

How to measure and fund innovation

Innov8rs Bangkok, January 2019



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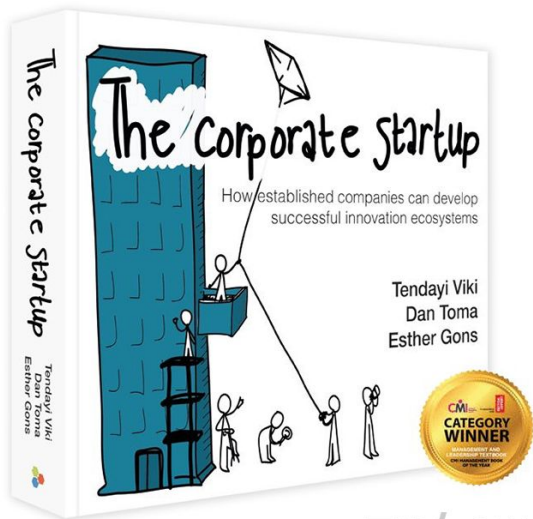
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MINISTRY FOR FOREIGN
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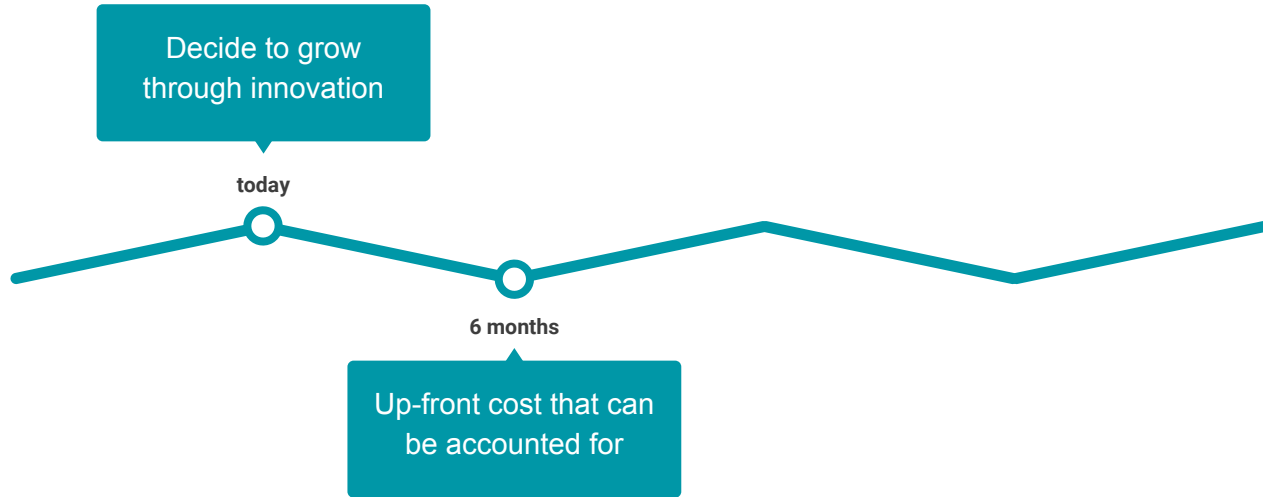
From the CFO's perspective



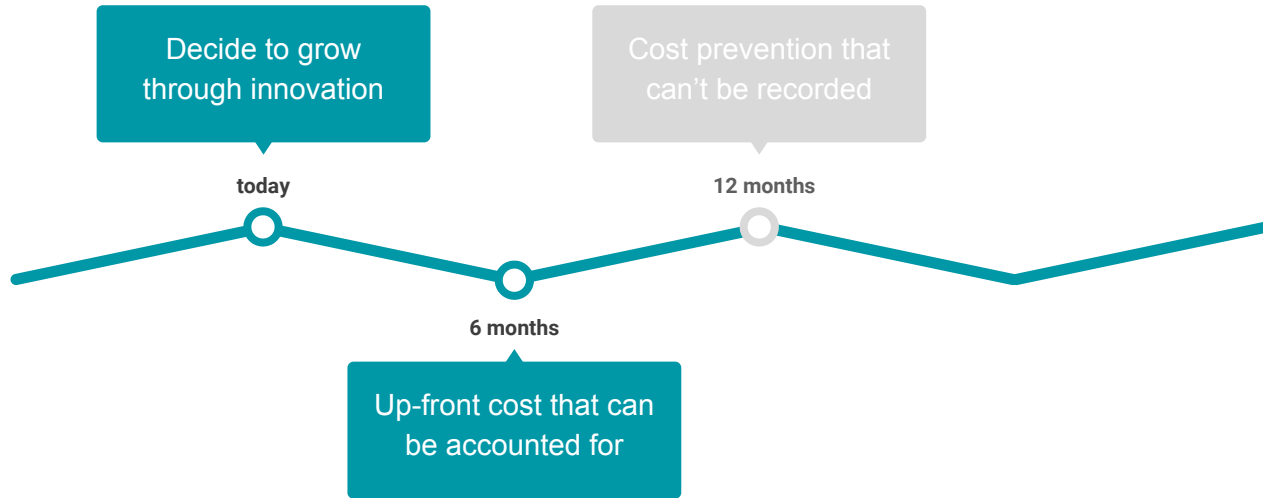
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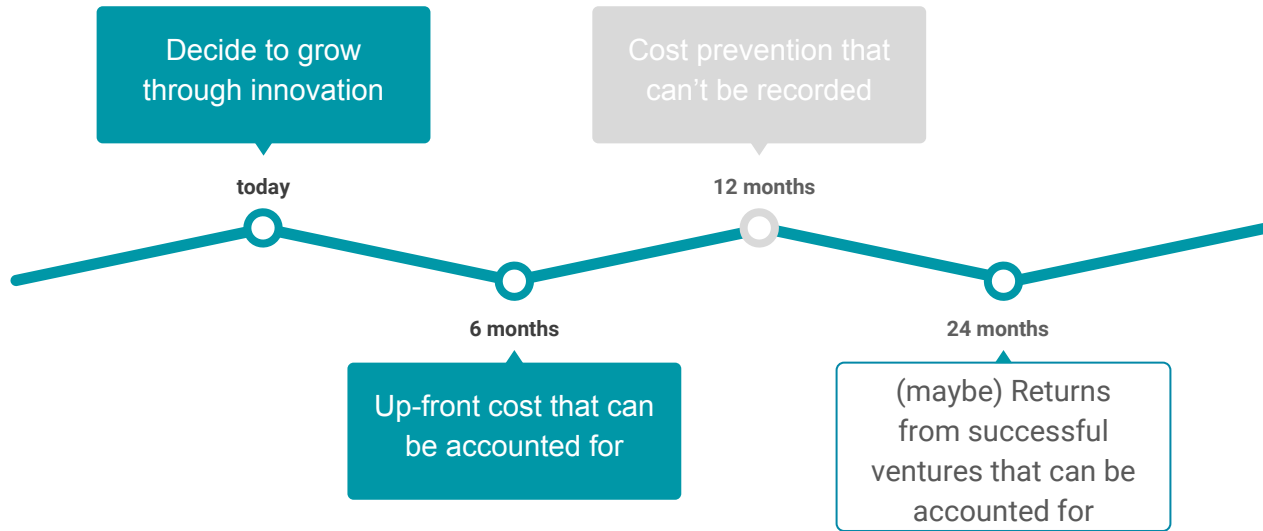
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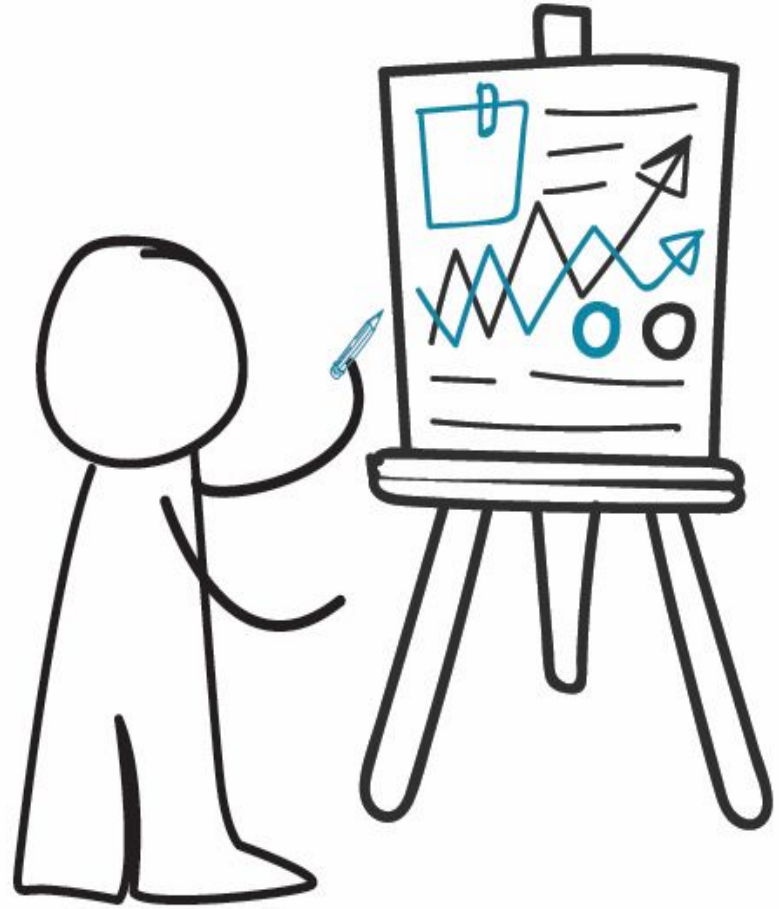
From the CFO's perspective



From the CFO's perspective



3 conundrums of standard accounting



1. The most valuable assets are not the accounting recognized assets

Accounting recognized assets are becoming commodities!

What is used to transform accounting recognized assets into value is not actually recognized as an asset.

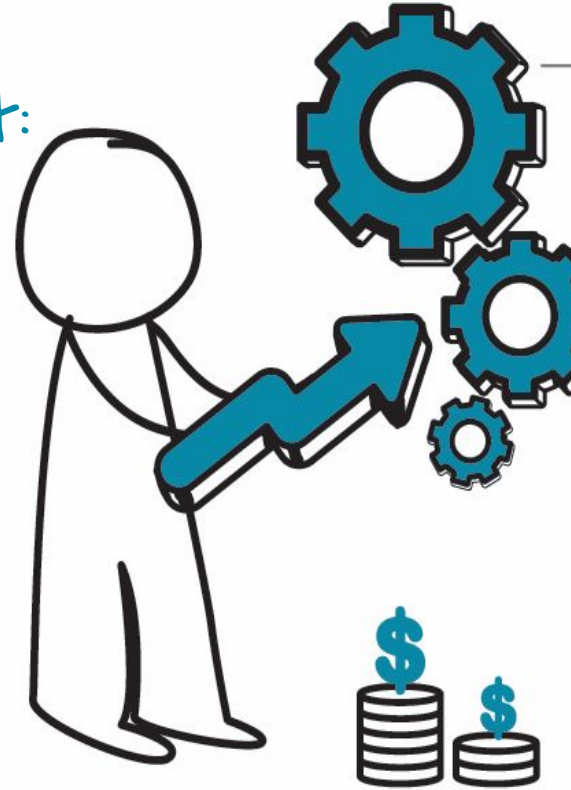
	Rooms owned	Valuation
Airbnb	0	\$31 billion
Hilton Worldwide	~ 895,000	\$23.3 billion



airbnb

2. Accounting-based financial reports show only the final outcome of asset deployment: revenue & earnings.

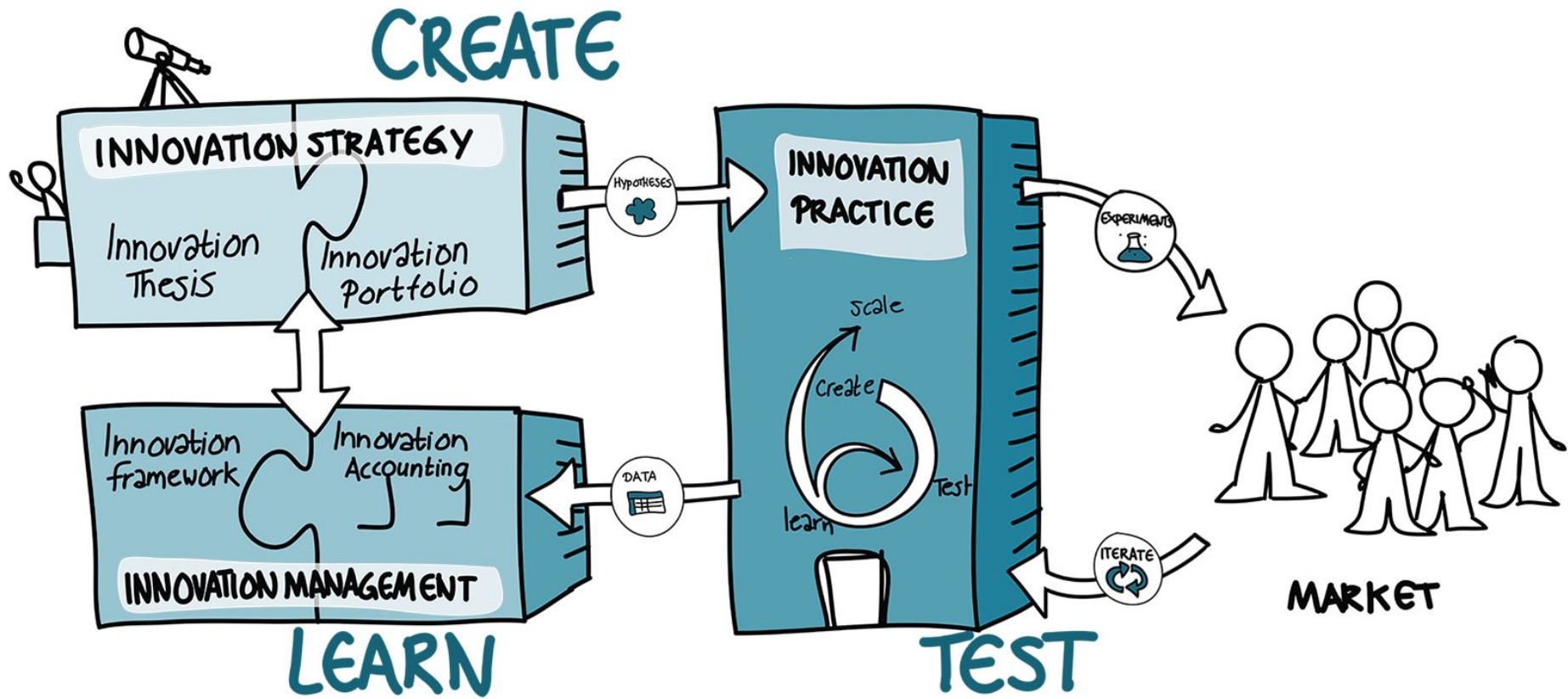
Emphasizing financial metrics at the expense of others shows a lack of understanding of how value is created (and disconnect for the customers)



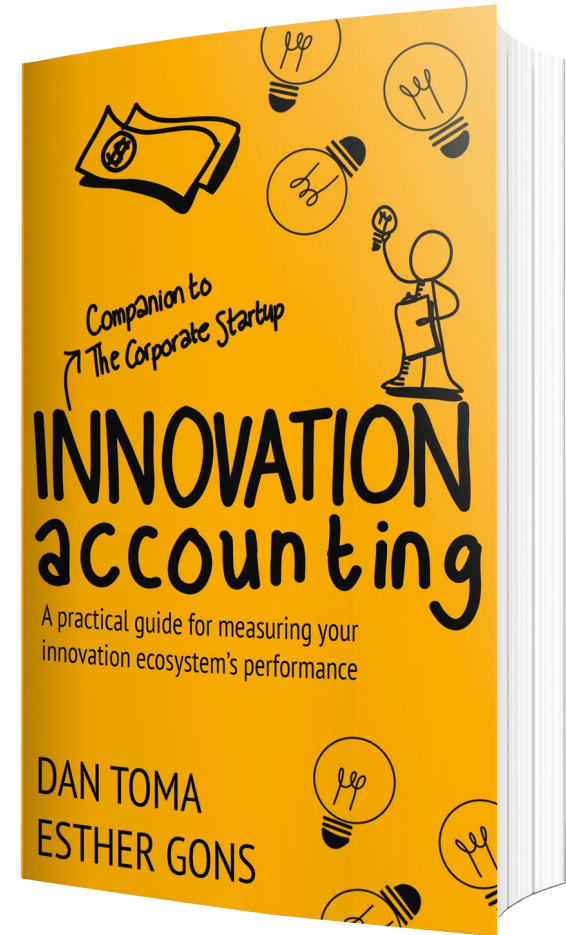


3. The accounting system can't measure something that hasn't happened

Most used methodologies in innovation - lean startup, design thinking, agile development - are cost prevention methodologies



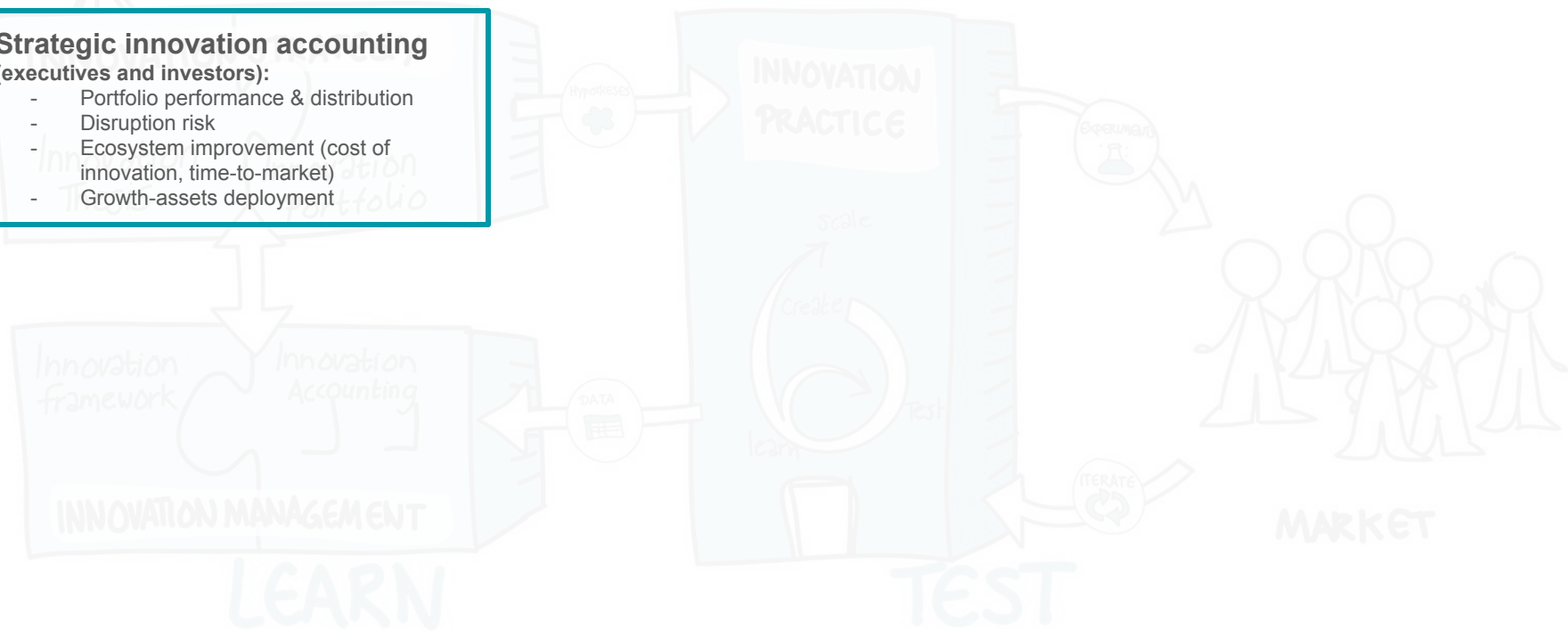
Find out more:
innovationaccountingbook.com



Strategic innovation accounting

(executives and investors):

- Portfolio performance & distribution
- Disruption risk
- Ecosystem improvement (cost of innovation, time-to-market)
- Growth-assets deployment



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Tactical innovation accounting

(product owners, team leads etc.):

- Are the teams working on the right things
- Are the teams making progress

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Managerial innovation accounting

(top & middle management):

- Investing & divesting decisions
- The right questions at the right time
- Risk management

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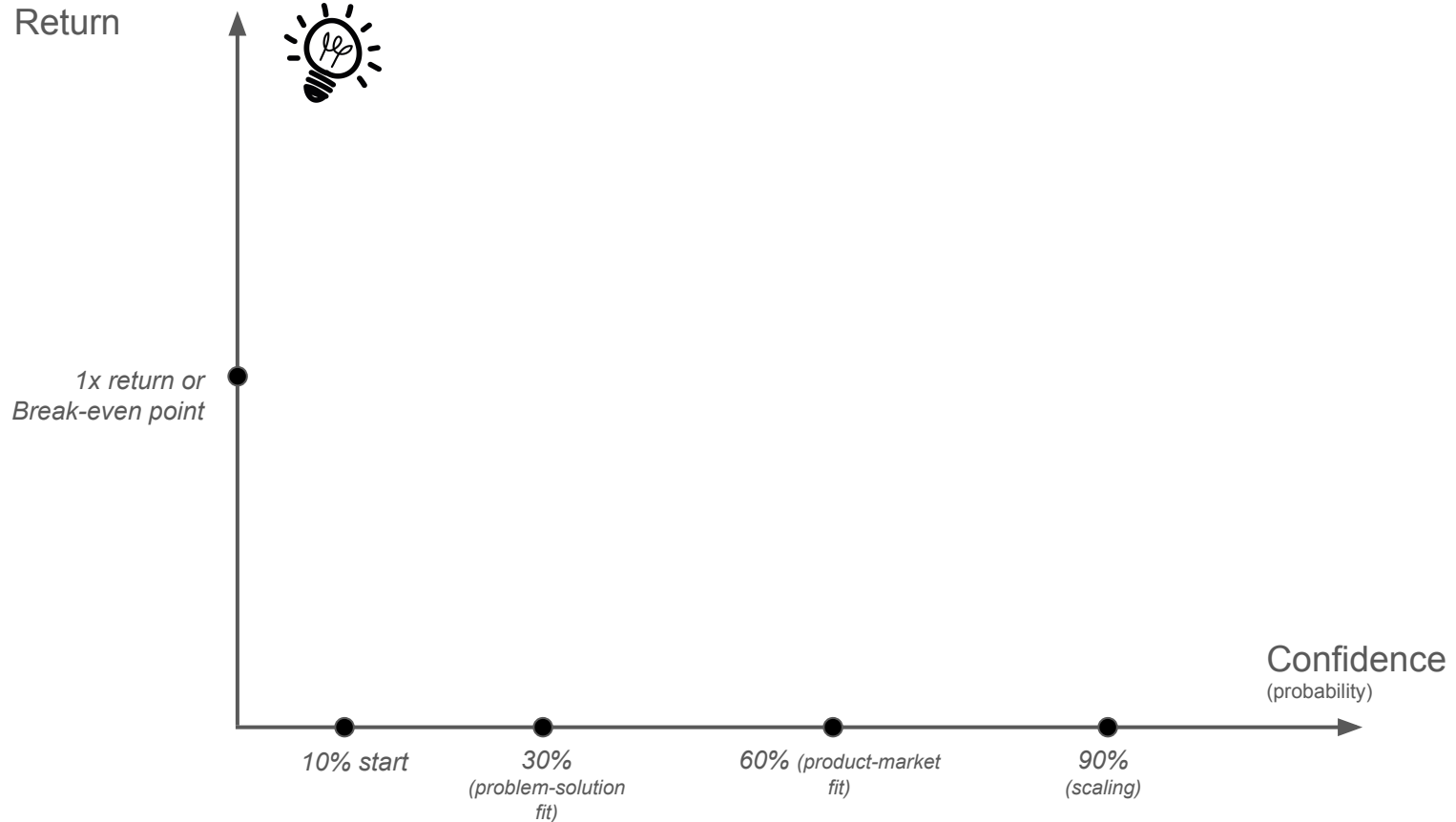
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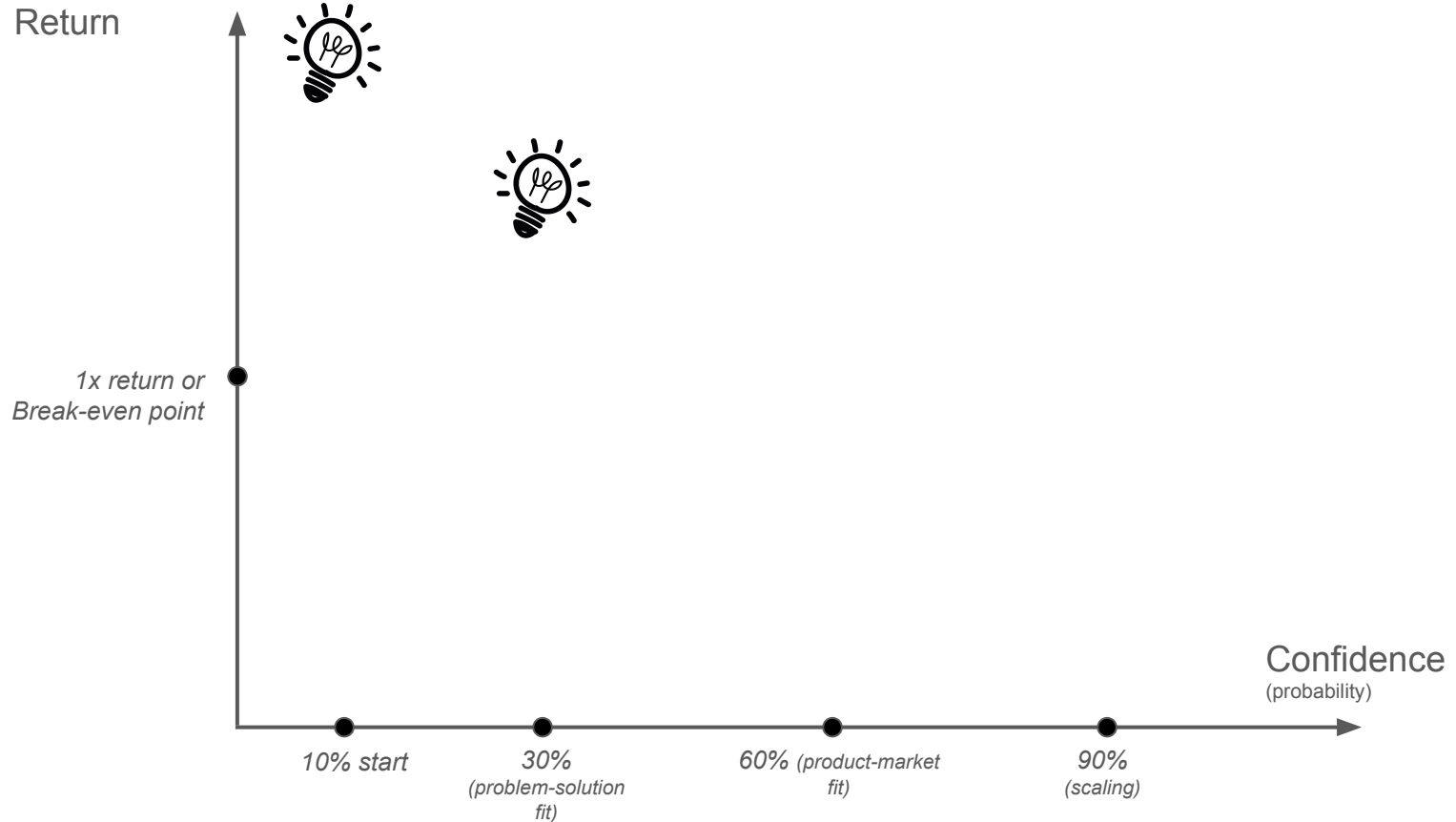
Decision value

$$\text{Return} = (\text{estimated revenue} - \text{incurred cost} - \text{cost to maturity}) * \text{probability}$$

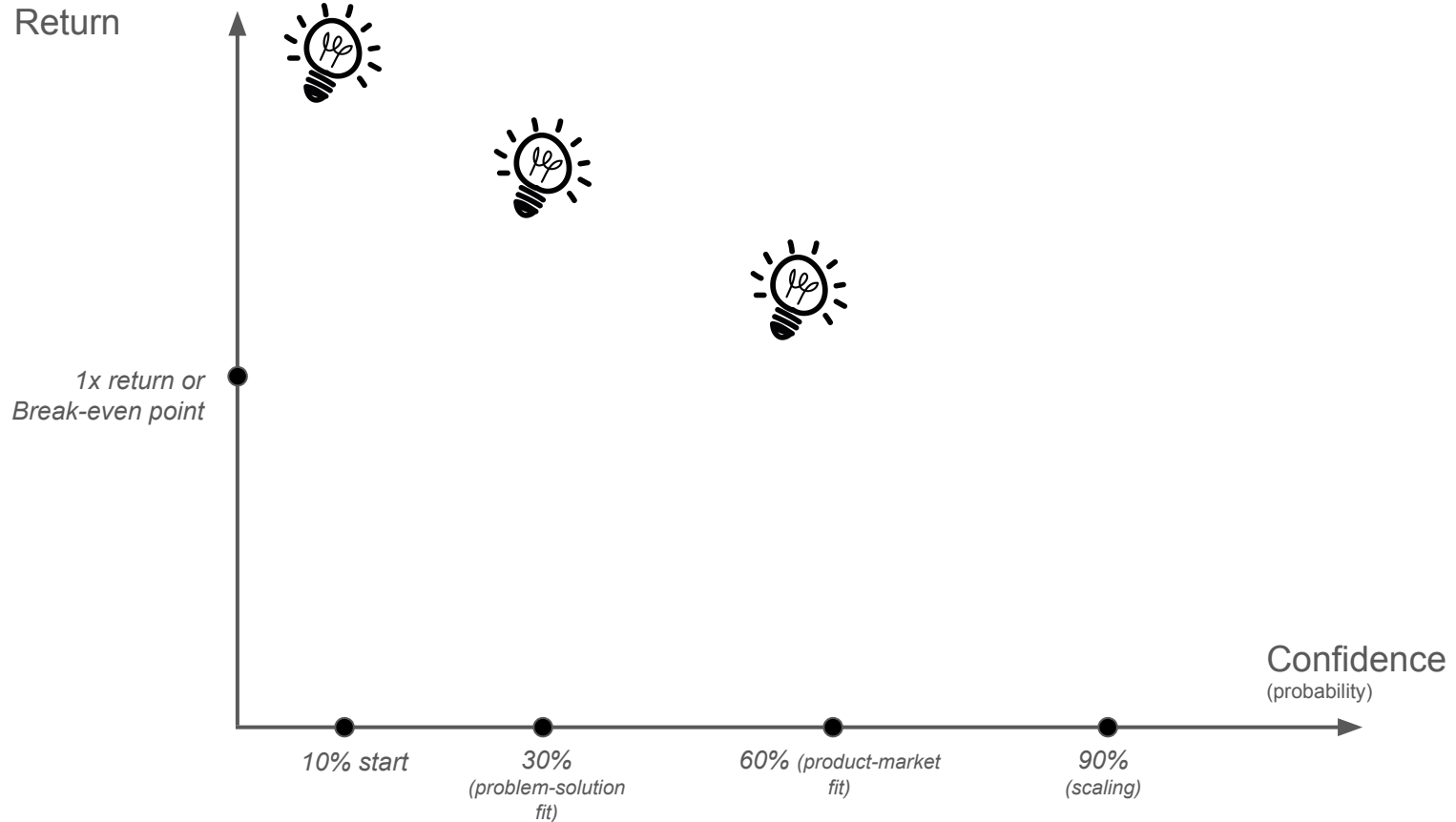
Real return rate



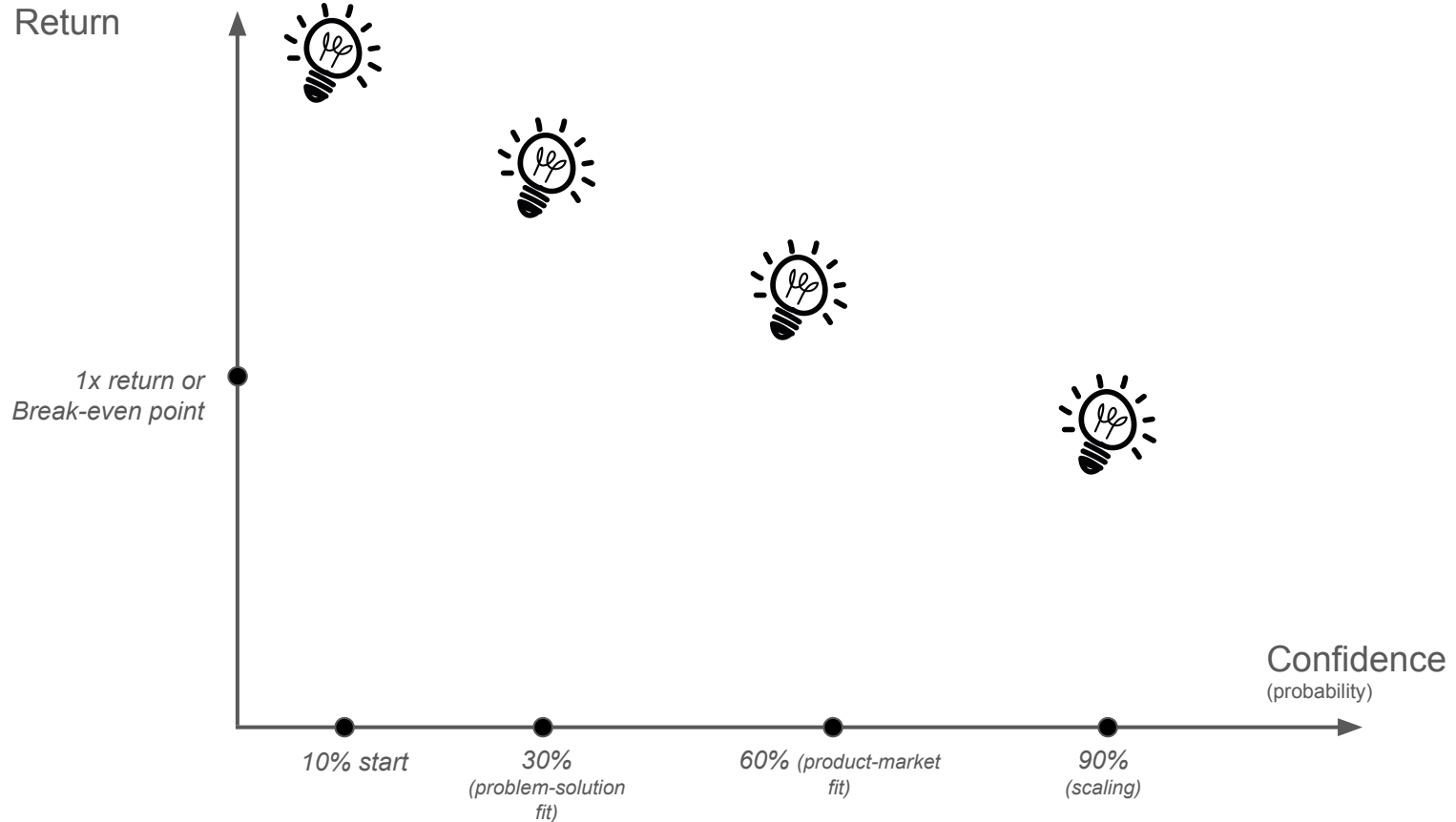
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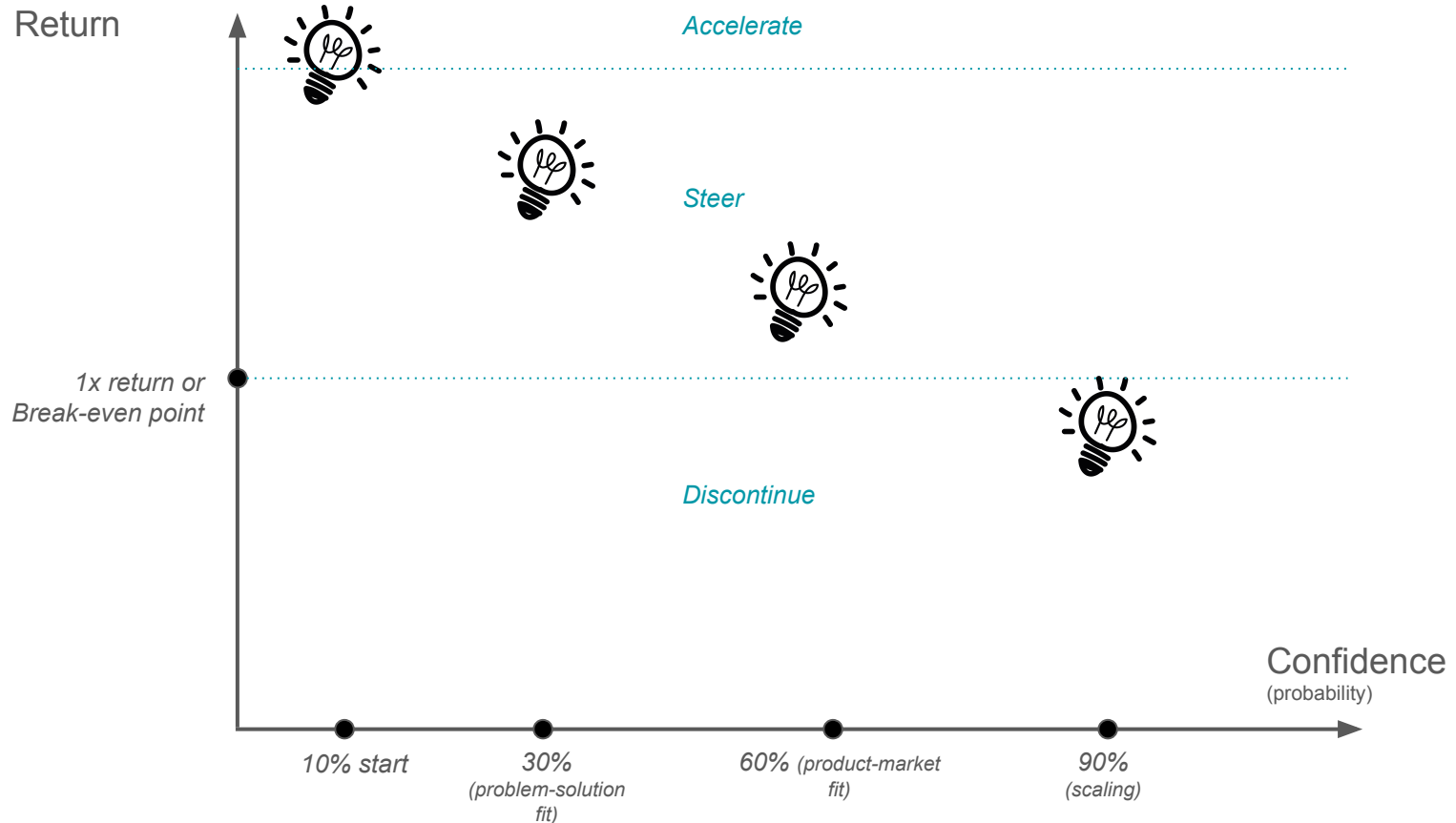
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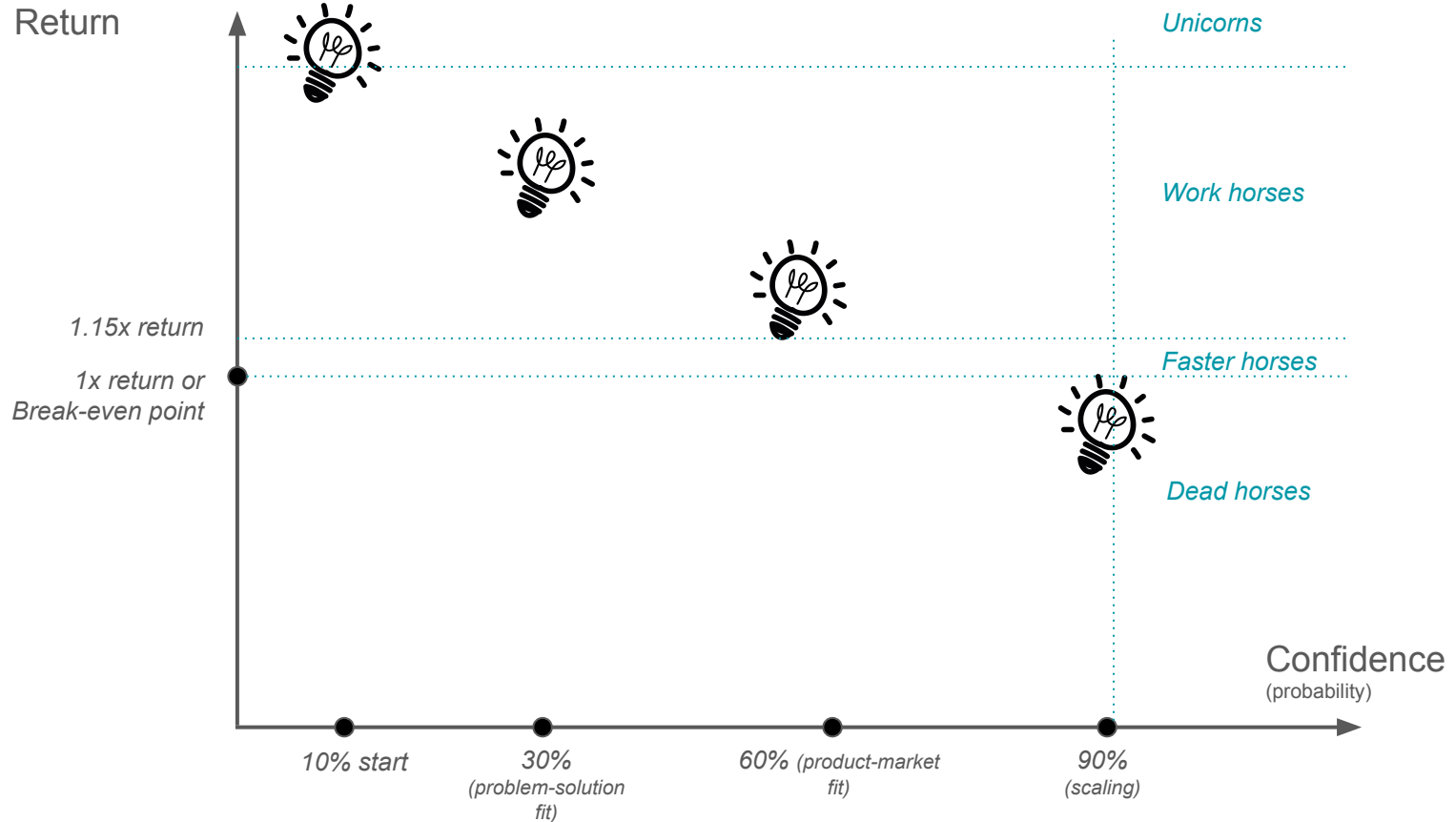
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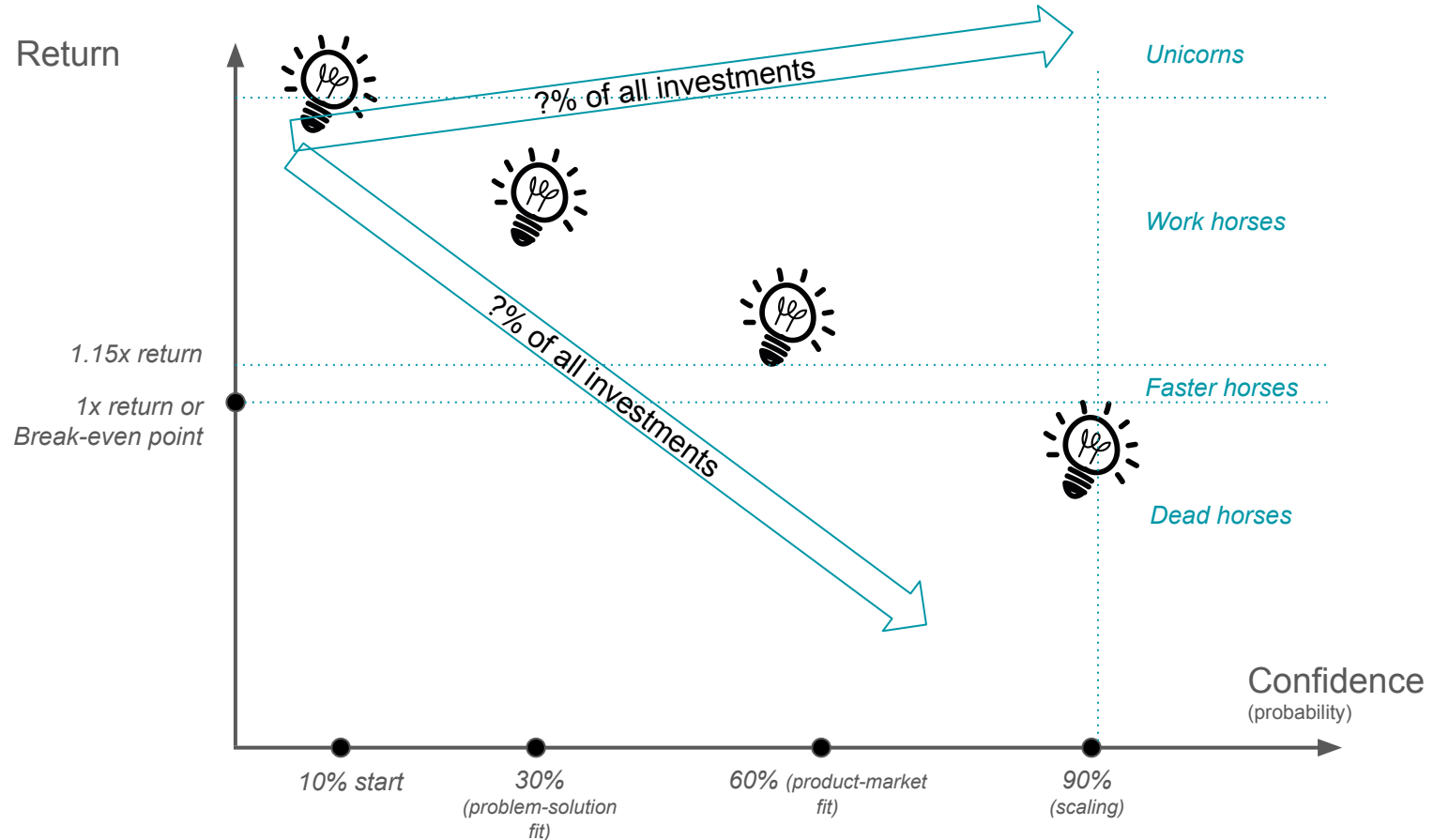
Actions for Innovation Managers



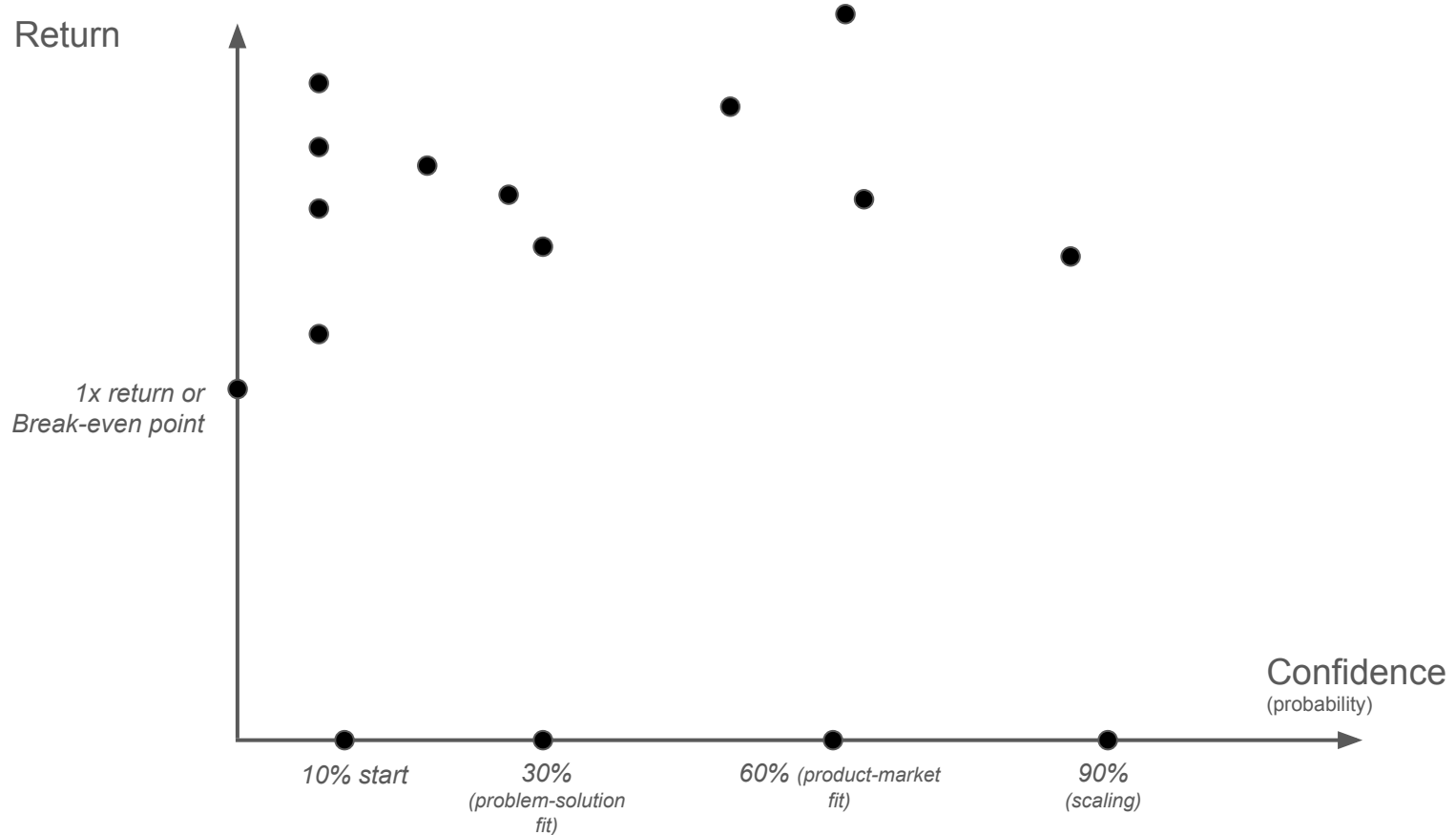
Outcomes



Chances of success



Real return rate



Principles of an innovation accounting system

Articulates the major
disruption risk for the
company

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Shows the
effectiveness of the
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Principles of an
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Articulates the major disruption risk for the company

Outlines the specific deployment of the firm's growth assets and strategies to extract value from the accounting recognized assets.

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Principles of an innovation accounting system

Articulates the major disruption risk for the company

Outlines the specific deployment of the firm's growth assets and strategies to extract value from the accounting recognized assets.

Helps inform innovation ecosystem improvements

Shows the effectiveness of the measures taken to mitigate disruption risks and commitment to growth

Principles of an innovation accounting system

Contact

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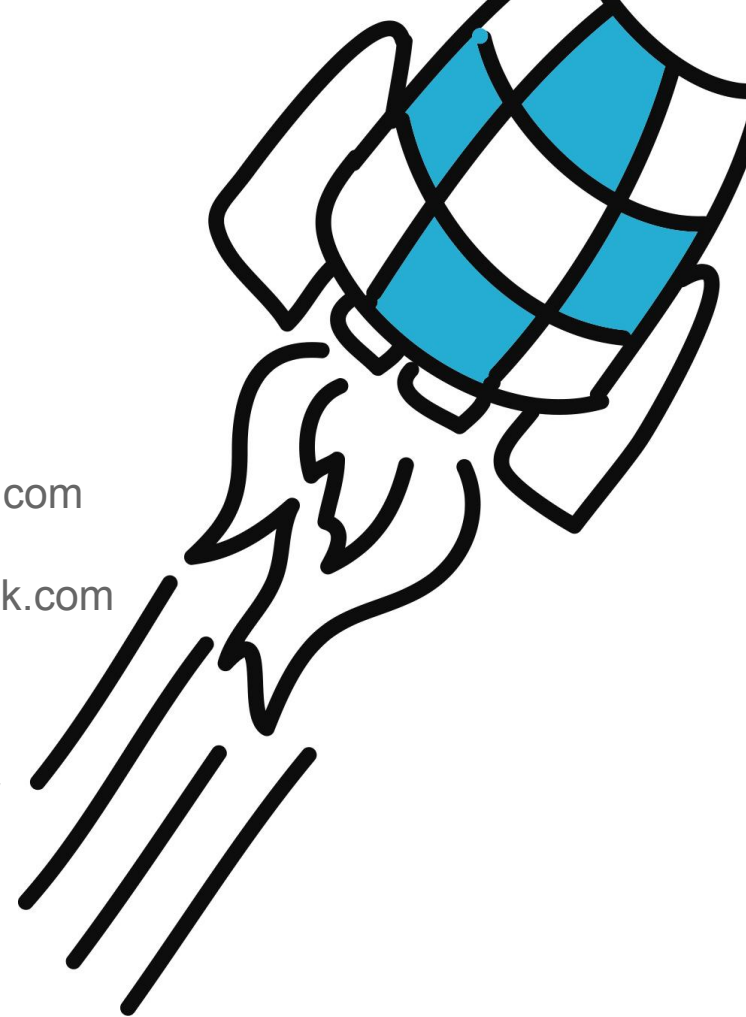
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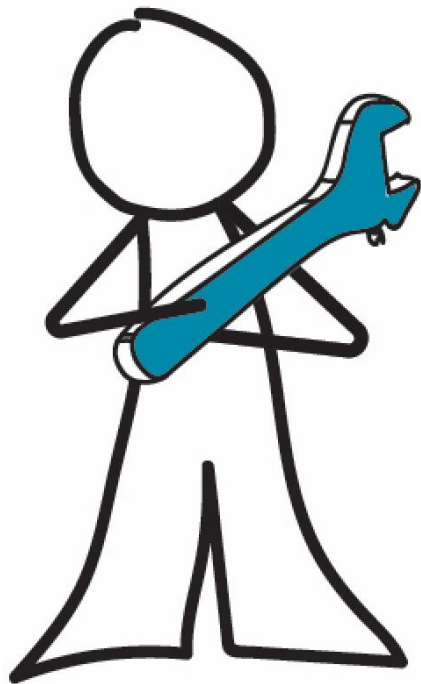
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Dashboard

Lifecycle stage	Idea	Confidence (probability)	NPV	Decision value
Ideation		10%	100,000,000	10,000,000
		10%	50,000,000	5,000,000
		10%	75,000,000	7,500,000
		10%	10,000,000	1,000,000
Problem solution fit		25%	21,000,000	5,250,000
		20%	30,000,000	6,000,000
		30%	15,000,000	4,500,000
Product market fit		40%	16,000,000	6,400,000
		60%	60,000,000	36,000,000
Scaling		80%	3,000,000	2,400,000
		70%	5,000,000	3,500,000

Possible way out



Use trends and self-benchmarking overtime.

Examples:

- sales per employee,
- cost element as a % of sales trend,
- % of old customers that are converting to new offerings designed to replace the old ones
- % from the overall corporate of revenue (or profit) coming from ventures launched by the innovation department in the past X years
- cost of innovation