

Product Development Metrics and Valuation



Bill Poston & Biju
Jatheendran

Contents

1. Introduction

2. Innovation Survey Findings

3. Need for Valuation

4. Advantages & Disadvantages

5. Common Innovation Metrics

6. Implementation Challenges

7. Summary

Introduction

Objective

This session will explore the objectives, practices, and challenges associated with valuing product development pipelines and programs. We will discuss various methods and metrics employed to quantify the expected contribution from product development activities and monitor the health of an innovation pipeline.

Key Take-Aways

- Examples of common and advanced program and pipeline valuation methods
- Lessons learned from successful (and not so successful) deployment of metrics
- Insight on the challenges associated with measuring in-market performance

Innovation Survey Findings

- Innovation is widely *under-measured*, and few firms—even those that attempt to track innovation rigorously—are confident they are doing it right
- Most companies that do use metrics typically use only a handful - *five or fewer*
- The three metrics that executives consider most valuable are *time to market*, *new product sales*, and *return on investment* in innovation
- Few companies tie employee *incentives* to innovation metrics
- The *potential* for most companies to improve their measurement practices—and, as a result, boost their return on innovation spending—is *sizable*

Need for Valuation

- Estimate contribution from pipeline projects to operating plan
- Determine if current level of investment will deliver growth goals
- Compare the relative merits of one potential investment to another
- Improving the selection of the right ideas to fund and develop
- Ensure balance in the portfolio between large and small projects
- Monitor performance against projections to improve forecasting
- Learn from what works and what does not work in innovation
- Monitor performance against strategic innovation objectives
- Improve the return on investment in innovation projects
- Accelerate the development cycle and improve time to market

Advantages / Disadvantages

- Net Present Value
- Expected Net Present Value
- Expected Commercial Value
- Productivity Index
- Options Pricing Theory
- Various Scoring Models

Common Innovation Metrics

Input metrics

Number of ideas, concepts or projects in the pipeline

Output metrics

Revenue from new products or services

Customer satisfaction with new products or services

Return on investment in innovation

Percentage of sales from new products in a given time period

Number of new products or services launched

Profit growth from new products or services

Process metrics

Time to market or cycle times between specific gates

Phase attrition rates and number of projects passing gates

R&D spending as a percentage of revenue

Number of people actively devoted to innovation

Net Present Value (NPV) of the entire new product and service portfolio

Implementation Challenges

- Consistency of definition and application
- Valuations do not convey insight
- Measuring results often requires heroic effort
- Linking investment to return can be difficult
- Uncertain what the right benchmark values are
- Balance of input, process and output metrics
- Using measures to drive improved performance
- Learning from post-launch impact measures

Summary

- Valuing and measuring innovation is not something that many firms do well
- Consistency in the application of valuation methods is more important than accuracy
- Most firms track a relatively limited number of innovation metrics (fewer than eight)
- Measures must be aligned with and support the execution of innovation strategy
- Measurement systems should be balanced and cover inputs, processes, & outputs
- Companies that do use consistent and balanced innovation measures perform better