent innovation strategy that helps to leverage its existing competitive position and provides a direction for future developments of the firm. The key point here is that the innovation strategy provides direction for future development. So the formulation of the strategy requires:

- Appraising *firm's environment*, that is the external environment where the firm is operating.
- Appraising *firm's strengths, weaknesses, competitive advantages, and core competencies*.
- Articulating an ambitious *strategic intent* (for example using a SWOT analysis). An ambitious strategy means forward-looking, it implies taking some risks but without putting your business at risk and going out of business. That is particularly important in the case of SMEs. Part of this could have been done as part of the corporate strategy. Next figure summarizes the strategic intent. The strategic intent focuses on firm's current position, that is, its resources and capabilities (past and present) that have allowed the firm to achieve its current position in the market. But it also looks at the firms' desired future position identifying the resources and capabilities that will be needed to achieve that objective. What is that gap between present and future? It refers to the resources and capabilities that needs to be accumulated (knowledge, financial resources, infrastructures,...) over the period

for which we develop the innovation strategy to feed and address our objective.



From a **strategic perspective**, the major elements in an innovation strategy include:

- **Organisation** of innovation activities (corporate structures etc. Will the firm organize its innovation strategy in the same corporate structures that already exists? Or would there need for some investment in changing those corporate structures? Perhaps the firm is thinking in expanding the production facility. This organization of the innovation activity might affect some functions more than others during the implementation of the innovation strategy, e.g. it might have more implications for R&D compared to any other functions (like marketing).

- Relationship to **future business** (foresight in the firm). It is a forward thinking, a forward plan that relates with the main business plan. The company will invest a lot of money in resources in what is call “scenario planning exercise” by looking at the potential implications of the pathways to follow with the innovation strategy.
- **Sources** of technological **knowledge** (relations to science base, collaboration, mergers & acquisitions etc.). Is the firm going to design the strategy along the lines of generating the knowledge exploiting the markets from in-house generation of products? Does the firm have inside capabilities to do that? Or, as we saw in previous lectures the firm will need to consider external options? For some companies there is a mix, it has to combine some in-house knowledge generation as well as the external knowledge sources. Next question is then, how does the firm have access to that knowledge? How do we acquire that knowledge and bring into the company?
- Response to **external** pressures (environment – includes public attitudes, law/ regulations etc.). This could be particularly important for some specific sectors like the toy sector or pharmaceutical companies.

From an **operational perspective**, the innovation strategy will include a technology audit, that is, a list in terms of the nature of the resources and capabilities available inside of the company. including:

- A **list** of the technological capabilities you have.
- A **definition** of each capability and what it enables you to do.
- An **inventory** of the staff, skills, knowledge and equipment for each capability.
- A **classification** of the technologies according to their value to the firm.
- An **assessment** of the level of the firm's capability in each of the identified technologies.

The technology audit will be useful to take stock of what the firm possesses in terms of capabilities today and to evaluate what it will need to improve those capabilities to achieve future goals.

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