

# How to keep your Edge

*Innovation is one of the keys to a  
successful company*

**G**aining a competitive advantage is only half the battle.  
Sustaining this over a long period of time is the way to win the  
war.

In our many years of working with CEOs and their executive teams in  
formulating strategy,

We have always emphasised the need to review strategy continuously.  
To do this, it is essential the organizations have a clear way of monitoring  
and measuring strategy.

In a previous article, we wrote of the need for what we called a  
Strategic Scorekeeping System. The system must be designed to measure  
the success of the strategy from four perspectives, the first three of which  
are the traditional financial measures, customer satisfaction  
measurements, and the effectiveness of internal business processes. These  
are essential tools for understanding how successfully your strategy has  
been, and will be, implemented. But the fourth area is perhaps the most  
critical since it drives the other three. And that is innovation.

Innovation is the driving force behind the success of the business. It  
ensures that the company is producing products and services that will  
generate future revenue.

But how do you measure innovation? In our Group's work with

clients, we use a set of measurements designed to look at innovation from different viewpoints. As with any system, there is no single measurement that can capture the entire innovation process. But it is a good idea to ask yourself the following 10 questions to assess your own company's capability to innovate.

***1. How many of your products introduced in the past three years are still in the market?***

This measurement is designed to assess the survival rate of your product launch. It allows you to assess the response of the market to your innovation.

***2. How many of your new products are exceeding the original revenue forecasts you made for them?***

This measurement is designed to determine how successful your product has been in terms of revenue and your ability to judge markets.

But innovation must be effective...

***3. ...so how much gross profit has been earned from these new products?***

This measurement is designed to determine whether you are spending enough in research and development (R&D) and whether you are spending it effectively. R&D investments must be converted into new products that yield a solid return.

***4. What has been the cumulative three-year R&D expenditure allocated only to new products?***

This measure is designed to determine how much of your total R&D investment is being allocated to the development of new products.

***5. What has been the cumulative three-year annual revenue generated from new products?***

This measures the revenue from your innovation efforts compared with the total company revenue from sales. If innovation is important to growth, then this ratio will probably be 15 to 25 per cent annually.

***6. What is the cumulative three year expenditure allocated for new-to-the-world products?***

This measurement is designed to assess the level of investment allocated to totally new and different products as opposed to line extensions of existing products.

***7. What percentage of new product revenue comes from the following types of product innovations?***

**New to the world.**

**New to the company.**

**Line extensions.**

**Product line improvements.**

If you are attempting to have a balanced portfolio of sources of innovation, then 40 per cent of new products should be in the “new-to-the-world” and “new-to-the-company” categories.

***8. What number of new product concepts is at each stage of the development process at year’s end?***

This measure gives you an indication of how full the pipeline for new product development is. You should be able to judge the potential revenue from future products generated by your innovation process.

***9. What is the total annual revenue from new products per employee?***

This measurement is designed to assess the effectiveness of your employee resource allocation and the learning rate of your employee base. Innovation from the internal knowledge base is critical for the

future success of your company.

***10. What are the cumulative three-year net profits from commercialized new products?***

This will give you an indication of your total return on innovation. This is derived by dividing your three-year net profits from new products by the cumulative three-year total spending on new product.

Thomas Kuczarski, in his book *Innovation*, reminds us that innovation is a mind set as much as a process. What you are is based on what you think.