RETURN ON INNOVATION:

Five Rules to Increase Your Innovation ROI Now

Performance Improvement Perspective

The Post-it note was never supposed to happen.

In 1968 Spencer Silver was working to develop a super-strong adhesive for 3M Laboratories when he invented the opposite: an adhesive that stuck to objects but could be easily lifted off.

Silver spent years trying to find a home at 3M for his temporary and reusable adhesive, but its fate seemed to be with the other 90 percent of innovations that never see the light of day.[1]

Six years after his invention, Silver was hosting a seminar attended by a colleague named Art Fry who saw something in the adhesive that no one else did: a device that could mark the pages of his hymnbook without falling to the ground during choir practice, like his bookmarks routinely did.

3M began distributing the Post-it Notes nationwide in 1980, 12 years after Silver's failed innovation. Had it been traditionally measured against its revenue generation, the innovation behind the Post-it note would have been nothing but a red mark on 3M's P&L. Instead, it was leveraged into $1 billion in annual sales, representing nearly a quarter of 3M's consumer and office products division.[2]

3M is widely considered one of the world's most innovative companies, but we think 12 years is too long. And the delayed revenue those 12 years cost 3M is just one part of the missed ROI (return on innovation) opportunity. In fact, lost revenue may have been the least significant element in a complex ROI opportunity matrix, because as a trailing indicator, cash fails to capture the majority of innovation's effects on the organization.

The Five Rules for ROI:

1. Get Aligned
2. Start Small
3. Learn Forward
4. Leverage the Insights
5. Leverage for the Brand

1 "Why Most Innovations Are Great Big Failures," Fortune, Oct. 7, 2014
2 "Life-Cycle Studies: Post-it Notes," Worldwatch Institute

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In this piece, we outline an approach that could have helped 3M convert more innovation efforts into profits faster. And it has nothing to do with more Post-its. Using five core rules, companies can make their innovation efforts more successful by structuring, measuring, and leveraging innovation investments in ways that render greater incremental returns.

Not every innovation effort will result in a Post-it note-type breakthrough. But most companies can capture significant value from innovation success in the form of below-market-rate talent acquisition, employee and customer satisfaction, and trickle-down innovation.

ROI RULE #1: GET ALIGNED

Decide on focus areas and structured processes to encourage aligned innovation efforts. Ensure leadership agrees on the ambition level and risk tolerance to inform the organization's innovation approach.

Executive decision-making can make or break innovation success. Companies without innovation parameters are more likely to see huge misses, alongside what could be considered massive breakthroughs. Strictly risk-averse companies are less likely to experience the huge failures, instead shouldering the greater risk of diluted innovation crippled by cumbersome processes.

Ideally, innovation and risk management should be powerful partners, not adversaries. To reach this balanced state, companies must establish concrete, yet simple, parameters that address risk tolerance and establish the guideposts against which innovation should be pursued, evaluated, and ultimately brought to market.

INNOVATION AND RISK MANAGEMENT SHOULD BE POWERFUL PARTNERS, NOT ADVERSARIES

How to Get Aligned: Coming up with a practical definition of innovation is harder than it sounds, but it is absolutely critical to empower real innovation within boundaries that render valuable outputs. Compelling innovation focus areas enable top-down and bottom-up innovation, generating more focused ideas with greater probabilities of success.

As a starting point, it is important to look back over the last decade or two and identify the sorts of ideas that have produced noticeable margin and revenue gains. For a product or service to be counted as innovative at Whirlpool, for example, it must be unique and compelling to the consumer, create a competitive advantage, sit on a migration path that can yield further innovations, and provide consumers with more value than anything else in the market.

In developing focus areas and leadership parameters, don't forget the soft(er) factors. An organization's specific fears and hopes related to a market challenge, competitive threat, or attractive targets are great fodder in the development of innovation guideposts.

ROI RULE #2: START SMALL

Avoid a Big Bang mentality. There's no need for a massive investment and a ticker-tape product launch. Make a small, tactical investment. Focus on blocking and tackling, being adaptive, and incorporating feedback.

Taking smaller, iterative steps means investing less up front in order to gauge effectiveness and increase confidence before making bigger investments. To be successful, however, the organization must culturally support smart risk-taking. Fully vetted ideas, fully backed by financials and consumer insights, are also fully expensive. Being able to cash in on small ideas, or minimum viable products (MVPs), requires a culture that supports them in their sometimes fuzzy incubation phase, long before it's known how big their financial returns might be.

> BEING ABLE TO CASH IN ON SMALL IDEAS REQUIRES A CULTURE THAT SUPPORTS THEM IN THEIR SOMETIMES FUZZY INCUBATION PHASE

How to Start Small: Your goal in creating an MVP is to risk as little as possible to learn as much as you can. Find the least expensive way to get a reaction. That might be as simple, and as inexpensive, as a rough sketch. Many iconic innovations – Seattle's Space Needle, fire-hose nozzles, and J.K. Rowling's first "Harry Potter" concepts – started on the back of a napkin.

Whether it's a sketch or a prototype, get it into your customer's hands early. Assess their emotional response, their passion for the product, without trying too hard to quantify a reaction. With a product that is totally new and totally innovative, customers don't have the frame of reference to provide truly valuable quantitative feedback. The real gold is in their initial off-the-cuff gut response.

ROI RULE #3: LEARN FORWARD

As the organization's confidence grows, gradually make larger investments, with a process that is less evaluative and more generative at the beginning.

With innovation activities, companies tend to be too internally evaluative too soon, missing vital opportunities to glean truly valuable consumer insights, the kind that go well beyond thumbs up or down. Valuable consumer insights are deep and holistic, and should be used to refine, ideate, test, and learn, leading to ever-larger investments.

For many companies, the opportunity to do this through a "prototype to learn" scenario is sorely untapped. In this scenario, companies experiment in the market, perhaps under a generic off-brand label, with prototypes that enrich their understanding of elements like pricing and situations of use.

In addition to consumer insights, companies must exploit each opportunity to learn forward, applying the same "prototype to learn" principles to things like business models and technology.

How to Learn Forward: Think outside static interviews or surveys, and be willing to put your fuzzy ideas into the hands of consumers for real-life, real-time insights. Don't impose strict parameters around product use – just give it to consumers and watch what they do with it.

Consider observing how consumers use your innovation in their natural environment. If that's not possible, create a testing environment that replicates it. Procter & Gamble's Insight Suite utilizes a two-way mirror to watch customers use beta products in a mock bathroom and kitchen. Watching how consumers interact with products and understanding how they use them provides insights consumers may not consciously be able to provide, or inspire new marketable applications.

Then socialize those insights throughout your organization. Even the deepest, most groundbreaking customer insights are worth nothing if not applied enterprise-wide to generate refined thinking and innovation outputs.

ROI RULE #4: LEVERAGE THE INSIGHTS

Don't wait three years, two acquisitions, and millions of dollars of spend to reap organization-wide benefit from the innovation investments. Innovation generates insights that can boost the performance of existing products, generating value regardless of whether or not the original innovation effort produced any cash.

Apple is one of the masters in this category. In recent years, Apple has specialized in polishing current products, not adding new product lines. With the exception of a few minor consumer-facing changes (the most significant being a missing headphone jack) the iPhone 7, which launched in September 2016, is strikingly similar to Apple's last-generation offering. Instead of overhauling the phone's appearance or feel, Apple invested in innovations that made it 40 percent faster than the iPhone 6S, with an additional two hours of battery life.

Some industry critics and members of the media have questioned Apple's approach, and as a result the subject of how to measure innovation has surfaced in mainstream channels. Has Apple run out of innovation? The answer may be "yes," but Apple has mastered the art of sucking each innovation for every ounce of return possible, giving them breathing room as they explore new avenues for innovative development.

These types of under-the-hood, trickle-down innovations made famous by Apple don't just apply to technology. For example, a global CPG company recently invested in a massive innovation effort that ultimately didn't result in a new product line, as intended, but instead led to huge improvements in its existing home-cleaning and air-freshening products, resulting in new sales that paid for the "failed" innovation effort many times over.

How to Leverage Insights: In order to enable this sort of cross-product-innovation-value boost, companies must put less emphasis on protecting the innovation process and more on transparency and sharing. Silos would have killed that innovation project for the global CPG, and resulted in millions in wasted spend. Instead, the key findings were salvaged, reinterpreted, and applied to boost current product line sales.

Organizationally, good ideas – no matter how great they may be – do not seamlessly work their way from silo to silo. And an innovative culture is all for naught without the channels and inputs that enable bottom-up innovation and collaboration. Innovative companies create ways to shatter silos and encourage cross-functional collaboration. Google, for example, has created platforms that could be scaled and adapted on some level in nearly every organization:

- Google Cafés, which are designed to encourage interactions between employees within and across teams, and to spark conversation about work as well as play.
- Google Moderator, an innovation management tool designed by Google's engineers. The simple idea behind it is that when people have tech talks or company-wide meetings, it lets anyone ask a question, and then people can vote up the questions that they'd like answered. Through Moderator, people can discover existing ideas, questions, or suggestions; vote for ideas, questions, or suggestions; see the aggregate votes to date; and create a new series asking for ideas organized by topic, event, or meeting. Google Moderator itself is one of Google's infamous "20 percent" projects. By allowing its engineers to spend 20 percent of their work week on projects that interest them, Google is able to tap into the many talents of its employees.
- 'FixIts,' which are 24-hour sprints where Googlers drop everything and focus 100 percent of their energy on solving a specific problem.
- Internal innovation reviews, where executives present product ideas through their divisions to the top executives.

ROI RULE #5: LEVERAGE FOR THE BRAND

Turn innovation into a central brand tenet to help drive premium prices, boost employee experience, and secure talent at below-market rates. Actively seek internal and external opportunities to demonstrate your innovation on macro and micro levels.

Brand strength is not defined by innovation alone, but in a market where consumers are willing to pay 21 percent more for innovative brands,[3] it carries a hefty load.

Eighty-four percent of consumers report that it is somewhat or very important that the company they buy from is innovative.[4] What's more, well-executed innovation efforts create a halo effect on a company's entire portfolio. Truly innovative companies delivered shareholder value at a staggering rate of 228 percent more than the general marketplace over the 10-year period between 2003 and 2013.[5]

INNOVATIVE COMPANIES OUTPERFORM THE MARKET, DELIVERING AN AVERAGE OF 228 PERCENT MORE SHAREHOLDER VALUE

Employees, too, are willing to "pay" for an association with an innovative brand by accepting lower compensation. Leveraging innovation in your brand strategy lets you charge premium prices and pay employees less. In some cases, a lot less.

In 2015, London Business School mapped the compensation of 2,717 U.S. senior executives between the years of 2000 and 2010 against the brand strength of their firms' leading products. With each standard-deviation increase above the mean for brand strength, non-CEO executives earned, on average, 2 percent (about $90,000) less a year. The effect was far larger for CEOs: Their pay dropped by 12 percent for each standard-deviation increase, saving their companies an average of $1.3 million a year.[6]

3 2015 Ketchum Innovation Kernel Study
4 The Lab42 Innovation Survey, July 17, 2015.
5 Design Management Institute, March 10, 2014
6 "Strong Brands, Weak Pay," The Harvard Business Review, July-August 2015 issue

How to Leverage for the Brand: Start at the top. Use the platforms of your company's most senior leaders to advocate for and demonstrate individual and brand innovation. In the world's most innovative companies, senior leaders like Jeff Bezos (Amazon), Marc Benioff (Salesforce.com), A.G. Lafley (Procter & Gamble) and the late Steve Jobs (Apple) didn't just delegate innovation – their own hands were deep in the process.

Next, be willing to invest in premium innovation talent to attract eager candidates for less. Populate your organization with the right kind of innovative leaders, and actively use these individuals to promote your organization during the recruiting and interview processes.

During the recruiting and interview process, the right questions will tell your candidates everything they need to know about your innovative culture. Amazon's Bezos once said he asked all job candidates to tell him something they invented. "Their invention could be on a small scale—say, a new product feature or a process that improves the customer experience, or even a new way to load the dishwasher. But I want to know that they will try new things."[7] Shift your HR thinking to talk less about what candidates have done to explore instead the range of what they could do. Bezos says he "looks for people who believe they can change the world. If you believe the world can change, then it's not a stretch to believe you can be a part of it."

Externally, do more than push innovation. Pull consumers into the process by establishing platforms for consumer co-collaboration and actively use them as both R&D and customer experience tools. Several promising new platforms have emerged to enable co-innovation for companies and their consumers.

RETHINKING INNOVATION FOR GREATER VALUE

The value of innovation cannot be measured by the originality of an idea, or the net sales it ultimately produces. The path to greater returns on innovation investment may in fact be paved with seemingly broken ideas applied to old things in new ways. To effectively capture greater ROI, we must share freely. We must encourage safe, incremental risk-taking. And we must be willing to take things apart to truly understand how they might come together better.

> **"THE FUTURE IS ALREADY HERE – IT'S JUST NOT EVENLY DISTRIBUTED."**
> –WILLIAM GIBSON

7 "The Secret to Unleashing Genius," Forbes, Aug. 14, 2013

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