Innovation Measures #7 - Innovation Vitality Index

by Bill Poston

Our continued exploration of innovation metrics brings us to a classic that has been widely adopted by leading organizations to measure the effectiveness and productivity of their investments in innovation. The innovation vitality index is most often calculated as the percentage of gross revenue generated from products that have been launched in the past three years. In its pure form it measures the turnover of the firm’s product portfolio to ensure that it is continually being refreshed.

This index suffers from a number of definitional and measurement challenges that must be overcome. The first is being clear about what constitutes a “new product.” I have seen this metric perverted by organizations that classify everything they launch as new, even if they are simply making a packaging tweak or implementing a minor engineering or formulation change. These “launches” rarely generate incremental revenue and are likely to completely cannibalize existing products. It takes diligence and a disciplined classification system to avoid this problem and make the metric meaningful.

The second measurement issue relates to the time new revenue should continue to count. The three year horizon works for some industries but is inappropriate for many others. The time horizon should relate to the typical product lifecycle in the industry. In consumer electronics, a one year horizon would be better. If you counted for three years, the index would always read 100% (or should.) Conversely, if you are in the construction equipment industry, a five year measure might be more appropriate.

In addition to knowing when to stop counting, we also need to be clear about when we start the clock. The measure should be X years from the first launch, not last launch. In some companies the time elapsed between first launch and last market launch can be measured in years.

The innovation vitality index is a classic measure that is a proxy for the effectiveness of the innovation engine. It can be valuable if you are prepared to put in the effort to keep it clean and measure appropriately.

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