

S 2 I NEWS

July-Aug, 2004

S2I News is now a bimonthly publication of Strategies 2 Innovate. It aims to present information on topics important to today's business leaders. We hope these articles will help you develop a clear framework useful for guiding your organization's innovation and strategy.

This new series examines the Innovation Pentagon™ framework introduced in the last series discussing challenges organizations will face over the present decade in the area of innovation.

Strategies 2 Innovate works with business leaders to make their organizations thrive. Our approach is based on our Innovation Pentagon™ model. Read about us and visit our **knowledge portal** at the web address below, or call us toll-free at 1-877-978-8242.

Sign-on for this newsletter using the sign-on button at our web-site home page. To request our capability brochure, send an email with "send-brochure" in the subject and full contact details in the text.

info@strategies2innovate.com
www.strategies2innovate.com

Copyright 2004 Strategies 2 Innovate.
All rights reserved.

The Innovation Pentagon™ and Product Strategy

The *Innovation Pentagon*™ framework we introduced last issue comprises five cornerstones of innovation: Core Competence-based Corporate Strategy; Product Strategy; Technology Strategy; New Product Development; and Research and Development.

We have already discussed the issue of core competencies thoroughly in our past series so we will now turn to the topic of **Product Strategy**, which is the process of defining and selecting which products/services to develop. It charts the strategy of the business's entire new product initiative and is the essential link between your product development efforts and your business strategy⁵⁹. According to Michael McGrath, "product strategy is like a roadmap, and like a roadmap it's useful only when you know where you are and where you want to go⁶⁰." He recommends adopting a **Core Strategic Vision**, which supplies the context for product strategy and guides the process. It should provide focus, clarity and completeness, in regard to providing the destination and general direction, telling how the company expects to get there and saying why it believes the company can be successful. It is closely tied to the Strategic Intent developed at the corporate strategy level, it provides the corporate strategy to product strategy

link at the business unit level, and is the responsibility of the CEO or General Manager of the business unit.

Product strategy addresses the decisions managers make concerning: The **role** of product development, i.e., how new products tie into the business's overall goals; the **goals** of the business's total product development efforts (metrics); the **market arenas** of strategic focus; the **plans/approaches** for how to attack or enter each arena, and the **distribution** of spending across these arenas⁵⁹.

The role and goals of product strategy answers how new products (those that have been on the market five years or less) and product innovation fit into your business's overall plans. The answer should be based on both the contributions of new products to business and the performance of the new product effort.

New product goals can be determined with the help of gap analysis. By defining ambitious growth and profit goals for the business unit (corporate goals), projecting current products and markets into the future, and comparing expected revenues and profits with the desired level of sales and profits, the resulting gaps in sales and profit to be filled with new product/market offerings can be identified.

(Continued over page)



LARRY VAN DEN BERGHE, Ph.D.

Larry van den Berghe is the Founder and Principal of Strategies 2 Innovate. He has 20 years international experience in the aerospace and information and communications technology industries in England, Australia, Singapore and Canada. He has been an active manager and contributor in R&D and new product development in electronics, VLSI and software. He holds two US patents, one UK patent and has a number of publications. He is a Chartered Engineer (UK) and a Fellow of the Institute of Electrical Engineers.

Larry is also an adjunct professor for the Management of Technology @Distance graduate program at the University of Waterloo and a past faculty member with the Technical University of British Columbia. He has developed courses in new product development, strategic management of innovation and technology, entrepreneurship and knowledge management. His recent research on core competencies examined the adoption of emerging technologies for product innovation within the Canadian information and communication technology industry.

He holds a Ph.D. in Management Sciences (Management of Technology) from the University of Waterloo, a M.Sc. in Microelectronics (with Distinction) from Middlesex University, London, U.K. and a B.Appl.Sc. in Applied Physics from Curtin University, Perth, Western Australia. Larry has served as Chairman, Board of Directors, serves on the Education Committee of the Saskatchewan Advanced Technology Association and is a member of a Toastmasters International Club.

(Continued from previous page)

Here are some ways that product strategy goals might be expressed:

“By the year 2005, 50 percent of our business's sales will come from new products.”

“By the year 2005, 35 percent of our business's profits will come from the sales of new products.”

“70 percent of growth in our business's sales over the next three years will come from new products introduced in this period.”

For Gillette, new products contribute to 50% of revenues, while for Medtronic, a medical devices technology company, 50% of revenue comes from new products 12 months or less!

Other factors driving product strategy include performance metrics of your new product efforts such as:

- Success (or failure) rate of new product developments, i.e., the percentage of new products that achieve market acceptance, and to what degree, e.g.,

“We will achieve market success in 3 out of every 4 new product launches.”

- Kill rates of new products (ideas,

concepts, projects, etc.) in the development cycle.

- Number of new product ideas to be considered annually.

- Number of projects entering development annually, i.e., product ideas accepted for further development.

- Minimum acceptable financial returns for new product projects, i.e., gross profit margins, product numbers, revenue, growth, etc.,

So, what metrics/targets are you using, if any?

In the next issue, we will discuss what we mean by technology strategy and some of the key dimensions for framing it.

See you then!

Larry van den Berghe

For more information and for references to the literature as identified by superscripts notations (e.g. ¹) please visit our innovation strategy knowledge portal www.strategies2innovate.com and follow the links to “Knowledge References.”

The Innovation Pentagon™ is a trademark of Strategies 2 Innovate.

Innovate! Your Way to Successful Products and Services.

An exciting two day workshop on our Innovation Pentagon™ framework shows how to be more effective and efficient in product / service development efforts by closely integrating five key organizational areas: corporate strategy, product/service strategy, technology strategy, R&D and new product/service development. Conducted as corporate training sessions at your request in any region across Canada. For more information, visit our web-site and follow the links to Our Workshops for more details or call us toll-free on 1-877-978-8242.

Strategic Direction Setting : From Surviving to Thriving

Developed especially for the smaller business, our Strategic Direction Setting process works to bring your business from a state of surviving to a place of thriving. It captures a vision of the future for your organization and sets a clear and motivational strategic direction. It offers a useful tool for entrepreneurs and small business owners to systematically address tough yet compelling questions such as: Where are we going? And how will we get there? It takes away the pain and rigour of strategic planning by being easier, quicker and cheaper. For more information and a case example, visit our web-site and follow the links to Services.