

# INNOVATION MANAGEMENT: HOW LEADERS OUTPERFORM THEIR PEERS

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## Report Highlights

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**Improving the ability to pick a mix of offerings that best address *customer demands and company fit* has a tremendous impact on the financial success of a company.**

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**Best-in-Class companies start by developing a pipeline of high-value ideas that optimize the portfolio for market potential and overall corporate goals.**

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**Best-in-Class companies stress real-time visibility of the entire innovation process to ensure that offerings progress as needed to hit their intended goals.**

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**The Best-in-Class implement connected solutions that link innovation, development, and commercialization to improve return on innovation investments.**

Based upon the experiences of over 600 respondents, this report examines the importance of innovation management. Specifically, how successful companies systematize the fuzzy front-end of ideation to portfolio and execution processes to outperform their peers.

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**The road to success begins with a streamlined innovation process. Successful companies manage innovation like a business and have a balanced portfolio that aligns with their business strategies.**

In every company, today's ideas determine tomorrow's market profile. With rising competition, success can be achieved through a well-defined innovation process, one that connects upstream idea valuation to downstream production and release to market. For this reason, innovation is the major cause for growth and transformation in a business. And, much like a business, when innovation ties together corporate strategy and thoughtful decision-making with streamlined ideation and development, what results is a more profitable return on investment.

#### The Financial Impact of Effective Innovation Management

New offerings are often an organization's most important source of revenue – however, it can also represent one of the riskiest ventures a business undertakes. Constantly changing consumer demands, shrinking development windows, limited resources, and the need to produce offerings at competitive prices are constant concerns for organizations today. In addition, it is also important to make sure there is a process in place to incorporate the voice of the customer upfront and not lose their requirements during execution (see sidebar). However, companies that focus solely on market potential still run the risk of failure. Even the most desired product or service could be a bad fit for a company that is not structured to execute and introduce it to market. The most common roadblock indicated by respondents is a lack of resources (38% of all respondents). Improving the ability to pick a mix of offerings that best address customer demands and company fit has a tremendous impact on the financial success of a company.

Organizations that do not innovate effectively run the risk of losing to their competition. Establishing a structured innovation management process to balance a company's portfolio is no easy task. The top challenges identified by respondents are

### The Importance of the Voice of the Customer

Companies were asked to select the top areas that will have a positive impact on product / service success going forward (all respondents):

**Cross Department Collaboration – 45%**

**Incorporate the voice of the customer upfront – 38%**

**Engineering efficiency – 38%**

**Product feedback from customers – 35%**

**Outsource / co-develop with third-party partners – 28%**

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spread across multiple areas of concern. Improper resource allocation, and the inability to evaluate and select new ideas for investment, make it difficult for a company to stay current with the market (see sidebar).

The primary cause of these challenges can be directly linked back to the fact that most companies still rely on disconnected and manual processes. To be successful, innovation management must be highly collaborative. Input to this process must come from multiple sources, be vetted socially, and answer these critical questions:

➔ *Is this idea good for the marketplace?*

➔ *Is this idea good for the company?*

To accomplish this, companies need to take a holistic approach to innovation management, connecting the process throughout all phases of the innovation lifecycle. When managed correctly, innovation should be more than a cause of growth – it should be ingrained into the company culture. All of these issues are pushing most organizations to rethink how they approach the ideation and development of their products or services. To achieve an effective innovation process, companies should follow the leaders...those that are Best-in-Class.

### Defining the Best-in-Class

To define Best-in-Class companies, Aberdeen Group used five new offering-centric metrics to measure an organization's performance. Aberdeen categorized participants as Best-in-Class, Industry Average, or Laggard; there is also a fourth category All Others (Industry Average and Laggard combined).

## Innovation Challenges

**Inability to balance resources across the portfolio – 24%**

**Too many projects in pipeline – 23%**

**Decision processes not based on objective information (politics) – 21%**

**Poorly defined portfolio decision criteria / prioritization – 20%**

**Inability to understand portfolio trade-offs / visualize 'what-if' scenarios – 18%**

**Overcoming the cultural changes required to support the process – 17%**

## Fast Fact

**When compared to older products/services, new offerings from my company (All Respondents):**

- Have higher profit margins - 43%
- Have the same profit margins - 15%
- Have lower profit margins - 6%
- Don't know - 35%

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## Performance Results

### Change in revenue over the last two years:

- Best-in-Class – 27% Increase
- Industry Average – 8% Increase
- Laggard – 3% Decrease

Table 1 below highlights the performance of the maturity groups.

Best-in-Class companies clearly outperformed their peers in all five metrics selected. Most notably, the Best-in-Class hit 92% of their cost and 89% of the launch targets. Laggards, on the other hand, miss their cost and time goals on their new products / services. Cost and time-to-market are two critical factors when determining the overall success of an offering. If an offering misses time-to-market, it's costing more than you budgeted, which impacts the bottom line. This fact is reflected when examining the margins across these groups, as Best-in-Class companies enjoy 12.6% profit margins on their offerings. The results illustrate that the Best-in-Class have established an innovation management process that delivers measurable benefit and higher value.

**Table 1: Metrics Used to Define Best-in-Class**

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class:</b> Top 20% of aggregate performance scorers	92% of product/service cost targets 89% of product/service launch dates met 94% of product/service quality targets met at release 90% of product/service revenue targets met 12.6% profit margins on new products/services
<b>Industry Average:</b> Middle 50% of aggregate performance scorers	77% of product/service cost targets 69% of product/service launch dates met 82% of product/service quality targets met at release 72% of product/service revenue targets met 5.8% profit margins on new products/services
<b>Laggard:</b> Bottom 30% of aggregate performance scorers	48% of product/service cost targets 40% of product/service launch dates met 45% of product/service quality targets met at release 37% of product/service revenue targets met 2.7% profit margins on new products/services

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Source: Aberdeen Group, September 2015

To understand what makes a Best-in-Class innovation management process, it is important to first realize where issues are most likely to occur, and for those surveyed, the challenge starts with requirements. Requirements need to be clearly documented and well understood for a project to be successful. Missing critical requirements will render a project unsuitable to the market unless there is costly rework conducted, which delays product launches and ultimately impacts profitability. As we will see, successful companies do a better job defining, socializing, linking, tracing, analyzing, and managing changes to requirements to ensure the overall quality and success of the product / service. Also, changes are bound to occur over the lifecycle of bringing an idea to market – it is inevitable. These changes, if not properly managed and traced, can wreak havoc on project targets. Having processes in place to address these common pitfalls will go a long way towards success in the future.

In order to maintain the balancing act between schedule, budget, and quality, companies that are Best-in-Class focus on optimizing *all* phases of innovation:

- Building the portfolio - investing in the right ideas, project, and proposals
- Development and execution of the offering
- Launching and releasing it to the market

Excelling in these three areas of innovation management is what will determine the success of a company.

## Top Reasons a Project Performs Poorly

Respondents were asked to select the top two reasons that a project performed poorly. Poor performance is defined as late, over budget, or not meeting requirements:

- Poorly defined project requirements: 51%
- Changes introduced after start of project: 35%
- Time spent waiting for decisions / communication: 21%
- Projects not adequately staffed: 20%
- Lack of defined ownership / accountability: 17%

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## Listening to Your Customers

Best-in-Class companies are more likely than All Others to have processes in place to listen to the voice of their customers:

**Best-in-Class are 94% more likely to monitor social media to solicit customer feedback**

**Best-in-Class are 45% more likely to have a standardized process for customer input and communication**

**Best-in-Class are 43% more likely to solicit feedback from clients and incorporate this feedback into project development**

**Best-in-Class are 35% more likely to allow customers to rank portfolio ideas**

### Develop a Pipeline of High-Value Ideas

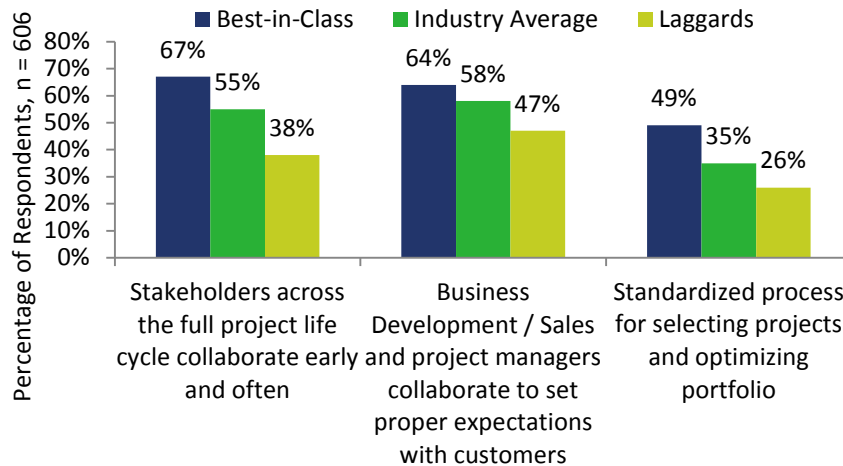
In today's market of shortened development cycles and increasing global competition, the biggest challenge for innovation is not in the collection of ideas, but in the process of bringing ideas to market quickly, and in a scalable way.

Therefore, it's crucial to capture ideas, scope them effectively by leveraging cross-functional stakeholders, and quickly identify the best ones to pursue. The Best-in-Class start with strategies that allow them to extend their sources of innovation, thus widening the funnel of ideas (see sidebar). They structure their brainstorming for new ideas around ways to meet these needs. Obtaining customer feedback in development permits the Best-in-Class to identify the ideas in demand, or use their feedback to improve on ideas so that they drive demand.

A critical step in the process, however, is selecting which projects / ideas will make up the portfolio; Best-in-Class companies are 58% more likely than their peers to have this process standardized (Figure 2). A standard process is important, but it is also important that this process can truly optimize the portfolio. Companies first need to identify whether they should invest in an idea. Best-in-Class companies make a point to expand the amount of ideas they gather, while aligning ideation with corporate strategy. Factors that should be weighed in this decision-making process include profitability potential, market relevance, risk level, internal business needs, and value with respect to the entire portfolio.

**Figure 2: Building the Portfolio**

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Source: Aberdeen Group, September 2015

In addition, companies need to identify whether they can invest in an idea. Identifying the projects that have the greatest likelihood of market success does little good if an organization can't execute that project. Each idea needs to be translated through requirements and concepts to determine whether an idea can be developed within the reality of a company's resource constraints. A justifiable business case should be created for each idea to allow the portfolio to be optimized based upon acceptable risk levels and financial returns. Essentially, Best-in-Class companies enable a bottom-up approach to their ideation process – all stakeholders review and help define projects or ideas. But also take it a step further, and conduct a top-down evaluation - executives can review the projects, assessing factors like the financial impact and fit into the overall business strategy. Many organizations mistakenly reject the best ideas due to a faulty qualification process.

As discussed earlier, poorly defined requirements is the number one reason a project fails. That is why Best-in-Class companies

## Fast Facts

**Best-in-Class companies are 89% more likely than All Others to implement requirements-driven design** (i.e. set product / service requirements early and track them throughout the development lifecycle to ensure they are met)

**Best-in-Class companies are also 48% more likely than All Others to have software to support change management**

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have processes in place to better define these requirements *and* track them throughout the development lifecycle. Linking requirements from initial idea to final product helps to trace the overall innovation process and ensure that the customer needs will ultimately be met in the final product or service.

One thing that is bound to occur throughout a project's lifecycle are changes. Successful companies start by having predefined corrective actions prepared to faster respond to changes as they arise (Figure 3). Best-in-Class companies are also more likely than their peers to conduct 'what-if' scenarios. Performing these assessments involves visualizing scenarios based on competitive information, available resources, market trends, the impact of changes to the portfolio, adjustments to schedules, and shifting budgets. This results in greater insight into the impact of portfolio decisions, which can be applied throughout the lifecycle - from idea generation to commercialization.

## Challenges of DFX

Companies were asked to select the top challenges felt when implementing Design for "X" (DFX) initiatives (All respondents):

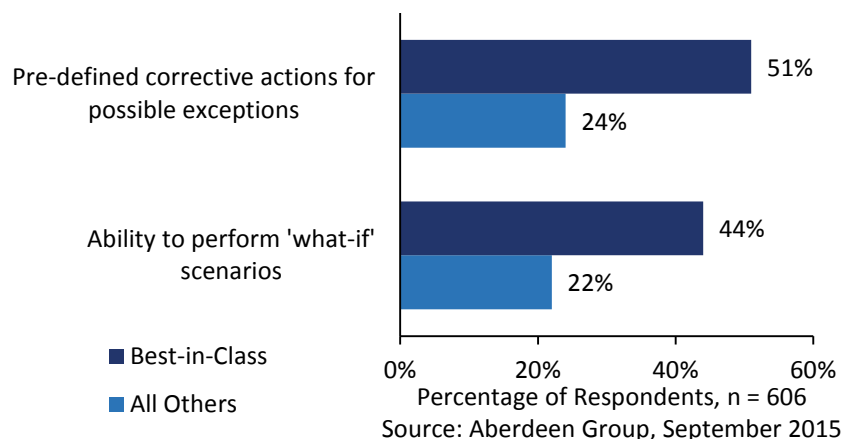
Conflicts / trade-offs between initiatives (i.e. cost vs. quality) – 59%

Overcoming cultural resistance – 38%

Lack of ownership of initiative – 31%

Lack the technology to support the initiatives – 23%

**Figure 3: Prepare for Different Outcomes**



## Getting your Ideas out the Door

Selecting the right ideas / projects is only the start – considerable work goes into developing these ideas and

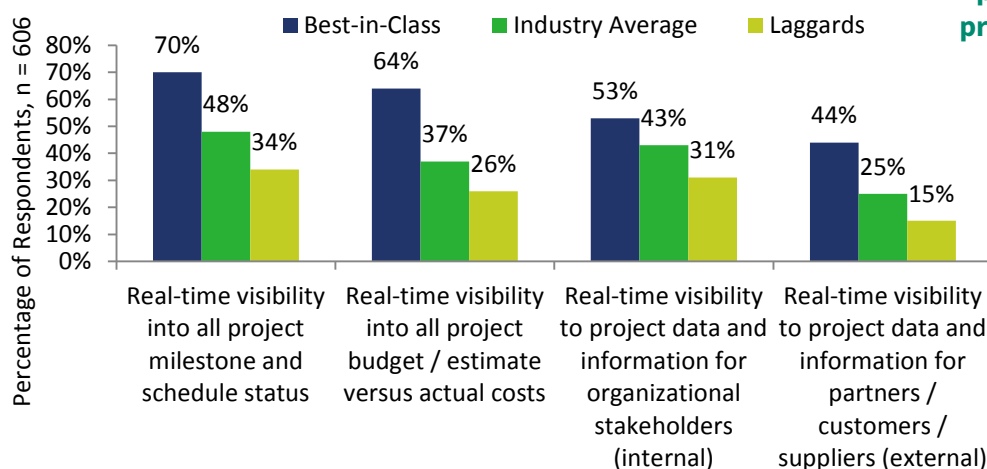


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orchestrating their launch. The best ideas and plans are of no value unless they come to fruition. Delays and unforeseen incidents are bound to occur – no matter how much planning an organization conducts. Companies need to be able to adapt on the fly and "re-optimize" based on any deviations.

This is why Best-in-Class companies stress the importance of having real-time visibility throughout the process (Figure 4). Providing access to project data to all stakeholders at every level in the organization will enable better project decision-making, which is needed to contain costs and hit milestones. Through the combination of the capabilities, Best-in-Class companies are better suited to ensure that projects progress as needed and hit their intended goals. Often, the development of approved ideas is seen as one step in a plan rather than as a multi-faceted decision-making process.

**Figure 4: Real-time Visibility to Aid Decision-Makers**



Source: Aberdeen Group, September 2015

## Continuous Improvement

Best-in-Class companies are leading the charge when it comes to continuous improvements.

**Post completion meeting is conducted to determine success of project and lessons learned:**

- Best-in-Class – 73%
- All Others – 62%

**Continuously monitor value of in-process projects to approve / continue projects:**

- Best-in-Class – 66%
- All Others – 49%

**Apply lessons learned to future projects:**

- Best-in-Class – 44%
- All Others – 26%

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Limited or no preparation for different scenarios may leave a company short-sighted on investments that seem profitable in the short term but disastrous in the long term. For this reason, it's important to remember the decision-making process also involves stopping to review and realign investments. Best-in-Class companies do this by continuously monitoring their performance to kill underperforming projects and redistribute resources (see sidebar on Page 9). To prevent carrying along unprofitable projects in a portfolio, it's important to extend the evaluation process through development and production.

### The Importance of the Right Tools

All of the capabilities listed in the previous section are critical to getting control over the innovation process, but what enables the Best-in-Class to have these capabilities? The Best-in-Class have connected key innovation processes (Figure 5). With these technologies, they widen the funnel of new ideas in less time and increase their ability to select the right ideas.

Effectively addressing these challenges of innovation requires streamlined and automated processes that may be easily adaptable to changing requirements. These solutions normally include automated reporting tools, such as dashboards, to make pertinent information available to relevant stakeholders. They provide visibility into important factors such as risk, resources available, and potential market value so that educated decisions can be made to maximize the profitability of the entire portfolio of products/services.

### Figure 5: Innovation Enablers

## Survey Demographics

*Respondents were collected across a broad spectrum of industries and regions.*

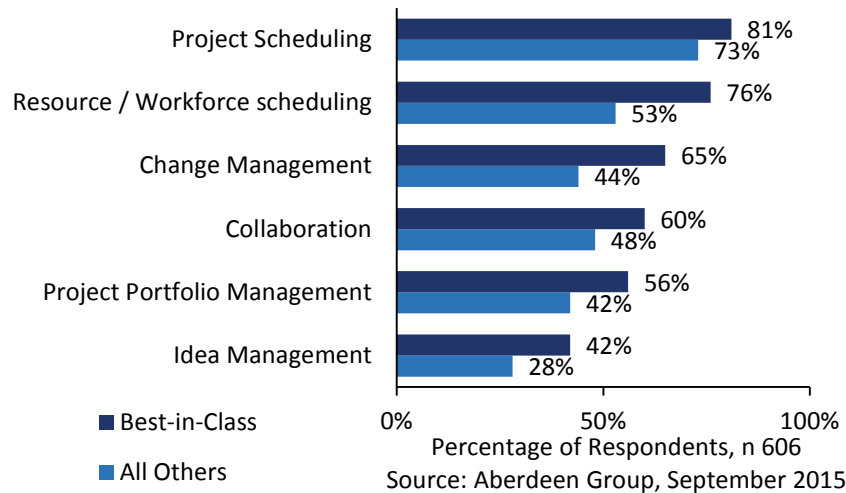
### Region (% of Respondents):

North America – 50%  
Europe – 22%  
Asia-Pac – 24%

### Industry (% of Respondents):

IT – 29%  
Software – 14%  
Government / public sector – 11%  
AEC – 8%  
Financial services – 8%  
Telecommunications – 7%  
Industrial product manufacturer – 6%  
Oil / gas – 6%  
Aerospace & defense – 6%  
Healthcare – 6%

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The breadth of information considered by Best-in-Class companies when selecting projects permits them to reliably review the value and liabilities of each development project and make the appropriate decisions. Their peers, on the other hand, still rely on manual methods like spreadsheets and emails. These are roadblocks to a Best-in-Class innovation management process. Manual, labor-intensive processes are less likely to provide the necessary visibility and flexibility to make the right decisions about which offerings should be in the portfolio.

### Key Takeaways

Innovation offers opportunities for greater profitability and creates future revenue streams. However, most companies find it a challenge to rationalize competing priorities. To address this, companies must find ways operate more efficiently. To implement a Best-in-Class innovation management process, companies should:

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- **Start with small wins.** Identify your biggest business pain, target your resolution effort, and work from there.
- **Realize the criticality of requirements.** Best-in-Class are more likely to collaborate early and incorporate the voice of the customer upfront.
- **Build a portfolio of high-value ideas that translate into profitable offerings.** It's crucial to capture ideas, scope them effectively, and quickly identify the best ones to develop. However, keep in mind that the idea must be good for the marketplace *and* the company.
- **Prepare for change.** Even the best idea is subject to change over time - those companies that are set up to handle this change will be most successful. Best-in-Class companies utilize 'what-if' scenarios to assess the impact of changes throughout the innovation process.
- **Equip managers with the tools needed to plan and distribute resources and execute on projects.** Keep in mind that the creation and evaluation of ideas is only a small part of a broader picture for the overall goals of the company. The best ideas and plans are of no value unless they come to fruition.

Companies can increase the return on investment by having a systematic approach to innovation management. Implementing this correctly means strategic alignment in the project portfolio, insight-driven innovation to choose the best ideas, and an overall connected process that links ideas from the customers to products that are offered in the market.

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[As-Built vs. As-Designed: Untangling the Web of Inefficiency and Waste Around Product Verification](#) (July 2014)

[NPI Velocity in Discrete Manufacturing: The Hidden Cost of Late Products](#) (November 2014)

[Overcoming Aerospace and Defense Systems Design Complexity with Configuration Management](#) (March 2013)

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#### About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide improve their performance. Our analysts derive fact-based, vendor-agnostic insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategy. Aberdeen Group is headquartered in Boston, MA.

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