

# CHAPTER 41

## Journey to Innovation Excellence

**Andria Long**

**I**n over a decade of leading innovation at several consumer packaged goods (CPG) companies, one thing I have learned is that achieving innovation excellence is a journey. In this chapter, I will bring this journey to life and share the key factors to success in creating long-term sustainable innovation.

There are several key attributes to be best in class in innovation. In Fig. 41-1 you can assess where you are in your innovation journey based on those key attributes.

I have found there are seven key enablers for successful innovation:

1. Discipline in building the right foundation
2. Innovation strategy development
3. Portfolio strategy and management
4. Prioritization and focus
5. Process and executional excellence
6. People and capabilities
7. Culture of innovation and commitment

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### Discipline in Building the Right Foundation

One of the biggest areas of opportunity is failing to perform due diligence up front for innovation. A common mistake is thinking innovation starts with ideas. Innovation must be managed with the same diligence and discipline as other business processes whose success depends on a strong foundation. Building the right foundation is a key capability and differentiator for achieving bigger innovation versus closer in commercialization.

To build the right foundation for innovation there are several things you need to do:

- Define what innovation is to your organization
- Develop an innovation strategy
- Establish innovation metrics

### Define What Innovation is to Your Organization

The way I define innovation is solving problems (*needs*) in a new or different way. There are two important components to this definition. One is it must solve a problem or a need. Some will argue, especially in the case of technology like the iPhone, that consumers can't articulate what they don't know. But what consumers *can* do is tell you what they are dissatisfied with and what can be better, which leads into the second important part of my definition, solving problems in a new or different way. If there is no differentiation, there is no innovation. Any product or service can always be made better.



FIGURE 41-1 Journey to innovation excellence.

### Types of Innovation

There are three main types of innovation, starting with the most difficult and infrequent type of innovation.

1. Breakthrough/disruptive/new to the world (Fig. 41-2)—paradigm shifts that reframe existing categories. Disruptive innovation drives significant, sustainable growth by creating new consumption occasions and transforming or obsolescing markets.



FIGURE 41-2 Examples of breakthrough innovation.

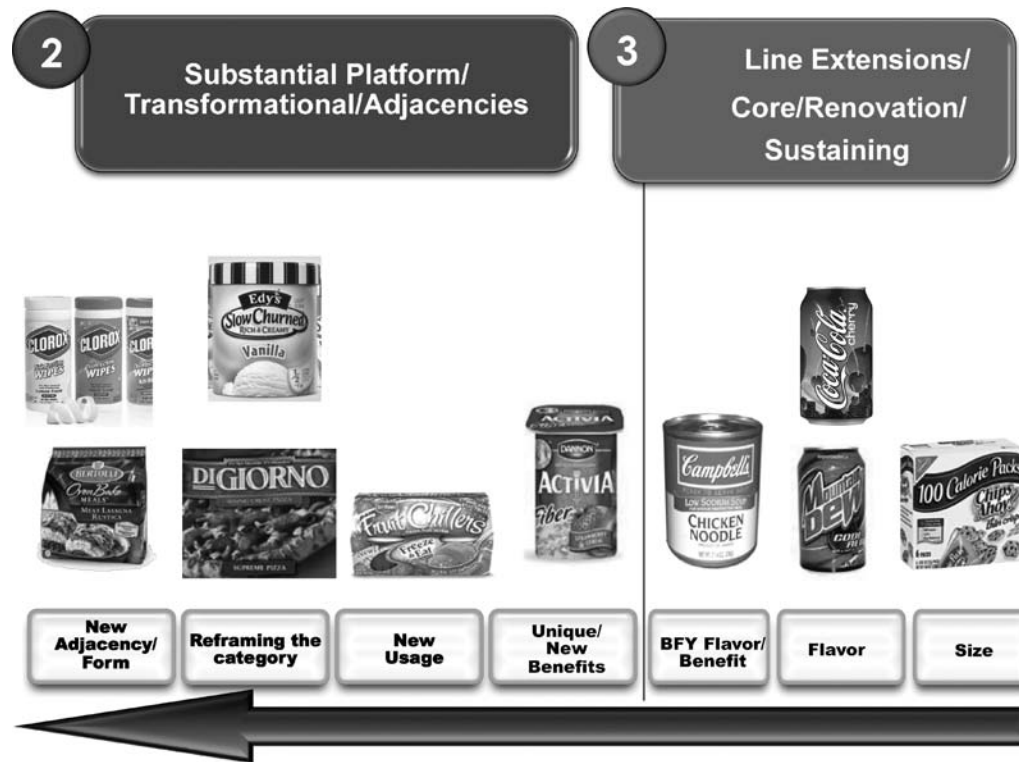


FIGURE 41-3 Examples of substantial innovation and line extensions.

2. Substantial platform/transformational/adjacencies—Innovations that deliver a unique or new benefit or usage occasion within an existing or adjacent category.
3. Core/line extensions/renovation/sustaining close-in (Fig. 41-3)—Innovation that extends and adds value to existing line or platform of products via size, flavor, format. It is incremental improvement to existing products.

### Innovation Strategy Development

In order to achieve excellence in innovation you need to set the strategic direction. The innovation strategy should be

- Company-wide
- Clear, cascaded, and energizing
- Tied to corporate, brand, and portfolio strategy with technology enablers
- Based on insights

An innovation strategy should answer

- How much innovation do you need? Metrics
- What are the desired type, mix, and size of innovation? Portfolio mix
- Where will you innovate? The strategic focus areas

### How Much Innovation you Need

Here you define specific goals and financial objectives that will be delivered by the innovation. There are two approaches for determining how much innovation you need:

- Top-down
- Bottom-up

## 4 Section 7: Deployment

### Top-Down

Top-down is simply a revenue goal that is usually set from the top by the senior leadership team. It is usually a dollar revenue goal or a percentage of revenue target from innovation.

### Bottom-Up

Bottom-up is a buildup of portfolio requirements to meet business objectives. Several key questions must be answered to build a bottom-up innovation number.

- What is the overall strategy to grow revenue?
- What is the base business expected to do (without product changes)?
- How far can you stretch the existing offerings? For example, refresh or improve taste of existing SKUs?
- What is the potential of existing innovation? This includes line extensions.
- What will new innovation add?
- What is the total innovation effort based on the above answers?

### What is the Desired Type and Mix of Innovation? Portfolio Mix

The purpose is to set direction on the specific type and mix of innovation you will develop to reach your goals. An example is shown below.

Innovation Types	Mix
Breakthrough/disruptive/new to the world	5%
Substantial platform/transformational/adjacencies	70%
Core/line extensions/renovation/sustaining	25%

### Size

Setting the right metrics is crucial. Too many companies arbitrarily set the size of prize at \$100 million. This can have a negative impact in multiple ways. One, you're immediately setting yourself up for failure by setting a goal that is unrealistic and unattainable. What happens is some really great ideas do not move forward because they do not hit that hurdle or, on the flip side, the numbers get rounded up just to get something into the pipeline. This is also very demotivating to your teams since it is unrealistic. According to Symphony IRI Group 2011 New Product Pacesetter Report from April 2012, a vast majority of products fail to meet \$7.5 million in first year sales, with less than three percent reaching \$50 million and only three percent achieving over \$100 million.<sup>1</sup>

In addition, one of the biggest issues in a large company is that economies of scale and efficiencies can work against you. Initially, innovation is often not going to achieve the same margins as something that you have perfected and have been making for 20 years. So using the same criteria as an existing business can weed out a lot of great ideas.

As brands grow, it is increasingly difficult to sustain compounded annual growth rate expectations. Most mature companies have to create organic growth of four to six

	Top-Down Model	Bottom-Up Model
<b>Description</b>	<ul style="list-style-type: none"> <li>• High-level summary of future business performance</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed forecast of individual business units rolled-up</li> </ul>
<b>Purpose</b>	<ul style="list-style-type: none"> <li>• Provide a directional overview of revenue and operating profit by category</li> <li>• Test the assertion that there is "significant momentum in the core"</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a detailed view of individual business units performance</li> <li>• Create a company wide picture of future performance, and innovation needs and gap to targets</li> </ul>

**FIGURE 41-4** Top-down and bottom-up approaches to determining how much innovation you need.

percent year in, year out. For some large CPG companies, that can be the equivalent of building a \$4 billion business every year. This is a growth mandate that requires change and acting differently.

There is not a one-size-fits-all with \$100 million as the size of prize. This is why it is critical to benchmark and set metrics with both an internal and external view. From an internal perspective you should be looking to understand what is needed for growth based on historical contributions from innovation as well as forward projections to meet your growth objectives. From an external perspective you should seek to understand what is needed to stay relevant in your category versus the competition. This can be achieved by understanding the right innovation frequency for your category and the right dollar size for customer sustainability.

## Where Will you Innovate? The Strategic Focus Areas

### **Platforms or Opportunity Areas**

You must clearly define the platforms the organization will focus on. These choices will further focus the work of the organization and enable important decisions. The importance of developing platforms is that it provides multiple ideas and opportunity areas versus one-offs.

A platform is a consumer need-based opportunity that inspires multiple innovation ideas with a sustainable competitive advantage to drive growth. A strategic opportunity assessment will help determine what potential platform areas to pursue. You should begin by determining and valuing key insights by leveraging consumer and category segmentations, and translating insights into actionable opportunity areas.

A critical element of each platform or opportunity should be the consumer need. Consumer-driven innovation leverages the proper use of consumer research to drive the strategy. It is important to validate the platform's potential early on by conducting a business case with the appropriate rationale to support it.

### **Business Case**

The business case is the insight-driven marketing opportunity that leverages sound business logic. It is a "living" document that is updated with new information and learnings throughout the innovation process. The business case properly vets each of the platform opportunity areas. It will increase your chances of success in the concept phase because it is based on consumer needs and insights and the appropriate up front due diligence. It also provides the foundation for scalable product, packaging, and technology platforms.

Your business case should answer several key questions.

#### **What Are the Key Elements of the Platform?**

- What is your hypothesized sustainable point of difference and how will you win?
- What is the need or unmet need?
- What is the market situation and competitive assessment?

#### **Size of Prize**

- What is the quantified size of opportunity?

#### **Risk Assessment and Mitigation**

- What will be the fact-based approach to identify challenges and uncertainties?
- What are the risk mitigations and probabilities for
- *Timing*—Risk of not meeting, in particular a launch date
- *Project cost*—Risk of exceeding costs in terms of investment and resources required
- *Technical execution*—Risk of the product not meeting the defined concept and specs
- *Cost*—Risk in product costs, higher cost of goods sold (COGS), risk to P&L

#### **Fit to Strategy**

How does the project fit in the strategy?

- From a business unit (BU)/brand strategy?
- From a portfolio strategy?

#### **Consumer Insights**

- What specific needs and trends can be identified in market, relevant to the platform?

- Which targets do you have for consumer attributes (including price)?
- What are the results so far on consumer feedback/tests? Example metrics are
  - Purchase interest
  - Frequency
  - Value
  - Meets a need
  - Is seen as unique or different/better
  - Incrementality/cannibalization

**Competition**

- What is the market landscape, what competition do you face?

**Go to Market Strategy**

- How will the product be marketed?

**Capabilities**

- What are the manufacturing platforms required to produce the product concept?
- What is the manufacturing strategy? Define the strategy you have including internal versus external manufacturing, both short and long term.
- What are the technical hurdles and what is the approach to overcome these?
- What are the capital requirements?
- What is the buildup of COGS including ingoing assumptions like line capabilities and commodity prices?

**Investment****Capital Investment**

- Manufacturing equipment
- Packaging equipment
- Change parts

**Go to Market Investment**

- **Trade/Customer Investment**
  - Slotting fees for distribution
  - Trade spending
- **Consumer Investment**
  - Advertising dollars (creative development, media spend)
  - Promotional (coupons like FSIs, on-pack, Catalina)
  - Digital/social media

**Technology Road Map**

Technology road mapping is aligning consumer platforms to technology and manufacturing capabilities. Developing a technology road map is important to ensure enabling capabilities are in place to support your innovation pipeline. This will map out what innovation capabilities are needed to support each of the platforms. Figure 41-5 links the technology platform with the consumer needs and platform initiatives.

**Platform Management**

For each platform, you should have several initiatives defined to meet your innovation objectives. If there are several validated consumer concepts in each platform opportunity area, it's a good sign that you have a thoroughly vetted business case. Once you have validated concepts, develop a road map and unified go-to-market approach.

**Portfolio Strategy and Management**

A good portfolio strategy should enable prioritization and focus, be able to proactively and realistically manage risk, and have the right measures in place to ensure overall objectives are being met.

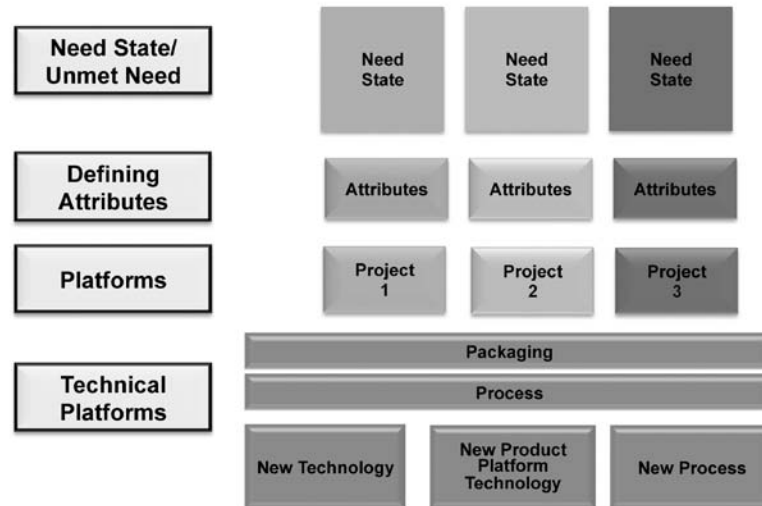
Portfolio strategy is about making choices for prioritization and focus. There are several ways you can look at a portfolio strategy:

- By business unit—Is there a particular business unit you want to focus your innovation efforts on?
- By category/segments—Are there particular categories or segments that you want to focus your innovation on where there is high growth potential?
- By brand—Are there brands in your portfolio that have more opportunities than others?



## How it all comes together: An Innovation Strategy grounded in Insights & Consumer Needs

**The clearer, the more precise, and the more accurate the definition of consumer needs—the higher the ratio of success.**



**FIGURE 41-5** Consumer needs.

### Portfolio Management

Portfolio management is the ongoing management of innovation to make sure you deliver against your goals and innovation strategy. Portfolio management is all about choice and making sure you are working on the right projects to achieve your goals.

A balanced portfolio of innovation will have a mix of type and time horizons, and be prioritized based on strategic importance. It will help manage risk, reward, investment, and different time-to-market horizons.

- Type—Spanning smaller incremental innovations to bigger more disruptive innovations
- Time horizons—A long range view and staging across multiple time horizons (short, medium, and longer term)
- Prioritization—Based on strategic importance as set earlier in your portfolio strategy

### Role of Portfolio Management

The role of portfolio management is to maximize value while managing risk to achieve your innovation goals. You can maximize your portfolio value by selecting the portfolio of projects that help you achieve the best revenue and profit growth. You can manage risk by creating a balanced mix of time, type, and investment levels. Balancing projects across stages helps maximize organizational capacity utilization for better time to market. You should also be looking at pipeline value from both a forward- and backward-looking perspective (projected and historical) to ensure you will achieve your goals.

### Criteria for Evaluating and Prioritizing Projects

Effective portfolio management should enable you to objectively screen ideas and projects, and enable formal measuring and monitoring of performance. It should answer several key questions:

- How will you evaluate innovation? This includes go or no-go criteria
- How will you measure the innovation program effectiveness? What are the key performance indicators (KPIs)?
- How will you resource the work?

## 8 Section 7: Deployment

One of the most common and, quite frankly, overused terms is “bigger, better, faster” innovation. Sometimes you will also hear “fewer, bigger, better.” Given the industry emphasis and usage of these terms, I have shown the different metrics for ensuring work is focused on bigger, better, and faster innovation in Fig. 41-6.

### Decision Making

Now that you have established criteria and have visibility across the portfolio of initiatives, it requires disciplined decision making and governance to make it work. There are trade-offs that have to be made so resources are not dragged down with initiatives that should not be worked on. This will only fragment and suboptimize the really great projects. Once clear

Critical Success Factors	Key Measures	Why
<p><b>Maximize Value = Pipeline Value</b></p>	<ul style="list-style-type: none"> <li>Projected 3 Year <b>NSV</b> (by year)</li> <li>Projected 3 Year <b>Profit</b> (by year) \$ Profit &amp; %</li> </ul>	<ul style="list-style-type: none"> <li>Focus on <b>sustainable</b> innovation</li> <li>3 year profit view provides <b>realistic view/ongoing run rate</b> without launch year costs</li> </ul>
<p><b>Sufficiency</b></p> <p>Do we have enough projects in process and planned to meet growth targets?</p>	<p>Above plus.....</p> <ul style="list-style-type: none"> <li><b>Stage</b> each initiative is in (feasibility, development, commercialization or launch)</li> <li><b>Target launch date</b></li> <li>\$ Target for Pipeline by BU</li> </ul>	<ul style="list-style-type: none"> <li>Activities can be coordinated, resource needs anticipated and investment decisions made.</li> <li>Ongoing <b>visibility to fill the gaps</b> against strategic targets</li> <li>Indicates how well the innovation needs are covered</li> <li>Set a \$ target rather than a % of sales target to provide further clarity and definition. (<i>absolute numbers vs. a percentage given continued base growth</i>)</li> </ul>

(a)

Critical Success Factors	Key Measures	Why
<p><b>Balance</b></p> <p>Make sure there is a healthy mix of projects to increase odds of success.</p>	<ul style="list-style-type: none"> <li>Mix by <b>Type</b> of Innovation</li> <li>Mix of projects by phase of development and target launch dates</li> </ul>	<ul style="list-style-type: none"> <li>Helps <b>manage risk</b></li> <li>Help ensure you have a <b>continuous pipeline</b></li> <li>Assist with planning (capacity + next generation process/ equipment needs)</li> <li>Balance across stage gate phases – <b>capacity planning</b></li> </ul>
<p><b>Definition</b></p> <p>What types of projects are tracked as part of the portfolio process?</p> <p>Which projects are counted in the metrics?</p>	<ul style="list-style-type: none"> <li>Includes line extensions, platforms</li> <li>Does <b>not</b> include change management – reformulation, net weight changes or regulatory, etc.</li> </ul>	<ul style="list-style-type: none"> <li>what's included in line with <b>industry standards &amp; true picture of growth</b></li> </ul>

(b)

FIGURE 41-6 Key metrics for bigger innovation.



Critical Success Factors	Key Measures	Why
<p><b>Capability</b>  <b>Pipeline Performance- = In Market Results</b>                      Organization capable of delivering innovation</p>	<p>In Market Performance</p> <ul style="list-style-type: none"> <li>• <b>Historical 3 year NSV</b> from recent launches</li> <li>• <b>Historical 3 year profit</b> from recent launches</li> <li>• Benchmarks against peers</li> </ul>	<ul style="list-style-type: none"> <li>• Indicates how <b>effective</b> the innovation process &amp; organization have been over recent years ( how we did vs. targets set)                             <ul style="list-style-type: none"> <li>• Post Launch Assessments/ Scorecard</li> </ul> </li> <li>• Indicates how <b>realistic assumptions</b> are around potential gains from Innovation projects</li> <li>• Indicates whether existing <b>capacity</b> for projects is large enough</li> </ul>
<p><b>Sufficiency</b>                      How much and what do we need for Innovation by category and for overall pipeline?</p>	<ul style="list-style-type: none"> <li>• Built bottoms up from BU</li> <li>• Target \$ NSV</li> <li>• Target \$ Profit &amp; %</li> </ul>	<ul style="list-style-type: none"> <li>• Need to understand what's needed to stay relevant in the category - what Type of innovation, Number – how many, Frequency how often , Size by Category (to be sustainable on shelf)</li> </ul>

(c)

FIGURE 41-6 (Continued).

Critical Success Factors	Key Measures	Why
<p><b>Efficiency</b>  <b>Speed to market</b></p>	<ul style="list-style-type: none"> <li>• Track <b>weeks in each phase</b> by project (stage gate date data) Should track by type (LE vs. Innovation)</li> </ul>	<ul style="list-style-type: none"> <li>• Helps identify <b>capacity constraints</b> (certain phases are much more labor intensive)</li> <li>• Helps identify <b>bottle necks</b></li> </ul>
<p><b>Speed to shelf</b></p>	<ul style="list-style-type: none"> <li>• ACV build time to shelf, &amp; Vs. ACV target</li> </ul>	<ul style="list-style-type: none"> <li>• Sets realistic expectations on timing</li> <li>• Benchmark vs. your past performance</li> <li>• Benchmarks vs. competitors</li> </ul>
<p><b>Prioritization &amp; Focus (FEWER, Bigger, Better)</b></p>	<ul style="list-style-type: none"> <li>• All Above portfolio Metrics combined with Stage Gate Metrics</li> </ul>	<ul style="list-style-type: none"> <li>• Best utilization of resources</li> <li>• Ensure you are working on the right things</li> </ul>

FIGURE 41-7 Key metrics for faster innovation.

hurdles on size of prize expectations are established, it is critical that the leadership team has the willingness to kill small and bad ideas so the right projects are being worked on.

A simple company-wide scorecard with a snapshot of how you are doing will help ensure you stay on track and deliver against your goals. The scorecard should have a long-term focus—minimum of 3 years—and include the appropriate financials metrics as outlined earlier.

“And it comes from saying no to 1000 things to make sure we don’t get on the wrong track or try to do too much. We’re always thinking about new markets we could enter, but it’s only by saying no that you can concentrate on the things that are really important.”

Steve Jobs

### Prioritization and Focus

Ruthless prioritization of projects is critical to ensure you appropriately focus your resources, both people and financial, on the right things. With the right focus your speed to market will increase because you are not spreading your resources too thin and suboptimizing opportunities.

**Type**

You need an effective way to sort and prioritize projects to ensure bad ideas are killed. To do this you should establish a defined process and set of criteria for evaluating and prioritizing projects. As mentioned earlier, you will need to classify your projects by innovation type to ensure you are managing your risk and portfolio of initiatives to get the desired results.

**Another Type, But it's not Innovation**

The following maintenance or change management activities are *not* types of innovation:

- Cost savings
- Ingredient or product change
- Regulatory change
- Label change

Given you are using the same set of resources, these are often lumped in and considered with innovation, but they are *not* innovation. While these types of initiatives are important to running a business, they should be managed with their own set of criteria and separated from the new product mix.

**Hurdles by Type**

While you will measure the same things across the different types of innovation, the hurdles for success will not be the same. This is why it's important from the beginning to establish your goals as an organization and to define what innovation is and what mix and type you want in order to achieve the sustainable growth results needed.

Why is it important to look at prioritizing within type?

Given the nature of uncertainty, risk, probability of success, and the investment level necessary for bigger, more substantial innovation, you need to look at things by type. Otherwise the short-term, less risky, smaller initiatives like line extensions and closer-in initiatives will potentially look more favorable. It is human nature to be risk averse and gravitate toward short-term, more defined, closer-in initiatives, and the here and now because it is inevitably more comfortable. If you are truly going to master bigger, better innovation it is crucial to have the culture and commitment as an organization to enable it to truly happen.

**Organizational Capacity**

It is important to understand what your organizational capacity is; that is, the number of projects that can be handled based on current resources. There are a number of ways to approach this depending on where you are on your innovation journey. If you track R&D hours you can leverage that data to understand capacity. Another simpler way in the beginning stages is to understand project capacity by function. Obviously, bandwidth will differ based on the type and complexity of initiatives as well as the stage the initiatives are in. The key will be to monitor it and keep a dialogue going with your cross-functional teams to understand if there are pinch points. As you manage the process you will see where projects get caught up or slowed down and be able to diagnose and address those issues.

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**People and Capabilities**

When it comes to innovation there is a definite need for improved and distinct innovation competencies. Not all great brand managers make great innovators—you need to be comfortable with risk, ambiguity, and a lot of change.

**Characteristics and Capabilities for Success in Innovation**

Capabilities	Key Characteristics
Results driven	<ul style="list-style-type: none"> <li>• Sets and achieves ambitious goals</li> <li>• Able to differentiate between critical/noncritical activities to focus on what really adds value</li> <li>• Ability to solve problems/generate ideas—leveraging both internal and external resources</li> </ul>

Able to make complex decisions	<ul style="list-style-type: none"> <li>• Makes timely decisions by applying experience and wisdom to known data</li> <li>• Not afraid to initiate actions before all facts are known</li> <li>• Strategic ability to think creatively in defining vision and white space opportunities</li> </ul>
Comfortable with ambiguity, fast pace, and high degree of change	<ul style="list-style-type: none"> <li>• Very comfortable with ambiguity</li> <li>• Able to thrive in a rapidly changing business environment</li> <li>• Flexible and able to adapt to change</li> </ul>
Drive organization alignment and buy-in	<ul style="list-style-type: none"> <li>• Confidence and ability to sell within the organization</li> <li>• Ability to align multiple constituents to gain support for projects/vision</li> <li>• Comfortable managing up, down, and sideways</li> </ul>
Ability to handle criticism, conflict, risk, and failure	<ul style="list-style-type: none"> <li>• Effective in identifying and managing risk from idea through feasibility</li> <li>• Comfortable taking calculated risks</li> <li>• Maturity to kill a bad idea even if personally invested, willing to see facts beyond personal bias</li> </ul>
Collaboration and cross-functional team leadership	<ul style="list-style-type: none"> <li>• Able to harness the creativity of the team and build strong relationships</li> <li>• Inspiring energy, passion, and enthusiasm that inspires others to perform at a higher level</li> <li>• Work with cross-functional partners to ensure transparency and speed, and with vendors, suppliers, customers, and industry experts to foster bigger ideas</li> <li>• New ideas and approaches driven from diverse views</li> </ul>
Analytical	<ul style="list-style-type: none"> <li>• Gathers critical data</li> <li>• Leverages data to influence informed decisions</li> </ul>
Innovation experience	<ul style="list-style-type: none"> <li>• Develop and use a process for innovation projects including up front rigor on concept, business opportunity, and continuous consumer feedback</li> <li>• Technically adept at understanding the key process and drivers of innovation</li> <li>• Proven ability to drive internal speed to launch</li> </ul>
Demonstrate deep understanding of business, consumer, customer, and shopper	<ul style="list-style-type: none"> <li>• Understand the business, consumer, and shopper</li> <li>• Deep immersion in research spanning consumers, customers, and shoppers</li> <li>• Tap into motivations, behaviors, and uncover opportunities leading to big platforms</li> </ul>

“Creativity is just connecting things. When you ask creative people how they did something, they feel a little guilty because they didn’t really do it, they just saw something. It seemed obvious to them after a while. That’s because they were able to connect experiences they’ve had and synthesize new things.”

Steve Jobs

### Experience Level Recommended for Platform and Disruptive Innovation

Based on frequent contact with executive management, it is best to select team members at the brand manager level and above to ensure executive maturity and experience. In addition, because trust and the ability to drive results internally are critical, innovation should not be the first rotation at the brand manager level but for those with a known, proven track record. Knowledge of marketing and the business is critical to be successful at innovation. It can be better accomplished if innovation is the second rotation as a brand manager. In addition, this is the likely point when the skills and capabilities necessary as shown in the table earlier will be developed.

### Internal Versus External Innovation Hiring

New ideas and approaches driven from diverse views should be balanced with those that provide maximum internal speed and bench strength. Therefore having a mix of both internal and external candidates when you are building your innovation team is a good idea.

**Strong Team and Multifunctional Involvement**

It's critical to form a diverse team and provide the team the "rope" to adequately solve a problem. A multidisciplinary team with the right portfolio of skills is critical. A team must be balanced with "dreamers" and "doers." An accountable, dedicated cross-functional team that has strong leadership and is championed by the organization is the best way to enable sustainable innovation and should be integrated on the front end.

**Organizational Structure**

A common question is, "What is the best organizational structure for innovation?" Figure 41-8 shows the different structures and what the trade-offs are. Often companies will vacillate on how innovation is structured based on how they perceive innovation is working.

**Insulation and Funding**

The team must be firewalled from day-to-day business needs or they will always get sucked into the fire drills, like why volume is down or customer x is looking for a gap-filler.

Funding for innovation can be a bottleneck for speed to market. The BU is stuck between making the current year's numbers and investing in the future. Short term always wins out in this case. Therefore the most effective way to handle funding is having dedicated innovation funding that is owned and managed by the innovation team.

Funding issues can often cause a rift between BU and innovation. Our money versus theirs, our issues versus theirs—and this often leads to demotivation for the innovation team. If trade-offs are made that favor short term versus long term, this could signal lack of commitment to innovation.

**Transition Timing**

The ideal timing to transition innovation is not a one-size-fits-all approach and depends on type and complexity of project. It is best to make this decision based where you can leverage synergies for efficiency, the business needs, resource availability, and capabilities. You want the right person to get it done right and fast. You also want to ensure that commercialization responsibilities do not lead to lack of focus on the up front and filling the pipeline.

**Key to Transition Success**

There are several keys to a successful transition or hand-off on innovation. First you want to ensure knowledge transfer and shared learnings. Integration is critical between the brand and innovation to ensure this happens. One way to do this is to have an overlap period before transition. The benefit is that nothing is lost in the transfer and execution.

	Integrated within the BU (Business Unit)	Matrixed – Both within BU and Separate Group	Centralized Platform Innovation	Firewall/Skunk Works – Completely Separate
Description	All Innovation is within the Business Unit (BU)	Long term owned by a separate & focused innovation team, short term owned by BU	BU owns short term line extensions only, and centralized group owns new/scalable platforms & capabilities (all brands/all channels)	Autonomous group with dedicated resources
Benefits	Tight link of innovation to business strategy  Easy project transition/handoff	Team free to focus on long term less short term tradeoffs  Close BU alignment	Holistic view across innovation portfolio enables scale  Captures ideas residing between close-in & far out	Strong process discipline  Deep immersion & focus to get "big" ideas
Tradeoffs	Immediate short term business focus overshadows long term innovation focus	Cumbersome dual alignment at all levels	Broad scope Business pressures may force default to short term innovation	Not as closely linked to BU, can become disconnected

FIGURE 41-8 Different way to structure innovation.

Second, you want to ensure there is clear accountability and roles, and that both brand and innovation are jointly measured on success. Depending on when the dedicated innovation team will be transferring initiatives to the brand or base business team will impact what metrics you should use for them to be jointly measured on success. The base marketing team should have innovation metrics as part of their annual incentives. For example, if the transition is after validated product or proposition and the base team is responsible for commercialization, they should be incented for successful go-to-market and in-market execution. This will help with some of the short-term versus long-term trade-offs you will often encounter with a base team versus a dedicated innovation team.

## Process and Executional Excellence

It is important to have a defined process for evaluating and funneling ideas. The common industry best practice is the use of stage-gating. It is important the process to manage innovation is flexible and set up for speed; however it still requires guardrails to prioritize and focus initiatives. With an effective innovation process the size of prize will grow from phase to phase, risk will be reduced, and certainty increased. A reliable and systemic approach to innovation will increase your chances of success.

### Process Excellence

A well-defined process with disciplined application is the key to executional excellence. There are several elements within the process that are the greatest determinants of success. You must be able to manage complexity with a bias for speed and have the flexibility to accelerate or skip steps. This nimbleness allows you the ability to scale up or down quickly.

### Speed of Decision Making—Impact of Layers and Meetings

Big companies have many resources creating many layers, which does not help the speed of decision making. In addition, the process for making decisions is often done in meetings. Let's not forget the meeting before the meeting to ensure everyone is bought in. These meetings also involve a lot of preparation and iterations of Powerpoint decks. If you think about the amount of time your team members spend doing this work, you realize why time to market is jeopardized. When do people have time to work and think if they are in meetings all day? Innovation cycle time from idea to in-market execution takes too long and there is often too much spinning. Innovation should have an executive level person who is accountable and responsible for innovation, resourced with a direct team to speed up decision making.

### Openness to External Resources

Leveraging external expertise in the form of entrepreneurs, suppliers, and academics, is another way to accelerate development and infuse new learning and different thinking into your organization.

### Executional Excellence—Project Management

The keys to effective project management are

- Fast, efficient, standardized yet flexible set of tools and processes
- Depth—Let more ideas into pipeline at beginning, than fail early
- Transparent governance process
- Deliberate project selection by taking into account key metrics before project starts
- Formal measurement of process and results for continuous improvement

### Project Managers—To Have or Not To Have

A question that typically comes up in many organizations and can be an internal debate is whether to have project managers run projects and the process. I am a major proponent of project managers. A project manager handles all project aspects of new product development, from inception through launch, and provides support to the various brand marketing groups to see that their initiatives are completed on time. Project managers also serve as great continuity for transition on projects as transitions and hand-offs happen between innovation and brand marketing.

A great project manager will be detail-oriented and understand how to get things done in an organization. They must possess technical or operational understanding and be proficient in timeline and task management.



The table below is an example of some of the key responsibilities.

Manages the activities of the project by setting priorities, providing support, and monitoring workload to ensure that all of the staffs are fully loaded and working to implement projects on time and meet the business objectives.
To develop and maintain detailed project reports and summaries of activities which are being pursued.
Seeks to continuously improve the new product development process identifying new ways to manage and automate the various project activities and support paperwork.
Seeks to streamline processes and procedures to help improve the speed to market and reduce redundant work.
Works with key cross-functional partners like operations, R&D, and marketing to communicate new activities and developments as they arise to keep all of the support groups informed and working on only approved and active projects.
Helps to identify potential issues and concerns with lead times and workload before the work on projects begin.
Captures all significant investment requirements for each project in terms of capital (molds, change parts, equipment) resources and materials needed to complete and implement project.
Works with finance during and after project completion: <ol style="list-style-type: none"> <li>1. To determine if project came in on budget</li> <li>2. To complete product costing for each phase of the project</li> <li>3. To validate margin expectations are either met or agreed to prior to the ship</li> </ol>

### Culture of Innovation and Commitment

It is important to drive a shared behavioral mind-set and common understanding of your innovation strategy, structure, and processes in order to be successful at sustainable innovation.

Key elements for a successful innovation culture are

- Continuous learning and applying
- Patience and acceptance of risk and failure
- Accountability
- Time
- Commitment

“Failure is simply the opportunity to begin again, this time more intelligently.”

Henry Ford

### Continuous Learning and Applying: Learn Fast, Fail Fast

Many organizations are so busy building their pipeline that they do not take the time to understand what worked well and what didn't in the entire innovation process. It is critical to understand why something did not meet expectations or failed in market. It helps prevent and minimize risks for future projects. In addition, if you infuse your learnings back in the innovation process, you will increase your success rate.

With a finite amount of resources, it is important to learn and fail fast. You can do this by obtaining consumer guidance early in the process through rapid cocreation and prototyping. This is an iterative approach that allows you to learn your way in.

It is important to talk across BUs and brands and share learnings and best practices within the company and disseminate failure stories as learning tools, not as a badge of shame. This should be done both pre- and postlaunch and should include alignment of actual support plan with predicted plan.

“Innovation—any new idea—by definition will not be accepted at first. It takes repeated attempts, endless demonstrations, and monotonous rehearsals before innovation can be accepted and internalized by an organization. This requires courageous patience.”

Warren Bennis



### Patience and Acceptance of Risk and Failure

Perhaps one of the biggest barriers to achieving breakthrough innovation is the lack of a culture that promotes patience and “successful failure.” Patience to let ideas properly incubate and to take the time to do the up front due diligence will increase your chance of success and save your time in iterating. Risk aversion can manifest itself in several ways: delaying decisions, always asking for more data, more testing, and more levels of certainty. Leadership needs to encourage and model risk-taking, knowing that the innovation process will include some trial and error and recognize that some failures are prerequisite to success.

“Failure is success if we learn from it.”

Malcolm Forbes

### Risk Aversion

Innovation is risky. Let’s face it: failure rates are high. Most people do not want to take risks on innovation, especially if it is going to impact their career potential. Fear of failure impacts the ability to innovate in several ways. One is watering down a great idea to make it less risky. An example would be making the idea fit to current capabilities instead of investing in new capital, which suboptimizes the original proposition and sabotages what made it a big idea in the first place. Another way is requiring more information or proof to make a decision, that is, avoid taking risks. This can mean more meetings and more research, which impact speed to market.

“Only those who dare to fail greatly can ever achieve greatly.”

Robert F. Kennedy

### Accountability

A performance culture effectively reinforced with compensation, recognition and rewards, and accountability embedded in objectives is the best way to achieve sustainable innovation. In order to build a dedicated innovation team that is committed to innovation revenue growth, you will want to incent them on several measures. The two major ones will be pipeline value and pipeline sufficiency. The senior leadership team should also have innovation metrics as part of their incentives as well; usually both pipeline value and pipeline performance at a minimum of a 3-year horizon.

### Time to Think Versus Do

So much time is spent in meetings that the only time anyone has left to think is at the end of the day or when they are commuting. This does not help foster innovative thinking. This ends up eventually frustrating the more creative innovation thinkers who end up leaving and going out on their own to make it happen. And now technology has mitigated many of the huge barriers for launching your own product. So why not?

Some companies have already recognized this and are building in time for their people to innovate. They are allowing and incentivizing their employees to spend 10 to 15 percent of their time on innovation ideas they are passionate about.

### Commitment

- Leadership support and champion or owner
- Long-term mind-set

“There is no radical innovation without inspiring leaders.”

Roberto Verganti

### Leadership Support and Champion or Owner

Senior management support is mandatory for successful innovation. Senior management must ensure everyone in the organization knows the importance of innovation but they cannot micromanage the process. Leadership must recognize that innovation is critical to success and communicate its importance throughout the organization. They can do this by delivering a consistent message around the innovation goals, vision, and focus on long term and having metrics as part of management annual objectives. It is important that leadership provides strong support and empowerment to team members by leaving day-to-day decisions to the team. They should also be strongly committed and involved in go or no-go decisions.

## 16 Section 7: Deployment

Another key component is commitment to investment. This can be achieved by ensuring the appropriate resources are allocated to innovation (time, people, dollars, etc.) and are not sacrificed for short-term needs. Commitment to multiyear support is necessary for impact and sustainability. This means you do not launch and leave or shift support to the next launch. Leadership also needs to be open to a new set of metrics to allow for lower margins or different rates of return versus existing, well-established businesses.

### ***Long-Term Mind-Set***

**Short-term versus long-term mind-set, now versus later** Another issue is short-term versus long-term thinking. The now always tends to win over the later. Today's business fire drills are always going to get the attention before next year's plans and unproven ideas. This is another great reason to have an executive leader and team who is focused on innovation.

The time to make these changes is now. You do not want to procrastinate, because if you do not do it, someone else will.

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### **References**

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