Q&A: What Types of Innovation Projects Should Be Included In Your Portfolio?

by Pamela Soin and Austin Locke

Question:

We’re a very large, well-known consumer products company, and our portfolio is actually quite complex, as we have many different types of initiatives included, all at vastly different stages. In fact, we often debate whether certain projects should be included at all. Do you have any leading practices related to defining what should be included, what should be left out, how they should be categorized or grouped, etc.?

Answer:

Defining portfolio inclusion criteria is an essential part of portfolio management. To answer your question, let’s examine four basic categories of innovation that are useful when segregating a portfolio:

- Incremental innovation: This is what you probably refer to as a refresh-to-base business. These types of initiatives are minor improvements to existing products or small steps into a new market.
- Adjacent innovation: This category is often referred to as line extensions. These projects are more novel than incremental innovations and often involve applying an existing core competency in a new area.
- Breakthrough innovation: These initiatives are referred to as transformational, radical, or disruptive.
innovations. They are game-changing products or unique business models that revolutionize or create brand new markets.

- Customer request: These are new products, or changes/enhancements to existing products, that have specifically been requested (or required) by your customers.

If you have a clearly defined innovation strategy, leading practice is to include all four types of innovation in your portfolio. Remember, an innovation strategy should answer this question: “What is our expected growth from innovation over the next three to five years?” Your portfolio management practice should tell you if you’re on track to achieve your innovation strategy.

However, if you don’t have an innovation strategy and are using portfolio management exclusively for short term, 1-2 year planning (which we do not recommend) then it would be best to exclude long-term breakthrough innovations from the portfolio as they will distort the short-term picture you’re trying to paint.

Your portfolio should include incremental, adjacent, customer request and breakthrough innovations that are in all phases of your gated new product development model. Yes, you should even include those projects on the front end of your pipeline. By including initiatives in all stages, you’ll have the views and data you’ll need to make the decisions that will help you achieve your strategy. A note on this: a risk-adjusted financial model by gate should be used to discount expected returns from projects as they move through the new product development process. This practice allows companies to include initiatives at all phases while simultaneously maintaining a realistic view of the pipeline.

While we recommend including all types of innovation at all different stages of development, there are some initiatives that should be left out. These are projects that fall below a certain spending or resource threshold that should be defined by the business. A good gut-check way to identify these types of projects is to ask, “Would an executive care to evaluate this project and make a trade-off decision against another venture?” If the answer is no, then the initiative should be left out of the portfolio. A good example of this type of project would be a packaging tweak that would take an engineer three hours to complete. Rather than include this project in the product portfolio, the business should group the resource effort with other similar jobs and simply discount resource availability to reflect the impact of these tweaks.

In addition to using the four innovation types, we also recommend that you categorize your portfolio by any dimension that needs to be aggregated on for decision-making. These categories will differ by industry and company, but your business should have a serious discussion about the information that is most meaningful to you and other decision makers. After all, the categories you choose to aggregate your portfolio on will determine the views and information that are produced by your portfolio management practice.

With that said, here are a few of the categories we most commonly see across the CPG industry:
In summary, you should define an innovation strategy, include both short-term and long-term projects of all innovation types in your portfolio, and categorize projects based on the dimensions that are most meaningful to decision makers at your company. By following these practices you’ll be on the right track to establishing a leading portfolio management practice at your business.

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