

# Innovation Measures #1 - Pipeline ECV

by Bill Poston



The aggregate expected commercial value (ECV) of the innovation pipeline is a forward-looking metric that measures the risk-adjusted contribution a company expects from their current innovation initiatives. It can be used both to track how the value trends over time and can be compared to expectations set in the business plan to determine whether you have a prayer of delivering against those expectations.

Calculating Pipeline ECV can be a little tricky. The ECV of an individual innovation initiative is a net present value measure that has been adjusted for both technical and commercial risk. To calculate ECV you need to know the estimated stream of future earnings, the remaining development costs, estimated launch costs, technical probability of success and the probability of commercial success.

Consistently applying the formula and methodology used for estimating cash flows and assigning probabilities of success is the biggest hurdle. I have seen models that use different discount rates, different time horizons, ignore cannibalization, and use different methods for assigning probabilities. These problems are compounded by the multi-variable nature of the formula. In this measure, consistency is more important than accuracy. Remember, every number in the formula is an estimate.

Aggregating individual project ECVs is as simple as defining the inclusion criteria and summing the values. Since you would not typically go to the trouble of creating risk-adjusted financial projections until later in the innovation cycle, I suggest waiting until you have passed the gate to begin development before including initiatives in the aggregate pipeline measure. You also need to define the point where you will roll the project out of the aggregate measure. First market launch is an easy milestone to target.

This metric has value for the Chief Innovation Officer. It has predictive power and can highlight gaps in the pipeline's ability to meet growth expectations. It takes a sophisticated team with incredible amounts of discipline to accurately estimate and adjust for risk. This is a great example of a "get started and get better" measure. Reporting Pipeline ECV over time will tell an important story about innovation.

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For the past 30 years, Bill has helped executives in technology-driven industries transform their competencies to deliver results. He is a highly regarded consultant, speaker, and writer on the topics of innovation strategy, product development, portfolio management, technology commercialization, and the software systems that enable innovation. Keep up with Bill's latest research and thoughts on innovation and the rising role of the Chief

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