

# THE FOUR TYPES OF INNOVATION METRICS



A series of perspectives on innovation  
from leading practitioners, advisors  
and analysts in the field.

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**I**nnovation metrics are hard. Casual observers typically assume that innovation, as a “fuzzy” art, can’t be measured at all. This is an unfortunate belief, because it unduly complicates innovation’s crucial role in driving firm-wide value.

Although measuring innovation is possible – and necessary for success – it’s still a touchy subject for most innovation leaders. There are four reasons why.

**Innovation is new to the business and ambiguous.** For the vast majority of companies, innovation is either an occasional or new-found discipline. Making it into a repeatable, scalable set of practices tends to highlight organizational roadblocks and politics – even with deft, careful leadership. The conversation about innovation metrics can be polarizing.

**Innovation is inherently unknown.** Most innovation leaders face a difficult challenge when translating the potential value of ideas into quantitative measures. While a common reaction is to go straight to the bottom line with measures such as ROI, innovators know these metrics can kill

early-stage promising concepts. The organization must develop a comfort level with ambiguity as a means to learn key lessons along the way.

**Innovations have long time horizons.** Measuring transformative innovations is an exercise in patience. Potential new products that are mere concepts today may take years to enter the market, and even longer to demonstrate ROI. Very few innovation programs have the luxury of waiting multiple years before delivering quantifiable results.

**Measuring innovation requires partners.** Demonstrating the effects of a strong innovation program typically depend on active involvement from other units and functions in the company. For example, innovation is also leveraged to drive culture change – but how is that really being measured and monitored? At the very least, this implies a strong partnership with the HR and Operations functions, to create the environment where such questions can be answered. These interdependent partnerships are net-new when building an innovation program, and not always obvious.

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<b>Strategic</b>	<b>Activities Mix</b>	<b>Portfolio Health</b>
<b>Operational</b>	<b>Productivity Levels</b>	<b>Financial Returns</b>
	<b>Inputs</b>	<b>Outputs</b>

**Figure 1:** The Four Types of Innovation Metrics

Because innovation metrics are difficult to unravel, we’re asked about them on a weekly basis. Teams are looking to understand what to measure, what others are measuring, what really matters, and why. Through the years, we’ve learned there are four key types of metrics that mature innovation programs utilize.

To unpack which metrics to use when, it’s helpful to categorize them along two dimensions – Inputs vs Outputs, and Operations vs Strategy (see **Figure 1**).

### **Financial Returns – the path to legitimacy**

The first few years of a formal innovation program are a critical

period. Future success depends on whether the innovation group can demonstrate or “prove” its value to the company.

Because most organizations already have an abundance of metrics and KPIs in active use, it may be tempting for innovation leaders to measure everything from the beginning. Although well intentioned, the “measure everything” approach should be resisted, at least initially.

It’s far better to start with a few simple, carefully-chosen metrics. Ideally, they’re adapted from tangible and data driven measures already in widespread use within the organization. This helps

multiple stakeholders get comfortable with innovation's activities from the outset, driving internal credibility and influence up-front.

Tracking **financial returns** is the best lever for gaining trust and influence. They're typically variations on familiar themes: measuring new revenue generated (top-line oriented) or costs saved and efficiencies gained (bottom-line oriented). These metrics send the most unequivocal, unassailable signals to leadership and the organization about how innovation efforts are faring.

The specific choice of financial metrics depends on how your company's innovation strategy dovetails with organizational goals and KPIs. The early metrics focus areas will also be driven by which innovation activities can be measured most readily, and which leaders or functions are most willing to partner with the innovation group. Common examples include:

- **Cost savings.** Improvements in the cost base that can be partially or completely tied to the innovation program.
- **Process efficiencies.** Reductions

in internal overhead due to innovation's activities.

- **Incremental revenues.** Increases in revenue generated or collected thanks to initiatives from the innovation group.

These incremental value metrics act as a bridge between the time when the innovation program launches, and when the value of new-to-the-world products, services, and customer experiences can be established. It's important to understand incremental innovation is simply a place to begin, and that a mature program includes a blended portfolio of adjacent and transformational innovations as well.

**Productivity Levels – priming the pump**

In the early days, it's also important to gain a handle on innovation's **productivity levels** – primarily as an internal barometer for the health of the program's balance of activities.

Typically, these metrics track throughput across each stage of the ideas to innovation cycle. These measures look at overall volume of the pipeline:

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- **Ideation volume.** How many focused, high quality ideas have been captured, and refined? If we are filling a revenue gap of \$15M, do we have enough high value ideas worthy of development – knowing that up to 75% of these ideas may not pan out?
- **Engagement levels.** How many people are involved in innovation efforts? How deep and sustained is their involvement over time?
- **Projects launched.** How many innovation projects are in active development? What is the conversation rate of ideas into projects?

As innovation efforts strengthen over time, many organizations mature into blended, composite, or full-spectrum measures of productivity. The exact nature of these metrics depends on the relationship between innovation and the business – shared service, firewalled production unit, strategic facilitator, or some other configuration.

Sophisticated productivity metrics are likely to resemble ones such as these:

- **HR-oriented measures** such as innovation’s effect on morale and productivity across the organization. Frequently, we see this measured in an annual employee survey.
- **Functional metrics** such as innovation’s ability to influence development speed on R&D projects or to affect the velocity of marketing or sales cycles.
- **Board-level considerations,** such as innovation’s ability to positively affect the public share price.

### Portfolio Health – reaching a higher gear

Elite athletes undergo rigorous training regimens to convert natural talent into world-class results. They develop the ability to “reach another gear” – attaining extraordinary performance well beyond their untrained capacity.

We’ve observed a similar phenomenon with innovation programs. After several years of development and maturation, it’s common to approach an upper limit on innovation’s potential impact. To reach an elite level, comparatively pedestrian measures of baseline operational results are no longer

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sufficient. Diversification into a balanced portfolio of short-, mid-, and long-term innovation bets is necessary.

At this point, innovation's ability to generate financial returns should no longer be in question. Along with other mature corporate functions, innovation now plays an instrumental role in leading the charge for overall growth and corporate success. Strategic objectives, and corresponding metrics, are pivotal.

Typically, measuring the strategic layer of an innovation program means assessing **portfolio health**. Bigger, more impactful bets come with longer payback periods and higher degrees of uncertainty. Lagging indicators such as validated financial returns are not useful in placing and executing these bets. By the time you know the score, the game is over.

Thus, tracking the portfolio is predictive rather than retroactive, thus tied to a synthetic understanding of long-term ecosystem trends:

- **Customers.** Where are there likely to be: a) emergent needs from today's customers, and

b) new-to-the-world customer segments with entirely different needs?

- **Technologies.** Which new technologies, as they are invented, are likely to impact the current competitive landscape – or create entirely new marketplaces?
- **Ecosystem.** Which new business models will be necessary to capitalize on shifting or evolving industry dynamics?

A holistic view of these trends provides an evolving yardstick by which to measure innovation portfolio health. You can start with a lightweight approach by creating a foundational innovation strategy based on validated views of these trends. From there, qualitative assessments of the portfolio are possible through spider-grams, progress meters, and other executive dashboards.

Even better, use scenario modeling as the foundation of your innovation strategy. Running simulations based on models of the future will indicate whether the portfolio of innovation projects, if carried forward, will contribute materially to expected

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*“Operations is about rules, routines and rational decision-making. The focus is short-term, and measured by quarterly results. Innovation, on the other hand, seeks to tear down structures and experiment. Status quo is unacceptable.”*

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strategic imperatives over time. Although somewhat heavier, the scenario-based approach provides both added flexibility, analytical rigor, and a substantially augmented predictive richness.

### Activities Mix – securing the future

Expanding the **activities mix** is pivotal as innovation evolves into a mature function. Many programs begin simply, by crowdsourcing ideas and executing on projects. That's a fine start. But for innovation to protect the firm's strategic interests, you need to have a more complete set of capabilities in place, including:

- **Trend scouting.** Scanning for new trends, on an ongoing basis, is critical to maintaining a strong portfolio based on a well honed understanding of how the world is changing.
- **Incubation.** The innovation program provides a home for incubating riskier, more uncertain bets that do not fit in the mainline business. These are usually the same projects that are most critical to capturing new ecosystem value.
- **Co-creation.** The core

innovation group will likely have some level of “builder” resources in-house – developers, designers, project managers, etc. Nonetheless, many projects will go better and faster as collaborative efforts. Depending on the situation, co-creation partners may include external startups, other corporations, or internal business partners.

- **Scale-up.** Unlike a newly-founded startup, corporate innovation efforts may contend with brand risk, regulatory hurdles, internal resistance, and more. Having liaisons in place to work with the corporate machine is a necessary part of playing the game.

These additional innovation practices provide the necessary range of inputs for a blended innovation portfolio at a strategic level. How you choose to measure their efficacy will depend on the nuances of your innovation strategy, but will almost certainly include:

- **Volume.** How many new trends has the team uncovered? How many co-creation partnerships are in the works?

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- **Effectiveness.** What percentage of incubated projects have moved forward into full development or roll-out? How often are Scale-Up efforts able to move prototypes past institutional hurdles?
- **Coverage.** What proportion of strategic innovation imperatives are being actively addressed by current or planned projects?

legitimacy, and then argue for an expanded scope of activities. This creates a platform from which to widen innovation’s impact over time. Shrewd innovation executives continuously keep score of their progress, and then calibrate the chosen metrics to fit their program’s current level of sophistication and staying power.

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**Using Innovation Metrics in practice**

The advice contained in this paper represents an idealized version of how innovation metrics can be effectively applied within an enterprise. They are drawn from decades of experience working with large companies to build a world-class innovation capability.

That said, the real world is messy. Rarely, if ever, would it make sense to implement these metrics without some tailoring. When in doubt, the overriding concern should be “whatever works”.

The general goals lying behind the metrics, however, are eternal. Most new innovation programs (and their leaders) need first to demonstrate success, prove

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