



Is It Time to Rethink Your Innovation Strategy?

By Dev Patnaik

While most large companies have an established approach to innovation, few have one that really works—or one that will get them to their next phase of growth. In this article, Dev Patnaik discusses how leaders can fundamentally rethink their innovation strategy based on their unique strengths and limitations.

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These should be exciting times for leaders of innovation and R&D. In recent years, many companies put innovation on the back burner. It didn't seem so important when success was largely defined by the ability to solve supply challenges and other pandemic-linked disruptions. Now, those same companies are turning to these executives to fire up their creative engines to build new products and services and reach new markets.

Yet when I've spoken to innovation leaders in recent weeks, the dominant emotions have been nervousness and worry rather than ebullience. As they survey their company's track record on innovation, many see low hit rates and underwhelming results. For many, their instincts are telling them that they need to take a step back and reassess their approach rather than plow ahead with the same old strategy.

Their instincts are right.

While most large companies have an established approach to innovation, very few have one that really works. And simply dusting off the old innovation playbook is unlikely to yield results. Innovation success in the coming years will demand a more fundamental rethink of the strategies they employ.

Companies are acutely aware that innovation has become imperative again. As we return to more normal economic conditions and as pandemic-driven revenue gains slow, corporate 10-K reports are brimming with commitments to jump-start innovation in order to engineer the next phase of growth.

Even companies known for being highly innovative are reckoning with just how long it's been since their last breakthrough innovation. Take Nike, for example: Its shift to a direct-to-consumer sales model was big—it's also a model that Nike first built more than ten years ago. Investors, meanwhile, want to know, "What have you done for me lately?"

Many companies have struggled because their innovation strategies depended on copying popular playbooks such as design thinking and creating corporate venture funds. Copying what was in vogue, many companies set up startup incubators or "idea jams" that turned out to be little more than digital suggestion boxes. Not surprisingly, results were mixed.

But limiting yourself to what already exists isn't the stuff of great innovation. Every company is different. And great leaders recognize that they need to develop their *own* innovation strategy based on their unique strengths and limitations. That requires some deep work, which can begin by answering five fundamental questions:

1. What do you do better than anyone else?

Effective innovation isn't born in a vacuum. It comes from the things a company already does very well—your strategic differentiators. Maybe you have supply chain expertise and capabilities that put you head and shoulders above everyone else, a distribution network that's unmatched by your competitors, or a high level of brand loyalty from a particular consumer niche. Any innovation plan should leverage these unique strengths. The move by candy company Mars to acquire the maker of KIND bars is a case in point. The healthy, high-cost alternative nut bar wouldn't have been the right acquisition for every food company. But after nearly a century of making Snickers and M&Ms, Mars realized it knew more about peanut and chocolate supply chains than virtually anyone else. Conversely, KIND had marketing chops and a relationship with Starbucks that was the envy of the industry. Having a clear understanding of these complementary strengths led to a successful acquisition that is central to the company's product innovation strategy. Many companies talk a good game on innovation but struggle in practice because they lack a clear and cold-eyed assessment of their strengths and weaknesses.

2. How is the world going to change?

Great innovations are based on what the world will look like in five or ten years, not on what's happening today. Ten years ago, Constellation Brands saw that Latino culture was going mainstream. The company bought the U.S. rights to Modelo. Today, Modelo is the number one beer in America. But now, every food company and restaurant chain should be focused on the innovation implications of a new trend: people eating less. The growing popularity of Ozempic and other weight-loss drugs will radically reshape the food and beverage industry, with research from Morgan Stanley forecasting that calorie consumption could fall by as much as 1.7% by 2035, when around 7% of the U.S. population is expected to be on appetite-suppressing drugs. Walmart says the Ozempic effect is dampening food sales. Every industry has changes underway that may seem insignificant now but which could have profound implications in a decade. Companies need to have a point of view on the future that informs and shapes their innovation strategy.

3. Where are you going to play?

Working out what you're good at and what the future might look like paves the way for choosing specific opportunities to pursue. Over 20 years ago, my colleagues and I at Jump helped Nike create an opportunity map that revealed how some of its biggest growth prospects lay outside its core business of shoes in the broader market of sports: including apparel, equipment and digital services. A group of visionary leaders at Nike then drove product innovation that was rooted in that core idea of sports... not just shoes. Today, apparel makes up well over a quarter of Nike's revenues. Strategy isn't just knowing how to win. It's knowing where to play.

4. How are you going to succeed?

There's no one right way to innovate. Innovation can be incremental, in line with the Japanese concept of "kaizen" or continual improvement. It can be based on deep institutional research—the model employed by companies like OpenAI and Google that resulted in the great leap forward in generative AI. It can rely on venture funds or strategic acquisitions. Whatever form it takes, though, innovation is most effective when it's done in a way that reflects a company's unique strengths, including its core identity and culture. Some companies, like Walmart or FedEx, function like giant armies that work best when everyone moves in lockstep. Others, like Google, are at their innovative best when they work more like a loosely organized college campus that encourages exploration. Alternatively, Procter & Gamble is one of the best practitioners of the so-called "lift and shift" model of innovation: taking ideas from one part of the organization and applying it to improve other parts. The approach means P&G can re-apply a molecule developed for a pet-care product to human hair care or even a carpet cleaner. As their former CEO A.G. Lafley once declared, "We have to make 'reapplied with pride' just as important a part of the culture as 'invented here.'"

5. Do you have an innovation portfolio?

Companies that get the best return on their innovative investments don't put all their eggs in one basket. They adopt a portfolio approach to ensure that they're innovating in different ways over a range of time horizons. Some innovations can be aimed at scoring quick wins. Others should be more like moonshots that will take time to bear fruit but could be transformative when they do. Barely a week goes by without Microsoft launching a new update for Teams to make it faster, improve its interface, or add AI capabilities. Meanwhile, its \$13 billion stake in OpenAI and other massive investments in AI capabilities represent its long-term portfolio, aimed at establishing an innovative advantage in the technology that won't fully pay off for five to ten years.

As the pressure to innovate rises, CEOs and innovation leaders need to respond by fundamentally rethinking—not just rehashing—their innovation strategy. A successful strategy demands keeping a keen eye on the future, and has to be built on the foundation of who they are and what sets them apart from the competition.

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