SmartOrg®

# Innovation Navigator® In Action

A high impact approach to catalyze innovation breakthroughs



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# iNav in Action

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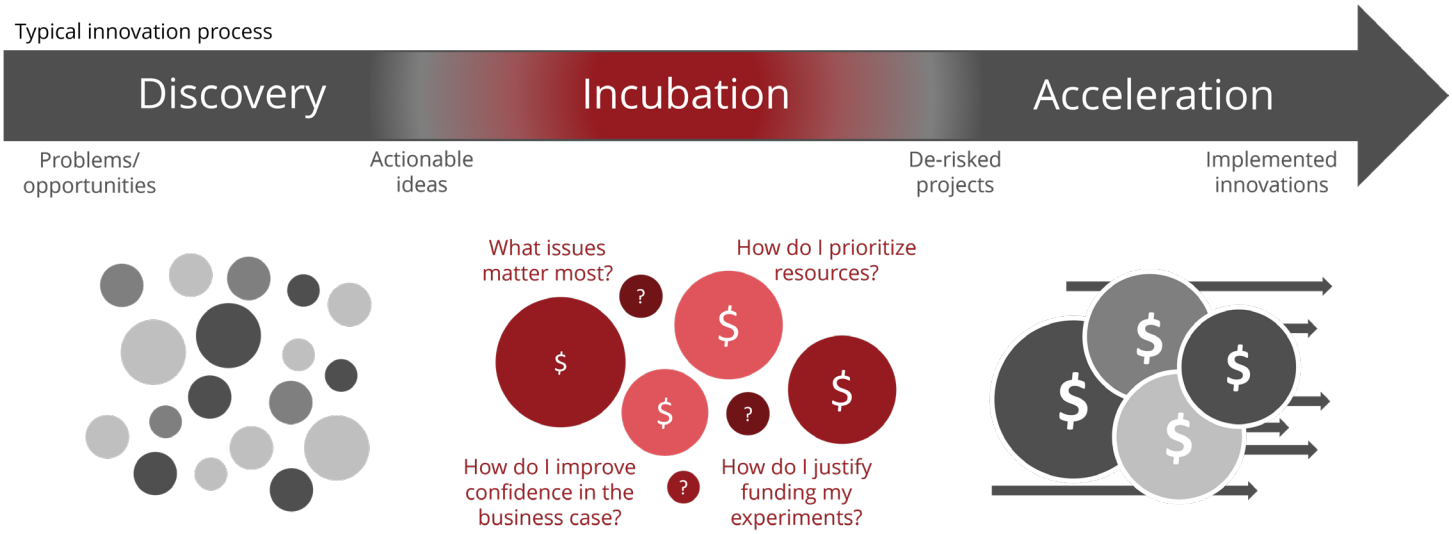
# Introduction

# How do you improve your decision making for incubation projects?

In this guide, we take you on a journey from a preliminary innovation proposal to a de-risked business case.




Imagine you've done some front-end discovery work that's led you to a promising innovation project. You'd like to take the proposal to leadership, but a sea of questions looms: What are the key issues? How do I build a credible valuation? What about prioritizing resources, or justifying funding for experiments? The incubation stage is an opportunity to address these questions head-on – given you have the right set of methods and tools.

In the coming chapters, you'll discover the ways in which SmartOrg's Innovation Navigator® (iNav for short) places your projects on an incubation success path.

## INTRODUCTION

You'll learn about common pitfalls in the process and receive guidance on overcoming them. You'll uncover insights about:

- How to build confidence in the business case by aligning stakeholders on the most important issues to explore;
- Why building a flexible, adaptable business case in the early stages of exploring your innovation opportunity is in your – and your organization's – best interest;
- Why a Learning Plan is the right choice for innovation projects laden with uncertainty;
- Why focusing on prioritization of experiments, rather than projects, is the best way to manage innovation resources; and
- Where to find additional assets within our resource library for a deeper dive on iNav-related topics.

Ready to catalyze innovation breakthroughs by improving the incubation process? Let's jump in!

# Influential Issues

# Are you missing the most influential issues?

Here's your situation: You've done some front-end Discovery work and have formulated a new proposal for an innovation project. Your first step should be to determine the issues that will influence the success (or failure) of your innovation opportunity.

**When exploring any new innovation proposal, your first step is to identify the issues that will influence its success or failure.**

We recommend doing this in a collaborative fashion with a diverse set of stakeholders. This group should include those idealists who can help envision a future to pursue as well as critical thinkers who can surface non-obvious obstacles you'll need to overcome. By leveraging thinking canvases within iNav, you can create the ideal amount of structure to think expansively while maintaining focus on the right areas.

The **Desirability/ Feasibility/Viability** canvas helps you assess the strength of your innovation proposal.

The **Strengths/Weaknesses/Opportunities/Threats** canvas helps you assess your organization's ability to win.


Relying on these tools (or other creative prompts, such as Rowan Gibson's Four Lenses) will help the group think more expansively about the project. Don't treat this as a "check the box" activity. This is the time to be curious, even audacious! You should be capturing both optimistic and pessimistic views so you can simultaneously surface opportunities for and barriers to future success.

# Focus

# Are you working on the wrong things?

Here's your situation: You've identified the critical issues for your project, and you notice that some feel familiar. Maybe there is a technology with which you are familiar, or perhaps a customer segment you already serve where new behaviors need to be investigated. It's tempting to look for the low-hanging fruit, roll up your sleeves, and get started, right?

**In the early stages of incubation, the innovation team should focus on issues that are both highly speculative and of high value.**

As an innovator, that would be a mistake. Low-hanging fruit on familiar topics is the LAST thing you should spend time on (better yet, you hand off that work to someone within the business). Instead, you should direct your attention to higher branches in the tree: the areas of interest that are both highly speculative and of high value.

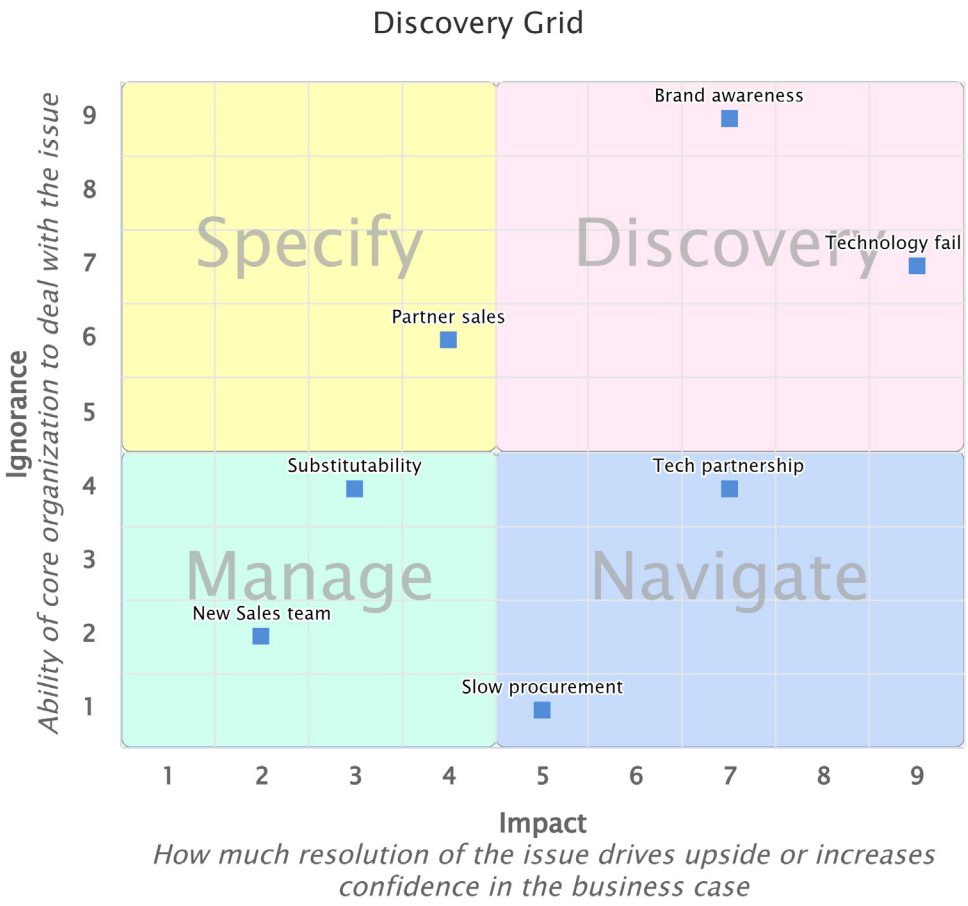
- Highly speculative areas are defined by the organization's current ability to deal with the issue. Issues that score high in what we have termed "Ignorance" relate to things we simply don't yet understand. As we learn, we turn that ignorance into intelligence – leading us to better decisions. Within iNav, we assess Ignorance on a 1-9 scale in a collaborative fashion, with 1 being routine and 9 being speculative.

- High value areas are defined by the impact that resolving the issue would have on the business case. The more that resolution drives financial upside or increases confidence in the business case, the higher the impact of the area. In iNav, you will link issues to business case factors, and then populate the model with a range of assumptions. The output

of the model associates a 1-9 Impact score with each issue, with 1 being low impact and 9 being high. (If a lighter touch is warranted, iNav also supports a qualitative drag-and-drop approach for assigning impact scores from 1-9.)

Once each issue has been scored in both dimensions, iNav generates a 2x2 Discovery Grid. From this grid, it's clear which issues the innovation team should focus on – those residing in the upper right Discovery Zone. Why? Because it captures those issues that are not well understood yet have a disproportionate impact on the potential value of the innovation opportunity.

Working on issues outside of the Discovery Zone early on is like rearranging the deck chairs on the Titanic: it's not worth the effort, and it's not likely to change the outcome. Running experiments targeting Discovery Zone issues will either provide valuable evidence to de-risk the project, or prompt an inflection point meeting to determine whether to pivot or punt altogether. All of these outcomes are valid and potentially beneficial, and none of them are likely to happen if resources are spent instead on low-hanging fruit.



# Building the Business Case

# Are you neglecting the most important part of your innovation project?

Here's your situation: Your innovation proposal has been developed. You've pulled together some key stakeholders and smart colleagues to help identify and prioritize key issues that will influence the success or failure of the innovation. You have a sense of what to work on, but your boss, her boss, everybody's boss just wants to know: What's it worth to us?

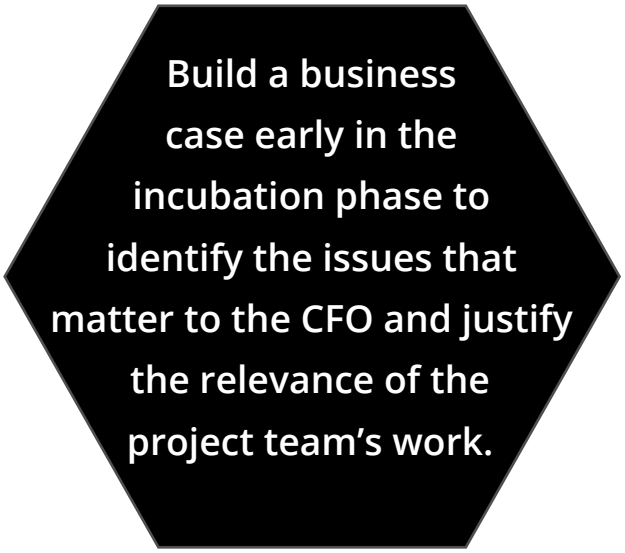
They ask this question because, when it comes right down to it, value is what matters for most organizations. Building the business case is arguably the most important piece in the innovation puzzle, but doing so is often deferred as long as possible. People say they don't want to get caught up in the numbers or are worried about setting unreasonable financial expectations with executives. That's exactly the wrong way to think about it.

**Building the business case is arguably the most important piece in the innovation puzzle, but doing so is often deferred as long as possible. That's exactly the wrong way to think about it.**

Building a business case early in the incubation phase allows the project team to identify the issues that matter to the CFO and justify work based on the innovation's potential. We call this "speaking the language of finance," and iNav helps facilitate this conversation. Here's how it works:

- Set up your business case template. We have standard templates built into iNav, or we can create custom templates that align to your industry or needs.

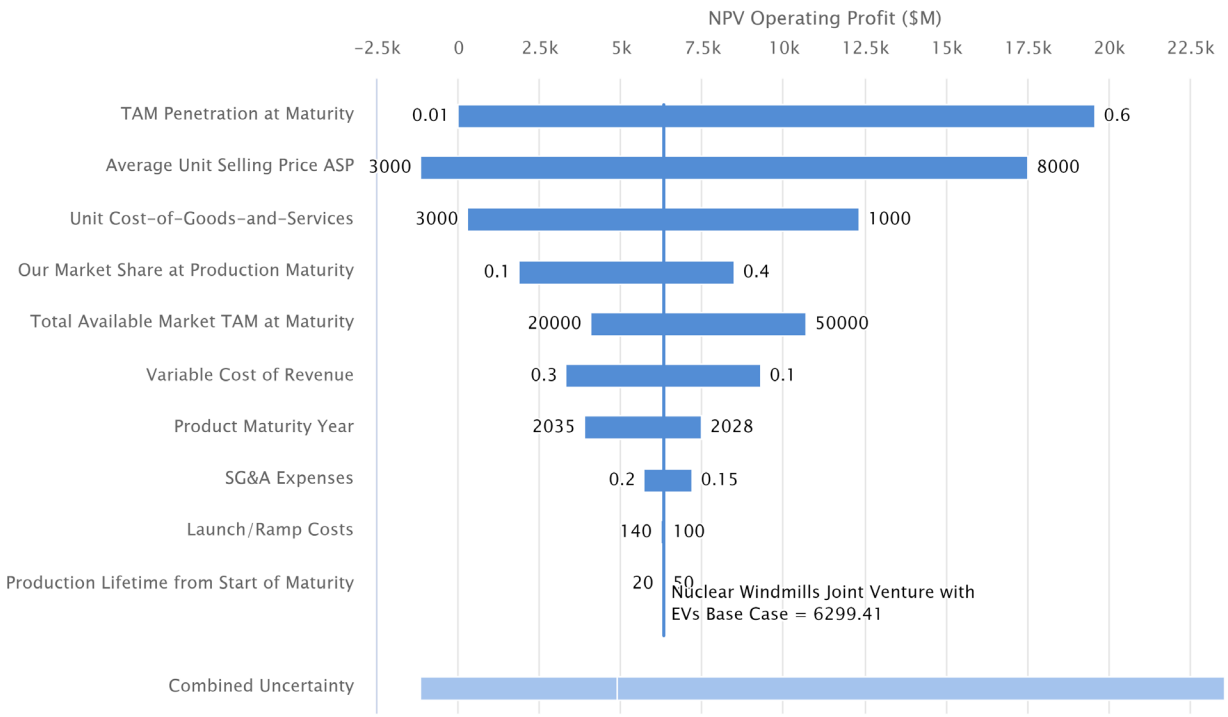
- Map issues to business case factors. This simple but powerful step makes the connection between what you need to learn and how it influences the value of the innovation.
- Define your assumptions using ranges instead of a single value. Embrace uncertainty instead of side-stepping it. Enter low-end, high-end, and current base-case estimates so the model can incorporate uncertainty into its output.
- Generate a Tornado Diagram. This powerful single-page report (covered in detail in the next chapter) visually demonstrates where uncertainty exists and quantifies the impact of improving confidence in the business case.



# Discussing Uncertainty

# Are you shying away from discussions about uncertainty?

Here's your situation: You've calculated the base case value of your proposal, but it doesn't capture the uncertainty surrounding the issues. In particular, it doesn't accurately reflect the upside potential of the project. How can you communicate the possibilities alongside the uncertainty that drives them? The answer is to use a Tornado Diagram.




A Tornado Diagram helps visualize the sensitivity of the model's output to changes in its inputs. To get you oriented, let's walk through each component: The vertical line represents the current base case net present value (NPV) for the project. Each horizontal bar is associated with a business case factor. The point at which the

vertical line intersects each horizontal bar coincides with the current base case value of the assumption, while the high and low estimates appear at either end of the bar. For example, in the diagram above, the assumptions for TAM Penetration at Maturity range from 0.01 to 0.6, and the current base case value is 0.2.

**Tornado diagrams foster easier communication about the value of the innovation project, its upside potential, and the corresponding sources of uncertainty.**

The Tornado Diagram ranks the business case factors by the magnitude of their impact on NPV. The factors with the largest impact are at the top of the diagram, with decreasing impact as you move down the list. If the project team gathers evidence that improves the current estimated value of a business case factor, then the overall value of the project will increase by the amount indicated by the diagram. The point at which the updated estimate intersects NPV becomes the new valuation. If multiple inputs are improved, then value is additive.

Why go to all this trouble? When engaging the CFO and others who hold the project purse strings, speaking the language of finance with a Tornado Diagram allows you to:

1. Show the current estimated value of the opportunity, as well as the potential upside and downside;

2. Justify funding key experiments to resolve business case uncertainty and demonstrate how doing so can de-risk the project and improve outcomes – sometimes in very significant ways;

3. Provide convincing answers for questions like, “Why did you start there?” or “Why didn’t you explore this issue yet?” and

4. Push the innovation team to explore new ways to improve the base case values – even if that means pivoting away from the original idea toward something better.

# Developing Proof Points

# Is your project execution plan leading you to failure?

Here's your situation: You have a clear vision of which issues to work on for your innovation project – those about which your organization is currently ignorant and, if resolved, will significantly impact the business case. Now it's time to gather evidence to validate the business case. It's time to build a Learning Plan.

**A Learning Plan is a series of experiments designed to collect evidence and achieve proof points during incubation.**

What's a Learning Plan, you ask? It's a series of experiments designed to collect evidence and achieve proof points during incubation. Each proof point is something that must be true for the project to meet its objectives. Experiments are slotted in a time sequence to address the most significant sources of risk first, accomplishing de-risking at the lowest possible cost by finding out early on which hurdles you can and cannot overcome.

**In contrast, an Execution Plan prioritizes task completion and calendar deadlines without regard for how the work being done improves confidence in the business case early in the innovation process.**

iNav's Learning Plan module allows you to document your approach and align issues to experiments. Experiments are managed in priority order on a top-to-bottom Kanban board, allowing you to easily see what's in the backlog, planning, active, and complete stages.

## Developing Proof Points

As you gather evidence, you can update the assumptions and reasoning within the financial model. This will allow you to generate new reports (Tornado Diagrams, for example) that reflect the de-risking activities: a narrowing of the horizontal bars, an improvement in NPV, a re-ordering of the business case factors that are most significant.

Select an Issue to Define an Experiment:

| Issue | Issue Type | Surprise Index ↓ | Experiment | Defined | Status |
|---|---|---|---|---|---|
| Old Buildings: Can we install these in or under established buildings? | Discovery | 81 | Post Build Addition Pilot | 100 % | Backlog |
| Sole Provider: Large commercial buildings and communities interested in a single, consistent energy provider | Discovery | 63 | Incentivizing Landlords | 88 % | Active |
| EV Partnership: Opportunity to become key energy partner for all charging stations in US | Specify | 32 | EV Partnership | 88 % | In Plan |
| Populated Areas: Installing nuclear plants in populated areas | Specify | 20 | | 25 % | Unplanned |
| Tech Synergy: Wind+nuclear power cycles are compatible for consistent energy | Navigate | 20 | Working prototype | 88 % | In Plan |
| Regulatory Cost: Clear regulatory hurdles for use in commercial buildings | Specify | 18 | Interviews with Government Agents | 88 % | In Plan |
| Customer Fear: Most communities not used to having nuclear power sources nearby/visible | Navigate | 16 | | 25 % | Unplanned |
| Tech Leasing: Wild & Wooly has competency leasing to commercial and residential buyers | Manage | 8 | | 25 % | Unplanned |

With a Learning Plan, you can present the organization with a concise proposal that shows efficient use of funding and realistic expectations. You can share what's been learned to encourage communication and decide whether to go forward, stop, or change direction based on the evidence collected so far. This more balanced, transparent approach helps gain the organization's commitment to fund the proposed work and let you carry it out to completion.

# Resource Allocation

# Are you allocating resources to the wrong projects?

Here's your situation: You don't just have one innovation project; you have a portfolio of them. They may be in different stages of development, but all are still firmly within the incubation phase. That means uncertainty is still present, and experiments to de-risk the project are still being run. You are struggling to prioritize the allocation of resources to achieve your innovation objectives.

**A multi-dimensional portfolio view of comparable projects – that all follow a consistent incubation method – enables innovation leaders to more easily decide how to prioritize resource allocation to meet their innovation objectives.**

Why is this so hard?

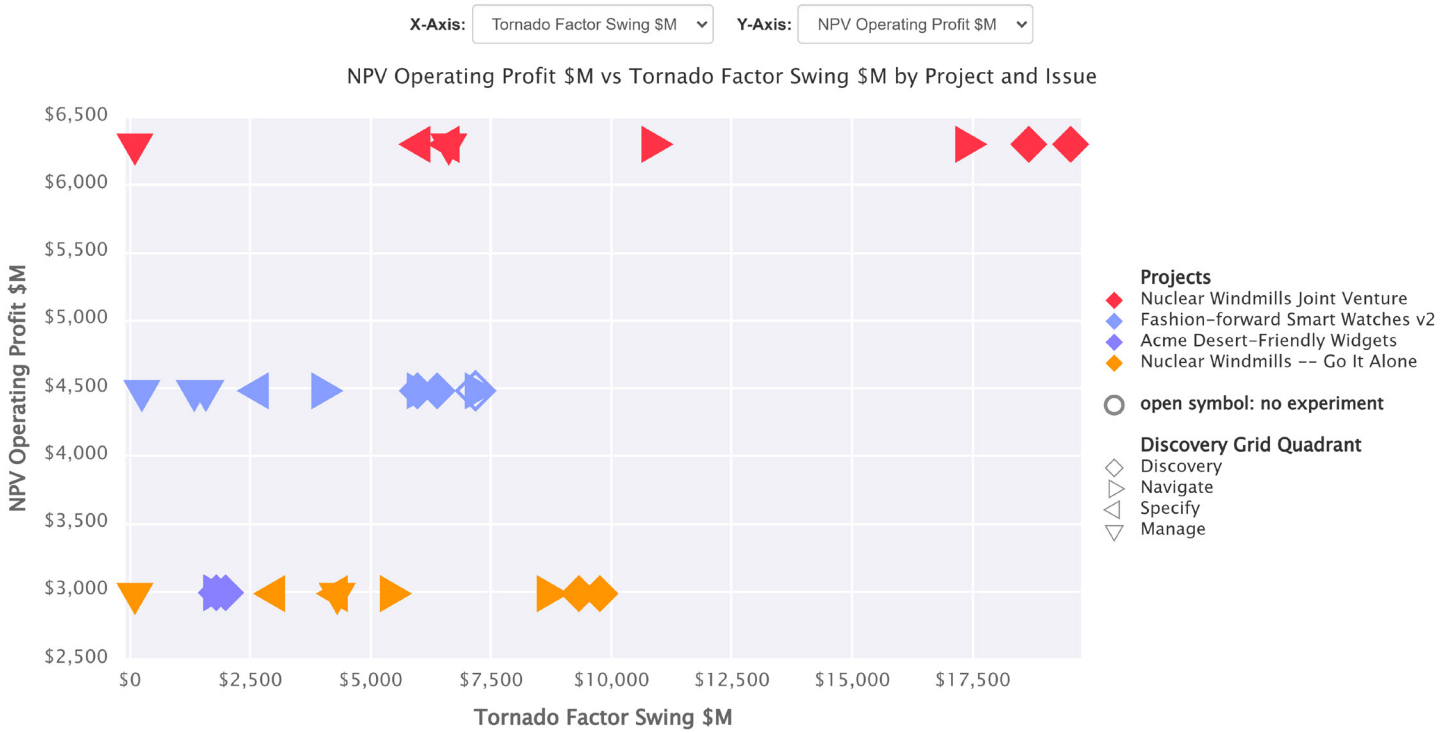
There are two significant challenges here.

1. The inability to compare projects on an apples-to-apples basis. This stems from a lack of standardized methods for incubation, whether at the organizational level or the business unit/department level. Take measuring value as an example. If methods (and the associated expectations) are inconsistent, then some people won't measure value at all, and those who do will use varying techniques. Comparing projects becomes futile, so decision makers must rely on qualitative instead of quantitative factors.

2. The inability to prioritize at a level more granular than the project itself. Even if you do have the ability to compare projects, should

you? Conventional wisdom says yes: worthy projects (often those with the highest potential value) are funded and unworthy projects are not. But when uncertainty is high within projects across the board, how are those distinctions made? How clear is your crystal ball? With an all-or-nothing funding mentality, opportunities will be delayed or missed altogether.

When adopted systematically, iNav allows for equivalent comparisons across projects because a consistent approach for incubation is being used. It has built-in portfolio capabilities, which means innovation leaders can compare projects at the experiment level instead of at the project level. Doing so allows innovation resources to be assigned at a more granular level – prioritizing learning experiences across a variety of projects that will most improve confidence in their respective business cases. iNav's De-Risk Dashboard facilitates these decisions.




Let's break it down: The Y-axis of the dashboard represents the NPV Operating Profit for the project. In this example, four projects are on display with values of about $6.3b, $4.5b, and two valued at about $3b. The X-axis represents the "swing" – the width of the bar in the Tornado Diagram – to which each issue on the Discovery Grid is linked.

We'll use the $6.3b Nuclear Windmills Joint Venture project as an example (the red icons in the De-Risk Dashboard). It not only has the highest valuation, but it also has four issues linked to significant uncertainty – such that, if favorable, the project could be worth many multiples of its current estimate (or, if unfavorable, could be worth nothing at all). Each of the four issues within the project could resolve more uncertainty than any of the other issues in any of the other three projects – potentially creating more value than the rest of the projects in the portfolio combined. That's a pretty strong case for an innovation leader to devote significant resources to this one set of experiments in one project.

Next, if we consider only the current estimated value of the two $3b projects, they appear comparable. But from the De-Risk Dashboard, it's clear that they are not. Acme Desert Friendly Widgets is far inferior to the Nuclear Windmills – Go It Alone project, because while the upside potential for the Widgets is quite modest, the Go It Alone project has seven issues with larger "swing" than any one issue for the Widgets.

With this multi-dimensional portfolio view of comparable projects based on a unified incubation method, innovation leaders have a much easier time determining how to prioritize resource allocation to meet their innovation objectives.

# Conclusion

# iNav in Action Conclusion

Throughout this guide, you've gained critical learnings about how Innovation Navigator can help you and your organization improve the incubation phase of innovation. They include:

- The importance of identifying a wide range of issues from a collaborative group of stakeholders, and how thinking canvases can help accomplish this;
- Why it is critical for innovation teams to ignore the low-hanging fruit and instead focus their work on resolving Discovery Zone issues;
- How building a business case early during the incubation phase creates opportunities for alignment with and buy-in from the CFO;
- How to use a Tornado Diagram to unlock project funding by visually demonstrating where the most significant sources of uncertainty and upside potential within the business case lie;
- How a Learning Plan creates a roadmap for collecting evidence to de-risk projects, improve confidence in the business case, and prepare for punt/pivot/persevere decision meetings; and
- How the De-Risk Dashboard's multi-dimensional portfolio view of project value and risk improves resource allocation decisions for innovation leaders.

# iNav in Action Conclusion

Systematizing your back end of innovation methods using Innovation Navigator will:

- Boost productivity within innovation teams by focusing them on high-value work;
- Improve efficiency through adoption of consistent approaches for quantifying and de-risking projects;
- Reduce experimentation costs by targeting areas of high uncertainty first; and
- Optimize prioritization and assignment of resources across the innovation portfolio of projects

Curious about how Innovation Navigator can help you?

Book a demo today!

# Resource Library

# iNav Resource Library

For additional information and videos about iNav, visit SmartOrg.com. Want to dig deeper?" Below you will find a series of links to articles, videos, and webinars we have previously published on the Innovation Navigator method and software. We invite you to explore how SmartOrg's tools and approaches help companies improve their innovation decision-making.

- Masterclass: Get Out of your Innovation Comfort Zone, which covers much of the methodology embodied within iNav
- Article: Tornado Diagram: A Visual Tool for Smoother Decision Making, which dives deeper into how to interpret and talk about tornado diagrams
- Video: Brief tutorial for Tornado Diagrams, which provides instruction on how to create a tornado diagram
- Article: Unleash the Power of the Learning Plan, which briefly summarizes how Learning Plans differ from Execution Plans
- Masterclass: Placing Big Bets Without Burning Bridges, which addresses the challenge of securing buy-in from internal stakeholders
- Case study: DuPont Safety & Construction, which explores how the organization cut through the clutter in its innovation portfolio to uncover hidden value and unlock rapid growth
- Video: Driving Breakthrough Growth, which shares how to unlock huge value by identifying the key issues driving upside potential

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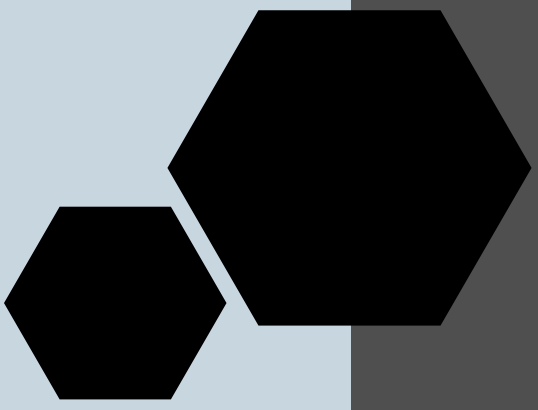

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