



Innovation Update

NPD Strategy Series

Innovation Productivity: BOOM or Bust?

The current economic crisis has placed emphasis on Innovation Productivity like never before. Although today's executives accept that Innovation is essential for differentiation in increasingly competitive markets, the willingness to take risks is gone. Companies are facing the reality that the investments they make now in new product innovation **MUST** deliver on their promise and that it truly is a time of **BOOM** or **Bust**.

A shift in Strategy

Economic factors which have increased pressure on Innovation strategy include:

- Reductions in available budgets for Innovation projects
- Increased emphasis on projects with faster payback
- Reduced willingness to take market risks
- Reduced willingness to take technical risks
- Reduced tolerance for project failure

In short, a tight economy mandates a tight innovation strategy. Companies are reviewing the fit of potential projects with their "Core" business capabilities and projects which fall outside this area of strategic focus are being placed on hold.

The evaluation criteria used to assess projects are being re-written and a revised set of portfolio management criteria is being developed. The need to "get it right" is creating an increased emphasis on the use of formalised methods and portfolio management tools.

Portfolio Evaluation frameworks

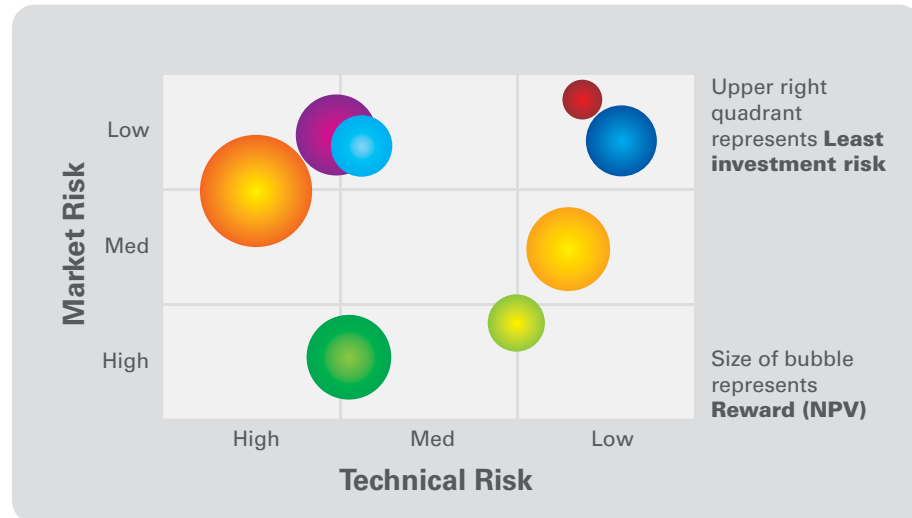
Capturing project data to allow comparative assessment of the project portfolio requires definition of the reports and information required to make the

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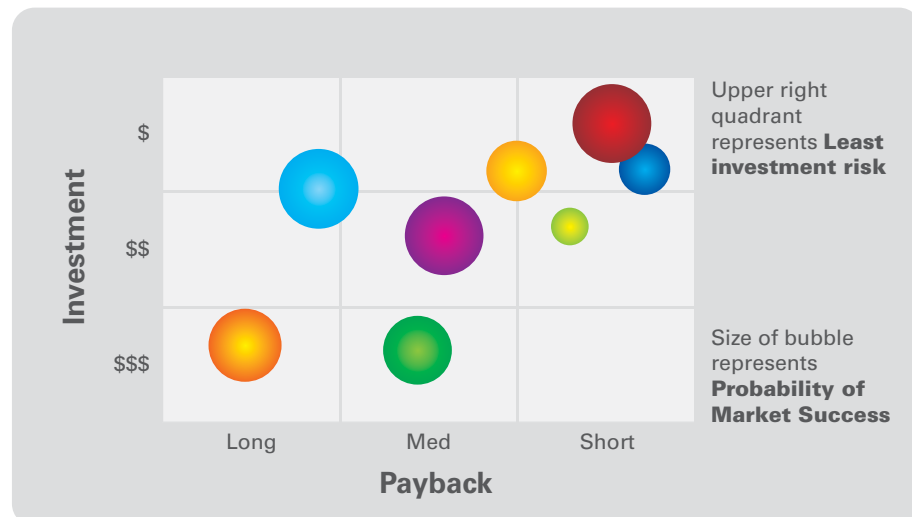
portfolio investment decisions. While there are a myriad of possible portfolio review reports we are seeing the following reports in popular use in the current market:

Overall Project Risk Report



A key benefit of this report is its value in assessing a range of potential investment decisions. In a tough economy some “Bullish” projects which have unduly high Market or Technical risks become obvious targets for deletion from the portfolio. In assessing both Market and Technical Risks it is also worthwhile assessing the Strategic Fit of a project and the extent to which the project leverages existing Marketing and Technical competencies. Projects which score poorly on these criteria are also likely to exhibit unduly high Market or Technical risks. This report is most valuable when used in conjunction with a real time summary of total expenditure and revenue across all projects.

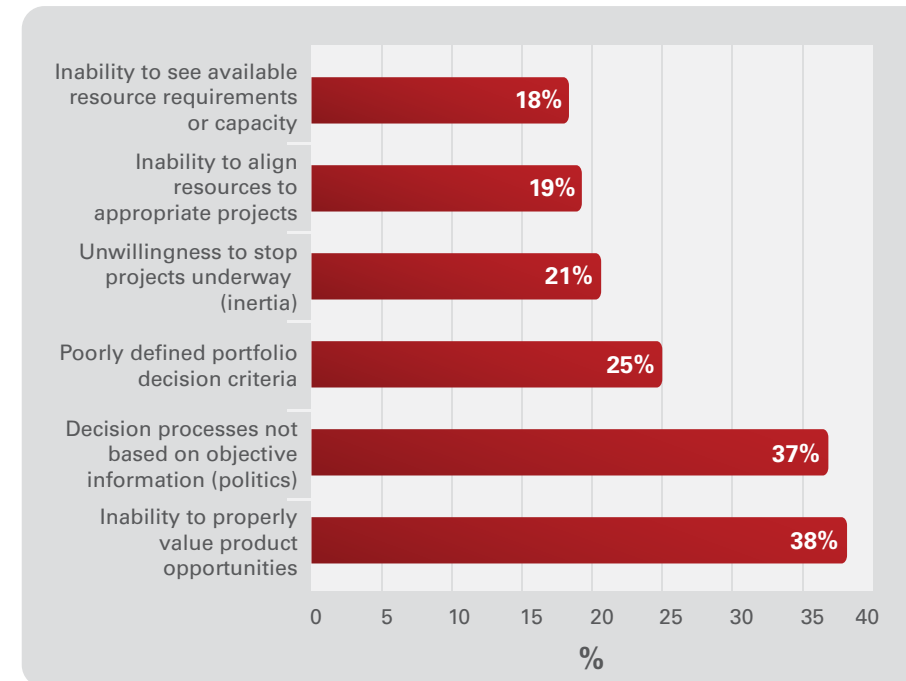
Investment Payback Report



Companies under pressure are seeking ways to “kick a few quick goals.” The requirement to build cash flow from “some early wins” is a sign of the times in the current economy and a daily reality for many publically held companies.

Constantly changing information

The greatest management challenge in optimising Innovation Productivity is in “Developing the Right Products.” In a sea of constantly changing information, effective decision making is inherently difficult as changes are occurring to all projects in the portfolio as is the status of each of these projects against multiple evaluation criteria. The top challenges companies face in improving Product Portfolio Management (PPM) have been defined by technology researcher – “The Aberdeen Group” as:



Source: “The Product Portfolio Management Benchmark Report” Aberdeen Group 2006

The imperative for increased effectiveness in Product Portfolio Management mandates the use of technology solutions which capture and display project information in real time. As leading companies measure portfolio VALUE at least monthly the business challenge is in the provision of the CORRECT information.

Summary recommendations from the Aberdeen Report are:

- Enhance processes for measuring product value and portfolio performance, and measure more frequently
- Coordinate portfolio processes and decisions on an enterprise-wide basis
- Aim for process adoption by larger numbers of potential users
- Adopt enabling technology, and choose a solution that offers best-practices as templates

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- Place high priority not only on a vendor's technology offering, but on its process knowledge.

Conclusion

In a recession, developing effective strategic plans is particularly difficult and inherently risky. False assumptions can lead to fatal mistakes. In order to thrive, organizations must be able to remain agile and adjust quickly to market changes without sabotaging plans for long-term growth. Companies need to implement Portfolio Management solutions using accurate real-time information to support effective decision making. With vigilant attention to Product Innovation Strategy the current economic climate presents the opportunity to create a future BOOM. Without the priority of strategic focus on Product Innovation and without the right decision support tools it really could be a case of BOOM or Bust.

Gerard Ryan

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About the author: Gerard Ryan

Gerard Ryan is the Managing Director of Prodex Systems and a specialist in the field of New Product Development Management. Gerard's work focuses on achieving sustainable organisational change delivered through the implementation of practices, which are tailored to the needs of individual companies. Over the last 15 years Gerard has worked with the management teams of more than 300 leading Australian and multi-national companies in the implementation of idea, Stage Gate and Portfolio Management systems. The results of which have included an increase in productivity in new product development, halving failure rates of new products and reducing time to market by 40%.

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About Prodex

Prodex Systems is a specialist provider of Consulting, Training and Software Implementation services which facilitate best practice management of new product development. Our consulting approach is based upon global best-practice methodologies and our consulting assignments include the implementation of idea, Stage-Gate® and Product Portfolio Management systems. We work with senior management teams to:

- Develop strategy to accelerate business growth through new products
- Implement processes which effectively manage new product risk
- Train cross-functional development teams in NPD Best practices.

Prodex is the Australian reseller of the Accolade suite of software modules by Sopheon for Integrated management of the product innovation process.

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