Overcoming Barriers to Sustainable Market Differentiation

Part 1: Successfully Executing Gated Processes

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Executive Summary

Gated innovation processes (sometimes known as Stage-Gate® processes) are the backbone of innovation for many companies. For over 75 percent of businesses worldwide, gated processes are the means by which new product ideas and innovation strategies are brought to life.[1] Cross-functional teams use gated processes to transform concepts into tangible products that generate revenue and profit for the business.

The successful execution of such processes is an important predictor of business success. According to recent research by Nielsen, companies that have innovation processes with effective, rigid gates average 130 percent more in new product revenue than companies with loose processes.[2]

The reality is that many companies are challenged in executing their gated processes. In fact, through our experience in partnering to improve innovation management processes and practices at nearly 200 companies worldwide, we have identified this area as one of four primary barriers to achieving sustainable market differentiation.

This paper, the first in a series dealing with how to surmount these barriers, focuses on the problems companies commonly face in trying to establish gated processes that effectively support their innovation management requirements. Most importantly, we also identify repeatable, easy-to-understand practices and techniques that can be used to overcome these challenges.

The challenge to organic growth is to create a predictable pipeline of innovative, high-value products, ensuring sustainable market differentiation for today, tomorrow and beyond.

Barriers to Sustainable Market Differentiation

Today's executive teams face a critical imperative as they strive to bring more value to shareholders. They must find new ways to grow the business, often with unprecedented resource constraints. It is possible, of course, to expand via acquisitions, but this strategy has imposing risks and limitations, particularly if pursued as a sole course. In almost all cases, a company must achieve *organic* growth to drive consistent, ongoing year-over-year increases in profit and revenues.

The majority of business leaders recognize that innovative products and services provide the most direct path to organic expansion. To begin with, they promise greater revenues and higher profit margins than incremental line extensions. But even the most innovative products can become commodities over time. And when they do, their financial contribution to the business inevitably dwindles. The challenge, then, is to avoid a trajectory of decline by creating a *predictable, evergreen* pipeline of innovative, high-value products, ensuring **sustainable market differentiation** for today, tomorrow and beyond.

The journey to sustainable market differentiation is long and difficult. There are many reasons why companies struggle on the way, but our research and experience show that these causes fall into four distinct categories.

The most common reasons companies fail to differentiate themselves in the long term are: weak execution of gated innovation processes; resources not being invested in the most promising products; failure to align strategy with product development activity; too few good, high-value ideas for new products.

1. **Execution Challenges:** Many companies struggle with the cross-functional execution of their gated innovation processes. While most companies have gated processes in place, only 54 percent say that they are followed as intended.[3] One of the common consequences is missed product launch deadlines; up to 41 percent of launches are reported as late.[4]

2. **Product 'Bad Bets':** Some companies continually place 'bad bets' on losing products. In fact, across industries, 40 percent of resources are wasted on unsuccessful products,[5] and only 50 percent of new products are profitable.[6]

3. **Lack of Alignment between Strategy and Execution:** Although most companies identify areas of strategic focus for innovation in their business, only 27 percent connect those areas to resource allocation.[7] Research by the Gartner Group found that 80 percent of executives admit to being aware of a gap between strategy and product development activity.[8]

4. **Too Few Good Ideas:** Most companies – as many as 79 percent – have no lack of ideas, but rather suffer from a shortage of good, high-value ideas.[9] It has been shown that, across industries, low-performing companies introduce twice as many incremental products as high performing companies.[10]

This paper focuses on the first area of struggle: gated process execution.

Figure 1: Barriers to Sustainable Market Differentiation

A gated process is a specialized type of business process used by business teams and executive decision-makers to ensure that limited resources are only applied to the strategic business investments most likely to benefit the company.

What are Gated Processes?

Gated processes are unlike any other kind of process in the business world today. Let's begin with a definition. *A gated process is a specialized type of business process used by business teams and executive decision-makers to ensure that limited resources are only applied to the strategic business investments most likely to benefit the company.*

The distinguishing traits of gated processes become clearer when they are compared to those of two other types of business processes with which they are sometimes confused: workflow and project management. As shown in Figure 2, these latter processes are also relevant to innovation—and they, too, require support—but they

are fundamentally different. In contrast to these other process types, **gated processes are**:

1. **Focused on tough, iterative investment decisions.** Gated processes originated in the area of product innovation, but they may be applied to any initiative that is characterized by a high amount of investment or risk, or that contains many 'unknowns' for the business. In order to manage the relatively high risk levels, investment decisions must be made iteratively and must be supported by a rich body of market, business and technical knowledge that grows and is increasingly validated as projects progress.

   Workflow processes are also about decision-making, but the risk of a bad decision to the business is lower, and the knowledge requirements are much more tactical. In project management, good tactical information is sometimes needed to manage decision complexity (e.g. knowledge of task requirements, status, and schedule dependencies). But in many ways, effective project management minimizes decision-making. Good project schedules are so clear and specific that people don't need to decide what to do next; they simply follow the plan.

2. **Deliverable-centric.** Given the difficulty and importance of decisions related to product innovation, gated processes require the creation of a collection of deliverables. These take the form of documents and business data owned by business teams and provided to support executive decision-making. This is different from a workflow process, in which a single document or business record is approved. And while gated processes require the management of deliverables against clear deadlines, they do not require the comprehensive detailing of each task as called for by project management processes.

3. **Cross-functional.** The last unique attribute of gated processes is that they require a high degree of cross-functional coordination and communication. Innovation teams must collaborate across each function of the business (sales and marketing, R&D, operations, finance, etc.) in order to bring the right information forward to senior business leaders; and then those decision-makers (or 'gatekeepers') must also be cross-functional in order to ensure alignment and the best quality decisions.

   Workflow and project management processes may or may not have cross-functional participation. Either way, the communication flows in a different manner. Workflow processes are typically simpler and require a sequential, 'straight-line' flow of communication from one person to another. Project management processes are more hierarchical, with much of the communication flowing up and down the chain from the project manager to various team members.

Gated processes are often confused with workflow and project management—two other types of business processes that are highly relevant to innovation yet serve different purposes.

While a powerful tool, gated processes can be challenging to execute effectively.
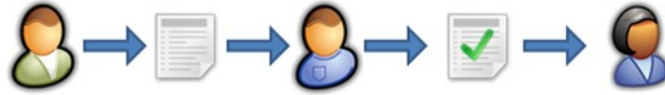
Gated Process
- Tough Investment Decisions
  - Knowledge-Intensive
  - Strategic
  - Iterative
- Deliverable-Centric
- Cross-Functional

Workflow Process
- Simple Approval Decisions
  - Transactional
  - Tactical
- Document-Centric
- Sequential

Project Management Process
- Minimize Decision-Making
  - Manage Complexity
  - Tactical
- Task-Centric
- Hierarchical

Figure 2: Types of Business Processes

Common Problems with Gated Process Execution

The three attributes described above, while making gated processes the powerful tool that they are, undeniably also contribute to the challenges associated with their execution.

When we begin to work with companies in the area of gated process execution, there are five specific issues we hear about that underlie their challenges:

1. **"Our business silos prevent effective cross-functional teamwork"**
   Innovation is by its very nature a cross-functional activity, and effective teamwork is the key to successful gated processes. Too often, however, even though marketing, research and development, manufacturing and other functions are supposed to be working toward common goals, they are not in synch.

2. **"Our gated process takes too much time and keeps me from my 'day job'"**
   Working within gated innovation processes can be very time-consuming; it is often perceived to be difficult, administratively burdensome and highly bureaucratic. Staff would often like to contribute more to the process, but feel that their day-to-day responsibilities take priority.

3. **"We never kill projects in gate meetings"**
   A third challenge concerns the decisions that are made—or not made—within the process. Too often, gate meetings are nothing more than status reviews in disguise. They do little to serve their intended purpose, which is decision-making. Team members lose motivation after repeatedly generating large amounts of information and seeing projects, both good and bad, simply languish.

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4. **"We fail to learn from our process missteps"**
   Often teams suspect they are making the same innovation-process mistakes over and over again. But they are too busy moving on to the next project to assess and share 'lessons learned', whether from successful or unsuccessful initiatives.

These issues often come together to create one last, additional challenge:

5. **"We aspire to have a world-class innovation process but in reality we're struggling with process adoption"**
   As described earlier, 75 percent of companies do have some type of gated innovation process in place. However, introducing these processes without the right support creates significant managerial and administrative burden and gets in the way of full adoption. This explains why only 54 percent of companies have a process that is really used. In other words, nearly half the businesses that have deployed processes are unable to capture the value that comes from mature processes.

Four Principles of Effective Gated Processes

Despite these steep hurdles, it *is* possible to succeed with gated processes. Here are a few important principles that, when followed, can reduce administrative burden, improve decision-making, and reduce the effort required to achieve innovation-process maturity.

1. Make Cross-Functional Teamwork Real

Research findings consistently support the importance of cross-functional teamwork to the effectiveness of gated processes. In fact, studies have shown that high performing organizations successfully execute on cross-functional work activities *two to three times more often* than low performers.[11] Too often, however, even when innovation teams strive to be cross-functional, members still end up working only inside their functional group. Unless aided by processes and systems that enable cross-functional activity, product innovation teams tend to fall into ways of working that reinforce functional barriers. To be successful, they must be provided with support that moves them beyond these 'islands of information' into an environment that facilitates and reinforces cooperation and integrated effort across all functions. This requires innovation processes and systems designed from the ground-up to enable cross-functional teamwork.

One of the principal benefits of a viable innovation process is that it enables all stakeholders—team members and decision-making executives— to view project goals, risks, and opportunities. Because all process stages, gates and deliverables are organized and presented in a common context, teams are better able to work together to drive projects forward. Managers, leaders and individual contributors from every function can readily understand the process, track progress, and more effectively play the role that is prescribed for them. Further, executives are better able to access the information they need to steer projects and make the right investment decisions.

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2. Eliminate Friction to Ensure Adoption

The most powerful way to achieve adoption of an innovation process is to make sure that it saves people time. Great care must be taken to eliminate every potential source of friction from process use. One way to do this is to embed best practices directly into a set of agreed-to templates for creating deliverables. These templates should comprise standardized questions and provide advice that guides the user to communicate what is required at each process stage and gate. This ensures that team members—even those who are new to the process—contribute in an optimal manner.

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The process should also make it easy for teams to reuse the information in deliverables, whether through automation tools or some other method. This reduces the amount of effort team members must invest. For example, with the right kind of technology support, summary documents such as executive presentations can be automatically created from templates, turning a job that would otherwise take hours or days into one that is completed in a matter of seconds. Capabilities such as this eliminate unnecessary double-data-entry, and give team members additional time to focus on the substance of their contribution to the process,

A third way to eliminate friction is by providing one place where teams can track all of their initiatives and deliverables. Reducing the time spent tracking status details allows team members to concentrate instead on the quality of the work being completed.

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Lastly, don't forget to also eliminate 'friction' for the innovation business leaders responsible for managing your innovation process. They are at the heart of the process. Their time should be spent driving the business and creating a culture that ensures process adoption—NOT on process administration. Managers should be provided with support and capabilities that make it easy for them to participate in developing the process, to help govern it once it's in place, and to modify it over time as required to meet the evolving needs of your business.

3. Make Sure Gate Meetings Have Teeth

So you have a team that is running efficiently and generating credible, effective recommendations based on the value of projects. Great! What should senior management do with that information?

Executives have the responsibility to act as gate keepers. In that critical role, they need to remember a golden rule: Gates are decision points where projects should be prioritized and resources should be allocated. Whether it's Go, Kill, Hold or Recycle, a decision *must* be made about each and every project brought under review.

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As noted earlier, the findings of research on innovation best practices uniformly support the importance of rigorous gate reviews.[12] In fact, the whole point of implementing a gated process is to ensure decisions are made to kill bad projects in early stages, before significant investments are made. Unfortunately, for many companies, gate meetings are essentially status reviews—hard decisions are not made, resources are not closely reviewed, and projects are rarely killed.

One way to ensure that gate meetings have teeth is to include a standardized scorecard for every project among the meeting deliverables. Scorecards help gatekeepers apply consistent, best-practice criteria to every project that is brought to them for review. Scoring criteria are agreed to by stakeholders when the innovation

process is first defined. Properly conceived, these measures ensure that the right strategic questions are considered during the decision-making process.

Criteria should be primarily business-centric (not just technology-centric), and should include such factors as strategic fit, competitive advantage, market attractiveness, and financial reward. If a project's score falls below a pre-determined level, strong consideration should be given to killing it. This discipline helps companies to achieve higher new product success rates—in some cases, higher than 80 percent—because potential failures are identified and killed much earlier in the process.

An additional way to ensure rigorous gates is to require that requests for financial and human resources be highly visible, It is sometimes easy for executives to forget that when they give projects a 'Go' they are essentially 'writing a check' by making an investment of resources in the continued progress of the project. Unless such requests are explicit, gatekeepers will later have a difficult time determining whether they got good value for their money. It's a bit like a restaurant that posts no prices on its menu. Gatekeepers must have a clear understanding of resource needs 'before they order' to ensure that the right resources are applied to the projects that matter the most.

Resource allocation decisions cannot be made in a vacuum. Before giving a project a 'Go' gatekeepers must be able to see how it stands in comparison to other efforts that may be competing for the same resources. We call this support for 'priority-based gate decisions,' which means that each gate meeting must also include a portfolio-like review of all competing projects, the resources they require, and each project's ranking as a priority. Once it is confirmed that a project (a) has value, (b) has priority, and (c) the resources are available, it can receive a 'Go.'

In summary, executives are no different than the members of your innovation teams— they require support to effectively play their roles. Central to those needs is access to decision support tools that enable them to evaluate projects consistently, objectively and knowledgably. They also require a clear understanding of the resources they are committing, and how those commitments align with other priorities.

4. Measure Processes for Continuous Improvement

The fourth principle of effective gated processes is measurement. It is impossible to improve your innovation process if you don't measure it. In order to ensure continuous, long-term process improvement, gated processes must be assessed with the same rigor one would apply to the evaluation of any other business process. Because innovation processes are relatively complex, most companies require special support to assess the current state of their process, to track advancements, and to identify performance bottlenecks.

Here are examples of best-practice process metrics that companies typically need to consider as they evaluate gated processes:
- Targeted number of projects per stage (funnel/tunnel)
- 'Kill rate' of early-stage projects
- Total value of new product portfolio
- Accuracy of revenue, budget, resource forecasts
- Length of time per stage
- Percentage of projects late to market or over budget

Scorecards help gatekeepers apply consistent, best-practice criteria to every project that is brought to them for review.

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- Number of 'Recycle' decisions in gate meetings
- Average time of gate meetings

Best-practice process metrics are identified by answering a small number of questions:

Improving even marginally on just a few measurements can have a material effect on your business.

Question	Insight Provided
1. Are we investing effectively in the front end of innovation? 2. Do we need to generate more concepts that can feed early stages of the funnel?	Ensures a good volume of ideas and concepts at the front end, a better selection of quality candidate projects to consider for funding, and a healthy, funnel-shaped pipeline of projects.
3. Are we reducing time to market? 4. How long are projects spending at each stage?	Enables assessment of time-to-market as well as the identification of process areas that are causing bottlenecks.
5. Is our portfolio increasing or decreasing in value?	Month-over-month value trends indicate whether or not the company is on track to meet growth objectives.

While evaluating process performance and results across this scope of metrics may at first feel daunting, improving even marginally on just a few of these measurements can have a material effect on your business.

How Sopheon Can Help

There are a number of ways in which we can offer practical assistance with execution of your gated processes:

We can offer practical assistance with execution of your gated processes in a number of ways. Contact us on info@sopheon.com to learn more.

1. We can help you establish the baseline of where your company stands compared to companies considered best-in-class in product innovation.

2. We can demonstrate how our Accolade® solution will enable you and your business to adopt and capture the value offered by gated processes by supporting the implementation of each of the principles discussed in this paper. Among other benefits, Accolade will allow you to;

   ☑ Ensure cross-functional teams fully adopt your innovation process;

   ☑ Dramatically reduce the effort required to create process deliverables—in some cases from hours to minutes;

   ☑ Enable your innovation process to evolve and to match new business and market requirements;

   ☑ Achieve new product success rates of 80 percent and higher by killing bad projects—with confidence—in the early stages of the innovation process; and

   ☑ Drive continuous innovation-process improvement.

Accolade was developed to support gated processes. Dr. Robert Cooper, creator of the Stage-Gate methodology, was actively involved in early stages of the software's development, and many of his best practices were built into our solution from the ground up. Since gated innovation processes vary from company to company, Accolade is designed to be easily modified by the business people that manage these processes. It can also used to manage a variety of related processes including accelerated Stage-Gate, concept development, basic research, strategic initiatives, cost reduction/Six Sigma, technology development, and many others.

We encourage you to engage us in a further discussion on how we can assist you in executing your gated processes. Although effective gated process execution is challenging to achieve, its benefits are both significant and attainable. By successfully implementing such a process, you'll be well on your way toward achieving new levels of sustainable market differentiation that can ensure your company's business growth for years to come.

Reference Notes

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About Sopheon

Sopheon (LSE:SPE) is an international provider of product lifecycle management software and services. Its solutions help organizations increase revenues and profits from new products by synchronizing innovation planning and execution. Sopheon's Accolade® software suite is the first in the industry to provide all-in-one support for strategic product planning, ideation and innovation process execution. The suite's Vision Strategist™ component automates the roadmapping process, allowing users to visualize and forecast the future of products, markets and technologies. Accolade's Idea Lab™ component helps organizations generate, select and develop winning product and service ideas. Accolade Process Manager™ automates the product innovation process and provides strategic decision support for the management of product portfolios.

Sopheon's software is used by top innovators throughout the world, including industry leaders such as BASF, Cadbury, Corning, Electrolux, Motorola, PepsiCo, SABMiller and Verizon Wireless.

Sopheon has operating bases in the United States, the United Kingdom and the Netherlands, with distribution, implementation and support channels worldwide.