Chronic Problem #4: Rampant Incrementalism

by Bill Poston

New product portfolios are overwhelmed with small, incremental, low-risk initiatives that have commensurately small, short-term, low risk payoffs. These range from minor product, packaging and labeling tweaks that do not affect the substance of the product, to small line extensions and product improvements that are not likely to move the needle on sales, margins, or market share.

Research published last fall by Stage-Gate, Inc. shows an 80% increase in the number of projects that fall into the incremental category in just the last ten years. At the same time, projects producing new to the world innovations have dropped by over 40%. The financial crisis certainly had an impact on the risk companies were willing to take, but six years beyond the worst of that contraction, the problem still persists.

One of the culprits is the increase in the indiscriminant use of financial models that treat all investment alternatives the same. Breakthrough innovation initiatives should be evaluated using financial tools, but the level of uncertainty inherent in new to the world concepts forces us to apply more management judgment to the decision than a model that is forcing a decision between multiple sure things.

The real problem here is that a low-risk, incremental portfolio actually represents a giant risk to the long-term viability of the organization. Companies that do not invest in real innovation will eventually be replaced by those that do, or disrupted by an upstart with an inferior product that has broader market appeal. Low risk does not always mean safe.

Originally published on www.thechiefinnovationofficer.com

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Originally published on July 3rd, 2014

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