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INNOVATION BUDGETING CHECK LIST

WEBINAR Q&A

WITH GREG LEMMON, MAGGIE NICHOLS & LYDIA CARSON

QUESTION 1:

Why the assumption that innovation is getting more expensive? Doesn’t new tech (AI, among others) actually promise the converse?

ANSWER 1:

My (Greg Lemmon) assumption is that R&D spending as a percentage of sales is increasing and that was supported by the increasing national averages. Why this is occurring could be a number of factors, but I think part of it is that innovation is becoming less disruptive over time and there is more to learn before we can build upon that knowledge and create something new resulting in us taking smaller steps with the same time and effort. There was a research paper by Park, Leahey and Funk published at the start of this year with supporting data on the decline of disruptiveness in papers and patents. Another source that I used in my slides was Bloom’s 2020 titled “Are ideas Getting Harder to Find”. This research goes back further in history comparing the number of researchers needed for economic growth. New tech and systems can improve efficiencies and reduce cost, but before I’d budget for less spending, I’d make sure the new systems are in place and working. As I’ve been working with AI, I’ve experienced a learning curve and start-up cost when creating the AI, plus a significant cost to maintain it. While this could save R&D spending for the companies who use the solution, it is more likely to increase their speed and effectiveness and ability to compete with companies who are using AI to innovate.

QUESTION 2:

How much do companies typically spend on process innovation?

ANSWER 2:

We work with companies who are 100% focused on process innovation and we also work with companies who don’t include process improvement as part of innovation. So this is why I stress defining innovation at the start and budgeting accordingly. For the companies we help that are doing both we see variance year to year in the amount of focus and spending on process. This is a strategic decision often impacted by how recently they shipped a new product or service and industry trends. For companies doing both types of innovation, when the project value is cost savings, on average it is approximately 20 times less than a project with revenue as it’s value.

QUESTION 3:

Which companies excel in P+P that can serve as models?

ANSWER 3:

The McKinsey study looked at 1,800 companies in 15 countries representing all sectors. Individual company names were not provided. Modeling a strategy after one or a few companies is not the best plan. This results in a sample size, and while more information than 0 companies, I recommend forming strategies based on a larger sample of companies. This is why I often share summary statistics based on many companies rather than individual success stories. Although I will admit that individual success stories are more entertaining.

QUESTION 4:

It seems valuation and modeling methods used by VCs and Angel Groups to value companies would be valuable and applicable to value ROI. Does that seem reasonable?

ANSWER 4:

Mergers and Acquisitions were included in the ROI research, but not venture capital as the participants in the study did not include that as an investment in innovation. Venture capital is typically funded by a pool of individuals and not companies, with the exception of perhaps insurance companies who were not represented in the study. While there is overlap with how companies evaluate and invest in innovation opportunities with how VCs or angel investors do, there are also some differences. The biggest difference is the importance of strategy when making decisions. Companies prioritize strategy and how an innovation fits into their plans, systems and culture more than financial returns. VCs prioritize current growth. Angel investors don’t have growth data and from what I know they tend to make decisions based on the people leading the company more so than the idea. Overall companies are much more risk averse than VCs and angel investors. If your company doesn’t measure people or culture, that is one lesson to take from angel investors. Another lesson is to start small and see if it grows before scaling up with a larger investment. These are all things we currently do for our clients. Most popular is evaluating a collection of ideas to predict odds of success and forecast revenue. But we also measure risk and the company's current systems for innovation and their people/culture. So short answer is yes, that seems reasonable, and while I always have more to learn, we are already leveraging this kind of thinking with our current services.

QUESTION 5:

At our company incremental innovation is handled separately from innovation that would be considered new and different from what we currently offer or how we currently operate. How would you suggest we handle budgeting when it comes to having two parallel tracks for innovation?

ANSWER 5:

I would split innovation into 3 categories.

1. Reactive: This is following what other companies have proved successful.
2. Incremental improvements: Constantly improving your current offerings and processes
3. Proactive: Lead your marketplace creating radically new ideas, categories and customer opportunities

Then budget up to half your time and energy towards proactively leading. This is best practice, but also take into account where your company is today and create a realistic plan to work towards best practice. If you need help with this, consider leveraging our innovation assessment to gauge your current culture and systems. We can use this data along with your company's goals to plan for the future.

QUESTION 6:

Do you have an example of companies that upcycle IP well?

ANSWER 6:

Maggie mentioned Procter & Gamble (P&G) during the webinar. Note that Eureka! Ranch has services to help companies evaluate IP and create new opportunities from their IP. If you're interested in learning more, please reach out. We'd be happy to meet with you to discuss further.

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