

The Return to Profitability



Product Innovation Priorities



EXECUTIVE SUMMARY

Today, companies in industry after industry have fallen under extraordinary stress with significantly hurt revenue streams in the aftermath of the economic downturn. And the burden of managing existing products and product lines and developing new products has swollen. Customers have grown more demanding. Market segments have repeatedly splintered and subdivided. Competition has become more aggressive. Cost pressures have intensified and customer loyalty has declined.

So, what are companies doing to prioritize and develop profitable products that translate into cash, value and growth? What are their biggest obstacles today in maximizing their return on innovation- the lifeblood of any company?

AIPMM and Accept Corporation conducted a joint study in September 2010 to investigate corporate innovation performance in 2010 and evaluate what new priorities, goals or strategies are being planned for the coming year to achieve profitability and drive long term growth in this still very volatile business environment.

More than half of executives surveyed said less than 50% of their product launches were successful.

Over 280 executives representing product management, marketing and development from a diverse array of companies, industries and geographies shared their views. And their priorities are clear:

1. **Translate Strategy into Reality** – Most company executives are focused on more closely aligning product strategy and business objectives to ensure not only that product development teams are working on the most important features at any given time, but that specific product advances are in tune with the company's overall strategic objectives.
2. **Integrate Voice of the Customer – A Critical First Step** – Many executives generally agreed that they need to identify more viable product ideas faster by engaging key stakeholders, internal and external, early in the process and throughout the innovation lifecycle. This underscores a need for better, faster collaboration with customers to generate more viable ideas, faster.
3. **Automate or Agonize – Technology Must for Innovation Success** – An increasing number of companies are beginning to recognize that by automating time-intensive and costly MS Excel and Word-based processes, they can increase their time to market and accelerate profitability. They are applying technology-based solutions to ideation, strategy and portfolio requirements management and development processes and enjoying the shorter innovation cycle times, reduced development costs and faster time to market that such solutions can deliver.
4. **Eliminate *Bad* launches – Reduce Risk at Every Stage** – Top-performing companies realize that it is no longer a question of whether their products are at risk of failing, but which ones will fail and when? To ensure that they can continue to meet their customer and business needs, they are implementing solutions that enable them to identify and effectively mitigate risk across their innovation processes, including solutions for determining their investment portfolio priorities and monitoring and managing their performance on an ongoing basis at all levels of the organization- executives to developers. across multiple locations and time zones, or the project involves a release with multiple teams and dependencies, how do you keep all your teams on the same page, all the time?

Overall, the study reveals a refreshed focus on innovation driven by international competition, growing economic confidence and an expectation for a faster and more volatile business environment next year.

Innovation is back on the priority list of most executives and has reclaimed its place as a top board room agenda item as this volatility and speed will require organizations to prioritize, develop and take profitable products to market faster than in previous years.

In short, companies are gearing up to make innovation a key strategic advantage and a competitive weapon in 2011.

“Being better and faster is the only way for us to survive and thrive in this new economy.”

David Wagner,
VP Marketing, Solutions Lab

BENCHMARKING THE PIONEERS

AIPMM and Accept Corporation used three metrics to determine the attributes of companies that are best positioned to take advantage of the current market and economic conditions and transforming Innovation into a key strategic competitive advantage:

- **Successful Product Launches** - Measure of what % of product launches over the last three years were successful (i.e attained profit, revenue, market share goals)?
- **Use of Technology to Innovate** - Degree of use of automation to standardize, prioritize and create efficiencies across the innovation management lifecycle (Ideation, Portfolio Management, Requirements Management and Development)
- **Degree of Strategic and Execution Alignment** - Degree of alignment between a company’s strategic objectives and execution efforts

The 280 companies evaluated broadly fell in three major groups based on their performance in each of the above categories: Pioneers, Stragglers and Survivors

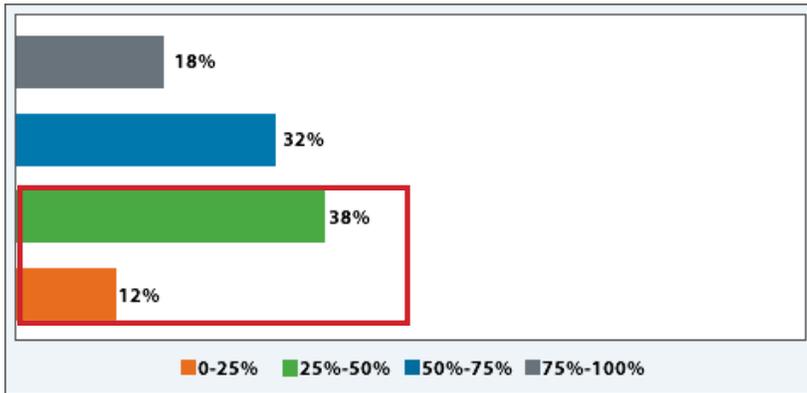
Table 1- Innovation Excellence Performance Criteria

Definition of Innovation Excellence	Mean Class Performance		
	Successful Product Launches	Use of Technology to Innovate	Degrees of Strategic and Executive Alignment
Pioneers: Top 20% of aggregate performance scorers	More than 75% of product launches over the last three years were successful	Extensive use of technology across the innovation lifecycle	More than 75% of engineers are focused on the most important features and products
Survivors: Middle 50% of aggregate performance scorers	Between 25%-75% of product launches over the last three years were successful	Moderate use of technology across the innovation lifecycle	Between 25%-75% of engineers are focused on the most important features and products
Stragglers: Bottom 30% of aggregated performance scorers	Less than 25% of product launches over the last three years were successful	Low to no use of technology across the innovation lifecycle	Less than 25% of engineers are focused on the most important features and products

WHY PRODUCTS FAIL - A CLOSER LOOK

One of the most startling findings of the study was that more than half of executives surveyed said less than 50% of their product launches were successful.

Figure 1 - What percent of your organization's product launches over the last three years were successful (i.e attained profit, revenue, market share goals)?



“Selecting product concepts for development is often a chaotic affair. Internal politics and subjective criteria sometimes not even related to corporate goals are used to defend and advance product ideas.”

- Aberdeen Research Study,
June 2010

So, what makes most products unsuccessful? According to the research, four major factors emerged.

1. Failing to Incorporate Voice of the Customer into the Process

The “Voice of the Customer” is the term to describe the stated and unstated customer needs or requirements. There is no one monolithic voice of the customer. Customer voices are diverse- internal and external. In addition to the external customer, there are multiple customer voices within a single organization: the voice of the sales organization, the voice of the development teams, and the voice of the supporting or maintenance organization. These diverse voices must be considered, reconciled and balanced to develop a truly successful product.

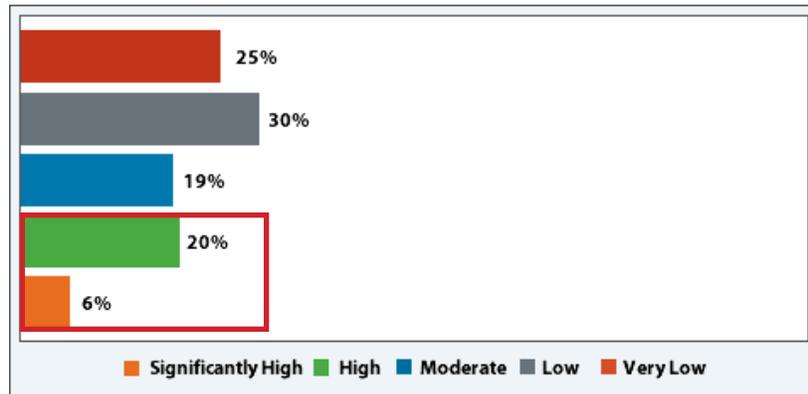
Blame for product failure was placed on several missing links when it comes to the ideation process and lack of resources to capture ideas and apply them to new products. More than two thirds or 83% percent of companies say less than 25% of existing ideas translate to new products. Moreover only 2% of existing ideas actually make their way in to products according to the majority (75%) of executives surveyed.

For most companies, sharing and collaborating on new ideas was the biggest challenge, according to 40% of large companies surveyed. The survey also found that key stakeholders are generally not involved in the idea capture. In fact, only 25% of those surveyed are using web-based methods for idea capture and engaging key stakeholders (See Figure 2 below).

Companies want to be able to collect and identify viable product ideas faster by engaging key stakeholders but they lack the ability to collaborate with customers.

In addition, the opinions of partners, suppliers and customer does not factor in to idea generation. For example, customer feedback is collected by 75% of companies in an archaic fashion such as at trade shows where business card are exchanged, and little if any organized follow-up ensues. As a result, less than 50 percent of product ideas come from customers, partners and suppliers, according to 45% of large organizations.

Figure 2 - What percentage of your idea collection and management is web based?



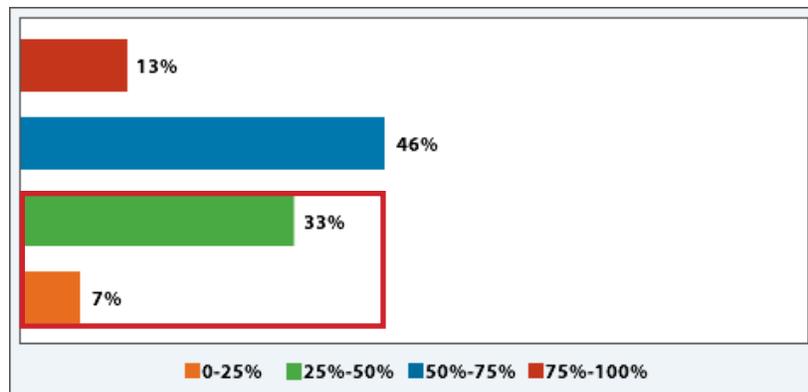
2. Failing to Align Product Execution with Company Strategy

The survey indicated that often companies are developing the wrong products with the wrong features because of a substantial disconnect between C-level strategy setters and those managing product execution.

Priorities trickle down from c-suite management; but product developers often do not have the right plan allocation, or resources to execute on delivery. Hence, there is a significant disconnect between what the development teams are working on versus what was handed down based on corporate objectives.

Less than 50% of engineering resources are focused on the most pressing management priorities, according to 46% of executives. This statistic illustrates that there's a high probability that companies are spending valuable resources developing the wrong products and features.

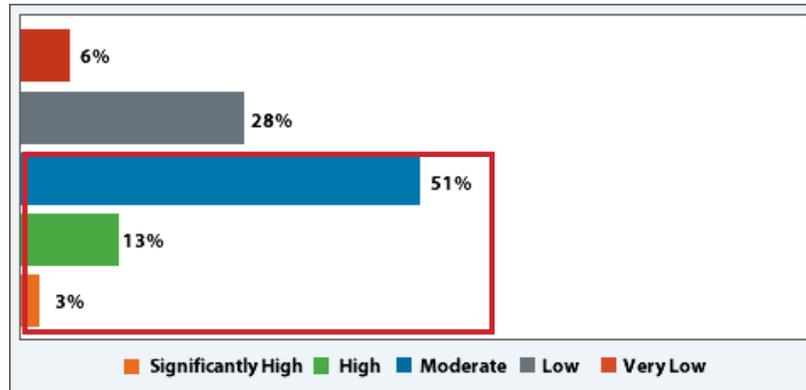
Figure 3 - About what percent of your engineering resources do you believe are focused on developing the most important features and products?



Selecting the right product concepts and features for development in the first place is often a chaotic affair and a big challenge for many companies (See Figure 4 below). Lack of clear decision making ownership spurs internal politics to create organizational consensus. Subjective criteria, sometimes not even related to corporate goals, are used to defend or advance specific concepts over others. And in the end, selection decisions often are more often based on influence and debate skills than merits of the product concepts.

More than 51% of executives surveyed said that they believe there is a probability teams are currently working on the wrong products and the wrong features to begin with, often based on influence and debate skills than merits of the product concepts.

Figure 4 - What is the probability that your teams are working on the wrong products and features?



Bottom line, companies are struggling when it comes to ensuring that their product strategies and business objectives are aligned with execution. Driving business objectives down to market requirements and product features is easier said than done.

3. Failing to Automate Innovation Processes

The need for speed in the product development cycle is a major priority yet complex products, complex requirements, complex development lifecycle slow things down. Paper based and other manual processes add fuel to the fire slowing things down even further or worse, completely missing key customer requirements or market opportunities.

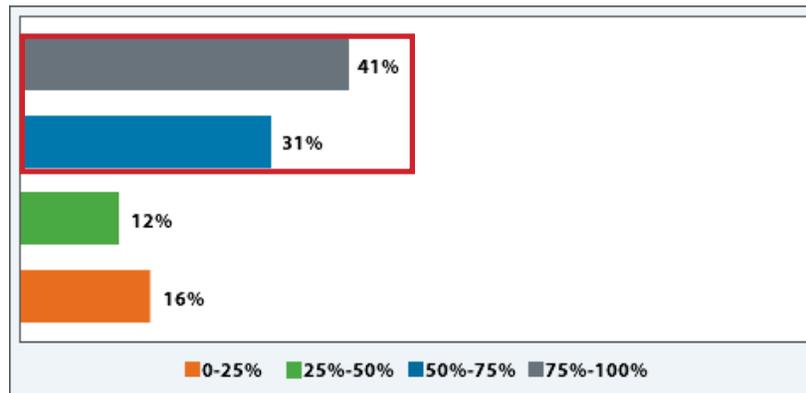
Almost half (48%) of respondents report their business pace will be faster and another 38% expect more uncertainty and volatility. Better and faster is seen as the way to survive and thrive. Yet, survey results show that nearly 70% of companies are still on a manual process (using spreadsheets and word documents) when it comes to managing their innovation processes across the enterprise (See Figure 5 below).

To this end, automation is a top priority heading into next year. An increasing number of companies are beginning to recognize that by automating time-intensive and costly MS Excel and Word-based processes, they can increase their time to market and accelerate profitability. They are applying technology-based solutions to ideation, strategy and portfolio requirements management and development processes and enjoying the shorter innovation cycle times, reduced development costs and faster time to market that such solutions can deliver.

“When an organization develops one solution with a small team, it is easy. But when you have different integrated areas of technology and multiple priorities and dependencies, you need automation to manage that scenario. That’s what Accept allows us to do.”

- Pete Connor,
VP Operations, Cadence Design Systems

Figure 5 - What percentage of your product ideation, planning & development activities are tracked manually today (spreadsheets, word documents, etc)?



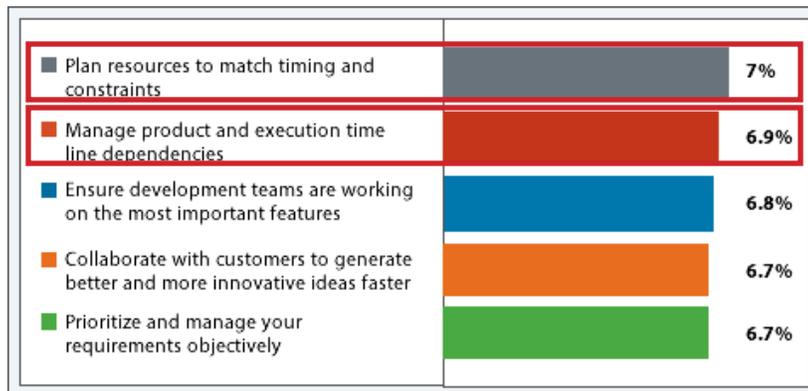
4. Failing to Migrate Planning and Execution Risk

With less than 50% of product launches successful, the risk of product failure is high. Mitigating planning and execution risk cited as the # 1 challenge in most companies. Specific risk areas mentioned include the inability to plan resources to match timing and constraints leading to missed market opportunities due to missing launch deadlines and the inability to manage product and execution dependencies across multiple teams and regions (see Figure 6 below).

“In any distributed team project, collaboration and communication are the two most important success factors. In addition, agility required establishing common goals, common processes, same team culture and a single risk management and communication plan.”

- Director of Marketing,
IT Consulting Firm

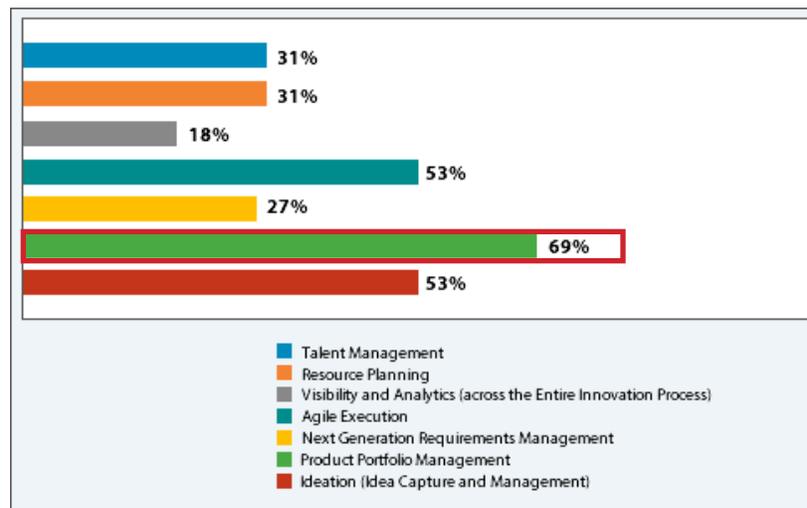
Figure 6 - Top 5 Innovation Management Challenges



In addition to the execution oriented risks mentioned above, companies also need to manage the overall risk profile for their existing and new products. They need to balance their product strategy with the budget or resources available and assess for profitability, resources, risks, and other appropriate factors.

To this end, Product Portfolio Management is the key innovation management initiative that most companies plan to start accelerating in the coming year: 70% of executives plan to make an investment in a portfolio solution to maximize profitability or value of the portfolio, provide balance and support the strategy of the enterprise in 2011.

Figure 7 - Which innovation management initiatives do you plan on starting or accelerating in the coming year?



KEY STEPS TO INNOVATION SUCCESS

Regardless of where you are today in your innovation journey and your readiness in transforming innovation into a key competitive advantage, the following actions will help spur the necessary performance improvements to move Stragglers to become Survivors or Survivors to emulate Pioneers.

While Accept and AIPMM benchmarks provide actions based on innovation excellence measures as specified in Table 1, the recommendations listed below should be considered by all product executives to transform innovation into a sustainable competitive advantage.

Straggler Steps to Success

If you are just getting started making innovation your core competence, do not get left behind. Here are some actions you can take NOW to ensure you not only survive but begin to thrive in this still uncertain and volatile innovation economy where opportunity abounds for the right ideas, products and players:

- **Start connecting with your stakeholders** – Facilitate collaboration among customers to generate better and more innovative ideas in a 24/7 idea community.
- **Invest in an easy, intuitive product portfolio modeling and planning solution** - Designed for executives and product owners- start modeling in context of your constraints and drivers.
- **Ensure requirements are properly defined and communicated** - Leverage a formal requirements management solution to capture, collaborate and prioritize product/ release requirements.
- **Mitigate execution risk** - Consider an execution solution that will ensure cross-team, cross-lifecycle collaboration across enterprise global teams.
- **Get outside help** – Formalize product development processes and templates to view and manage

Survivor Steps to Success

As a survivor, if you have already started capitalizing on the current market needs, volatility and conditions by bringing to market profitable products, don't stop.

Here are some steps to help you continue your journey towards innovation success:

- **Re-prioritize your innovation initiatives and determine roadmap for 2011** – Invest in a product portfolio solution that will enable real-time market modeling and 'What-If' capabilities to rapidly and visually prioritize what you are going to develop against your company goals and product strategies.
- **Harness the wisdom of the crowds** - Let your customers decide what is most important by prioritizing ideas through a web based system to easily screen, rate and distill the most important ideas to focus on.
- **Automate the entire innovation process** - Eliminate manual processes as much as possible. Consider automating the entire innovation process end- end: Ideation, Strategy and Product Portfolio Management, Requirements Management and Execution.
- **Ensure you are always working on the most important thing** - Demand transparency and traceability from your innovation management solution. Know why, what when for all features- Tracing from market driver, strategic drivers to the actual code.
- **Leverage external knowledge and best practices** to ensure you are optimizing your people, process and technology and maximizing your return on innovation investments.

Pioneer Steps to Success

Congratulations if you are an Innovation Pioneer and leading all of us. There is no doubt that you will enter the coming year continuing to transform innovation into a key competitive advantage.

While you know what to do or wouldn't be leading today, here are some inputs as you think about those next steps and getting to that next level:

- **Maximize your return on product investments** - Develop and maintain a product portfolio that focuses investment in areas of highest strategic value and financial return. Invest in a 'Smart' Product portfolio management solution- real-time, visual and intuitive that aligns your company and product strategy.
- **Integrate Innovation into your ecosystem** – Integrate your innovation processes within other systems and third party applications that will enable you to capture, prioritize, collaborate and execute on winning products like never before.
- **Continually align company goals and product strategies WITH execution** - Enable top down and bottoms up alignment- High level company goals and product strategy to requirements, resources and budget constraints.
- **Collaborate with your customers at every step** - Provide full 'Voice of the Customer' traceability, continuous updates and collaboration with idea contributors (customers, partners, employees) at every step.
- **Monitor and track product planning and execution at every stage** - Ensure your innovation solution provides you with the dashboards and analytics to access the critical information and insights you need- strategic product priorities AND "ground level" project execution status at all levels, at all times.

"One of the main benefits that we got is transparency and increased collaboration between groups internally. We now have a way to link strategy objectives down to our engineering requirements. We have increased alignment between strategy and execution and it's easy to identify. Before, there was no visibility."

- Guillaume Lardeaux,
VP R&D Operations, Alcatel-Lucent

Transform Innovation Into a Strategic Advantage and a Key Competitive Weapon in 2011.

APPENDIX

Research Methodology

Participants included more than 280 executives representing product management, marketing and development from a diverse array of companies, industries and geographies. Nearly 25 percent of the participants represented companies with more than \$1B in annual revenue. Over 50 percent of the participants were Director, VP or CXO level. Companies headquartered in the Americas represented 77percent of the total respondents, Europe and Middle East/Africa followed with 19 percent and the rest representing Asia Pacific/India (4 percent).

Collection method

An anonymous online research survey was distributed in September 2010 via e-mail. Two additional reminders were sent before the research was closed. Responses were screened for completeness.

Audience

Survey recipients were product executives representing product management, marketing and development from a diverse array of companies, industries and geographies.

Scoring methodology

Product professionals in various roles at companies across the world identified the most important priorities they are focused on today. Participants were asked to rate the importance associated with fifteen priorities on a scale of 1 to 10, with 1 indicating “Low” and 10 indicating “High”.

Aggregate Participant Profile - Total Participants: 280

Region:

Americas	77%
Europe/Middle East/Africa	19%
Asia Pacific	4%

Company Size:

\$0-10M	22%
\$10M-100M	21%
\$100M-500M	22%
\$500M-1B	10%
\$1B-10B	15%
\$10B+	10%

Role:

Cxo (CPO, CFO, CEO, etc)	7%
Vice President (including SVP, EVP, etc)	16%
Sr. Director/Director	27%
Portfolio Manager	34%
Business Analyst	8%
Staff/Administration	2%
Other	6%

Sector:

Automotive	2%
Consulting or Professional Services	10%
Consumer Packaged Goods	3%
Diversified Manufacturing	2%
Financial Services	8%
Health-care	11%
High Tech	10%
Logistics/Transportation	1%
Oil & Gas	2%
Process Manufacturing and Chemicals	1%
Public Sector	0%
Pharmaceutical	3%
Research Firm	0%
Retail	2%
Software	20%
Telecommunications	11%
Utilities	0%
Other	11%

Accept360 Suite

Accept partnered with leading companies in the most demanding and competitive industries to develop its product innovation management suite. Accept360 is imbued with the proven product innovation processes and best practices required to manage complex product portfolios and deliver at market speed. It is uniquely effective, bringing together four functionally deep yet highly-integrated modules that deliver enterprise agility across ideation, planning, and execution: Accept360 Ideation, Accept360 Strategy & Portfolio, Accept360 Requirements Management, and Accept360 Execution.

Accept360 Ideation

Accept360 Ideation is an on-demand software solution that helps you harness the collective wisdom of your community, tapping a vast new source of market insight that will completely change the way you innovate.

Engage customers, partners, suppliers and employees in an “always on” conversation about your products and services. Capture thousands of new ideas. Validate existing ones. Pinpoint trends. Anticipate demand. As community members contribute enrich, and refine ideas you gain precise real-time insight - with the certainty to innovate at market speed.

Accept360 Strategy & Portfolio

Accept360 Strategy & Portfolio allows you to define a strategic, balanced product roadmap, to help you align product strategy with company strategy. Integration with Accept360 Ideation enables you to easily evaluate new products across key portfolio objectives such as investment, ROI, competitive advantage, resources, and others then drill down to get specific details on the factors that drive your portfolio decisions.

Accept360 Requirements Management

Accept360 Requirements creates a living repository of information that ties together market, customer, competitive, and requirements data in a proven market model framework. In addition to what you see in the Fast Track Program, Requirements lets you create any number of Functional Areas - to manage multiple product lines, divisions or brands independently - plus, comprehensive reporting.

Accept360 Execution

Agile software development methods like Scrum and Extreme Programming are quickly becoming the norm. Given the methodologies' focus on urgency and fast delivery, this is an area that clearly calls out for real-time integration with the big picture.

Accept360 Execution accomplishes this by:

- Discovering, evaluating, and prioritizing the features that will yield the best satisfaction to the customer
- Maximizing the creation of value throughout the agile development process, and
- Providing clear measurements of the business value delivered after each sprint.

About Accept Software Inc.

Accept Software, Inc. delivers The Product Innovation Management solution that technology-driven companies use to decide which products to bring to market for the fastest time-to-profit. The Accept360 Suite is the only complete end-to-end software solution that tightly links company and product strategy through ideation, portfolio planning, roadmaps, requirements and execution. For more information, visit www.accept360.com

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