Innovation as a Transformative Power: Lessons From the Field

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The “Sneaky” Face of Competition

“the simplest tablet device today. NoteSlate. Monochrome paper alike tablet device, where the simplicity and technology evolution meets pencil and paper again. This classic instrument in new consequences. [...] the handwritten interactivity is trying to change the rules of what we called electronic paper.”

Courtesy of Noteslate™ (http://www.noteslate.com)
The Disruptive Nature of Innovation: a Sequel?

Can it happen to us??
Once Upon a Time... the “Sea of White”

No consumer differentiation = “cost leaders”

United States

Europe
Once Upon a Time... the Reaction

“LET’S INNOVATE... BUT HOW?”

- Where do innovative ideas come from?
- How to turn innovative ideas into successful products?
- How to innovate but also be effective?
Innovation: a Shift Beyond Products

1. Business model  
   - how the enterprise makes money  
   - Dell

2. Networking  
   - enterprise’s structure/value chain  
   - Walmart

3. Enabling process  
   - assembled capabilities  
   - Siebel

4. Core process  
   - proprietary processes that add value  
   - GE Capital Aviation Services

5. Product performance  
   - basic features, performance and functionality  
   - Intel® Pentium®

6. Product system  
   - extended system that surrounds an offering  
   - Microsoft® Office

7. Service  
   - how you service your customers  
   - FedEx

8. Channel  
   - how you connect your offerings to your customers  
   - NikeTown

9. Brand  
   - how you express your offering’s benefit to customers  
   - Virgin

10. Customer experience  
    - how you create an overall experience for customers  
    - Lexus

Model  | Process  | Offering  | Delivery
--- | --- | --- | ---
Business model | Enabling process | Product performance | Channel
Network model | Core process | Product system | Brand
Enabling process | Proprietary processes that add value | Service | Customer experience
A Shift in Value Creation...

Volume of innovation efforts

Last 10 years

Source: Doblin Group
A Shift in Value Creation...

**Cumulative value creation**
*Last 10 years*

Pareto revisited:
**Less than 2% of projects produce**
**More than 90% of value**...

Source: Doblin Group
## Some Facts Regarding Innovation Projects

<table>
<thead>
<tr>
<th>Types of Projects in the Portfolio</th>
<th>Best Performers</th>
<th>Worst Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotional offers or package changes</td>
<td>5.9%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Incremental product improvements/changes</td>
<td>28.2%</td>
<td>40.4%</td>
</tr>
<tr>
<td>Major product revisions</td>
<td>25.0%</td>
<td>19.2%</td>
</tr>
<tr>
<td>New to the business products</td>
<td>24.1%</td>
<td>20.0%</td>
</tr>
<tr>
<td>New to the world products</td>
<td>15.9%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

Source: Product Development Institute, Inc.
Portfolio of Projects or Processes?

C-level ownership

SBU ownership

Product Manager ownership

Real/Win/Worth™ process

Horizon 1: 1-3 years
Horizon 2: 3-5 years
Horizon 3: 5+ years

Source: Materials Manufacturing Company (confidential)
A Complex Problem? Multiple Views

<table>
<thead>
<tr>
<th>Selection criterion type</th>
<th>Quantitative measure</th>
<th>Dimensionless Measures (Low=1, High=5)</th>
<th>Weight (%)</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payoff</td>
<td>NPV, Market share, Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>Annual/Total R&amp;D project cost, Time to completion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk</td>
<td>Probability of market success, Probability of technical success, Exposure in case of failure</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Strategic fit</td>
<td>Competitive impact of technologies, Support of technology for business strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constraints/Time</td>
<td>Acquisition of competences, Financial restrictions</td>
<td></td>
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</tr>
</tbody>
</table>

Total score:

![Market Segment Chart]

![Probability of Technical Success Circle Chart]

![Reward (NPV) Circle Chart]
Assignment for managers at XYZ Co.

Identify the salient characteristics of your organization’s R&D portfolio and innovation funnel

- Where do new ideas come from?
- When are decisions made? Project scope? Funding?
- Who is involved in these decisions?

Draw a diagram of the innovation funnel that captures these characteristics…
Group A

- Research
- Customer
- Marketing
- Strategic Planning
- Quality Control
- OEM
Group B
Selection and Execution: A ‘Contact’ Sport

Strategy and Resources are defined here!

Knowledge and Opportunities are identified here!

Need for a Process That Relies Upon:
• A Communication Protocol Across Functions
• A Consistent Top-Down Alignment Check-Up
• A Bottom-Up Information Transmission Process
Innovation Efforts: Metrics Drive Behavior

- Project-based metrics
- Process based metrics
- Bottom-up impetus

- Functional-based metrics
- Output based metrics
- Top-down control

Idea → Project candidates → Ongoing projects → Market

Product launch decision
Next Steps for Innovation

Courtesy of IBM

Thank you!
Back-up
A Portfolio Definition Process

1. Transparent discussion of strategic goals, and trade-offs, by the management team
2. Generation of a set of initiatives that further the strategic goals (from other sources plus team)
3. Prioritization by consensus: explicit recognition and settlement of the tradeoffs (use strategic priority straight, value/capacity ratios, ...) (Negotiation, NOT automated averaging of scores)
4. Setting a cutoff of high-low urgency (strategic buckets)
5. Size-adjusting low-urgency projects to fit capacity
6. Regular revisiting of prioritization to incorporate new situations (e.g., up-prioritization of a project)
# A Portfolio Definition Process: Enablers

<table>
<thead>
<tr>
<th>Process Step</th>
<th>Enabling Factors</th>
</tr>
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<tbody>
<tr>
<td>• Transparent discussion of strategic goals</td>
<td>• Strategy consensus, framework for cascading</td>
</tr>
<tr>
<td>• Generation of a set of initiatives</td>
<td>• Bottom-up and top-down, mixture of sources</td>
</tr>
<tr>
<td>• Prioritization by consensus: explicit tradeoffs</td>
<td>• Culture of openness, tool for visualizing trade-offs (e.g., portfolios)</td>
</tr>
<tr>
<td>• Setting a cutoff of high-low urgency</td>
<td>• Incentives for PMs to not fight for priority (e.g., job rotation)</td>
</tr>
<tr>
<td>• Size-adjusting to fit capacity</td>
<td>• Agreement from top AND bottom, scenario planning tools</td>
</tr>
<tr>
<td>• Regular revisiting of prioritization</td>
<td>• Institutionalization</td>
</tr>
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</table>