The 4 Ps of Innovation

A few weeks ago, an innovation team was painstakingly working through a meticulously crafted spreadsheet detailing the growth potential of their idea. Executives trying to look smart lobbed in "gotcha" questions about specific assumptions in their calculations. Much discussion ensued.

I was an observer in this meeting. I sat quietly and took some notes. After the meeting the team leader said, "That was a really good review. The executives were really involved and we have deeper buy-in to our plan."

I had a different perspective.

"I don't think a single executive could tell you the essence of the idea, or what makes it compelling," I said. "You survived the meeting, but I don't think you are any closer to convincing executives that they should invest in this idea."

I explained how, based on the pioneering thinking from Rita McGrath and Ian MacMillian, I like to focus these discussions on three simple questions:

"What size matters?" In other words, how big does an opportunity have to be to matter inside a company?

"What is a simple calculation that crosses that bar?"

"What leads you to believe that calculation is plausible?"

Any marketer can quickly rattle off the so-called "4 Ps" of marketing (product, price, place, and promotion). Innovators should also be able to quickly recite the 4 Ps that capture their idea's potential: population, penetration, price, and purchase frequency.

Companies looking at a specific revenue target can simply multiply the addressable population, the penetration of that population, the price per purchase, and the purchase frequency to get to annual revenues. Typically I suggest people try to be quite precise about their target population, give their best estimate based on in-market analogies of the pricing and purchase frequency, then determine what penetration they would need to hit their targets.

This deceptively simple calculation neatly captures many of the elements of an idea's business model. Does the idea target a niche or a mass population? Is it an occasional or frequent purchase? What channel would support the target price point? What kind of support would be necessary given the purchase frequency?

Once you do the 4P calculation (and of course, if you add in a fifth — profit margin — you can look at profits instead of revenue), the focus shifts to finding systematic ways to determine whether the assumptions behind the calculation have any hope of being true.

The deep thinking that goes into creating complicated spreadsheets for ideas can be very useful. But it also can be a way to mistake motion for progress. Make sure you can answer the simple questions before you worry about the complicated ones.