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How to Measure Innovation
(to get real results)

**Metrics are a combination of art and science.
The trick is to inspire action around the goals you set.**

By Soren Kaplan

There's an elephant in the room when it comes to "innovation." And it's an ironic elephant given that we're all so hooked on data analytics, a/b testing, and getting metrics for anything and everything. Yet we all throw around terms like creativity, breakthroughs, and disruptive innovation. Companies eat up this stuff—they're fully on board. Innovation is going to shape the future. Sure—if we track and shape *it.*

According to McKinsey, more than 70% of corporate leaders tout innovation as a top three business priority, but only 22% set innovation performance metrics.

The gap is problematic. Why aren't more companies measuring innovation? Because innovation is nebulous. Definitions differ. Expectations vary.

Some might argue that innovation is impossible to quantify. They're wrong.

Garbage in, garbage out. Nothing in, nothing out.

If you believe in the age old adage "garbage in, garbage out" then the scope of the problem becomes painfully poignant. Nothing in, nothing out. If you don't measure innovation, are you still getting it? Not in any systematic way you're not.

Some might argue that the very act of measuring anything "creative" stifles it out of the gate, or that innovation is just plain impossible to quantify. (They're wrong.) More importantly, do you really want to leave the future up to creative chance? It's not exactly a viable strategy.

Measuring innovation is a combination of art and science, which is precisely why it's tough to do. If you go too far—like 3M did when they applied the rigorous Six Sigma model to its creative process—you might actually get less of what you really want.

The most innovative organizations carefully consider what goes *into* the innovation process, but also consider what should come *out* of it. They focus on different types of measurements, and include both the quant side of the business (hard numbers) and the qualitative side (say, leadership behavior).

Articulate the end game: Define the outputs.

Most companies zero in on bottom line basics—top line revenue and overall profitability—when it comes to gauging success. Many also focus on their net promoter score. These high-altitude metrics are indeed important, but they have limited value when it comes to measuring—and driving—innovation. Why? They're numbers. They don't take in what people want. And they don't inspire action around specific goals.

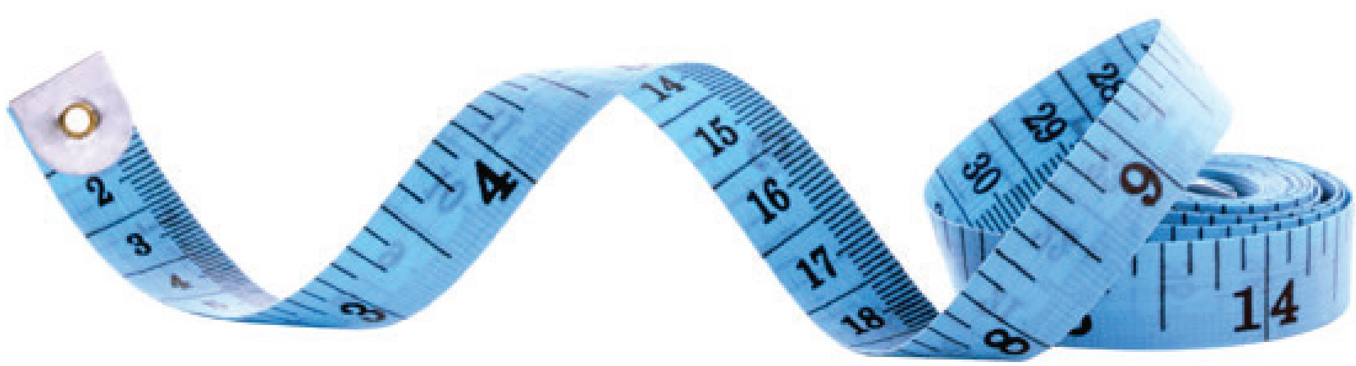
Yum! Brands, owner of fast food chains KFC, Pizza Hut, and Taco Bell, wanted to innovate its offerings in foreign markets—to increase its overall proportion of international revenue. Their goal—to radically increase international profits—required a fundamentally different approach. Yes, they had to create new products that would result in revenue (numbers), but they couldn't get a big enough jolt by simply tweaking the supply chain or through standard (McKinsey-style) efficiency measures. In a market where finger lickin' fried chicken was about as foreign as apple pie, the company had little choice but to explore unfamiliar customer needs, test out new products, and build new business models.

And so the company looked at what Chinese customers would want, rather than what KFC was already good at. They introduced Youtiao, a traditional "street food" snack and other localized dishes at its Chinese KFC locations. Rice bowls are also now a staple on Chinese KFC menus. Thanks to Yum's realization that there was money in innovating around the Chinese palate, Yum's corporate profits from international sales skyrocketed from 20% to 70%.

In short, you need to disrupt the business-as-usual mindset. From a quantitative perspective, here's what you can innovate *around.*

- Percentage of revenue or profit coming from international versus domestic markets
- Revenues from new products or services introduced in the past X year(s)
- Revenues from products or services sold to new customer segments
- Percentage of existing customers that trade up to next-generation products or services
- Percentage of revenue coming from services versus products (or vice-versa)
- Royalty or licensing revenue from intellectual property

Innovation-savvy organizations frame their end game around such *goals* as those above. The value of the innovation is measurably tied to the output—not to some dreamy notion of "creativity." You still have to come up with new ideas, but at least you have goals and a way to measure them. And you should measure them.



Fuel the innovation engine: Identify the inputs.

Just because you want a specific result, it doesn't mean you'll get it. Measuring innovation also involves setting specific goals around ways of *fueling* innovation—things you do internally to help you hit your targets.

Lots of companies have been calculated about creating cultures of innovation. They put in place measures that explicitly promote certain behaviors. They shape their environments so people have enough time, resources, and focus—so they can turn the creative process into real value creation. Measuring the inputs helps take the lip service out of it.

Coca-Cola's Venturing & Emerging Brands (VEB) group has a big charter—to create Coke's next billion dollar brands. Coke leadership knew that if it wanted to get big outputs, it needed different inputs. That's why it created VEB. Coke sponsors VEB teams to use unconventional methods that include "an amalgamation of science, art and serendipity" to uncover and meet emerging customer needs in the beverage world. Employees within VEB are given money, resources, and time to explore and target big opportunities. And it's paying off. Brands they've acquired and built up include FUZE juice drinks, Illy Issimo ready-to-drink coffee, Honest Tea, and Zico coconut water.

Create your own metrics mash-up.

General Electric takes a different approach. Over the past decade, employees have filed more than 20,000 patents, many of which are paving the way for the company to assume a leadership position in sustainable energy and the "industrial Internet." The emphasis on protecting intellectual property runs deep in the company's culture and started when GE's founder established GE's R&D function in the early 1900s. GE has viewed patents as an essential "input" to innovation, which has paid off. And it may continue to do so with its recent partnership with Quirky—making GE's patent portfolio available to the Quirky community.

One reason why that innovation metric gap exists is because there's no set formula for what fuels innovation. What works for one company might be too fuzzy for the next. That said, there are a few things you *can* measure in order to figure out how innovative your company's culture is—it's the first step in figuring out how to reshape that environment and start promoting new behaviors.

Leadership

- Percent of new innovations that come from external sources like crowdsourcing or open innovation
- Percent of funding for game changers versus small tweaks to existing products or services
- Percent of senior executive time focused on the future versus on daily operations

Employees

- Number of ideas turned into patents by employees
- Number of ideas turned into innovation experiments by employees
- Number of teams that submit projects for innovation awards
- Percentage of employees trained in the innovation process

Customers

- Number of ideas submitted by customers through "open innovation" programs
- Number of new product or service ideas that come from mining social networks
- Number of customers that help test and refine new ideas

Pick a few to create your own metrics mash-up. The optimal mash-up promotes very specific actions and behaviors, not generalized ones.

Also useful: The innovation metrics gap exists for a reason. Finding the right things to measure is a process in itself. And it's hard. And every company has its own organizational culture, so every company must fine-tune what it measures to reinforce the goals, values, and norms that it finds critical for inspiring innovation (and best practices around innovation).

Without it, you're rolling the dice. At best your default strategy is little more than "something in, something out." That's not a whole lot better than "garbage in, garbage out." Neither is it likely to result in innovation that's sustainable.

Author

Soren Kaplan is the author of two bestselling and award-winning books, ***Leapfrogging*** and ***The Invisible Advantage.*** He is a former corporate executive, an affiliated professor at USC's Center for Effective Organizations, and founder of InnovationPoint. Based in San Francisco, he delivers keynote speeches, leadership development, and consulting on business strategy and innovation throughout the world.