

# THE ELEVATOR EDITION

"Payback is filled with ideas and methods that can help any company create new products and services that deliver maximum profit..."

—Jong-Yong Yun,  
Vice Chairman and CEO,  
Samsung Electronics



# Payback

REAPING THE REWARDS OF INNOVATION

JAMES P. ANDREW  
HAROLD L. SIRKIN

HARVARD BUSINESS SCHOOL PRESS

This is a condensed version. The hardback edition will be available from Harvard Business School Press in January 2007.

**THE PAYBACK ELEVATOR EDITION**

# **Payback**

**Reaping the Rewards of Innovation**

**James P. Andrew**

**Harold L. Sirkin**

**with**

**John Butman**

**The Payback Elevator Edition** is a condensed version of *Payback: Reaping the Rewards of Innovation*, published by Harvard Business School Press. It includes many, but not all, of the main themes and ideas of the book in a form that can be read quickly and carried easily. It should not, however, be considered a substitute for the full edition, which contains many more ideas, much more analysis, far greater detail, and a wealth of stories about companies and insights from their leaders that are not to be found in The Elevator Edition.

*Companies featured in the hardcover edition of the book include:*

BMW, Boeing, Bombardier, Bosch, Boston Beer, Citigroup, Danaher, Degussa, Del Monte, Dolby Laboratories, IBM, Linde, Merrill Lynch, Microsoft, Motorola, Nokia, Philips, Pringle of Scotland, Procter & Gamble, QUALCOMM, Rambus, Renault, Saint-Gobain, Samsung Electronics, Schindler, Seagate Technology, Siemens, Sony, Timken, and ZF Sachs.

## More Advance Praise for *Payback*

“Although innovation at John Deere has been core for over a century, the insights and practical concepts of *Payback* are helping us link innovation more rapidly and directly to value creation.”

—Robert W. Lane, *Chairman and Chief Executive Officer, Deere & Company*

“Nonprofits seeking innovative solutions to the world’s most difficult problems can benefit from the concepts and tools provided in *Payback*. Philanthropies can benefit greatly by paying attention to the four S factors of payback—start-up costs, speed, scale, and support costs—when making their decisions about awarding grants and supporting new projects.”

—Linda Segre, *member of the Executive Team, Google.org*

“How can you turn research into new products and services that truly generate a cash return, and how can you do it faster? *Payback* offers a fundamental reassessment of these critical questions and shows how sales and science can reinforce each other. This is an important book for anyone who wants to make their innovative activities more profitable.”

—Amar Bhidé, *Lawrence D. Glaubinger Professor of Business, Columbia University, and author of The Origin and Evolution of New Businesses*

“The authors detail what is important to get fast payback from innovation. They provide insight into the many factors required, especially how to lead an innovative company and its people and how to align an organization to create an innovative climate.”

—Claus Weyrich, *member of the Managing Board of Siemens AG, head of Corporate Technology*

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## Introduction

*Payback* seeks to help solve the most important problem that confronts businesspeople today: how to get a better return on investments in innovation.

We've worked with hundreds of companies, in virtually every industry and in countries around the world. Most of them are expert at what they do, and many of them are world leaders. Nevertheless, we have seen only a few that are operating at, or even close to, their potential when it comes to achieving returns on their investments in innovation. As a result, they are unable to maximize their shareholder value, grow at a rate they would like, or respond as effectively as they could to competitive pressure.

We believe that any company can innovate and achieve a healthy return if it deliberately and consistently does the following: sets clear payback goals for its innovation efforts, operates in a disciplined way, selects the optimal innovation business model for each new product or service, aligns its organization around innovation, and exercises leadership practices that encourage, motivate, and enable people within the company to innovate.

Successful innovation can only be defined as profitable innovation. To realize a profit from new products and services, it's imperative that innovation be seen and managed as an entire process, rather than as a short-lived event. The process comprises three phases:

- *Idea generation*: the phase during which ideas spring to life, and are developed, tested, evaluated, and refined.
- *Commercialization*: the phase that begins with a green light from management to develop a proposed idea



and ends when the product or service is launched to a buying audience.

- *Realization*: the phase that begins with market launch and concludes when the product or service comes to the end of its life cycle.

To achieve payback, companies must manage the three phases of the innovation process holistically and with discipline. They must also accept that innovation entails a significant amount of risk, of three types: technical, operational, and market. If the new product or service has some technical failings, if the organization cannot actually commercialize or realize it, or if the market does not embrace the product as planned, the company is put at risk of not attaining the needed or desired payback.

We wrote *Payback* for those who have experience with some aspects of the innovation process but are not yet satisfied with returns on their investments, as well as for those who are turning their attention to innovation for the first time. The book offers both a structure for thinking about innovation and concrete methods and examples for managing and executing. Because profitable innovation is so important to individual companies and to the global society, you, as a leader, cannot begin the journey too soon.

## 1. Cash

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Payback means one thing—cash. Cash that is realized within the planned time frame. When a company makes an investment in innovation and creates something new that produces cash return swiftly and directly, it is a winning situation, particularly when the return is larger than expected. And this is true regardless of whether the new thing is a product, service, process change, business model, customer experience, or anything else.

### **The Cash Curve**

In order to manage for cash, it's necessary to have a disciplined and consistent way to analyze, understand, and make decisions about the innovation process—and the most effective tool for doing so is the cash curve

The cash curve graphically plots cumulative cash flow over time. It makes clear many of the managerial challenges and assumptions that often get hidden when looking at spreadsheets of annual cash flows and projections.

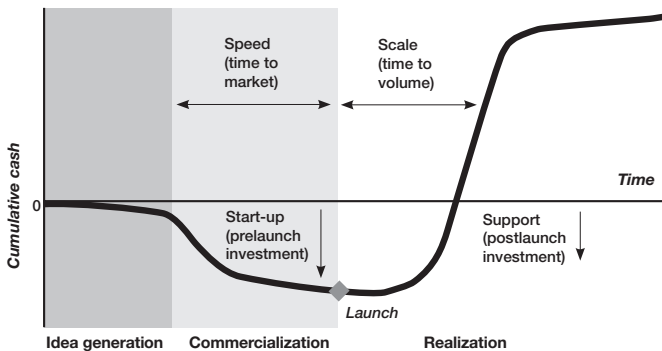
The cash curve forces managers to think through the dynamics of cash, helps them clearly see what will happen as the result of investment and management decisions, enables them to identify sensitive areas, and always provokes discussion about how to “improve the curve.”

There are four S factors that affect the success of a new product or service and its ability to generate payback.

- *Start-up costs, or prelaunch investment.* The first S factor is the size and timing of the prelaunch investment, or the “depth” of the curve beneath the cash “breakeven” line. A large start-up investment may enable a com-

pany to develop assets and capabilities that will result in a substantial cash payback, but it also increases the risk of the innovation.

- *Speed, or time to market.* Increasing speed and reducing time to market can increase payback by enabling a company to capture a larger market share at a higher average selling price and by starting the cash flow quickly. Yet an overly aggressive time to market may disproportionately increase development costs, reduce the quality of the innovation, or have a negative impact on one of the indirect benefits.
- *Scale, or time to volume.* Time to volume is the time it takes from launch until the new product achieves volume production on the scale planned and can deliver payback. A company can control its ability to supply the product, and it can seed market demand, but it cannot dictate market acceptance. Ideally, the time-

**FIGURE 1-1****The cash curve**

to-volume part of the cash curve is short and steep. The faster an innovation reaches volume, the sooner it can begin generating cash profits.

- *Support costs, including reinvestment.* To maximize its return on investment in a new product or service, a company must determine how much to invest in supporting the product—through marketing activities, creating product enhancements and extensions, increasing distribution, and adjusting pricing. The flip side, of course, is determining when it makes sense not to invest further in supporting a product.

## **Cash Traps**

Thirty years ago, Bruce Henderson, founder of The Boston Consulting Group, wrote that “the majority of products in most companies are cash traps—they will absorb more forever than they will generate.” This is still true today. The stark reality (and often hidden truth) is that many new products and services, even seemingly successful ones, don’t achieve payback over their lifetimes.

Today, in almost every industry, companies invest heavily in innovation activities, product life cycles continue to shrink, and copycat products erode pricing power with increasing rapidity, all of which make earning a return harder than ever. Cash traps can debilitate a company and its portfolio.

## 2. Indirect Benefits of Innovation

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When people are presented with the idea that cash payback must be the ultimate goal of innovation, they sometimes react with worry, alarm, and confusion. It is the nature of innovation, after all, that cash is not always produced from it, and rarely is cash produced immediately. There can be a lag between the time of investment in innovation and cash return. And the lag can make people nervous.

To complicate matters, the innovation process sometimes generates a cash payback, but indirectly—not through the specific product or service being developed but through a benefit that only later has an impact on the company's ability to generate cash. Innovation delivers four noncash benefits that can be valuable when they have the potential to lead to cash: knowledge acquisition, brand enhancement, ecosystem strength, and organizational vitality.

### **Knowledge Acquisition**

Although cash is the ultimate goal of innovation, the route to cash payback from innovation always proceeds through new knowledge. Without sufficient new knowledge, there can be no innovation.

There are four types of knowledge that can be gained through innovation:

- *Product-specific knowledge.* Knowledge that will be used in the creation of a specific product.
- *Product-applicable knowledge.* Knowledge that does not have an immediate product application but that can be applied to the company's known product cate-

gories or business areas.

- *Greenfield knowledge.* Knowledge acquired with the intention of opening whole new business areas or product categories.
- *Knowledge as product.* Knowledge managed as an asset in itself, through sale or license to other companies.

The management challenge is to determine how much to invest in knowledge acquisition and when to do so. Sometimes companies do not invest enough, which can result in delays, product shortcomings, or market indifference. Companies will sometimes overinvest when they convince themselves that a major cash payback can eventually be achieved.

The benefit of knowledge acquisition can go beyond an individual product or service and have an effect on the company's entire portfolio of offerings. Even when the acquisition of knowledge for a given product is highly costly and is certain to reduce the cash payback of that particular invention, the new knowledge may be extendible into other areas of activity within the company. It may be applied to improve current products and services that it was not originally intended to benefit. Or it may become the basis for currently undefined future products and services—and ultimately generate sufficient cash payback to make the investment worthwhile. In the end, to be valuable, all investments in knowledge must generate cash.

## **Brand Enhancement**

An association with innovation can enhance the reputation of a company and its brand. However, just as with knowledge, for a brand benefit to be valuable it must ultimately deliver cash payback, in at least one of three ways:

- *Premium prices.* Companies that are perceived as innovative often can charge higher prices for their products and services than their competitors can. The increased amount of cash generated enables the cash curve to cross the payback line more quickly.
- *Higher volume.* Whether they are first to market or not, companies that have brands that stand for being innovative usually have a substantial leg up on competitors, even those that are earlier to market. This can reduce the time it takes to achieve scale.
- *Greater acceptance.* It is often easier for an innovative brand to move into new product and service areas than for brands that are seen as conventional. Customers expect an innovative brand to explore new avenues for growth and are more willing to follow it into uncharted territory. This acceptance helps the new product or service to achieve scale quickly. It can also reduce support costs, because less persuasion and education may be required to get customers to buy.

## **Ecosystem Strength**

No company operates autonomously, especially in the age of global competition, connectivity, and worldwide markets. Each company is part of an ecosystem, a network of different organizations and entities (and sometimes specific individuals or the public at large) in which participants may be dependent on, support, or exist in a symbiotic relationship with others.

Some companies successfully use innovation to strengthen their ecosystem, often in ways that would be difficult or prohibitively expensive via other avenues. Innovation can help

strengthen ecosystem relationships and improve cash payback in three ways:

- *Preference.* A company that focuses on innovation may be given preference over its competitors by ecosystem partners.
- *Exclusivity.* An innovative company may be able to develop exclusive ecosystem relationships.
- *Standards.* An innovative company may be able to gain support for an industry standard it favors.

## **Organizational Vitality**

Sometimes the underlying purpose of a particular invention, or even a program of innovation, is to benefit the people within the organization. The caution, of course, is to determine exactly how the organizational benefit will affect a company's ability to generate payback. We have often seen companies embark on the development of a new product or service in order to bring about an organizational benefit without much thought about how it will demonstrably improve the company's ability to create payback.

Two main organizational benefits—confidence and attractiveness—can be gained through innovation:

- *Confidence.* Innovation can make an organization believe in its abilities to achieve payback, and as a result make it more willing to pursue attractive, but risky, opportunities.
- *Attractiveness.* People with innovative ideas and perspectives usually want to work in innovative companies.



### 3. The Innovation Business Models

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There are three innovation business models—a company can choose to be an “integrator,” an “orchestrator,” or a “licensor.” The choice of model is a strategic decision and can have a dramatic effect on a company’s ability to successfully achieve payback with a new product or service. It also determines how cash payback, the indirect benefits, and risk are allocated among different parties involved in the innovation process.

There is no single “right” or “best” innovation business model. All will lead to payback when used appropriately. Most large companies will use all three models at once, depending on the project and the conditions within the company and the market. However, the choice of model should be made explicitly rather than by default, reviewed regularly, and changed when a different model may improve payback.

#### **The Integrator**

The integrator is the sole owner and executor of the innovation—and the primary, if not the only, participant in the rewards. Companies usually choose to be the integrator when they believe they are best able to manage the commercialization and realization of an idea (whether it is their own or comes from outside) by themselves, and when they don’t wish to take on the risks of working with others—risks that include being slowed down, having their ideas stolen, or having value siphoned away.

But the integrator also takes on the lion’s share of the risk by shouldering most, if not all, of the investment. Generally speaking, the integrator will incur greater up-front costs than an orchestrator or a licensor would. For instance, if the acqui-

sition of knowledge is involved, that doesn't come cheap. Nor does manufacturing, if that is part of the equation. If the company has global ambitions, it's no insignificant task to invest in the infrastructure and additional resources required to establish and maintain a distinctive, compelling, and consistent presence in multiple markets and geographies. The integrator puts itself at significantly greater risk of suffering a major cash loss, but also sets itself up for a potentially large cash payback.

Integrators play a powerful and important role in business and the global economy. Many of the biggest product breakthroughs have come about thanks to companies that were willing and able to handle the significant risk and huge investment required to be integrators. And it is likely that integrators will find solutions to today's most pressing concerns.

Many companies consider the integrator role to be the default model and often give little thought as to whether it is actually appropriate to their capabilities and the innovation itself. It is important to make an explicit decision on whether and when to be an integrator.

## **The Orchestrator**

The orchestrator assembles and manages a whole range of tangible and intangible elements—design skills, manufacturing capabilities, a workforce, a brand, a distribution system—creating a functioning whole. The key to successful orchestration is determining which parts of the process to keep in-house and which to entrust to partners. The decision about which aspects to retain and which to assign to others must be made according to the four S factors of the cash curve: how best to manage the amount and risk of the start-up costs, how to get to market at the right moment, how to achieve scale as quickly and efficiently as possible, and how to manage support costs to achieve greatest payback.

Usually, the orchestrator will choose to employ its own strongest capabilities and look to outside companies to supply capabilities that it does not have or in which it is weaker. But this is not always the case. Sometimes an orchestrator will decide to develop an in-house capability to handle an aspect of the innovation process that it deems to be too competitively essential to put in the hands of others. And sometimes an orchestrator will ask a partner to provide a capability or deliver an asset that the orchestrator already has but does not wish to deploy for this particular product or service.

The orchestrator and its collaborators may work together in many ways. While the orchestrator may not necessarily generate the original idea for the invention, it is the primary “owner” of the idea and the main driver of the innovation process. Although one company generally runs the show, it is possible for two or more companies to be co-orchestrators, with shared responsibility for managing commercialization and realization.

The success of the orchestrator rests on its ability to work with and leverage the capabilities of other companies. These relationships are different from the traditional master-servant relationships that the integrator often develops with its suppliers. The orchestrator works in much closer collaboration, inviting its partners to get involved in sensitive and mission-critical activities, such as research, product design, or entry into new markets. This means that all the orchestrating partners must invest time and resources in order to develop and manage the relationship, especially when there are differences in values or cultural norms.

With all the attention paid in recent years to the concept of networks and open innovation, most companies have taken steps to get closer to key parties in their ecosystem, especially suppliers. However, many such attempts are superficial at best.

While most companies today are fairly skilled in negotiations and vendor management, many are still much more comfortable putting pressure on suppliers than they are considering what is best for both or all organizations involved. Managers may spend a little more time on the phone with their buy/sell partners and speak the language of collaboration a little more fluently, but when push comes to shove, it usually gets rough, and the true nature of the relationship becomes apparent. Although it's easy to spin outsourcing as orchestrating, it takes a lot more than lip service to make it really work.

### **The Licensor**

The licensor is the primary owner of the spark of the new product, and sometimes undertakes the commercialization of the product, but the licensor has limited involvement in the realization. However, some licensors specify exactly how their intellectual assets are to be managed in the market so as to ensure certain standards of quality, performance, and consistency of brand (if their brand name is involved).

The licensor uses the business system of its licensee to avoid the cost and effort (and impact on its cash curve) involved in bringing its intellectual asset to market and in return gives up a substantial part of the potential revenue (and payback) upside. Some licensors develop close relationships with their licensees, so they can take advantage of new knowledge gained through realization and apply it to further improvements. Other licensors, however, are more *laissez faire* and, once an asset is licensed, have little material involvement with it. Many licensors who have jumped on the bandwagon of trying to monetize their existing patent portfolios fall into this category.

To gain maximum cash payback as a licensor requires intelligent and constant management of intellectual assets

throughout the innovation process. It is a strategic activity and involves far more than simply taking existing intellectual assets from the shelf, dusting them off, and licensing them out. Without careful management attention, a licensing effort can go seriously astray. The licensor faces a unique set of risks and challenges that must be weighed against this innovation business model's potentially attractive financial return.

## 4. Aligning

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Companies can be innovative with almost any organizational structure—and can fail to be innovative with any organizational structure, as well. What matters is alignment. Are the various units, disciplines, activities, and processes aligned around driving innovation and creating payback? Or is the organization a patchwork, with some groups and aspects supporting and promoting those objectives, some blocking them, and some plodding along on another path altogether?

Alignment, or lack of it, affects every aspect of innovation, including the idea generation and evaluation process, the shape of the cash curve, the functioning of the business model, and the ability of a company to achieve payback.

Alignment means that a company's business strategy, innovation business model, organization, and leadership approach all are geared toward, and supportive of, the innovation process and the company's payback goals. There are six important organizational elements to which innovative companies must pay attention.

### **Individual Responsibility**

Innovation has to be someone's main operational responsibility. There needs to be a person who wakes up each morning worrying about how to execute a required set of innovation-related tasks that day and how to get people in the organization to accomplish them. That person must be held accountable for the company's payback goals and measured on the ability of the company to achieve them.

## **Unit Responsibility**

Innovative companies often establish small groups or discrete units that support innovation in specific ways. Some are innovation incubators, designed to encourage, seek out, evaluate, and promote a wide variety of ideas and inventions. Some focus on the creation of a single new product or service, and often work outside the normal operations of the company to do so, like a skunkworks. Others function like internal venture capitalists or sponsors, selecting and funding ideas and pushing them through to commercialization.

## **Company-wide Responsibility**

While innovation must be someone's operational responsibility, supported appropriately, it must also be everyone's job. Ideas, of any size or application, can in fact come from everywhere. Senior executives or researchers in a company have no more likelihood of developing an idea or insight that will result in a product or process innovation and financial returns than an interested employee on the shop floor or someone working with customers every day.

## **Conducive Conditions**

Leaders of innovative companies realize how important it is to create conditions that support innovation and encourage creativity. The following conditions can help people be more effective in the innovation process, particularly during the idea generation phase, no matter what the formal organization structure may be: time to think; space to explore; deep domain knowledge; stimulation; a challenging environment; and motivation.

## **Openness**

A company and its leaders can do a great deal to align its innovation efforts within its own walls, but, increasingly, they also seek to take advantage of knowledge and expertise available outside the organization. Although the subject of “open innovation” has gotten a great deal of attention, most companies are still relying on a few traditional external sources for ideas—such as university engineering departments and customers—and have not begun to look more broadly.

The question most companies wrestle with is not whether to tap into external sources but how to align themselves with outside partners and how to share any resulting rewards. Companies follow one of two basic models: the scout or the beacon. A scout is a company that goes outside and looks for ideas. A beacon is a company that has made enough of a name for itself in its arena that inventors, technologists, other companies with ideas, and collaborators of potential interest seek out the company.

## **Measurement**

Companies use many measures to track their innovation performance. Three of the most popular are the percentage of sales that are generated by new products (usually defined as less than three years old), the number of patents the company files in a given year, and overall revenue growth. These and a multitude of other metrics are useful, but innovation is so broad and complex that no single measure can accurately track innovation performance. And none of the three most popular measures has much to do with cash payback.

Four aspects of the innovation process can be, and need to be, measured.



- *Inputs.* Measuring inputs or resources—such as money and people—enables companies to better decide how to allocate them. Some inputs will be in short supply and can become a limitation on the progress of innovation. Other inputs are readily available and can be scaled up and down with relative ease.
- *Performance.* The inputs are acted on by certain people and processes, which can be tracked and measured to determine more accurately how a project is progressing against plan.
- *Cash payback.* Most important, management needs to determine whether the innovation process is generating cash payback and how much. To be effective, management must be willing to hold people accountable for their success in achieving cash payback.
- *Indirect benefits.* The indirect benefits do not lend themselves as easily to quantitative analysis as does cash, but they can be evaluated. To evaluate knowledge, brand strength, ecosystem relationships, and the organization, companies use a variety of metrics—including survey instruments of various types, third-party rankings, and cross-company benchmarkings—that do not produce an absolute value, but show trends when administered over time.

## 5. Leading

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Leaders can do certain things, and decide certain things, that others in organizations cannot. Effective leaders realize this and focus their time and attention—their most precious resources—on the things they must do and the decisions only they must make. Four of the seven most important things that only a leader can do to drive innovation are discussed below.

### **Convincing an Organization that Innovation Matters**

Employees need to be convinced that top management is genuinely behind innovation, not only because innovation is a different way to achieve growth than they're used to, but also because innovation requires a particular managerial touch.

Everything a leader says about innovation matters. As a leader, you need to communicate your view and commitment in a credible, compelling, and consistent manner. But delivering the message about the importance of innovation is only one part of convincing people. Your commitment must be expressed not only in your communications but also in the activities you undertake and the way you allocate your time. If your employees were to look at your calendar, what would it say about your priorities? How much of your month is devoted to innovation activities? How much of the agenda of each event and activity is related to innovation?

### **Focusing on the Right Things**

Leaders of highly innovative organizations must spend a great deal of time determining which ideas will be pursued

or left alone and how those decisions will be made. They must focus the organization on thinking about, developing, and commercializing the right things.

Not only does “focusing on the right things” mean starting up the right new initiatives, but it also must inevitably involve putting an end to those things that are not going to generate payback. The decisions about which innovation projects to continue and which ones to deprioritize or drop altogether are always important, emotional, and difficult. Without strong leadership, most organizations can’t make these decisions effectively. Instead of pruning away the deadwood so they can focus on the projects that have potential for success, they endlessly try to fix up the ailing projects, rehash the problems and possible solutions, and second-guess what went wrong. As a result, they lose the ability to reach closure and secure mass support for projects that will result in cash and indirect benefits.

### **Putting the Right People in the Right Place**

Ultimately, innovation is about the people involved in the process. Successful innovation requires the internal orchestration of many different functions, disciplines, geographies, and activities. People either play a positive role and help organizations develop and turn ideas into cash payback and noncash benefits, or they get in the way of doing so. Rarely is the effect of an individual benign, at least in terms of the outcome. The right person in the right place with the right skill set, motivation, and approach can make all the difference. The converse is also true.

Effective leaders of innovation (and, in fact, anyone involved in the process) tend to possess a set of qualities and skills that may be less necessary for leaders of other types of

efforts. These qualities include tolerance for ambiguity, the ability to measure and be comfortable with risk, the aptitude to quickly and effectively assess an individual, and sufficient personal balance to be both passionate and objective.

Perhaps most important, leaders who are successful at innovation are willing to change. Sometimes the required change is on an organizational level—people, processes, and structures that used to be successful no longer are. They need to be changed, and someone needs to have the insight to see the required change, an understanding of how to make the change happen, the courage to attempt it, and the determination to see it through.

At other times, the change is on an individual level. Although some leaders are born with a fervent desire to constantly create new things, most come to innovation from some other viewpoint and discipline. As a leader, it's important that you understand your own attitude toward innovation, because it will affect how you build your organization and how you interact with the process.

### **Encouraging and Modeling Risk Taking**

Innovation always involves risk. It can be hedged, mitigated, insured against, and shared with others, but—by definition—it never can be eliminated from innovation, nor should it be. Leaders and companies that will not take enough risk will never be able to achieve payback through innovation. Companies that say they want to innovate, but then do everything possible to remove all the risk, will confound the process and drive innovative people away.

Companies that accept risk, and commit to managing the process holistically, will find that innovation not only can be an endlessly renewable source for generating payback, indi-

rect benefits, organic growth, and longevity, but also can create a positive legacy for the company and its leaders.

The greatest risk that leaders and their companies face is taking no risk at all.

## 6. Getting Started

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As a result of our work with hundreds of organizations over the past twenty-five years, we know that the toughest step to take is the first one. So when executives ask us, “Where do we start?” we answer with six actions that can be taken to begin the innovation journey. Here are three of them.

### **Draw a Cash Curve**

Draw a cash curve for a current or upcoming innovation project that you are considering. Force yourself to understand what you need to know to draw it as accurately as possible. While a cash curve looks simple to create, it is actually quite complicated because of all the facts, assumptions, and judgments needed to draw it correctly. But the act of drawing a cash curve forces the discipline of asking (and answering) the right questions and provides a sanity check on the answers.

Take the time to draw the curve rigorously. You’ll gain a greater understanding of innovation and what it takes to be successful. You’ll learn how to use the curve to help you make the tradeoffs required to increase the payback from your projects before you start spending money (or to improve the payback from the dollars you are already spending).

### **Rethink Your Models**

Most companies use the same innovation business model (integrator, orchestrator, or licensor) for almost all their projects. Review some projects and consider whether a different model would have yielded higher payback, which would have freed up resources that could have been used to create more new products and services.

You'll probably find that you would have changed the mix of models. More important, take a look at the projects that you have in the pipeline now. Why are you using the models you are? What are the barriers to using others? What does the cash curve look like for each of the three models? What might the use of different models mean for the amount and allocation of cash, indirect benefits, and risk?

### **Assess Your Risk Perspective**

Your perspective on risk can make all the difference in successfully managing innovation. A few questions to ask yourself: Are you looking at individual projects rather than thinking through the risk in the context of your portfolio and corporate ability to absorb risk? Are you considering real probabilities, rather than "worst cases"? Are you pondering the risk of not doing the innovation? Should you be taking on *more* risk than you currently are?

As you consider how to get started, keep in mind that the road to achieving extraordinary payback from innovation can be a long one. But even a small step can improve and enhance payback almost immediately. What matters most is not the exact step you take first, but that you take deliberate, explicit, and committed action to improve your payback from innovation—and that you do it now.

## The Authors

### **James P. Andrew**

Jim Andrew is a Senior Vice President and Director of The Boston Consulting Group, and heads the firm's global innovation practice. Jim works with leading companies around the world and across industries to develop innovation strategies, align organizations to enhance their culture and innovativeness, create breakthrough new businesses, redesign new product development processes, improve R&D management, optimize product portfolios, and design innovation metrics systems

Jim and his ideas have been featured in dozens of leading publications around the world. He leads BCG's annual global Senior Executive Survey on Innovation (conducted in conjunction with *BusinessWeek*), and is the lead author of the *Harvard Business Review* article "Innovating for Cash".

Jim joined BCG in 1986, founded and led the firm's offices in Mumbai (Bombay) and Singapore, and is now based in Chicago. He holds an MBA from Harvard University Graduate School of Business, with distinction, and a BS from The University of Illinois, with highest honors.

### **Harold L. Sirkin**

Hal Sirkin is a Senior Vice President and Director in BCG's Chicago office. He leads the firm's global Operations Practice. Under his leadership, the firm has emerged as the foremost driver of client results in two areas critical to profitable growth—innovation and globalization. Hal previously led BCG's highly successful E-commerce and IT Practices.



Hal works with leading companies worldwide to improve their innovation returns, operating efficiency, global competitiveness, and strategic use of IT. His expertise spans a broad range of industries, topics and geographies. A thought leader both within and outside the firm, he is frequently quoted in the press worldwide and writes a quarterly column for *BusinessWeek* on-line. He has authored a wide range of articles for business publications, including several for the *Harvard Business Review*.

Hal has been with BCG for 25 years. He holds an MBA from the University of Chicago and a BS summa cum laude from the Wharton School. He is a Certified Public Accountant.

### **The Boston Consulting Group**

Since its founding in 1963, The Boston Consulting Group has focused on helping clients achieve competitive advantage. Our firm believes that best practices or benchmarks are rarely enough to create lasting value and that positive change requires new insight into economics and markets and the organizational capabilities to chart and deliver on winning strategies. We consider every assignment to be a unique set of opportunities and constraints for which no standard solution will be adequate. BCG has 61 offices in 36 countries and serves companies in all industries and markets. For further information, please visit our Web site at [www.bcg.com](http://www.bcg.com).