

**Subject:** Innovation Value Capture  
**Revision:** October 6, 2006  
**Contact:** David Sutherland +1.404.312.6402

**Key Words:**

Innovation  
 Process  
 Commercialization  
 Implementation  
 Piloting  
 Rapid Prototyping  
 Incubator  
 Seven Strategies for  
 Commercialization

## Innovation Value Capture

### Introduction

Much has been written about the measurable results and ultimate success of innovation work. In fact the results of innovation work are generally not very stellar, with the majority of results being incremental in nature.

The reason for this “incremental-ism” comes down to how well an innovation “fits” the company’s existing line of business. The more the innovation does not fit an existing line of business, the more likely that idea will not succeed, even though the innovation may have significant potential.

In general, if the idea is a simple improvement or line extension, then the questions of fit and ownership are simple – it falls squarely in the hands of the business unit having P&L responsibility for the product that is being improved or extended. However, if the idea is a truly novel idea and does not fit into any current business line, what can be done?

By definition, truly novel ideas will not fit into current categories. So, if an idea doesn’t fit within a current P&L structure, how can it find the necessary resources and support to pay for its development? In most organizations, this is referred to as the “chasm” or the “valley of death” for ideas. The lack of immediate ownership and the uncertainty often proves fatal to the program.

### Seven Strategies for Commercialization

Launch Institute’s Seven Strategies for Commercialization (SSC’s) provide an analytical framework by which clients can understand how to transition a great concept that does not fit an existing business out of the innovation cycle and into commercialization. The results of SSC analysis help illuminate options for employing an incubator model, an open-innovation or co-development scheme, or some other arrangement to ensure value is captured.

The SSC analysis starts with a review of a set of five Conditions for Value Capture. These conditions are the critical areas that affect the decision making process related to fit of an idea. If all conditions are in place for a given idea, then the decision for how to progress the idea and capture value is fairly straight forward; it fits a given business unit.

On the other hand, if the conditions are not in place (the idea does not have fit) various options for Value Capture must be considered.

launchinstitute **Value Capture Matrix**

Seven Strategies for Value Capture

	Integrate into BU	New Unit	Joint Venture	License	Acquisition	Strategic Integration
Context	Fits current BU for Corporate and BU	Fits current context for Corporate but not for BU	Some fit to current context but questionable	Fits current context for Corporate but not for BU	Doesn't fit current context	Fits context
Capability	Capabilities exist	Some Capabilities need to be brought in	Most Capabilities need to be brought in	Capabilities between companies need to be combined	Capabilities don't exist inside	Capabilities need to be combined
Capacity	Capacity can be managed	Capacity can be found either inside or outside	Capacity needs to be developed or enhanced	Capacity between companies needs to be combined	Capacity doesn't exist inside	Capacity needs to be combined
Capital	Capital is available in BU	Capital is available in Corporate level	Capital is available at corporate level	Capital exists between companies with more to go	No Capital	Capital exists for Acquisition

### Conditions for Value Capture

The first condition to be understood is the context in which the innovation resides. There are two contextual considerations: strategic fit and corporate ambition. If the idea does not match the corporate strategy, it is highly unlikely it will receive top executive support and will be at risk. On the other hand the innovation might fit the corporate strategy, but does not align with a business unit’s strategy.

Another contextual consideration is the degree to which the innovation fits the corporation’s level of ambition. In this consideration one has to ask “how risky is the innovation and how willing is the organization to undertake this risk?” Many organizations voice a high level of ambition but when it comes to making decisions and supporting risky innovations they back down.

The second and third conditions to be understood are the organization’s capabilities (the expertise and skills the organization has to actually develop the idea) and the capacity (available human resources) to undertake the development and commercialization work associated with the idea. If the expertise and skills reside in the company, then the idea could be developed if there is capacity to do so. If the expertise and skills don’t exist or capacity is

limited, these must be sourced if the program associated with the idea is to proceed.

The fourth condition is the capital (financial resources) available to invest in the development and commercialization of the idea. Ideas that are incremental in nature generally require small capital investments while ideas that have less fit with current business generally require higher capital investment.

Finally, the level of organizational commitment, (from the top executives to operations) must be understood. One might look at the list of conditions reviewed thus far and ask to what degree is the organization willing to do what is needed to see the idea through development and into commercialization.

### SSC Applied

Once the Conditions for Value Capture are understood, options can be considered for taking the idea into development and commercialization. A general approach being discussed today is that of Open Innovation, or a company's willingness to "open" its doors to include those outside the company in the development and commercialization of the idea.

The "Seven Strategies for Commercialization" use Open Innovation approaches including Joint Ventures, Licensing and Virtual Vertical Integration. Each strategy relates to the conditions that exist and given options. The fact is, many companies have no or limited experience with all the Value Capture options. If experience does exist, the necessary expertise often resides solely in the business unit that applied that option.

At Launch Institute we see the Value Capture methodology being owned and guided by those in the Business Development area. In our work with best in class innovation companies we have experienced a high degree of capability in a variety of commercialization options and a willingness to utilize more Open Innovation approaches.

### Eaton Truck Case Study

Eaton Truck Components Group (TRUCK) is a \$1.9 billion unit of the \$12 billion Eaton Corporation. In 1999, while working on power train technologies to reduce fuel consumption and emissions, Tim Morscheck, TRUCK VP of Technology, championed the idea of creating Hybrid Electric Vehicle (HEV) technologies for mid-size and heavy duty trucks.

In order to proceed, TRUCK had to address the value capture conditions.

Context: TRUCK's primary business focus had been in the area of Power Transfer, or the transmission and clutch connection between the engine and differential, on light duty, mid-size and heavy duty trucks. To address the HEV opportunity Eaton would need to bring new content to the transmission. This was outside TRUCK's current business context and strategy.

Capabilities: It became clear very early the HEV project would require skills and expertise not in TRUCK's current skill set, including power electric control capabilities. At the time, TRUCK prided itself in its mechanical engineering abilities but would have to source the missing skills elsewhere.

Capacity: In addition to new skills being sourced, Eaton's current set mechanical engineers were fully utilized. Engineers needed to be freed up or engineering capacity added to make the HEV project fly. A group of research and development engineers were convinced the idea would work and asked to be part of the project. The first hurdle was to free some of them up to begin the necessary development work.

Capital: Some Research and Development funds were available to support development of an HEV prototype, but it was clear funds for deeper development would need to be attained.

Commitment: Tom O'Boyle, the Sr. VP of TRUCK at that time was behind the idea but wanted to see the prototype working. Eaton quickly had a prototype up and running (called Franken-Truck because of its "bolt-on" appearance). The prototype worked and the Eaton engineers worked quickly to produce a more elegant design.

### The Eaton Hybrid Village



Commitment is key to overcoming the constraints mis-aligned conditions may cause. All constraints were addressed; capabilities were hired, TRUCK engineers were freed up to be on the team and a burst of R&D funding was applied. To address the contextual fit TRUCK people were told some new avenues for

ambitious growth were going to be explored and HEV would be one of the first projects.

Another way of addressing the context issue was to give the HEV project its own identity, so the HEV Hybrid Village was established, giving the HEV team its own workspace, tools and identity.

The "Hybrid Village" was created in Galesburg, Michigan. A large warehouse space was converted to resemble an open village set against the Rocky Mountains, complete with "huts" for conference rooms and workspaces. This helped to attract creative electrical and controls engineers from all over the USA.



### Governor Schwarzenegger and Jim Sweetnam in Sacramento

Eaton Truck Components Group applied a second of the SSCs to progress their vision; partnering with a customer. In 2001, Jim Sweetnam, President of Eaton Truck challenged the team to find a customer sponsor. The team found that FedEx and Environmental Defense had been working on developing a vision for a hybrid delivery truck that would meet the work demands of the FedEx midsize delivery fleet while addressing EPA environmental hurdles and deliver 50% improvement in fuel economy.

TRUCK competed against other vendors and was selected by FedEx. FedEx provided additional expertise and funded the project with a goal of placing 20 experimental vehicles on the road in 2004 to prove the concept.

In 2005 the HEV Team was awarded Harvard University's prestigious "Roy Family Award for Environmental Partnership" recognizing creative approaches to partnering for environmental impact.

In 2005 FedEx ordered an additional 75 Eaton HEV systems to use in their fleet evaluation program. Orders are now coming in from other OEMs.

By addressing each of the Value Capture Conditions and apply the "Incubator" strategy, Eaton was able to break its comfort factor and move in totally new directions.