

A tale of two innovations

.....or can \$220,000 trump \$200 Million?



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Want a good way to get a group of executives to pause before making a decision about an innovation project? Ask them which of the following innovations they would prefer:



Innovation A: This innovation came out of the gates like a bullet, racking up first-year sales of more than \$200 million. A clear value proposition, clever positioning, and a strong distribution network led to market success.

Innovation B: This innovation had first-year revenues of a mere \$220,000. The innovation had proprietary technology, but the customer and the business model were very unclear.

It's obvious, right? Innovation A is the winning proposition.

Let's reveal more information. Innovation A was Vanilla Coke. It was a line extension that largely cannibalized sales of Coke's other products. Three years after launch, fizzling demand led Coke to pull the product from the market.

Innovation B was Google. In Google's early days, it had a technology and not much else. After a couple of iterations, though, it came up with its advertising-based business model, setting the stage for one of the greatest economic success stories of current times.

Far too many companies make decisions about which projects to fund based on a single set of metrics, with an overwhelming focus--particularly in today's challenging economic climate--on near-term sales. The context, or the type of innovation, matters a great deal. You should expect a line extension that rides on an established brand name with known distribution will come out the gates faster than a new to the world product that is still experimenting to find its business model.

While first-year sales are important, it's far more critical to tease out the underlying potential of an idea, and to watch how revenues grow in subsequent years. Many great growth businesses start small and take a few years they start exponential growth.

If you don't look at your Innovation As and Innovation Bs differently, you are bound to miss something. If you are like most companies, what you will miss are the Innovation Bs that are the best bets for long-term value creation but seem too small to matter in the early days.

Before making a decision about an innovation, make sure you know what type of idea you are evaluating. Then make sure you use the right metrics for that idea. Judge line extensions based on detailed market forecasts and other quantitative metrics. Judge new-to-the-world ideas based on upside potential, progress against key milestones, and other qualitative markers of success.

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