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## Idea Management ROI - Can It Be Measured? Should It?

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Once upon a time in the early days of idea management (c. 2000), calculating the Return on Investment (ROI) of an idea was straightforward. Most ideas were for cost savings or process improvement, and one could make good calculations of the current and future savings.

More recently, idea management has become an accepted tool for revenue creation, but this has made the ROI computation harder (it is accepted that revenue-producing ideas take longer to generate ROI, so measuring it adds some time complexities – years!).

Notwithstanding that, several of the idea management software companies have made ROI claims. Let's look at some of them and see what they tell us.

In its popular "Red Book<sup>1</sup>," Imaginatik plc, a UK company that created Idea Central, reviewed the financial results of 16 of its customers and found the average idea management ROI was 251% in the first year and nearly 1000% in the second year. The company says that those figures included all associated costs of obtaining and running the software, and averaged \$350,000 for 5,000 employees during the first year. The results were said to include a combination of cost-saving and revenue-producing ideas.

Unfortunately, there seems to be a lot of fuzzy math in their calculations (or I'm just not smart enough to follow them). E.g., they state that the cost per 100 employees was \$67,532 (or \$675 each). I calculated the cost per employee at \$70. Maybe they just slipped a decimal point or got confused with dollars and pounds. Anyway, they next say that the net return per 100 employees was \$19,851, or \$198 each. I calculated the gross return at about \$175 and the net return at \$105. UK calculators must be different. Still, it is a good result, seems honest, and I give Imaginatik credit for trying. ROI Score<sup>3</sup>: 70.

BrainBank Inc., a Canadian company whose product is IdeaLink™, presents data at its website for Northwestern Mutual, and claims a 456% ROI over a period of about 20 months. They don't provide much detail, and they only provide information for one of the fourteen customers listed at their website. ROI Score: 20.

A Belgian company, Bwiti bvba, (aka JPB), which produces the Jenni software, has also done some ROI work, and in its article "Cost of Idea Management<sup>2</sup>" took a slightly different approach by looking at the value of each idea submitted, rather than the return per employee. They found an average idea was worth about \$1,200. While they talk about innovation in their calculations, it appears that they used cost savings results from DaimlerChrysler as their only example, so their 'results' are a bit problematic for innovation. ROI Score: 50.

Brightidea, Inc., formerly known as General Ideas, says at its website that Honeywell, a user of its enterprise SaveNet software, achieved a 300% ROI in three months. There are no details to back that up or tell us what costs they included in the computation or what happened after the first three months. They also say that another customer, Stryker, found an idea that had been filed away and forgotten and developed it into a new product with multimillion dollar potential. Love that word 'potential.' ROI Score: 10.

Ingenuity Software LLC is the new kid on the block with its blockbuster software, Ingenuity Bank™. They haven't tried to get any ROI data yet, so they haven't had to exaggerate or cook up results. ROI Score: 0 or 100.

Noting that all this data is a bit sparse, I did a Google search on "Idea Management ROI." That gave me ten returns, mostly the same ones I have just described. I didn't find any independent data for revenue-producing ideas (if you have any, please send it!).

So, I'll accept that there have been some reasonable attempts to measure ROI for cost savings and process improvement, and maybe for revenue enhancement. But however you look at it, the evidence is pretty thin if you're life revolves around metrics.

Is that really a problem? Well, it sure seems to be!

I've been in the idea management field for a number of years, and the first thing every company asks when considering the software for innovation is "What's the ROI?"

I am in immediate trouble because all I have to go by are the above studies and some anecdotal stories of how an idea resulted in a product worth a few gazillion dollars.

So, since my mother didn't raise any stupid kids (though maybe one slow one, and I'm an only child), I finally got tired of hearing the question, and realized that I needed a way out. And if you need a way out, the best thing to do is challenge the question.

And that's what I did.

Here's the problem with asking about ROI in idea management: It's the wrong question! In innovation, ideas themselves don't have ROI. Eureka!

ROI is the financial result of new products, product improvements, and expanded markets based on ideas. Trying to guesstimate the ROI of idea management on a standalone basis simply makes no sense. Why didn't I think of that before?

More importantly, if ROI is the wrong question, what's the right one?

Here's it is: "Does idea management keep the innovation pipeline adequately filled with projects, such that the successful ones will together provide the desired financial results?"

To my knowledge, there is no data on this, yet it is certainly measurable, and does not require five years to figure out. Either an idea management system is filling the innovation pipeline with great ideas, or it is not, and this should be evident within the first year of use.

This requires that the idea management software companies start asking their customers that very simple question, and it is 'yes' or 'no.' Or, maybe somewhere in between.

If the innovation pipeline before idea management contained enough projects to produce 50% of the needed revenue enhancements, and 100% afterwards, then that is a clear indication of the success of idea management. Even at less than 100%, idea management is having a significant impact and may just need some fine tuning.

So my challenge to the software companies is to ask their customers "How much has idea management improved the quantity/quality of those projects in your innovation pipeline that are intended to meet your company's revenue enhancement needs?"

If we all put our heads to it, I'm sure we can find some answers, and at long last prove the value of idea management.

I'm hoping that some of the above-mentioned software companies will ask their customers the question, and will let me know what they find out. Maybe they will do the former, but I'm not holding my breath on the latter. I think the results will vary substantially among the various idea management software providers and some won't be happy with what they hear, or want others to know about it.

This fall I am planning a survey of idea management software users, regardless of whose software they are using, to determine how effective it has been in filling innovation pipelines. I'll

release the data compiled from our customers, but for our competitors I'll let them give you the good or bad news. If your company has idea management software or is acquiring it soon, and would like to participate, let me know!

And, oh, yeah - I'm not taking any more questions on idea management ROI!

<sup>1</sup> "Idea Management – An Introduction," Imaginatik Research, 2005

<sup>2</sup> "Cost of Idea Management," Jeffrey Baumgartner, 2004

<sup>3</sup> ROI Score: My just-for-fun estimate of the effort and relevance of a company's published efforts to establish idea management ROI for its customers. 70 is passing.

IdeaLink is a trademark of BrainBank, Inc. Ingenuity Bank is a trademark of Idea Champions, Inc.

All of the data used in this white paper was taken from publicly-available sources.