

## **Innovation Pruning**

# Making Strategic Decisions in Uncertain Times

April 2020



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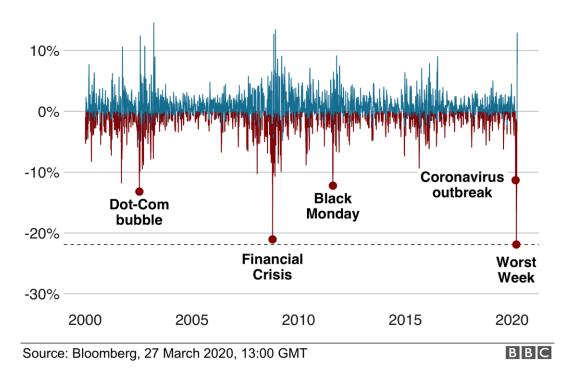
# **Global Paradigm Shift**

The recent and ongoing COVID-19 pandemic has thrust global economies into an accelerated recession that hasn't been seen since the Great Depression of the 1930s.

However, unlike most historical recessions, this one came without warning. Most, if not all, organisations were drastically underprepared and are now scrambling to cut costs wherever possible within the business. An unfortunate consequence of this is that many employees will lose their jobs and take with them valuable intellectual capital – an intangible asset that has driven innovation and competitive advantage for the business over many years.

Even more concerning is that organisations have been quick to terminate innovation initiatives that will be critical to their ability to 'rebound' once the immediate impacts of the COVID-19 pandemic begin to subside.

#### FTSE 100 plunges on coronavirus fears



Week-on-week percentage change

## **Innovation Pruning**

Just like fruit trees, innovation portfolios need regular pruning to ensure that innovation initiatives are still aligned with the strategic objectives and values of the business. Removing innovation branches that are failing to bear fruit, or growing in the wrong direction, ensures that others have an opportunity to flourish.

This pruning process is even more important in difficult economic times where the business is seeking to rapidly cut costs. But an understanding of the competitive advantage that each innovation initiative represents simplifies and accelerates this process. It also frees up resources and capital for allocation to higher value innovation initiatives.

Assessing the competitive advantage of innovation initiatives requires a quantitative investigation of the following metrics:

- Technology
- Intellectual Property
- Market
- Competitor Landscape

Identification of underperforming innovation initiatives with low competitive advantage

Reallocation of funding to initiatives with greater likelihood of competitive advantage benefits

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Increased resources, funding and ROI for most preferred innovation initiatives

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## **Strategic Review Process**

Preserving the 'building blocks' of sustainable competitive advantage, especially in difficult economic times, requires a strategic understanding of how human resources and innovation initiatives contribute to the future success of the business. Companies need to plan and act rapidly across four key horizons.

## Plan

Review the existing plan for each significant innovation project, including projected spend, delivery milestones, innovation horizons, and expected ROI.

## People

Identify the key personnel that have contributed to the innovation initiative, and whether they may be better assigned to other projects/initiatives.

## Position

Assess the competitive advantage represented by each of the key innovation initiatives, and potential loss of competitive position by discontinuing it.

## Prioritize

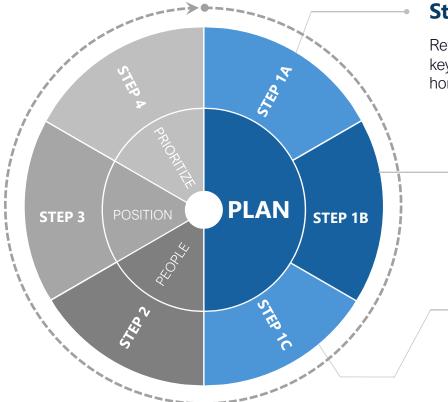
Make a strategic decision to progress, postpone, pivot or purge the innovation initiative based on the competitive advantage it represents.

There is no doubt that cost cutting is urgently needed in our current global circumstances. However, making wholesale reductions across all areas of the organisation is fraught with danger and likely to create more significant issues for the business in the longer term. These issues include a lack of access to critical talent in key innovation areas, a significant loss of intellectual capital across the organisation, and an inability to differentiate from competitors.



## Plan: Market & Strategy Review

The initial phase of innovation portfolio pruning requires planning. Reviewing existing R&D and commercialisation strategies for each of the innovation initiatives to determine whether they still relevant to and align with key target markets. This planning stage also involves assessing the value of the innovation initiatives, the strategic significance of the underlying IP, and the estimated timeframe (i.e. Horizon) for expected commercialisation.



#### **Strategy Review**

Reviewing the current approach to development and advancement of key innovation initiatives, assessing for consistency across innovation horizons and relevance to sustainable competitive advantage.

#### **Market Alignment**

Considering the relevance of innovation initiatives to key target markets that the business is pursuing, including assessing the sustained competitive advantage opportunity in those markets.

#### **Horizon Mapping**

Mapping each of the key innovation initiatives against their delivery horizons (i.e. Horizon 1-3) to gauge timeline for return on investment (ROI) and assess open innovation monetisation opportunities.



# **People: Strategic Insights**

Understanding the factors underlying decisions to progress certain innovation initiatives is critical to measuring the value of those initiatives to the business. Since not all innovation initiatives are progressed purely on the uniqueness of the underlying technology, this stage of the process requires us to interview internal leaders and stakeholders to better understand the current business proposition for pursuing key innovation initiatives.

#### **Strategic Value to Business**

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**Competitive Positioning Advantage in Market** 



Does the innovation initiative allow the business to secure a price or positioning advantage within the market as a result of the underlying technology being deployed?

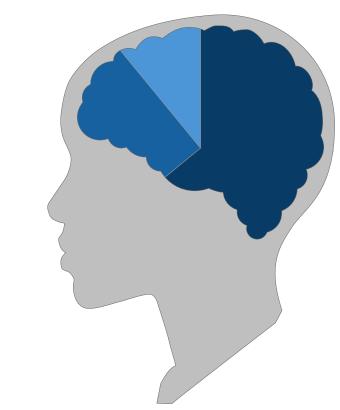
#### **Monetization Potential for the Business**

Does the innovation initiative represent a strategic lever that is

business or a significant advance on current business models?

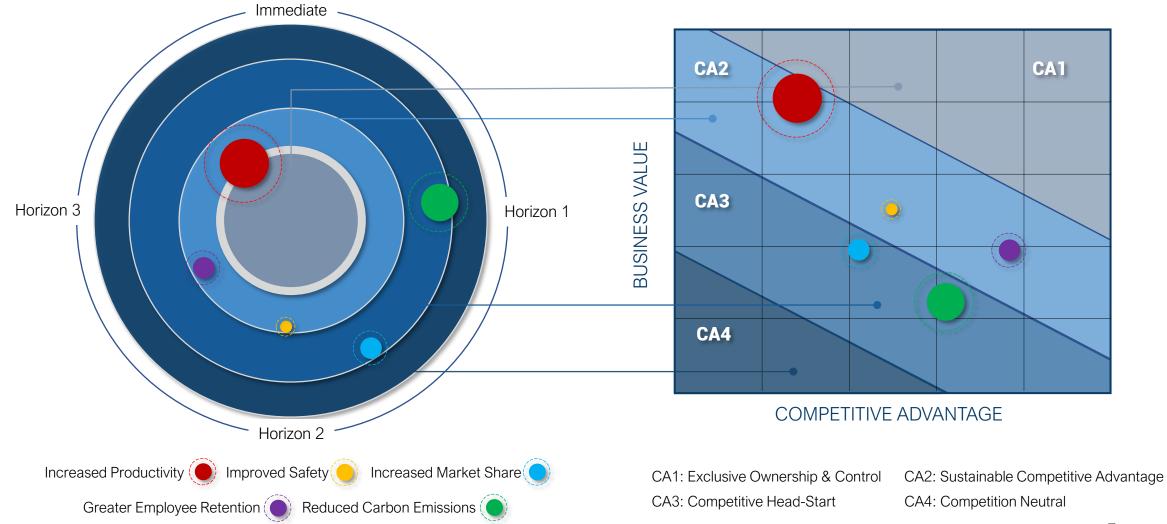
likely to deliver sustained competitive advantage to the

Does the innovation initiative (and underlying IP) represent an opportunity to generate revenues in key target markets, or through open innovation initiatives in adjacent markets?



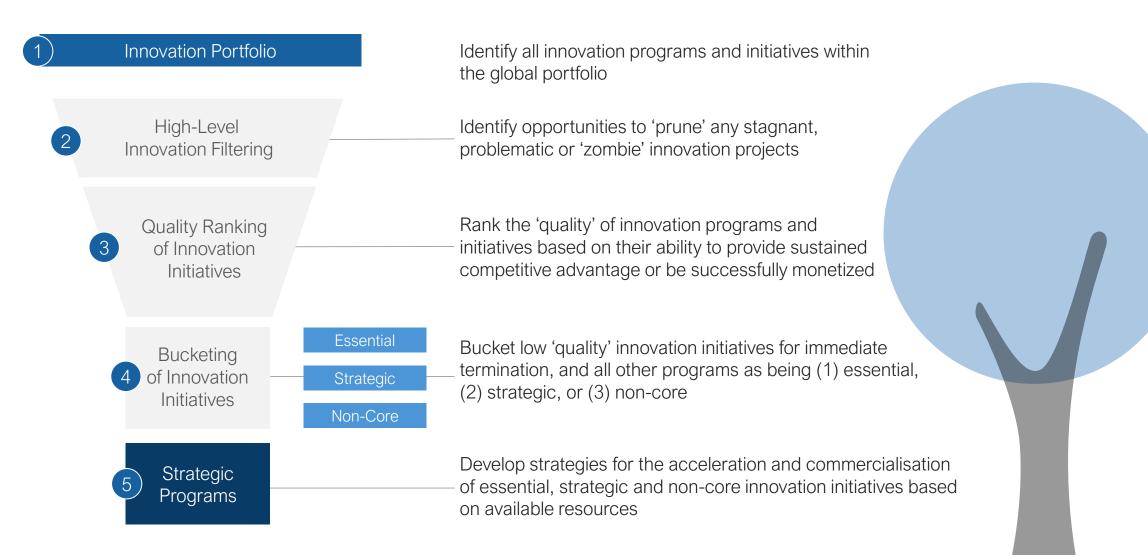


## **Position: Innovation Mapping**





## **Prioritize: Innovation Filtering**





# **Typical Cost-Reduction Strategies**

While there is no 'one size fits all' approach to reducing costs in innovation portfolios, our experience in managing and assessing some of the world's largest portfolios has highlighted certain common areas of opportunity. A closer alignment of innovation initiatives with their corresponding patent IP portfolios, as well as with the strategic commercial objectives of the business, often makes the 'pruning' of innovation portfolios and the long-term reduction of portfolio costs a more sustainable exercise. Some examples of these common cost-reduction strategies for innovation portfolios are outlined below.

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#### Culling

Our extensive experience in managing large innovation portfolios for multinational companies has shown that most organizations have a subset of stagnant or 'zombie' projects that are not advancing or have very low likelihood of generating a competitive advantage for the business. These projects are often easy to identify and remove.

#### **Portfolio Focus**

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An independent review of innovation portfolios often reveals projects that are no longer aligned with the organization's commercial strategies or future business models. By considering the sustained competitive advantage that each of these projects represents, the portfolio can be weighted to favour more attractive projects.

#### In-Sourcing

Applying an open innovation model to the development of innovative technologies, there are often opportunities to insource commercialised technology (and related IP) from adjacent industries. This has the advantages of largely eliminating expensive R&D programs and accelerating time to market deployment.



#### Monetization

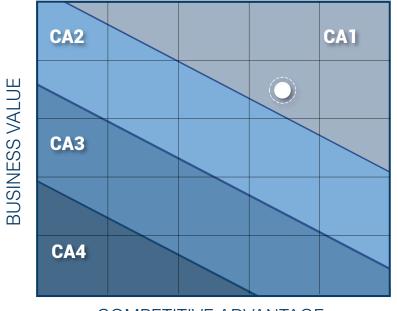
More a cost 'offset' than a cost reduction strategy, but monetization of technology (and IP) developed through innovation initiatives by licensing into adjacent industries can generate additional revenue to offset innovation portfolio costs. Our extensive experience in innovation monetization gives us a unique ability to identify such opportunities.



## **Case Study**

July 2018 Initiative Commenced		Project commenced as a Horizon 3 innovation initiative with a 3-5 year delivery timeframe and an estimated investment of \$12M per year
January 2020 COVID-19 Pandemic		Innovation initiative is currently at an early technology readiness level (i.e. TRL 4) due to project delays, and is not expected for deployment until 2022 at the earliest. However, the project is expected to realize savings to the business of \$250M annually as well as a significant competitive advantage.
April 2020 Available Options	•	<ol> <li>Continue to invest in innovation initiative according to initial plans due to significant future competitive advantage that it represents.</li> </ol>
		2. Terminate project immediately and archive learnings and IP.
		<ol> <li>Seek out an open innovation partner to offset the cost of developing the innovative technology.</li> </ol>

Considering the recent COVID-19 pandemic, a major Australian energy and resources company is assessing its current innovation portfolio with a view to immediately terminating any non-essential programs. One such program relates to the development of an integrated digital twin capability that will enable the business to realize significant efficiencies and competitive advantage in Horizon 2-3.



COMPETITIVE ADVANTAGE



## **Initial Assessment**

Our team of innovation management experts has had many years of experience in assessing and pruning innovation portfolios for leading global technology companies. This experience makes us ideally placed to rapidly assess your portfolio and provide an independent view of the strategic 'cuts' that are achievable.

In addition, our team of globally-recognized IP asset management specialists that can assist you with crafting strategies for asset monetization to help fund the ongoing development of critical innovation and IP initiatives within the business.

We invite you to contact us for an initial assessment of your innovation and intellectual property portfolios and start to realize the benefits immediately. 20-30% Typical Reduction in Innovation Portfolio Costs



Increase in Innovation Commercialisation 3,000+ Innovation Programs Reviewed to Date

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## **Execution Mindset**

Radian Global blends together strategy, execution and futurethinking to provide its clients with proven strategies and execution playbooks for future growth.

We leverage our global networks and experience across a broad range of industries to deliver 'best in class' innovation management systems that can be 'right sized' for your organisation's needs.

We have designed, delivered and managed innovation and intellectual property programs for some of the world's most ambitious tech companies.

We have a team of 20+ technology, commercialisation and execution experts spread across three continents – including in Australia, where we established an office in 2019 to service the Asia Pacific market.



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