

**Perspectives:**

Insights on profitable innovation to create shareholder value

**Insights in action:**

Sparking profitable innovation at a \$10B Consumer Goods Company

**More on Avondale:**

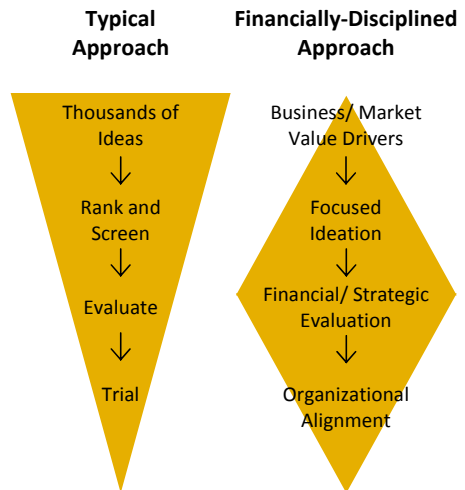
The role of innovation in Avondale's overall approach to creating value

**Perspectives**

**Avondale on Innovation**

**Driving Profitable Innovation Through a Financially-Disciplined Approach**

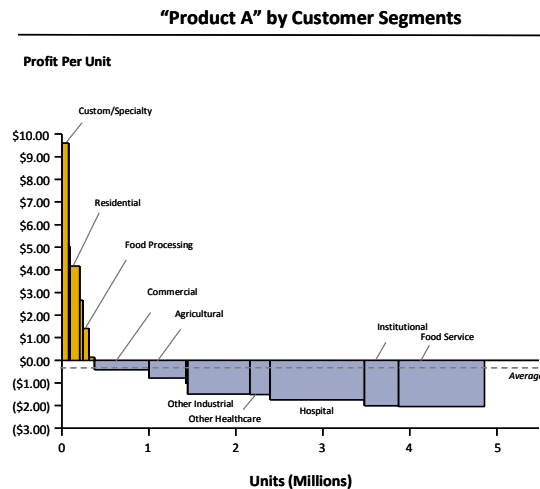
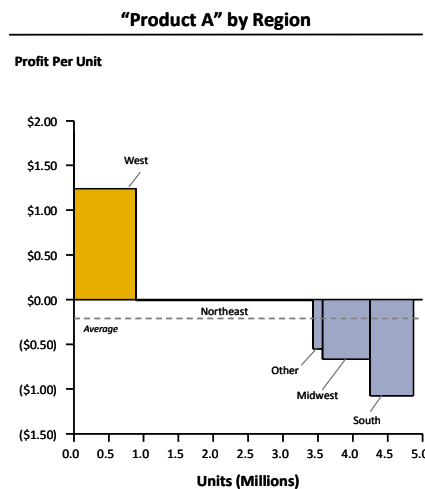
As companies, faced with aggressive competition and surging escalation of costs search for ways to continue to grow, innovation becomes the key strategic priority. "Best practices" are spreading through marketing, strategy, and R&D, as companies seek to find new and better ways to understand, satisfy, and then, profit from their customers' needs. In the quest for better innovation we believe that many companies fail to redesign their process, a critical step to ensuring profitable, sustainable growth from innovation. In this issue, we briefly outline Avondale's approach and toolkit for increasing the ROI of innovation efforts.



**Step #1:**

Dissect the key financial and strategic drivers in the business to identify key growth opportunities

Maximizing ROI of innovation investments involves instituting a systematic process to identify, evaluate, optimize and implement the highest-value growth opportunities.

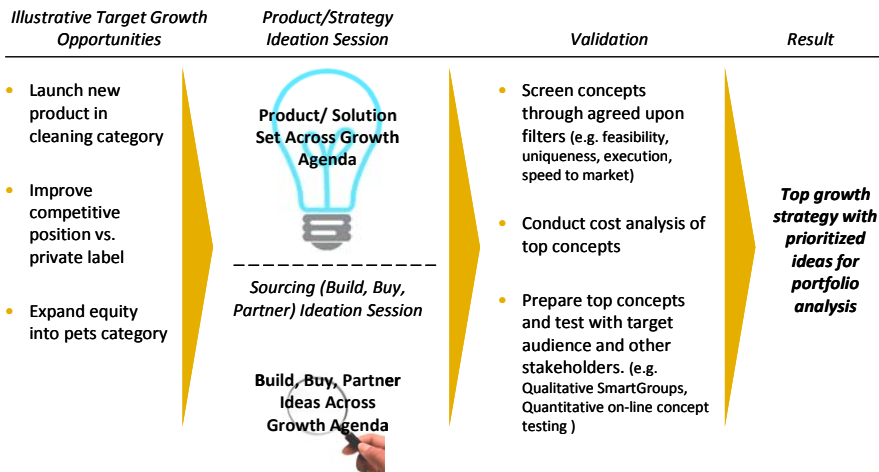


Most of this however, should be done *before* any ideation happens, rather than throughout various stage-gate checkpoints as most companies do today. By employing an analysis of the current and future profit-pools within its markets, a company can identify the *highest-potential growth opportunities for the business*, which should then serve as management’s priority agenda for innovation and ideation efforts.

**Step #2:**

**Employ an innovation process to further develop each high-priority growth opportunity**

After determining *where the most profit potential* lies, ideation efforts should be channeled into the identified priority areas. Companies should utilize a variety of leading ideation techniques to generate a range of high quality ideas across each priority platform. From this exercise, a robust set of alternatives to address each strategic priority will emerge.



**Reflection:**

Do you know which product areas deliver the most value to your bottom line?

Are you prioritizing your innovation agenda around these profit centers?

**Step #3:**

**Evaluate each strategic alternative according to financial, consumer and strategic criteria**

Each idea should be vetted through 3 lenses: Financial, consumer, and strategic, using commonly agreed-to criteria. From this, an investment roll-out timeline can be made that creates an appropriate balance of near-term and long-term investments.

Alternatives Evaluation: Financial

Illustration: Relative Value Creation

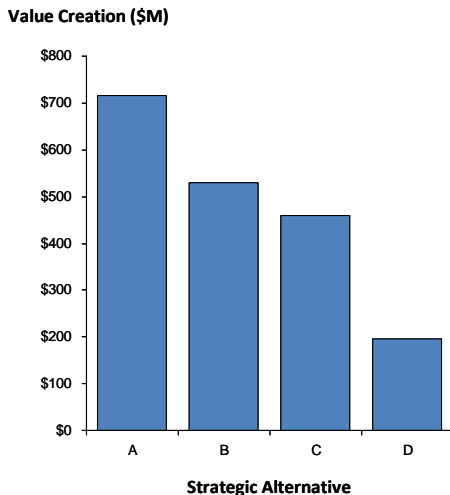
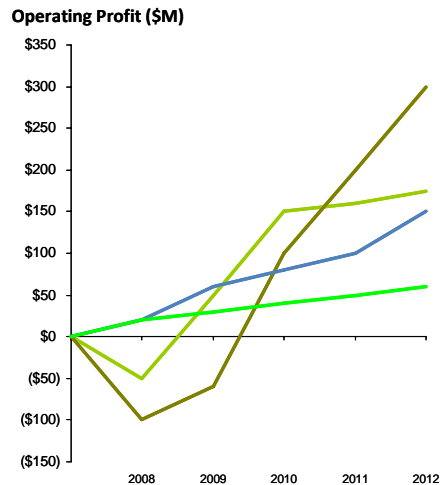


Illustration: Operating Profit Over Time

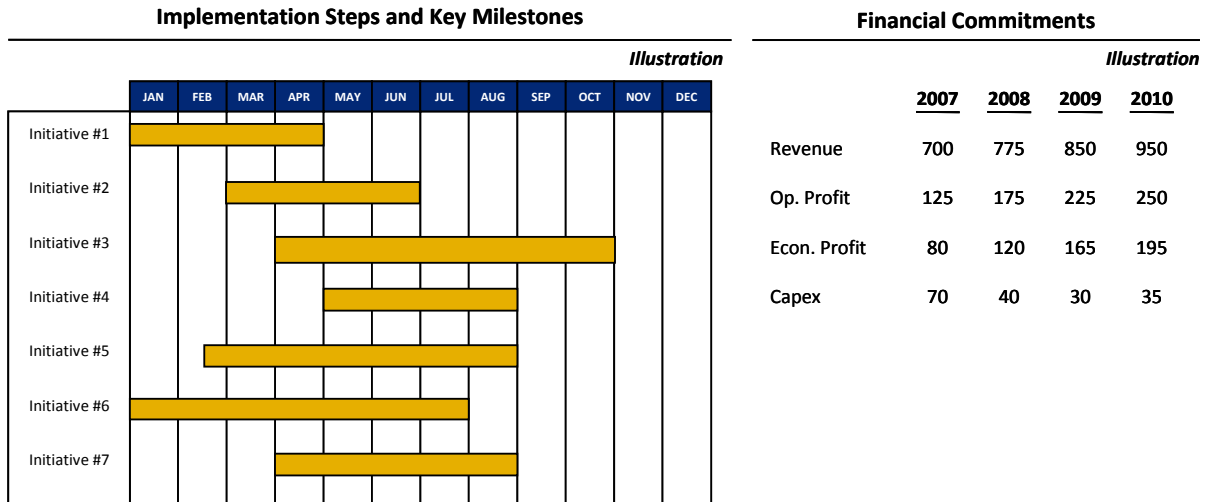


**Step #4:**

**Develop financial commitments, investment timing, key milestones, and organization accountabilities**

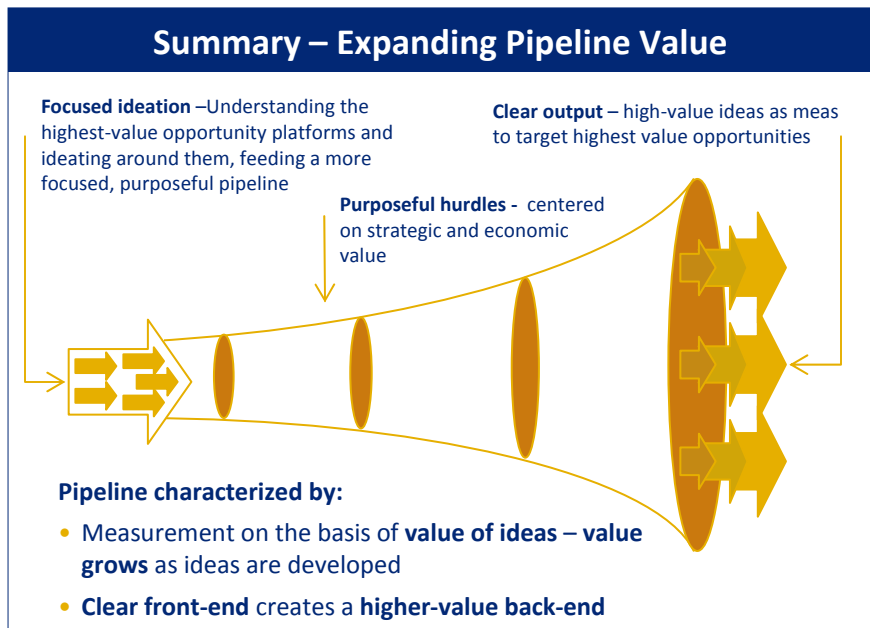
For each strategic alternative, the business must create organizational alignment, including:

- Business model changes and resource requirements necessary to create value
- Financial commitments and accountabilities
- Implementation steps and key milestones



Maximizing the value of the innovation pipeline requires:

- **Understanding business unit growth requirements & profit pools:** must determine the strategic areas of growth *early* in the innovation process, and *tie* those to growth drivers in the market
- **Rigor, clarity, and focus applied to discovery and ideation:** front-end process should vet all new ideas through a strategic and financial lens
- **Ongoing financial and economic rigor** applied after ideation to increase value of the innovation pipeline



Implementing this approach will result in an efficient use of resources and will ensure that your innovation efforts take advantage of the most profitable opportunities. This will result in the highest ROI for your business.

# Insights in Action

## Case Study Sparking profitable growth at a leading Consumer Goods Company

### *Situation*

The client, a \$10B consumer packaged-goods supplier, had recently managed through a period of significant cost inflation by focusing on supply chain optimization, operating cost reduction, and financial engineering. However, it was clear to management that top-line growth needed to accelerate significantly, as margin improvements alone could no longer deliver top-tier performance.

### *Approach*

Working closely with the client, we developed a detailed understanding of the client's current and projected profitability as well as the profitability of key competitors. We were then able to accurately determine the expected current and future profits by any combination of product category, customer and region, both for the overall market and for our client. We also developed a detailed mathematical and qualitative view of the strategic drivers of performance understanding the structure attractiveness of the client's product/channel/region markets as well as the client's ability to establish an advantaged competitive position in those markets.

### *Result*

We identified several product categories and countries in which the company was underperforming its potential for profitable growth. For example, in recent years they had lost share in their most profitable product category with their most profitable customers, even as they increased share with their least profitable product category at their least profitable customers. The mathematics of this condition were simply a substantial and systemic profit erosion. We pinpointed the highest priority issues and opportunities for management focus, based on their potential for value creation and profit enhancement; this formed the management agenda.

### *Path Forward*

Once the agenda was finalized with the CEO, CFO, COO and top line managers, we kicked off three projects focused on the agenda items with the highest urgency and profit potential. Following the completion of those projects, we began a second round of similar projects. The projects were designed to develop a very specific, achievable path forward on each opportunity based on thorough analysis and an in-depth understanding of the economics and evolving strategic situation surrounding each opportunity. The goal of each project is to agree on a specific set of investments by top management and a specific set of performance commitments and milestones by line managers to drastically increase profits. Those investments, commitments and milestones then will be built into the annual corporate budgets and targets.

## More on Avondale

**About Avondale:** Avondale Consulting advises management teams and investors on how to increase shareholder value. Avondale partners with clients to find and extract profit potential in the existing business as well as evaluate opportunities to grow through new businesses. The result is a clear, actionable path to execute on the company's highest-value growth opportunities and grow market value over the long-term.

Our perspective on **innovation** highlighted in this newsletter serves as one of the key foundations to growing the value of a company. Market value or intrinsic value is only created by first providing customer value in the form of innovative products and services. Unfortunately, most cost-cutting initiatives, while valuable in the short-term, do not create sustainable long-term value for shareholders. The best way to improve profit and create sustainable growth is to improve a company's competitive position with customers. An ongoing innovation approach linked to the organization's key value drivers will ensure that management continually identifies opportunities to create sustainable value to customers and shareholders.

For more information about Avondale's approach to long-term value creation, contact one of the Principals or visit our website [www.avondaleconsulting.com](http://www.avondaleconsulting.com).

### Contact the Principals

Karl Stark (karl.stark@avondaleconsulting.com)

Bill Stewart (bill.stewart@avondaleconsulting.com)

•

Phone: (312) 953-7372

•

Phone: (858) 231-2353