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Adjusting Your Innovation Portfolio for Success

EXPERT GUIDANCE ON INNOVATION STRATEGY

LETTER FROM THE EDITOR

What does a healthy innovation portfolio look like? Who should be involved in helping you assess the projects in it—and how often should you do that? How can you find the right balance of Horizon 1, 2, and 3 innovation for your organization at this juncture? In this issue of Pointers, we sought to answer questions like these about portfolio management.

We asked big thinkers at Innovation Leader's strategic partner firms to send us their best tips on pruning your portfolio when necessary, collaborating with outside partners, and more. This issue is filled with actionable advice that can help you make change in your organization starting today.

We're grateful to our strategic partners for contributing to Pointers and supporting Innovation Leader's editorial mission—at our online events, in our website's Thought Leadership section, and in this series of PDF e-books. You can find prior editions of the Pointers series—covering topics like "Innovation Do's and Don'ts," "The Corporate Innovation Toolkit," and "Getting an Innovation Program Started"—on our website, at innovationleader.com/pointers.

We encourage you to share this document with others who might find it useful. And if you have topics you'd like to see us cover in future editions of Pointers, I'd love to hear from you at the email address below...

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TABLE OF CONTENTS

TABLE OF CONTENTS

A Portfolio Strategy for Going Beyond Incremental Innovation

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Growth, innovation, breakthroughs, increased profitability. All of these terms are used to define a company's agenda as it relates to acquiring new customers, unlocking new sources of revenues, and securing its future. A company can buy growth through acquisition or grow through geographic expansion.

But to achieve continuous organizational renewal, a company needs to innovate. It needs to develop a portfolio of dynamic innovation opportunities that includes incremental and evolutionary innovation, adjacent market moves, business model changes, and breakthrough technologies.

Most portfolio management tools are geared to the proliferation of incremental innovation projects, for which time to market, development cost, market share capture, and rate of return can be estimated based on previous experience. These projects fit existing financial models, are easier to chart, and can be compared with one another in straightforward ways. However, often this focus on incremental innovation comes at the expense of developing new breakthrough business opportunities and exploring entirely new markets.

So, how do you chart and manage a strategic innovation portfolio of "beyond incremental" opportunities that cannot be reduced to their financial outcomes *a priori*? Those ventures take us into new territory, so we cannot rely on experience for our estimates. They're more difficult to chart. As a result, many companies do not address their strategic innovation investments as a portfolio. It is this struggle that we address here.

First, consider what your company's growth objectives are and whether your existing businesses or product mix can achieve them. Clearly define what is meant in your company by evolutionary, adjacent, and breakthrough innovation—and then perform an unbiased classification of your portfolio as it currently stands. What percent of your current "beyond incremental" projects fall into each category?

Now, set your objectives for where you want those allocations to be. Your allocation of resources needs to support the company's goals and strategic ambitions. So your strategic innovation portfolio should be populated in a way that is systematic and aligned with a vision of your company's future.

Consider your company ten years from now. What will it be famous for? We call these areas "domains of innovation intent." Each domain is itself a portfolio of opportunities and experiments that one day will become a new business platform for your company. Working on a few domains for a lengthy period of time enables you to hedge your risk, but also to unleash creativity by identifying guardrails for ideation and opportunity evaluation.

Although many companies may attempt to undertake an innovation journey with a call for ideas—in which any and all ideas are welcome—even the most exciting ideas rarely amount to significant, new businesses if they are not aligned with a company's vision for its future.

To create or identify domains of innovation intent, look for opportunity spaces with major industrial or societal problems that can be addressed by new or existing technologies, products, or business models. Seek large, rich opportunity spaces that require strategic focus and choices over relatively long periods of time.

For example, the domain of urban mining has recently been defined as the recycling and recovery of rare metals from discarded electronics. To recover metals, you need separation and purification processes. Business models could include a service to recycle or resell metals back to manufacturers. If you are a manufacturer, you might consider a "cradle-to-grave" strategy. An urban mining portfolio will require breakthrough innovations—and may even include incremental opportunities along the way. However, urban mining might be just one domain within your strategic innovation portfolio.

An important aspect of defining domains of innovation intent is that the definition and strategy will be unique to your company. Others may be pursuing similar markets and avenues, but your company's approach should link the domain(s) to your capabilities and those you'll need to acquire, and to your company's aspirations. This leads eventually to corporate renewal.

Further, just as you need to set objectives for resource allocation across incremental, evolutionary, and breakthrough innovation, you need to set clear objectives with regard to your domains of innovation intent. You must decide how many domains your company needs, how to ensure they're diverse, and how many opportunities a domain must generate in order to be worthwhile.

Not every domain converts to a new business. Some will be too incremental. Others might simply end up not fitting the vision you have for your company's future. Even best-practice companies have only about a 60 percent success rate in moving the domains all the way from their inception to new businesses.

Once you have established your domains and identified a rich set of opportunities to learn about within each of those domains, you need to monitor your entire portfolio.

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First, treat each domain as a portfolio. Now, look at the opportunities and experiments occurring within each domain and assess:

- The impact it could have on the market.
- The impact it could have on the company's growth and renewal. What is the potential for the domain to contribute to filling your company's growth gap? How big does it need to be?
- The impact on your capabilities. Does it foster the development of new capabilities? Does it repurpose existing capabilities?
- The maturity of each project or opportunity in the portfolio. Don't tackle opportunities that either are not promising on their own or that cannot be combined with others in the domain to create something bigger.

Sometimes an opportunity appears small in and of itself, but it contributes significantly to the overall business. That's valuable. While opportunities need to be interesting, at the end of the day it is the domain that is the business. Also, the domain needs to comprise enough opportunities to achieve the growth objective. You must also recognize that many of those opportunities may start out as small, niche markets that are worth pursuing, and others may not work out.

Notice that none of these dimensions are expressed as a financial value. Instead, they're about opportunity spaces and the progress you're making in your learning to grow the business. Conversations with your team as they progress through their learning loops and checkpoints will help answer the questions above, so your company can create a set of meaningful metrics that can be used to assess the portfolio.

Track the learning by reviewing the conversion of assumptions to knowledge. Your goal is to learn fast and to do so with small investments, in order to reduce uncertainty before major investments.

As you can see, a strategic innovation portfolio is actually a "portfolio of portfolios." Each domain is a portfolio of opportunities that is being worked on. Sometimes, you conclude that a domain of innovation intent is too small, narrow, or incremental to continue investing in, and you fast-track it to a line of business or sell it off. But as long as you have several varied domains in the works, you'll create new streams over time that become whole platforms of business with multiple product lines, use cases, and addressable markets.

A strategic innovation portfolio is not simply a collection of ideas to be pursued. It is a purposeful approach to innovation. Instead of stopping and starting, it provides a steady investment in creating your company's future.

ABOUT POINTERS

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