

feature



Ten Ways to Generate Higher Returns from Your Innovation Investments

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Many companies today struggle in their efforts to sustain market differentiation through the introduction of innovative new products. Recent studies indicate that more than half of senior corporate executives are dissatisfied with the returns their organizations are generating from investments in innovation. At the same time, some organizations are realizing as much as forty to sixty percent more revenue and profit from new products than their industry peers. What sets these companies apart? Here are ten practices that leading innovators use to increase the payback from innovation spending.

1 Treat innovation as a cross-functional business process.

It is not uncommon for organizations to view innovation as a technical process, relegated to the realm of idea generation by research scientists and engineering staff. However, to be truly effective, innovation should be treated as a business process that supports strategic decisions throughout the life of a product, from inception to retirement.

When you think about it, the various things companies must do to innovate successfully fall into the following categories: planning, investing, designing, manufacturing, supplying, or selling products. Most companies make substantial investments in systems to support the last four of these functional areas. However, when it comes to supporting the strategic planning and investment decision-making facets of innovation process management—points where organizations place huge bets to ensure their future success—many companies have no system in place!

Effective management of innovation processes requires close coordination of daily development activities and the synchronization of product planning information across a broad set of stakeholders. Representatives from principal functions of the organization must be able to contribute easily and thoughtfully to a long-term, business-centric view of market and product opportunities to ensure investments are made in the right projects at the right time.

2 Connect the dots: Align innovation execution and business strategy.

To successfully manage innovation and garner significant improvements in your organization's top and bottom line, the goals and activities of cross-functional innovation project teams and the business objectives and strategies defined by your senior executives must be tightly aligned. One way to ensure such alignment is to use scorecard criteria as benchmarks against which to evaluate new product ideas. Project teams should rate prospective products according to their anticipated capacity to leverage core technologies; the likelihood that they will provide high-growth or new market opportunities; and their ability to support the achievement of the company's strategic objectives.

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3 Create sustainable innovation by looking beyond the financial data.

Innovation does not equal short-term gains. Companies that take a longer view of innovation are more likely to achieve sustainable market differentiation. For instance, Parker Hannifin, the world's leading diversified manufacturer of motion and control systems, wanted to achieve higher levels of organic growth over time by introducing more new-to-the-world or new-to-the-market products. In support of this goal, Parker implemented a single, structured innovation process across its 125 divisions worldwide. It also introduced leading-edge product innovation management software to automate that process.

Innovation Process Management

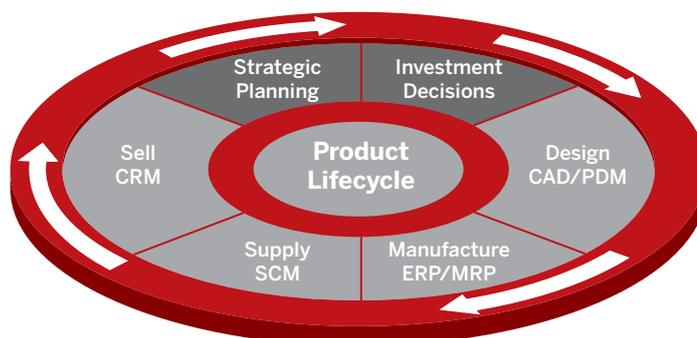


Fig. 1 Companies make substantial investments in systems to support the design, manufacture, supply and selling of new products, but many have nothing in place to support strategic planning and investment decision-making.

As a result, the company realized a 500% increase in the net-present-value of its product portfolio.

Much of Parker's success can be attributed to the ability of its cross-functional teams to critically evaluate innovation projects at various stages and gates in the development process. Decisions are based on more than financial considerations. Parker's project managers also ask the following questions:

1. Does the product fit with corporate strategy?
2. Is there an attractive market for the product?
3. Will the product's differentiation and value proposition ensure competitive success?
4. Do we have the resources to produce it?
5. What's the risk vs. reward ratio?

Another company that is generating much higher than average returns from its investments in innovation is Pall Corporation, a \$2 billion supplier of filtration, separation and purification technologies. Recently, Pall deployed a new product innovation process along with software that both automated the process and enabled ongoing measurement of performance. According to the company, these investments paid for themselves in a little more than a year and have increased the net-present-value of its product portfolio by more than \$26 million.

4 Train your senior executives to “walk the walk” of successfully executing innovation initiatives.

It's imperative that senior management comprehend and actively support the processes that govern and drive innovation within your organization. Unless your executives know the role they need to play in those processes, it's unlikely that your organization will see anything more than incremental improvements in its return on innovation spending. Senior leaders need to understand:

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1. The benefits of having a structured, automated innovation process.

By providing a common framework for executives and process owners to review and discuss project information, you will enable them to make better, more informed decisions. This provision will also help development teams execute more efficiently on product plans.

2. How to prepare for “go/kill” decision meetings about proposed new products.

If an executive has visibility to key projects in your development pipeline, and understands the impact (positive or negative) that those projects will have on the top and bottom line, he/she will make investment decisions more quickly and confidently.

3. The function and value of using specific, consistent scorecard criteria to evaluate new product ideas.

This practice dramatically heightens the probability that your organization will end up focusing on winning, high-value projects.

4. How to manage gate meetings to get the information needed for sound investment and resource allocation decisions.

It's imperative that executives be willing to play an active role in facilitating project decision-making. Your organization can help them to be proactive rather than reactive by involving them in projects from the start.

5 Innovation requires effective process and project management.

Many organizations make the mistake of equating innovation process management with project management. Innovation process management allows executives, portfolio managers, and process owners to take a global view of how product innovation is being strategically planned and systematically executed throughout the organization. In effect, process management provides the foundation for project management. Conversely, project management entails tracking and scheduling hundreds, if not thousands, of tasks related to creating a new product and bringing it to market.

For example, in the lifecycle of a new vehicle 80,000 or more tasks may be required to design, manufacture, market, and sell the car. However, the decision support needs of senior management center on only a few, high-level considerations, such as safety requirements, benefit to the customer, and the unique needs of particular geographical areas. A well-conceived innovation process allows senior managers to determine how these requirements and other external market, technological, and regulatory factors might impact the overall value of the car.

Though project management and process management serve dramatically different purposes within an organization, there is a symbiotic relationship between the two. For a company to get the most out of their investments in innovat-

-tion, both are needed.

6 Performance: Does your process measure up?

Portfolio metrics are important. But process metrics are the leading indicators that enable a company to assess the business impact of innovation.

Process metrics measure how well a particular innovation initiative is performing against key process adoption criteria. For instance, you should tally which process deliverables have been completed and which are no longer required or are incomplete in order to determine the rate of actual execution and innovation process use. This type of measurement is particularly important given the alarming frequency with which innovation processes fail simply because the intended users don't adopt them. By tracking process adoption patterns across the organization, you can identify and investigate usage issues immediately, and make adjustments across the system to increase process efficiency and efficacy.

7 Plan ahead to ensure broad stakeholder buy-in.

One of the most important best-practices for implementing a new innovation process and supporting tools is to first construct an internal communications plan. The goal should be wide-spread process adoption. Stakeholders need to understand how a structured process can help them more readily achieve innovation and business objectives. In addition, the plan should clearly identify the roles that process owners and other stakeholders must play to ensure that the new process is broadly and consistently used throughout the organization. The plan should include execution timelines, along with definitions of communication events, target audiences, key messages, and desired outcomes.

8 Innovation doesn't happen in a vacuum.

Most new product ideas are connected to or dependent upon other projects in the development pipeline. By having visibility to the entire product portfolio and all the proposed projects on the table, decision makers can instantly see the impact of adding or removing a given innovation initiative. For example, let's imagine that a proposed product is expected to be a large revenue generator, but it is dependent upon the completion of a technology development project that has been delayed by a lack of resources. It

follows that further steps must be taken to ensure that the faltering initiative is completed on time.

One proven technique for addressing this challenge is to create visual roadmaps of the inter-relationships among projects, including high-level graphical markers identifying external market, technological, or customer events that could impact the timing and delivery of a particular project. This allows decision-makers to quickly assess the overall effect a decision will have on the project and guards against unwitting sabotage of connected initiatives. Software-based roadmapping and portfolio management solutions are available that provide this kind of visualization and also help companies link their long-term roadmaps to their short-term product pipeline.

9 Give teams the tools they need to succeed.

Once an organization commits to putting a process in place to manage and execute on innovation, there are a variety of tools that can help ensure successful adoption. One increasingly popular way of enabling process adoption and adherence is the use of innovation management software.

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- Stage-Gate® Processes
 - Portfolio Management
 - Resource Planning
 - Idea Management
 - Roadmapping

Currently available product innovation solutions offer a broad range of capabilities, including support for roadmapping, idea management, process automation, resource planning, and portfolio management. The best of these systems are typically valued because they:

1. Centralize business metrics and product data so that distributed development teams can have access to the same information.
2. Streamline communication and execution of the innovation process among cross-functional team members.
3. Save time by enabling reuse of data and encouraging knowledge-sharing across divisions and business lines.
4. Facilitate strategic decision-making by allowing senior executives to easily review and prioritize projects based on their projected value to the organization.

One company that has been very successful in

automating its innovation process is Glatfelter, a global producer of specialty papers and engineered products. The company's offerings are used for everything from books and postage stamps to teabags and flooring overlays. Glatfelter's critical business challenges included commoditization of core product lines; declining product demand within traditional markets; pressure to speed creation of new products; and an escalating need to enter new markets.

Glatfelter responded by examining core aspects of its research and development strategies and practices. It was apparent that long-term growth and profitability would depend on creating new, commercially viable products with enduring customer appeal. The company chose to implement a new, better-defined innovation process, along with a technology solution that would automate that process and help Glatfelter's executives prioritize innovation projects based on their potential value to the company.

When the system was introduced, there were nearly 200 projects in the development queue. Through use of its new process and the supporting software, Glatfelter was able to allocate more resources to the top ten most commercially-promising innovation projects. In three years, the company achieved a twenty-five percent reduction in average time-to-market; a fifty-five percent increase in new product success rates; and a 500 percent increase in the number of new products introduced. Most impressive of all, during that same period, fifty-three percent of Glatfelter's total net sales came from new products. The overall impact of the initiative was to make Glatfelter one of the largest and most diverse suppliers of specialty papers in the world.

10 Ensure a tight linkage between portfolio and process management.

A word to the wise for organizations intent on adopting a product portfolio management system that does not also support your innovation process: it won't work!

Effective product portfolio management requires good quality technical and business data that can be gathered and analyzed on a regular basis to support smart innovation investment decisions. Unfortunately, most organizations lack a dependable, systematic way of gathering and accessing the information necessary to make informed judgments about proposed new products. The best way to support effective decision-making is to implement a rigorous innovation process and an automation solution that will make that process easy-to-use.

A viable, technology-enabled innovation process blends process and portfolio management capabilities that make data-entry intuitive. With the right system in place, documents, product roadmaps, and other project information needed for gate meetings and other decision-making forums can be completed in minutes. This represents practical value to end-users who, because the system makes their lives easier, are inclined to use it. Adoption rates are higher, and there is a corresponding increase in the quality of data in the system. If everyone in your company is vested in the process, innovation will no longer be a corporate buzz-word. It will be the way you do business. ■

1 Innovation 2005: Senior Management Survey, Boston Consulting Group (2005)

2 The Innovator's Solution, Clayton Christiansen & Michael Raynor (2003)