Calculating Innovation ROI and Developing a Business Case for your Program

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David Carter, VP Finance

INTRODUCTIONS

David Carter – VP Finance

Australian, Finance, Ops and Tech

dcarter@brightidea.com

+1-713-724-2207

Kelly Kwak - Analyst

USA, Data guru

kkwak@brightidea.com

+1-650-922-7354

OVERVIEW

Purpose: Introduction to the concepts needed to create and deliver effective return-on-investment (ROI) evaluations for Innovation programs.

Workshop attendees will explore ROI concepts and techniques, enabling them to determine how Innovation Program objectives and activities can practically deliver business results, and know the concepts required be able to develop evaluations for their own programs.

Audience:
Targeted to individuals who are looking to understand the concepts to:
* Identify the drivers for ROI accountability
* Apply ROI techniques to Innovation Programs
* Link Innovation Programs objectives and activities to business results
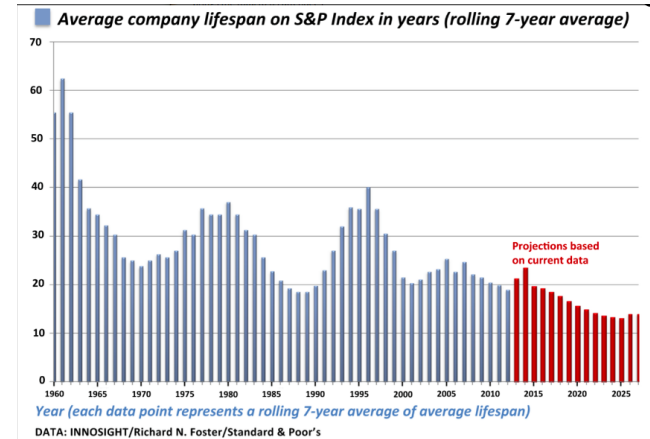* Develop an evaluation plan for one of their own programs.

AGENDA

The Management / Overview Workshop covers the following topic areas:

- Why ROI
- Building Fully-Loaded Innovation Budget
- Calculate Innovation Returns, by App
- Ongoing Reporting and Monitoring
- Recording Projections and Outcomes in Brightidea
- Resources

BUSINESS CASE INSIGHTS

Your job is extremely important:
- Odds are is that you're company will not be in a strong position within 7 years.
- Big Companies do go out of business

You are Hero's:
- Innovation programs can work with spectacular results. Top programs return Drug Cartel returns.

Average company lifespan on S&P Index in years (rolling 7-year average)

Projections based on current data

Year (each data point represents a rolling 7-year average of average lifespan)

DATA: INNOSIGHT/Richard N. Foster/Standard & Poor's

" For every $1 invested in our innovation program we have returned over $75 to the business."

Steve Healey
HEAD OF BT NEW IDEAS

BT

ENLIGHTENMENT

- ***Tasmanian Tiger (Thylacine)***

© Popperfoto/Getty Images

ENLIGHTENMENT

You may not have a job:

- 20% of Innovation Programs go away each year, i.e. – are dissolved.
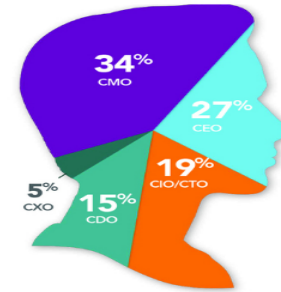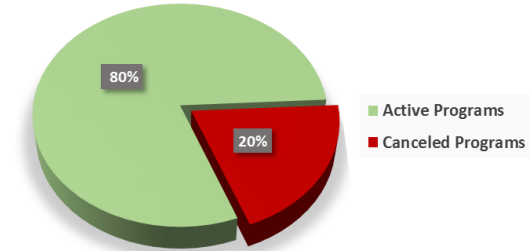
Not understood:

- Innovation Programs are a net new activity.

Life Happens:
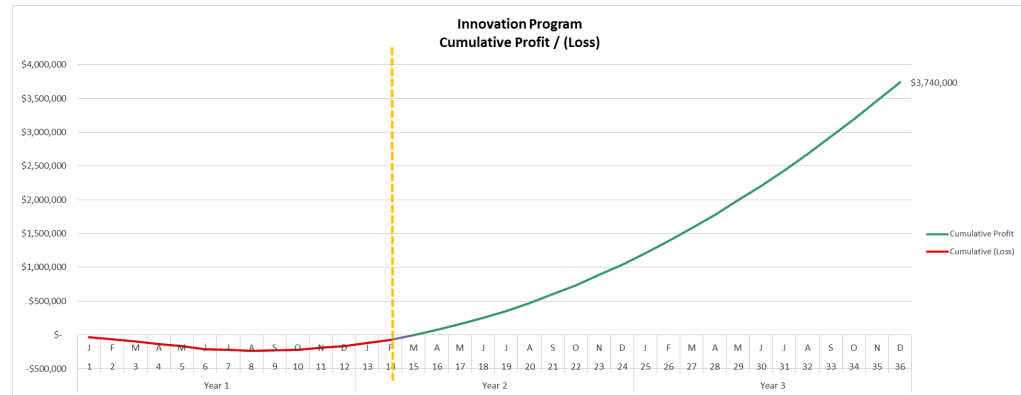
- May be caused by events out of your control.

2014-2016 INNOVATION PROGRAMS

- 80% Active Programs
- 20% Canceled Programs

- 34% CMO
- 27% CEO
- 19% CIO/CTO
- 15% CDO
- 5% CXO

	Project P	Project Q
Capital expenditure	60,000	60,000
Cash Inflows		
Year 1	20,000	50,000
Year 2	30,000	20,000
Year 3	40,000	5,000
Year 4	50,000	5,000
Year 5	60,000	5,000

ENLIGHTENMENT

- ***You're on the clock :*** You have a limited timeframe, and realizing benefits can take time.

6

months from idea selection to commercial product

- ***Even successful programs take time:*** Time to make even a successful program breakeven can be over a year.

Innovation Program
Cumulative Profit / (Loss)

$3,740,000

Cumulative Profit
Cumulative (Loss)

Year 1   Year 2   Year 3

CALCULATING ROI

ROI = Returns from investment – costs from project

Cost from investment in project

Components

- *Returns:* Incremental Revenues or Cost savings from Innovation program activities.

- *One off project costs:* Innovation programs can work with spectacular results.

- *Ongoing costs:* Costs of running innovation program including

- *Time period:* Period of measurement, would recommend no longer than 3 years.

- *Cost of Capital:* The cost of using your organizations money. Effectively what return your organization requires to borrow money from them.

- *NPV:* Net Present Value, value of returns of project taking into account the cost of capital and time value of money.

BUDGET COMPONENTS

- *Salaries and Overhead:* Salaries of dedicated staff to run the team.

- *Borrowed Labor and Resources:* People and resources borrowed from other departments to execute.

- *Incentives and Marketing:* Challenge Incentives and Marketing Costs

- *IT Costs:* Software and Services Costs.

- *Rent:* Recommend evaluate the business case to have physical presence in Europe given the collection of customers and poorer win rates, through establish, acquire or other.

BUDGET EXAMPLE

Assumptions	
BudgetFactors	**Data Input**
Innovation Program Staff each year	3
Average Salary + Overhead per year	$ 125,000
IT Costs per year	$ 50,000
Rent and Office Costs per year	$ 50,000
Incentive per challenge	$ 5,000
Marketing per challenge	$ 5,000
Other per year	$ -

	Year 1												Total
	J	F	M	A	M	J	J	A	S	O	N	D	Total
	1	2	3	4	5	6	7	8	9	10	11	12	
Expenses (Run Rate)													
Salaries and Overhead													-
Innovation Team member 1	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	125,000
Innovation Team member 2	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	125,000
Innovation Team member 3	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	125,000
Challenge Incentives	-	-	-	-	-	-	5,000	-	5,000	-	5,000	-	15,000
Challenge Marketing	5,000	-	5,000	-	5,000	-	-	5,000	-	5,000	-	-	25,000
IT Costs	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,000
Rent and Office Expenses	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,000
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	**44,583**	**39,583**	**44,583**	**39,583**	**44,583**	**39,583**	**44,583**	**44,583**	**44,583**	**44,583**	**44,583**	**39,583**	**515,000**

INNOVATION RETURNS

Hard Innovation Benefits: Quantifiable

- **Revenues:** New products, services or additional sales.

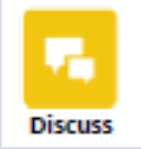- **Costs:** Savings from labor, materials, process improvements, identifying areas of waste.

Soft / Culture Benefits: Harder to quantify, [but also large impact on quantifiable costs]

- **Employee Engagement:** Increases in productivity, staff retention. [5% increase in productivity could reduce your wage bill by 5%], [cost to hire each new employee costs ~20% of first year salary]

- **Customer Satisfaction:** leads to customer retention [revenue loss avoidance].

- **Culture of Innovation:** Google → attracts certain type of talent, evolve job. Momentum.

INNOVATION RETURNS BY APP

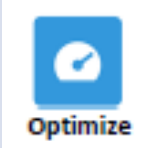| App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
App X	App impact example	Current Situation Business Problem or baseline situation	New Situation Future situation / things that change. Productivity improvements, new revenues, speed to market, market share	Description of financial calculation. Additional revenue Labor and materials Cost savings	$ Calculated dollar value (one off or recurring)
	Team impact example.	Current team situation, constraints.	Future situation abilities of team to impact results	Description of each component of calculation (to be clear and concise) A resources x $BBB.00 recurring savings x CCC challenges for each year	$ Calculated dollar value (one off or recurring)

INNOVATION RETURNS BY APP

App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Discuss	CEO Forum (App example)	5,000 Poorly engaged employees. Non focused employees on CEO customer is king theme.	Reach out to 20% of staff engaged in talking about CEO theme and challenge. Productivity increases for six week period. Improve retention drops by half for one month of year.	5,000 employees x 20% participation x 5% productivity x $75,000 cost x 6 / 52 weeks 5,000 employees x 10% attrition x 1 / 12 month saving x half x recruiting cost of $10,000	$432,692 (one off) $416,666 (one off)
	Deliver challenges efficiently (Team example).	Internal marketing resources required approximate $75,000 to run CEO challenge.	Discuss App best practices, workflow templates require half marketing resources.	½ marketing resources x $75,000 recurring for CEO challenge each year	$37,500 (recurring)

INNOVATION RETURNS BY APP

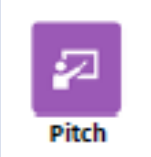| App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Solve	Seat Belt (App example)	Seat belts currently save lives but cause significant bruising injury during crash. Long term problem never addressed, new product research and development is stuck.	Solve challenge to all engineers in company sees air bag technology improve seat belt design. Product to market one year earlier than competition, capturing additional market share.	Additional profits 24.6 million vehicles produced 2015 x 5% market share x $100 seatbelt set x 15% gross margin x 1 year.	$18,450,000 (recurring)
	Find the serial innovators (Team example)	Difficult to identify and engage people that could help me in 10,000 person company, distribution list considered spam	Rapid response derived solution three months earlier as able to identify and meaningfully reach out and engage experts as required.	Additional profits 3 / 12 months x the above business benefit of $18,450,000	$4,612,500 (one off)

BRIGHTIDEA®

INNOVATION RETURNS BY APP

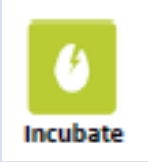| App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Optimize	Recoup Warranty Costs (App example)	No process or system is in place to manage warranties for assets.	Ability to record warranty details and enforce processes to recuperate warranty costs.	Cost savings 3% of total maintenance costs - $31 M (Value of all charges against new equipment in first six months x 50%)	$930,000
	Optimize (Team example)	Manual repositories, spreadsheets, meetings. Ideas are lost in the haze and do not make it up for approval.	Ideas are actioned and approved at scale. 1 additional ideas moved forward x $250,000 average idea return annually.	1 new idea x average cost saving of $250,000.	$250,000

INNOVATION RETURNS BY APP

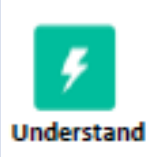| App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Hack	Localization store promotion App (App example)	Retail sports clothing store has running app.	Future of fitness hackathon held. Winning team develops running buddies Avatar that collects points running to landmarks including stores.	10,000 additional app demographic downloads using Avatar x $20 additional shirt profit per person for year.	$200,000
	Run multiple business unit hackathons (Team example)	Total coordination effort of a hackathons means only one annually can be run with existing team resources.	With Hack App templates, less time can be spent planning event, allowing 3 additional hackathons annually, producing 3 additional prototyped ideas.	3 additional prototyped ideas moved forward x $250,000 average idea return.	$750,000 (recurring)

INNOVATION RETURNS BY APP

App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Pitch	Fundable business ideas (App example)	Total coordination effort of pitches means only one annually can be run with existing team resources.	With pitch templates, less time can be spent planning event, allowing 3 additional shark tanks annually, producing 3 additional business ideas.	1 additional disruptive idea x $5,000,000 expected return.	$5,000,000
	Better investment decisions (Team example)	Pitch day / shark tank / dragons den is undertaken with inconsistent business pitches	Pitch App forces discipline and strong teams to form, standard business proposals, financial modelling. This makes it easier to evaluate and make right investments.	Saving of 3 poor investments x seed funding of $50,000.	$150,000

INNOVATION RETURNS BY APP

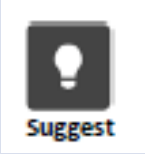| App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Incubate	Idea fostered (App example)	Ideas are submitted, but team would need to quit as no opportunity to take forward.	Idea from CEO challenge then shark tank winner brought into incubator.	$50,000,000 additional business unit.	$50,000,000
	Run Incubator better than a VC (Team example)	Projects are manually organized on spreadsheets and reported quarterly.	Rigorous tracking in incubate App identifies 3 non viable projects sooner each year, saving money for other projects. Additional resources enable one successful business to be successfully incubated.	$10,000 monthly incubator resource stipend x 3 ideas x 6 months	$180,000 (one off)
				1 additional project successful x $5,000,000 impact.	$5,000,000 (one off)

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INNOVATION RETURNS BY APP

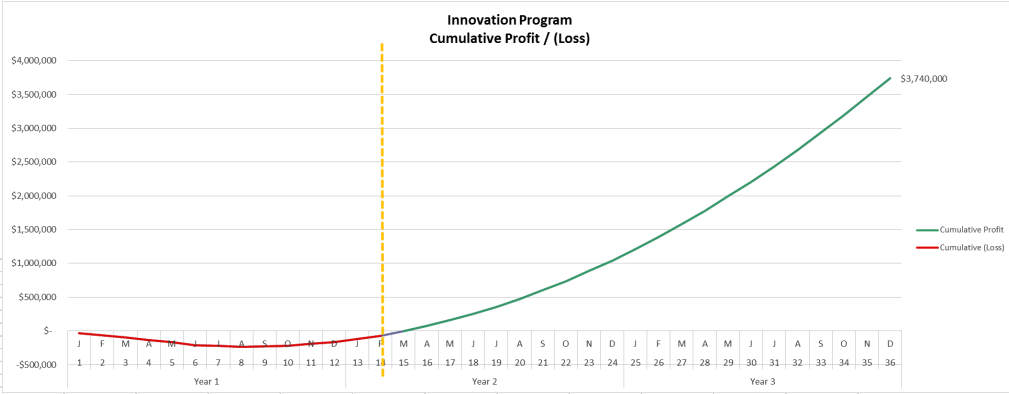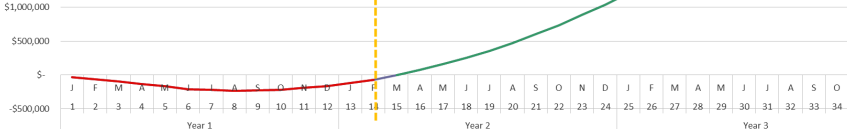| App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Understand	Premium Bike Seat (App example)	Bike seat design not changed for decades, widely regarded as not able to be improved.	Next generation premium bike seat product produced, recognized as premium product leader, capturing 100,000 annually.	Additional profit 100,000 additional bike seats x $120 retail x 15% gross margin x 2 years.	$1,800,000 (recurring 2 years)
	Perform design thinking on core processes (Team example)	Design research firm is engaged to five projects a year, flying team members in to global locations, conducting interviews, producing results.	Understand app used to investigate a topic and perform rapid research globally with internal resources. Design research firm required for four projects only, saving one project this year	$500,000 design research firm fee x 1 project saving. Costs of 2 x internal resources $100,000 for six months required.	$400,000 (one off)

INNOVATION RETURNS BY APP

App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Monitor	Implement Condition Based Monitoring Technology (App example)	Currently fixed maintenance schedules in line . Machines are being over or underserviced.	Monitoring of industry technology adoption found CBM technology use at competitor that reduces the number of unnecessary equipment services.	100 pieces of critical equipment, $480,000 annual average servicing cost per machine x 10% reduction in number of services required.	$480,000 (recurring)
	Reduce manual processes and wastage (Team example)	Manual repositories, spreadsheets, meetings, emails communications and attending conferences to keep up to date.	Monitor app keep up to date of industry trends. Reduced travel and research subscription. Remove home grown system administration IT resources.	Five international trips to conferences x $2,000.

Two hours IT admin a week x 52 weeks x $60 an hour. | $10,000 (recurring)

$6,240 (recurring) |

INNOVATION RETURNS BY APP

App	Goal / Problem	Baseline (Current Situation)	Improvement (New situation)	Financial Impact example(s)	Value $
Suggest	Optimal Plant Layout (App example)	Raw materials must be carried from the central store to machines.	Reconfigure plant creating multiple raw materials stores near feeder machines reducing no feed downtimes. Increase plant output by 2%.	100 fridges daily x 2% additional production x $7,000 sale price x 365 days x 35% gross margin	$1,788,500 (recurring)
	Automate Processes (Team example)	Many ideas are submitted, but sit in limo, taking significant resources to route to execs for approval.	With automated system, one team member can handle work of three. Ideas are chosen one month earlier due to auto routing	Two FTE cost saving x $90,000 fully burdened. 5 ideas x 1 / 12 months x $250,000 average idea return.	$180,000 (recurring) $104,167 (recurring)

BRIGHTIDEA

TRACKING EXAMPLE

Innovation Program
Cumulative Profit / (Loss)

Assumptions	Actual Data	Benchmark
Revenue Factors		
Challenges Run Per Year	6	X
Challenges Run every X Months	2	X
Ideas submitted per challenge	50	96
Ideas implemented per challenge	1	X
% Ideas implemented per submitted ideas	2%	X
Outcome $ value per challenge	250,000	X
Days to outcome per challenge	180	429
Months	6	14.1
Years	1	1.17
Cost Factors		Benchmark
Innovation Program Staff	1	5
Average Salary	420,000	$ 125,000
IT	-	-
Office Costs	-	
Incentive per challenge	-	
Marketing	-	
Other	-	

	Year 1												Year 2							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A
Revenue																				
Ideas Benefits Realized																				
Incremental	-	-	-	-	-	-	20,833.33	20,833.33	41,666.67	41,666.67	62,500.00	62,500.00	83,333.33	83,333.33	104,166.67	104,166.67	125,000.00	125,000.00	145,833.33	145,833.33
Breakthrough	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hackathon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Design Thinking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20% Time	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Open Innovation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Open																				
Breakthrough																				
Total Revenue	-	-	-	-	-	-	20,833	20,833	41,667	41,667	62,500	62,500	83,333	83,333	104,167	104,167	125,000	125,000	145,833	145,833
Expenses (Run Rate)																				
Salaries	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333	33,333
Incentives	-	-	-	-	-	10,000	-	-	-	-	-	10,000	-	-	-	-	-	-	10,000	-
Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other																				
Total Expenses	33,333	33,333	33,333	33,333	33,333	43,333	33,333	33,333	33,333	33,333	33,333	43,333	33,333	33,333	33,333	33,333	33,333	33,333	43,333	33,333
Profit / Loss MoM	-33,333	-33,333	-33,333	-33,333	-33,333	-43,333	-12,500	-12,500	8,333	8,333	29,167	19,167	50,000	50,000	70,833	70,833	91,667	91,667	102,500	112,500
Profit / Loss Program Cumlative	-$ 33,333	-$ 66,667	-$ 100,000	-$ 133,333	-$ 166,667	-$ 210,000	-$ 222,500	-$ 235,000	-$ 226,667	-$ 218,333	-$ 189,167	-$ 170,000	-$ 120,000	-$ 70,000	$ 833	$ 71,667	$ 163,333	$ 255,000	$ 357,500	$ 470,000
Cumulative Profit															$ 833	$ 71,667	$ 163,333	$ 255,000	$ 357,500	$ 470,000

SUMMARY

- ***Track Projections and Outcomes:*** Get into habit of putting these in every challenge.

- ***Measure Quarterly:*** Should measure and report results on quarterly (minimum) basis.

- ***Publicize the success:*** Results, outcomes and activities should be reported on a regular basis.

- ***Don't be afraid of the numbers:*** Baseline, new situation, best estimate of results. Enlist help, many financial analysts who would love to help you if not already on your team.

- ***Survive and Thrive :*** Use ROI to your advantage – Don't become extinct...☺

RESOURCES

- Innovation Budget → in resources within Brightidea

- Innovation ROI:
https://s3-us-west-1.amazonaws.com/brightidea.com/ipmcc/9+Tips+For+Capturing+Impact+From+Innovation.pdf

- Recording Projects and Outcomes:
https://support.brightidea.com/hc/en-us/articles/205844267

Contact us:
- David Carter, +1-713-724-2207 dcarter@brightidea.com

- Kelly Kwak, kkwak@Brightidea.com

QUESTIONS