

COB Book Review by William Richmond

Title: "Payback: Reaping the Rewards of Innovation"

Authors: James P. Andrew and Harold L. Sirkin

Publisher: John Wiley & Sons Inc.

Length: 206 pages

Price: \$29.95

Reading time: 4 hours

Reading rating: 8 (1 = very difficult; 10 = very easy)

Overall rating: 2 (1 = average; 4 = outstanding)

"Payback: Reaping the Rewards of Innovation" provides a framework for organizing and managing innovation processes in a firm. The book's central theme is that businesses invest in innovation to obtain a payback, and that payback must be in the form of cash. Although there are non-cash benefits from innovation, if these do not ultimately lead to a cash payback, the investment in the innovation is a failure.

The book presents the cash curve as the mechanism for structuring decisions about innovation. The cash curve is a graph showing the cash inflows and outflows over the life of the innovation project. During idea generation, there is typically a small cash outflow. Once an idea is selected and the company works to commercialize the innovation, the outflow increases. Once the product is launched (most innovations discussed in the book are new products), the company starts to realize returns but must also spend to support the product.

The firm can control their payback by controlling their cash curve. Investing more in commercialization increases the "size of the hole" from which the innovation must climb to achieve payback, but it may also improve how quickly the innovation is adopted or reduce the support costs. Shortening the commercialization process enables the firm to realize a return sooner and may increase market share as the firm has the market to themselves earlier and longer.

One of the primary tools for controlling the cash curve is selecting the optimal model for managing innovation – that of integrator, orchestrator or licensor. The integrator controls all or as much of the process as possible. The orchestrator manages a network of companies that contribute to the innovation and the licensor focuses on the idea, but uses others to realize the benefits of the innovation.

The idea that innovation must generate a payback – at least for business – makes sense. Understanding and using the cash curve to evaluate an investment decision also makes sense, but neither of the concepts is new or innovative.

The book is fun to read. There are lots of interesting anecdotes about firms that innovated successfully as well as those that failed. Within the stories, you can occasionally find a nugget of information that will help you examine your cash curve or innovation process.

The problem is all that is left out. There is no help estimating how much commercialization will cost or whether the innovation will be adopted or how long it will take. The authors acknowledge that managers overestimate the payback from innovation, and that they justify projects based on non-cash benefits, but their only advice is to use the cash curve to focus discussions. There are high-level claims about when to use each of the three models for managing innovation, but few details to help make an informed decision.

This book will be great for anyone who has not thought about managing innovation, but needs to start. It gives a very good high-level approach for structuring these decisions. But it will take a lot of work and thought to translate these ideas into something that works at your business, and this book offers little to help with the implementation.

William Richmond is an associate professor of computer information systems in the College of Business at Western Carolina University. For previously reviewed books visit our Web site at www.wcu.edu/cob/.