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INNOVATION ROI BEST PRACTICES

WEBINAR Q&A
WITH GREG LEMMON

QUESTION 1:

These are pre-pandemic numbers and we've seen a lot of innovation over the past couple years. Any updated stats or perspective?

ANSWER 1:

Keep in mind that research studies take time to be published and shared. So it may be another year or two before we can know for sure.

Looking at average R&D spend over the years and the Drivers of NPD Success PDMA Reports from 1997-2012 The spending and success standards didn't change much and I have a feeling when looking at a large enough sample they will be the similar in 2020. Remember that some companies struggled but others benefited from the pandemic. Also the ones that go out of business may not be represented in future studies. Also in 2021 I compared culture assessment data by year and there were several downward trends in 2020, but they were trending back to normal the following year. While I have concerns that companies aren't focused on innovation because of more urgent issues like supply chain, I think best practices from ROI and growth are the same.

QUESTION 2:

Of the 90 companies in your data...what was the range of size

ANSWER 2:

Some data presented was from other studies or government tax data. But the 90 companies I used in the slides about growing versus decline and innovation culture are from our own assessment data. We have thousands of assessment responses and this sample is just the companies who answered both the revenue questions and culture questions, so I could do a fair comparison. Some of companies hired us to help them innovate, but not all became our clients, but the slide with the companies we've worked with shows the diversity of industries and size companies. For the range of size, the largest companies have 100,000 employees and earn billions in revenue and the smallest companies have less than 100 employees and revenue in the millions. These are all established companies. There are no start-ups in the sample.

QUESTION 3:

Certain types of innovation yield greater cannibalization of existing sales than others. However, it is easier to measure absolute sales from the new item versus net incremental sales from the new item.

ANSWER 3:

Absolutely true. Overall we don't use cannibalization as a reason not to do any type of innovation. It is good to have portfolio of different types and then plan your launch strategy based on the market and minimize cannibalization of existing sales. I recommend modeling the life cycle of the existing offerings to predict the best time to release their replacements. Also worth considering what competitors might do as well when making these decisions.

QUESTION 4:

In consumer packaged goods, marketing (advertising/promotion) spend typically much more than R&D spend. Similarly, COGS (cost of goods) are typically a much higher percentage of sales than R&D spend. ROI should relate to the net profit from the innovation versus just the sales.

ANSWER 4:

Yes. Profits from innovation is better metric if you have the data available. The more metrics you know, the better you can tell the whole story. I focus on revenue growth and percent of revenue from innovation, because it is a better benchmark and comparison between different companies and industries to identify best practices. Internally during an ROI Workshop with one company we would calculate or estimate values in dollars invested and dollars profited.

QUESTION 5:

See “Managing your Innovation Portfolio,” B. Nagji and G. Tuff, HBR May 2012

ANSWER:

Great resource. Here is the web link for everyone interested in learning more:
https://hbr.org/2012/05/managing-your-innovation-portfolio

I quickly came to the same conclusion of how important it is to define innovation and the scope of innovation as the word “innovation” is a broad term and means something different to different people and organizations. A big difference is they split innovation into core, adjacent and transformational, and don’t have the reactive idea follower category that I use. So our categories are not apples to apples. But they learned high performing companies see 70% of their returns from transformation innovation while only being 10% of their focus. This aligns with my recommendation of doing all the types of innovation, but with most focus on leading your industry with radical invention for the most growth.

QUESTION 6:

How do we measure the DFLI— Death From Lack of Investment? Isn’t Innovation necessary for sheer survival…

ANSWER 6:

That is actually one of the reasons I started looking at investments in innovation. I noticed that companies had filled their pipelines with ideas, but those ideas were not moving forward. The system was there, but they lacked the investment in either time or money or both. When investment in innovation drops to zero then we expect sales to follow the life cycle curve.

QUESTION 7:

Has anyone measured the benefit of a cancelled project? What learnings get picked up and used later? What contributions to staff make who trained via the cancelled project? Etc

ANSWER 7:

This is how I came to the conclusion to zoom out on the whole system rather than individual projects. From personal experience, I was developing a new tool for several months before the project was rightfully canceled. It didn't align with our strategy or have a big enough return. However the bulk of the code was repurposed and enabled 2 other innovations the next year. Trying to track value from canceled projects is possible, but think it is a better practice to look at the whole system. There is a lot of value in learning what not to do and also giving people experience that makes them successful later. If you look at the system eventually this value will show up in revenue.

QUESTION 8:

Does the PDSA cycle suffer from the same proactive/reactive fatigue? If so, when do you determine the idea is a loss due to lack of innovation vs lack of proactive contribution?

ANSWER 8:

Not quite sure what you mean. Plan Do Study Act cycles is how we learn more, problem solve and reduce risk. Proactive projects require more PDSA cycles as there is more risk and are less likely to survive our innovation pipelines. But the few that do succeed have big returns.

If your pipeline is lacking proactive projects, then I would stop more reactive projects to make time for more radical innovation. If the pipeline is a healthy ratio of innovation type, then as long as the individual project as ROI then it can continue. When communicating strategy consider setting metrics, so all innovations are held to the same standards.

QUESTION 9:

Hi Greg, To maximize ROI on Innovation how important is it to have all functional areas of a business engaged in the Innovation Process? What functional areas unfortunately too often get overlooked?

ANSWER 9:

From a practical standpoint, we work with the willing and rarely have all areas engaged. We use the term sphere of influence, because we encourage people to make meaningful change where they can. When more of an organization is engaged, more can be influenced and more growth can occur. In the Driving Eureka! book, there is a chapter about creating an innovation culture and how to get started. Here is a link to that chapter in the audiobook: https://eurekaranch.com/de-chapter-13/

My data didn't show a significant relationship between innovation agreement and innovation success or growth. Because the struggling companies often have agreement but lack systems, confidence and capabilities. I do not have data on the differences in ROI between different levels of engagement or what areas get overlooked.

QUESTION 10:

How can these learnings apply to public sector innovation?

ANSWER 10:

If the public sector wants to be more innovative, then there needs to be investments into innovation. The pipeline would likely have more focus on cost savings and system improvement projects. Also the return from an innovation doesn't have to be revenue, you can use a different metric for impact. This common when we work with non-profits too. Often times there are projects that try to grow budgets that fuel impact and those would be similar to revenue.

QUESTION 11:

I like Sandra's question, as it also relates to education and not for profits.

ANSWER 11:

Yes, education and non-profits have a different return, but the process is very similar to for-profit companies. We use the same project management and research tools to test ideas, manage risk and move to development or implementation.

QUESTION 12:

I did not see critical thinking and root cause analysis courses, as a innovator/startup it is difficult dealing with investors because they lack these skills.

ANSWER 12:

The list of most popular training topics is what is popular now, it is not what is most important for innovation or innovation ROI. I just wanted to give perspective on the amount of money invested training and speculate on the amount invested in innovation training. Best practice is to scale training according to the impact you’re trying to make. Obviously I recommend our courses and learning Innovation Engineering Skills. I think the topics on the list are valuable. Topics like root cause analysis aren’t as popular, but maybe are covered inside some of these topics.

QUESTION 13:

A world in crisis requires speed to funding, innovation and priority lists also to training economic development. again lack speed to funding, urgency and priority.

ANSWER 13:

Innovation speed is very important to most companies. In the case study examples, companies reported faster speeds to market because it was important to improve these systems. While at times we've moved really fast to make impacts at organizations a good benchmark for innovation ROI for new products is 2.5 years. That benchmark is from Robert G Cooper book, Winning at New Products. Service Innovations and System Improvement Innovations have faster ROI, but there is a lot of variance between companies and industries, so I didn't talk much about timing today.

QUESTION 14:

We are focused on Disaster and Risk Mitigation across public, private, philanthropic goals, investments, and outcomes. We have three unique ROIs, Cost-Benefits, and Impacts - we are looking for how to align the capital stacks and thus innovative resource allocations.

ANSWER 14:

While I can't tell you how much to invest in each of your initiatives, I can recommend splitting these initiatives into separate strategies. We organize our pipelines by strategy or mission. So each of your initiatives would have a set of projects working towards the mission. This way we can see the number of active projects for each goal and their projected value to the organization. Typically a goal with more projects is requiring more investments too and we can see if are on track. Other organization use the same process to organize their pipelines based on missions. At a minimum we see them splitting up new revenue projects from cost savings. Also dividing new revenue projects into groups by on level of innovativeness.

QUESTION 15:

Great presentation Greg and team. First time joining these calls. What tools and methods help improve cost reduction innovations? Most I like is Lean Six Sigma and cost curve benchmarking and focused ideation. Interested to learn more tools/models/methodologies. Thanks

ANSWER 15:

My favorite tools for systems improvement or cost saving innovation would be Idealized Redesign, Process Improvement Checklist, Systems Mapping, Delphi Estimation or Monte Carlo Simulations for forecasting impact, Control Charting for tracking impacts.

QUESTION 16:

I've been in higher ed/employer innovation around workforce development for decades and the number one and two issues hampering improvement are a lack of innovation skills and a culture— an intentional culture — that limits innovation

ANSWER 16:

Good news is that culture is not permanent and can change. Also why we start with education when changing culture.

QUESTION 17:

When is an incomplete understanding of innovation a major fault line? Or "innovation" = "internal marketing catch phrase for the day"

ANSWER 16:

First step is to define innovation, otherwise you will be an endless debate of what counts. Even when teams agree on a definition, there is still some debate.

QUESTION 18:

In your study, how do you select the companies? I would assume the size of the company will have different levels of investment on innovation. Can I assume your data are mainly from big companies?

ANSWER 18:

I use the data that I can get. If any company is willing to have a conversation, do a workshop or complete an assessment, I'll include them in the study. There are more small and mid-size companies out there then big, so big companies are represented in the sample but not the majority. See above for my response on range of company size that did the assessment.

QUESTION 19:

Thoughts on how to manage the reward-time frame for innovation for individuals in an organization? For example, in typical CPG, personal corporate reward (aka performance appraisals) for someone in marketing is ~6-9 months, sales is 1-3 months, R&D is 1-5 years, etc.

QUESTION 19:

One of the culture assessment questions is about if innovation is rewarded at your company. Rewarding innovation correlates with success and better place to work, so I count that as part a positive culture. The time frame is challenging as it could take 3 years for their efforts to result in ROI and these days employees don't stick around that long. I think employment length is less than 2 now where it used to be close to 5 years. You may consider rewarding the behaviors that drive innovation like completing training, leading projects and documenting learnings instead.

QUESTION 20:

So many areas to innovate… how does a company decide what to pursue? How to keep employees from promoting ideas that don't align with the corporate strategy? Or should Innovation investigate new products (e.g. should Ford pursue flying cars or not?)

ANSWER 20:

Leadership sets the strategy. When we help leaders create strategies we do research on trends, opportunities, problems, etc. to spark ideas. Each strategy has a mission, focus areas and boundaries. Then we take all the possible strategies and pick a small few to implement. Employees have to stay aligned to the strategy of the project doesn't move past the define stage of innovation.

Check our chapter 9 on alignment: https://eurekaranch.com/de-chapter-9/

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