



Innovation Asset Portfolio

Introducing Deloitte's novel approach to sustainable innovation and high return on investment in innovation

February 2025

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“I believe the future of corporate innovation will be quantitative. Innovation investment should be tracked with the expectation of significant returns.”

Angela Schmitz-Axe

Director at Deloitte, Innovation & Ventures

“The new generation of corporate leadership needs to understand the value of the innovations they are investing in and then adopt a portfolio mindset, like a good investor, when managing their innovation pipeline.”

Andy Goldstein

Former Partner at Deloitte, Innovation & Ventures

“Responsible and value-focused innovation by large companies is the first step towards a new age of innovation to address society’s most pressing challenges.”

Florian Altmann

Director at Deloitte, Innovation & Ventures

Introduction

Large companies often fail to realize the full value of investment in innovation initiatives and the assets that emerge from those initiatives.

Purpose of the whitepaper

This report describes the fundamental principles of the Innovation Asset Portfolio (IAP) approach and the key factors to its success and implementation.

It helps companies capitalize on the latent potential and unrealized value of their investment in innovation and learn how to assemble and steer their own Innovation Asset Portfolios for increased business value and maximum return on innovation investment.

Specifically, the Innovation Asset Portfolio approach enables companies to

01 Make efficient funding, pivoting and exit decisions for their innovation pipeline.

02 Quantify and grow financial value, expedite monetization and increase overall ROI of innovation.

03 Create transparency by identifying, categorizing, managing and streamlining innovation assets.



Companies need to generate positive returns through innovation

Despite the growing popularity of innovation models such as business building and investment in innovation, most large companies still struggle to identify, quantify, and ultimately deliver value to their top and bottom lines via innovation activity.

Large companies generally recognize innovation as a critical lever in achieving long-term success and sustained competitiveness¹. Case in point: the past decade has seen most of them invest heavily in innovation, R&D and new IT development, and experiment with various innovation vehicles like accelerators, incubators and corporate company builders.

German companies spend an average of about 3 percent² of their annual revenue on innovation.

While this has helped boost innovation awareness and maturity at large companies, innovation initiatives that produce significant returns and add tangible value to the bottom line have been the exception rather than the rule.

There is an urgent need for a new and systematic approach to solving the structural challenges that limit the potential of corporate innovation, such as:

Pipeline Challenge

Large companies struggle to maintain a transparent and strategically aligned pipeline of innovation assets. This leads to promising initiatives being either overlooked or invisible to the larger organization, or to unfit initiatives & assets hurting the efficiency and reputation of the innovation function.

Value Challenge

Innovation Assets are not usually subject to dedicated and regular valuation exercises and are not capitalized on company balance sheets. Their true value and potential are thus under-appreciated and misunderstood, further complicating efforts to create and maximize returns via innovation investment.

Scalability Challenge

Even if assets reach the MVP stage, they face low adoption and tend to hit a glass ceiling in their further growth. This is due to gaps in expertise and skill set on how to scale an asset, unclear processes, and lack of funding and leadership sponsorship, leading to under-attended, under-used and ultimately written-off assets, despite significant market or financial potential.



1. For more details, see our Deloitte study [“The state of innovation in German companies”](#), 2024.

2. Federal Ministry of Education and Research: Indicators for Innovation Survey 2022, accessed on 09/05/2024.

The Innovation Asset Portfolio (IAP) approach

Deloitte's IAP approach offers corporate innovators an end-to-end and novel solution to their most critical challenges, starting with clear definitions of an innovation asset and an Innovation Asset Portfolio.

Innovation Assets

An innovation asset is any resource, tool, or intellectual property that drives or supports innovation within an organization. Companies own and constantly create a range of innovation assets that include:

- Undisclosed innovations that contribute to the creation of new products and technologies, and often mature into new products and services on their own.
- Proprietary know-how and patents.
- Innovative processes.
- Technological advancements and expertise.

Many can amount to substantial value if adequately activated and monetized, and they share key characteristics:

- They are fully or partially owned and funded by a company.
- They are held in a way that allows flexibility to transfer the asset fully or partially through mechanisms such as licensing, carve-out, and spin-off.
- They maintain clearly defined intellectual property rights and are supported by a dedicated team.

The person heading the team around the innovation asset and serving as its de facto internal CEO is called the "asset owner".

Innovation Asset Portfolio

An Innovation Asset Portfolio (IAP) is an actively managed set of innovation assets that increases the future readiness and competitive edge of a company by ensuring alignment between core business and innovation strategy. Emulating a VC/startup portfolio, it allows companies to monitor all their innovation assets following a standard process to maximize their individual and collective value.

Active management of an Innovation Asset Portfolio relies on a few core operating principles:

1. Standardize the portfolio journey and assessment criteria by establishing clear stages, gates and governance for all innovation assets to comply with. Together, these standard processes form what we call the **"Innovate, Declare, Scale"** journey
2. Provide varied and flexible growth paths to each individual innovation asset by defining clear asset categories and enabling pivots between them. We have defined five asset categories of innovation assets: **Build, Operate, Partner, Invest/Divest, Client (aka BOPIC framework)**
3. Ensure continuous operational support and portfolio monitoring by establishing an **Innovation Portfolio team**, a dedicated portfolio management team made up of process specialists and experienced corporate innovators.



Figure 1 illustrates how these operating principles intersect, while the next section delves deeper into the IAP operating model.

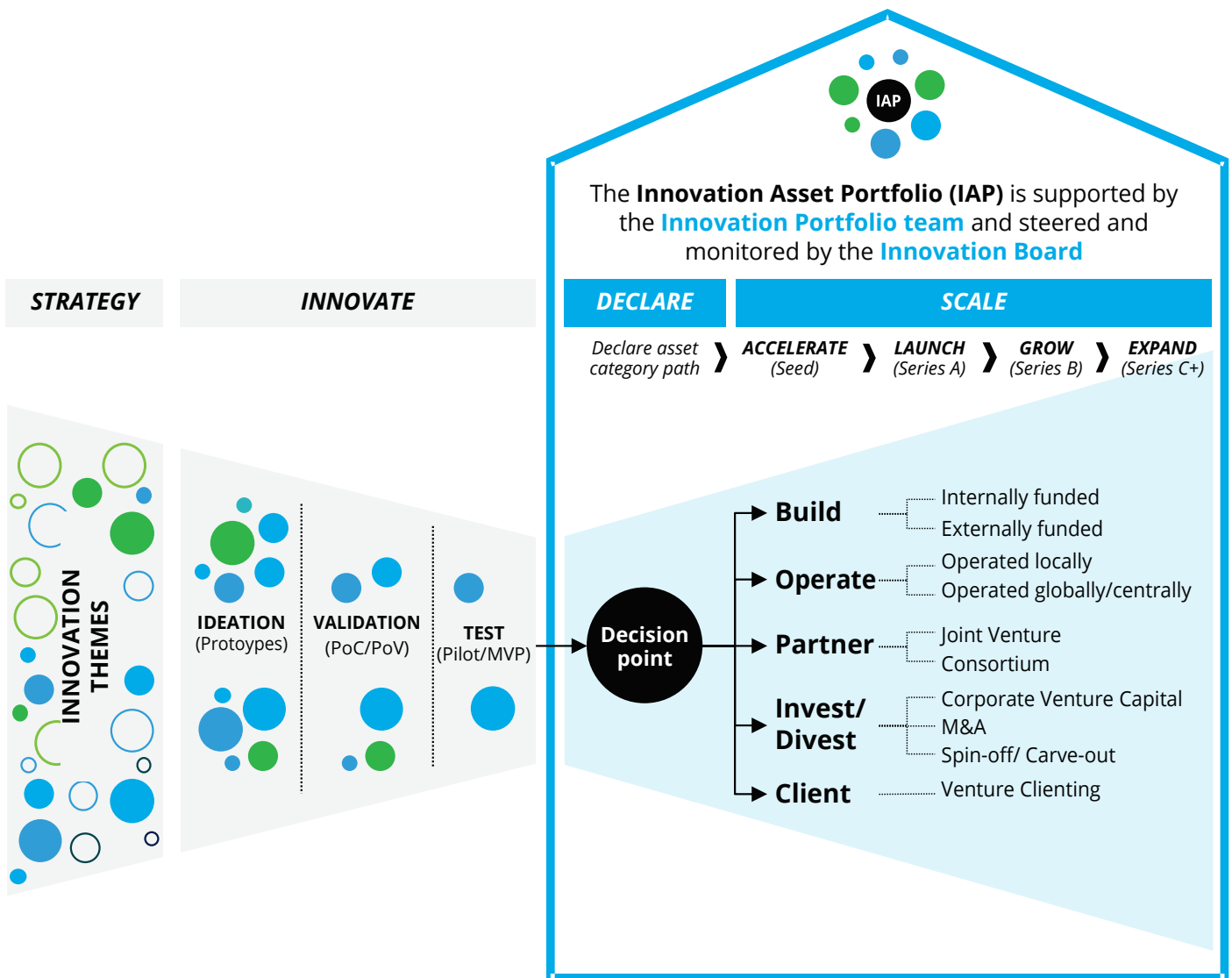


Fig.1: The building blocks of an Innovation Asset Portfolio

Understanding the IAP

The IAP approach guides companies through the complexities of creating, categorizing, and growing innovation assets in a standardized but flexible manner. By adapting the methods of traditional portfolio managers to the specificities inherent to innovation, the approach plugs into existing company governance and processes, ultimately turning corporate innovation into tangible business value.

Step 0

Categorizing assets for strategic portfolio management & growth

The starting point of an Innovation Asset Portfolio involves gaining an understanding of the specific challenges associated with the growth of innovation assets, and recognizing the need for varying paths and modes of operation for different types of assets.

We have developed a framework that strikes the right balance between portfolio standardization and flexible growth paths: the Build, Operate, Partner, Invest/Divest, Client framework (BOPIC). Innovation assets in BOPIC fall into one of five growth paths:

- **Build** – Build a new business around the innovation asset (corporate start-up/venture)
- **Operate** – Roll out innovative products for internal use, delivering efficiency gains and process optimization.
- **Partner** – Pool talent and technology with third parties to solve industry-wide problems with joint ventures, consortia, strategic alliances, etc.
- **Invest/Divest** – Acquire assets that boost portfolio performance via corporate VC or M&A, for instance, and/or carve out existing assets to cash in on their value.
- **Client** – Adopt venture clienting with startups to reduce innovation cost and access cutting-edge technology

Each of these paths requires step-by-step processes, ensuring best practices are followed regardless of an asset's individual growth strategy. The BOPIC framework also allows for pivoting between paths, ensuring each asset is on the most appropriate path at any given time and that portfolio growth is systematically managed.

The BOPIC framework lets asset owners maximize the success and value of their innovation assets, guiding them through their three-phase "Innovate, Declare, Scale" journey within the company and portfolio. The next section describes the initial phase of the journey: Innovate.

Step 1: The Innovate Phase

Building a consistent and aligned pipeline of innovation assets

The Innovate phase is where new innovation assets are created, fueled by market insight and existing innovation pipelines. It sets the foundation for innovation success and ensures assets in the funnel are aligned with the innovation themes anchored in overall company strategy. These themes not only guide innovation efforts towards areas that are aligned with the evolving needs of the company and its customers, they also leverage unique company capabilities on the path to market leadership.

The Innovate phase aims to:

- Identify internal and industry-wide challenges and explore potential solutions through emerging technology.
- Define use cases and demonstrate feasibility, desirability, and viability through a proof of concept (PoC) or proof of value (PoV).
- Prove adoption and performance via a pilot or minimum viable product (MVP).

During the Innovate phase, asset owners should progress from idea to MVP while considering the most appropriate BOPIC growth path for their asset in the Innovation Asset Portfolio. They should also be aware of specific guidelines and company policies that may influence the success of their asset. By the end of this phase, innovation assets should have matured enough to move into the Innovation Asset Portfolio, which is assessed below.

Step 2: The Declare Phase

Assessing and integrating mature innovation assets into the portfolio

The Declare phase is where innovation assets leave the early-stage pipeline to formally enter the Innovation Asset Portfolio. This involves a structured evaluation

process, including i) a portfolio readiness assessment compiling all criteria to fulfill within each corporate function (IT, Compliance, Legal, Finance...) and ii) designation of the most relevant growth path for each individual asset (Build, Operate, Partner, Invest/Divest, or Client). A BOPIC growth path should be defined using standard criteria, (see Figure 2 for details):

- **Target Market** – Is the asset meant for internal use or will it compete on the external market?
- **Operational Capabilities** – Which resources are required to grow the asset, and how many are available inside the company?
- **Funding and Ownership Strategy** – Who is the natural owner of the asset (company, founding team...) and what is the optimal equity structure (majority, minority...)?
- **Right to Win** – Can the asset compete with top players and can it establish market leadership?

For input on these criteria, asset owners should perform a market analysis or initial business case development (more on this in the next section).

The Declare phase marks the transition of asset owners from innovators to entrepreneurs

Another critical task is an initial valuation of the asset to ensure it adds to the quantitative value of the portfolio.

Asset owners are responsible for performing these tasks, but must be supported by i) a dedicated team connecting them to internal experts and guiding them through portfolio processes (innovation portfolio team), and ii) efficient governance bringing together all key decision-makers (innovation board).

The Declare phase marks the transition of asset owners from innovators to entrepreneurs inside the company, since they are ultimately accountable for the decision taken by the innovation board to either enter the portfolio into the Scale phase (details in next section), remain in the Declare phase for further assessment, or discontinue the asset.

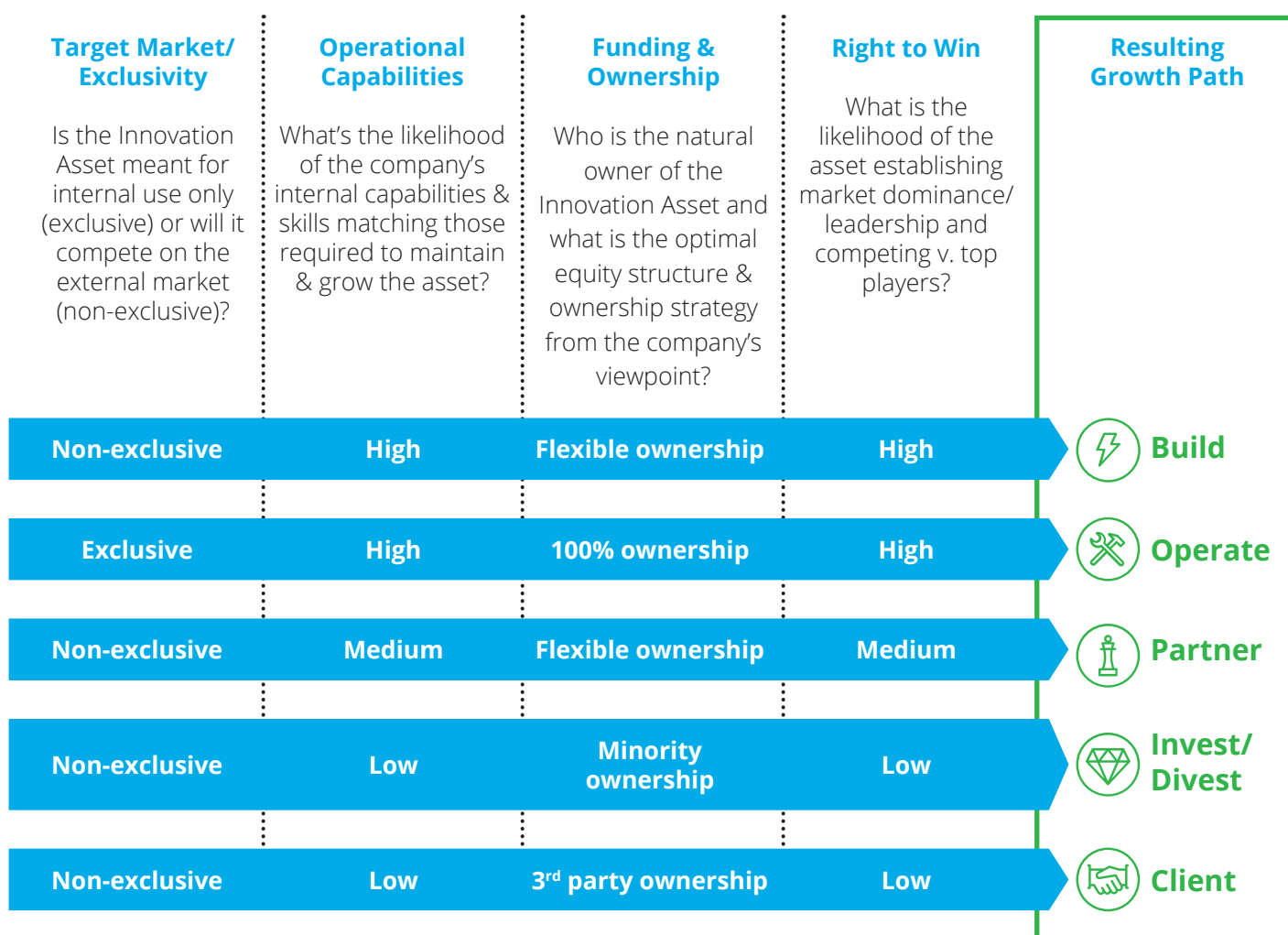


Fig. 2: The Declare criteria

Step 3: The Scale Phase

Growing, pivoting and exiting innovation assets inside the portfolio

The final phase, Scale, involves actively managing individual innovation assets and the overall portfolio. Asset owners must implement and maintain an entrepreneurial growth strategy for their innovation asset, while the innovation board and portfolio team aim to maximize portfolio financial and business value.

To fulfill these complementary missions, asset owners in the Scale phase work closely with the innovation portfolio team to i) move the asset through the checklist relevant to its BOPIC growth path (including potential pivots to a new growth path when relevant) and ii) perform a set of standard activities critical to asset success and that informs portfolio reporting, such as:

- **Market and trends watch:** for continuous monitoring of startup and incumbent competitors, market trends...
- **Business planning:** for building and continuous updating of a business plan incl. go-to-market, tracking of actual vs. planned revenues and costs...
- **Funding requirements:** for continuous tracking and updating of asset funding needs and strategy
- **Valuation:** for estimating the quantitative value range of the asset, based on several valuation methods (funding comparables, discounted cash flow...)

- **Capitalization:** for understanding the standard accounting criteria needed for capitalization of a portion of the costs incurred by the asset (to turn these costs into balance sheet value if strategically relevant for the company)
- **Data Room:** for collecting and keeping all documents related to the asset at a well-organized and central location (so that complete due diligence can be carried out on short notice)

Whereas at least some of these six activities should be introduced prior to the Scale phase, they are most valuable at this point of the journey, where best-in-class portfolio steering by company leadership must rely on the latest market data and be highly standardized. It must thus be clearly stated that the dedicated portfolio-governance team assembled earlier (innovation board and innovation portfolio team) not only remain, but increase their level of oversight and support during the Scale phase.

Once the Innovate, Declare, Scale journey has been clearly established, executive leadership and the decision-makers sitting on the Innovation Board will see the benefits of a simple, centralized, and transparent tool for steering their innovation: the IAP dashboard (see Figure 3).

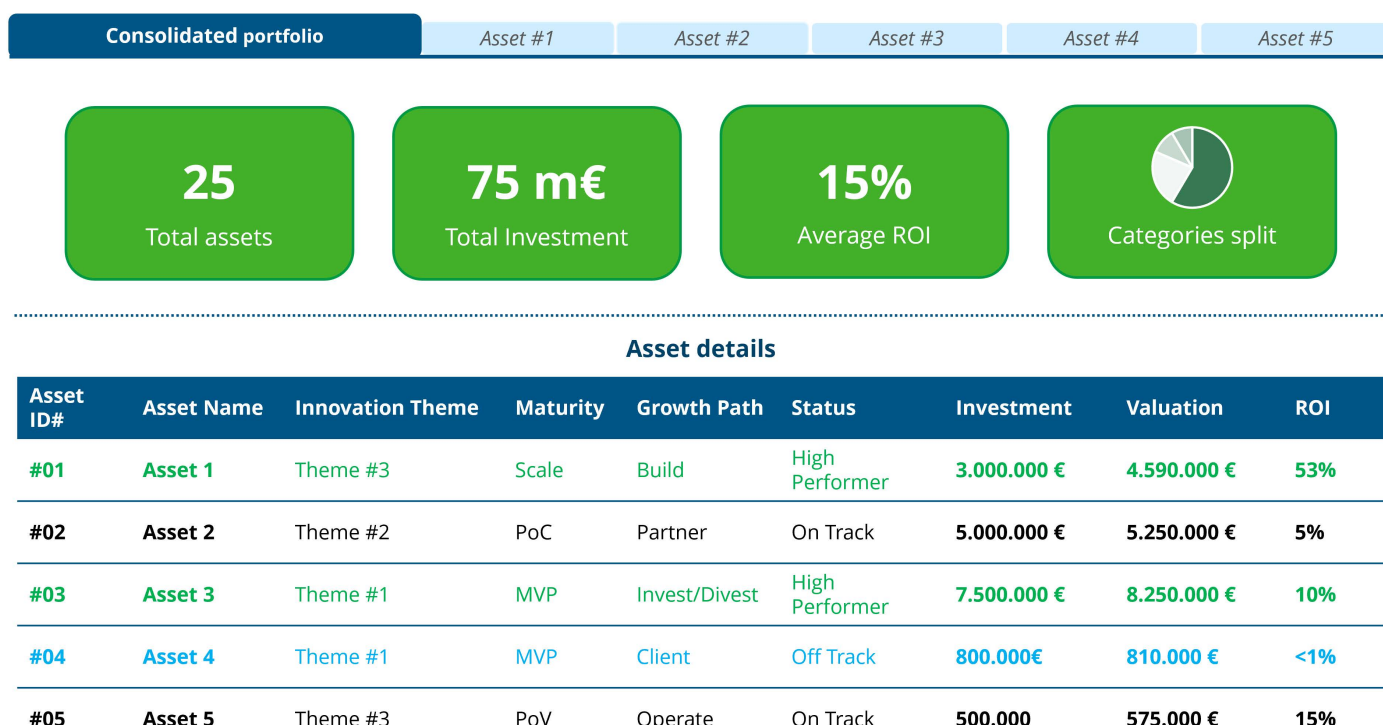


Fig. 3: Exemplary Innovation Asset Portfolio dashboard

Summary: The benefits of an Innovation Asset Portfolio

1

Strategic Alignment

By continuously promoting and monitoring the alignment of innovation assets with a company's strategic objectives and innovation themes, the IAP allows companies to use innovation as an active lever to strengthen their market position, focusing time and resources on solving concrete industry problems and avoiding wasteful innovation initiatives.

3

Transparent Steering

By setting up a portfolio dashboard made up of specific KPIs and defining standard assessment criteria, the IAP enables innovators and decision-makers to regularly review the portfolio and easily steer individual assets at all times.

3

New Innovation Mindset

By making innovation at large companies an entrepreneurial endeavor with an efficient and well-managed ratio of opportunity and effort, the IAP makes innovation a component of the company's core business instead of a permanent sandbox.

2

Measurable Value Creation

By introducing processes and methodologies that continuously measure, track and grow the balance sheet and market value of each innovation asset and define standard paths towards exit, spin-off, carve-out and asset licensing, the IAP boosts both top and bottom line, turning innovation into a profit center.

4

Lean Governance

By leveraging and plugging into existing company governance bodies, processes and functional experts, the IAP reduces complexity, accelerates decision-making and increases the accountability of leadership and innovators alike.

The outlook: Moving towards asset combination

Beyond bringing an immediate solution to the critical challenges currently limiting corporate innovation, we believe the Innovation Asset Portfolio approach can and must be the first step to an even more radical shift: asset combination.

Asset combination

For the Innovation Asset Portfolio to unleash its full potential and deliver both shareholder and stakeholder value, it must be the first concrete step towards a new age of corporate innovation: asset combination.

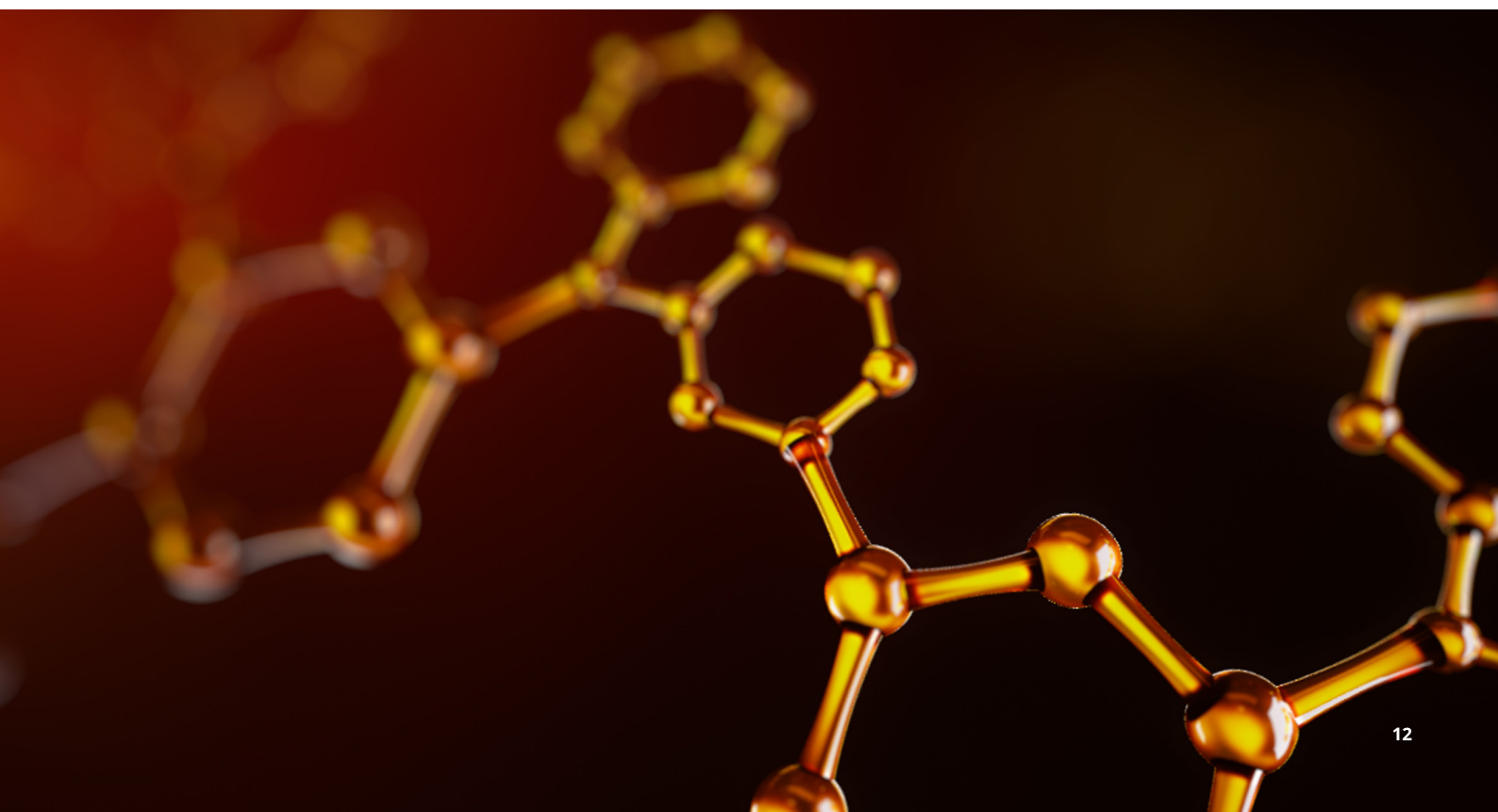
Indeed, making innovation assets shareable and ensuring they can be easily and operationally combined (via business licensing models) will create new and unparalleled opportunities to innovate for the common good, unlocking social and economic benefits that go far beyond the bottom-line or balance sheet.

Case in point: what if a cutting-edge carbon capture solution innovated by a leading manufacturing company could be combined with a voluntary carbon market innovated by one of its competitors, and what if this new asset could be licensed and deployed to the top 10 manufacturing companies in the world? The scale and impact of that scenario on the potential reduction of greenhouse gas emissions is precisely why we believe asset combination needs to become the next horizon for corporate innovators.

A new mindset for corporate innovators

One significant hurdle remains: shifting the innovation mindset from exclusive ownership to asset sharing.

In light of the magnitude of the challenges we face as a society, we believe large companies, and the talent innovating within them, have a responsibility to rethink how and why they innovate, and we have designed the Innovation Asset Portfolio precisely to aid and accelerate a transition to a new mindset inside corporate organizations.

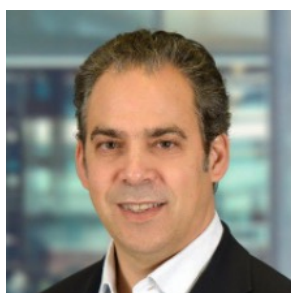


Large companies must cultivate a new mindset and rethink the purpose of innovation to drive societal change by building and steering their Innovation Asset Portfolio.

Start the conversation with us

Does your organization face challenges in its efforts to innovate? Are you eager to take innovation in a new direction, or would you just like to know more? Please contact the authors. They will be happy to listen and support you on your innovation journey.

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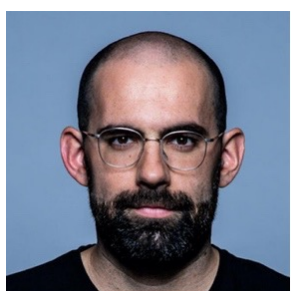
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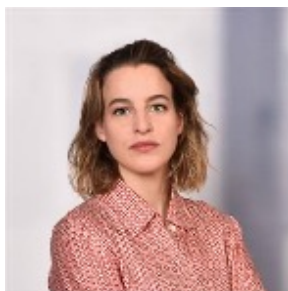
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