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This week's lead article *Corporate Metrics Use on the Rise* is from Bradford L. Goldense, President and CEO, Goldense Group, Inc. (GGI) and Anne Schwartz, Director of Publications, Goldense Group, Inc.

## \* Corporate Metrics Use on the Rise \*

In the January 17, 2005 issue of 2PLM, we highlighted recent research on product development, intellectual property, and top corporate metrics by Goldense Group, Inc. In this issue we present the final article in a series of six articles, which focuses on results in the area of "Most Popular Corporate Metrics Used by Industry for RD&E."

Corporate metrics use is on the rise in R&D, according to GGI's 2004 metrics survey. Corporate metrics are those used exclusively to measure R&D as a whole, across all activities. Some corporate metrics, such as "R&D Spending as a % of Sales," are natural overall measures. Other corporate metrics, such as "Average Company Time-To-Market" or "Sales Due to New Products," are aggregated or rolled-up from lower level activities to be an overall measure. This category of metrics serves many purposes, from justifying R&D spending to indicating the relative maturity of the R&D function.

Increased competition and globalization have resulted in more variability of the product lifecycle environment. In the face of these pressures, companies are increasingly turning to metrics for business and technical monitoring of their product development and R&D processes. It appears that while companies are experimenting with R&D metrics to find the most useful ones, the same set of commonly used metrics continues to rise to the top.

To explore management's measurement practices for R&D, GGI's 2004 Product Development Metrics Survey investigated the category of Corporate metrics usage in industry. The 2004 Survey was sent to a broad distribution of product development professionals, and replies were received from 202 companies in a range of industries including industrial and medical products, aerospace, defense, electronics, and chemicals. Respondents were asked to report which metrics were in use in their company by choosing from a list of 75 commonly used R&D metrics.

In GGI's 2004 metrics survey, the number of metrics surveyed was 75, compared to 33 in our first survey of Corporate metrics in 1998. This is in itself a metric, demonstrating that more companies are trying out more metrics. This more than doubling of the number of metrics in use is an indication of the level of activity and the pace of improvements to internal R&D and new product development processes over time. We expect to see new metrics continue to emerge as the R&D function matures and as companies continue to improve their R&D processes. There is a current wave of energy in industry around productivity measures and throughput measures and the emergence of queuing.

In the 2004 Survey, five metrics were used by more than 50 percent of respondents, a result that has not changed since 1998. Four of these five metrics have remained the same. The newcomer to the group is "First Year Sales of New Products." This is encouraging for R&D professionals as the metric emphasizes the importance of new products. It is not surprising that most of the same metrics continue to surface as the most popular, since it takes years for companies to sort out the few measures that are most useful to them, and for these practices to be adopted across industries. In the coming years, we expect to see more metrics exceed 50 percent usage.

The measure, "First Year Sales of New Products," the fifth most used metric, was the only one in the top five that truly measures R&D performance. The other metrics in the top five are required by other business functions such as financial reporting of R&D spending as a percent of sales, or legal reporting of the number of patents filed. As corporations continue to emphasize new products in this world of ever-shortening product life cycles, more R&D metrics will originate from within the R&D department, will be "owned" by the R&D function, and will actually measure the productivity of R&D.

In summary, the 2004 metrics survey showed continuing trends of increased R&D metrics usage in industry. We are seeing the early phases of maturation of the R&D function, which we expect to parallel that of other business functions. Early adopters in the first quartile of industry have largely embraced new R&D measures. During the next two to five years we can expect to see utilization by the second quartile of industry, bringing new metrics usage up to 50 percent. This level allows benchmarking and paves the way for automated software tools to enable the rest of industry. This maturation process is projected to take place over the next two decades. The key is for companies to identify those R&D measures that correlate with business results. This will truly propel R&D to the next level of competitiveness.

For more information about GGI's 2004 Product Development Metrics Survey, go to GGI's web site, <http://www.goldensegroupinc.com>. To purchase reports, go to [http://www.goldensegroupinc.com/cgi/catalog.cgi?display\\_p355](http://www.goldensegroupinc.com/cgi/catalog.cgi?display_p355).

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