Lux Research

Strategizing for 2027: Benchmarking Your Innovation Investment

© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Strategizing for 2027: Benchmarking Your Innovation Investment

Benchmark innovation against sector, company size and product cycles to determine whether investment matches strategic ambition.

PRODUCT DESIGN & INNOVATION

Align R&D investment with product refresh cycles while separating required portfolio renewal from new growth opportunities.

BRAND

Sustained innovation helps protect market relevance while expansive investment creates opportunities to strengthen future positioning.

SUPPLY CHAIN & OPERATIONS

Strengthen the pathways that move technologies from exploration through integration, scale-up, and deployment across the organization.

GROWTH POTENTIAL

Direct expansive innovation toward new products and markets while protecting the operational innovation required to maintain the core.

© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Benchmark innovation investment before increasing it

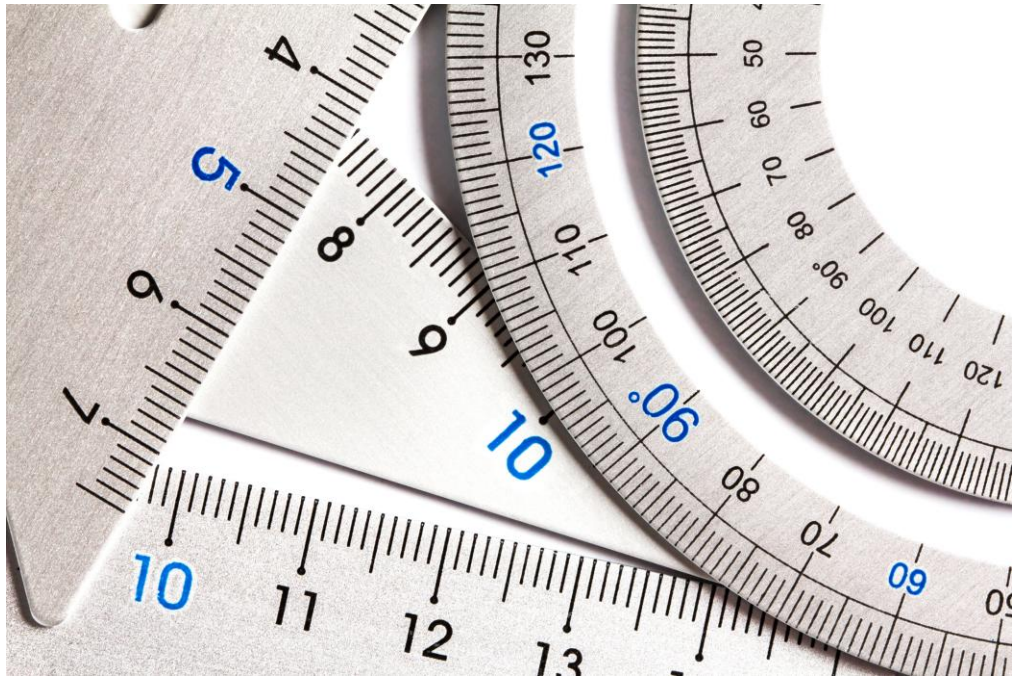
Key takeaway: *The right innovation budget is not a universal percentage. It depends on several factors: sector, company size, and ability to move innovation through the organization.*

As executives prepare for the years ahead, **innovation investment should answer two questions: Are we investing enough, and are we investing in the right places?**

A stronger benchmark considers:

- Your sector's baseline R&D intensity
- The speed at which your product portfolio must refresh
- Company size relative to peers
- The balance between maintaining today's business and creating tomorrow's
- Whether your innovation organization can effectively build, partner, invest, scale, and integrate

The objective is not to maximize innovation spending or organizational maturity. It is to align investment and capabilities with the outcomes your strategy requires.



© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Innovation is about growth, but first it prevents decline

Key takeaway: *Before innovation can create new growth, it must keep the existing business competitive.*

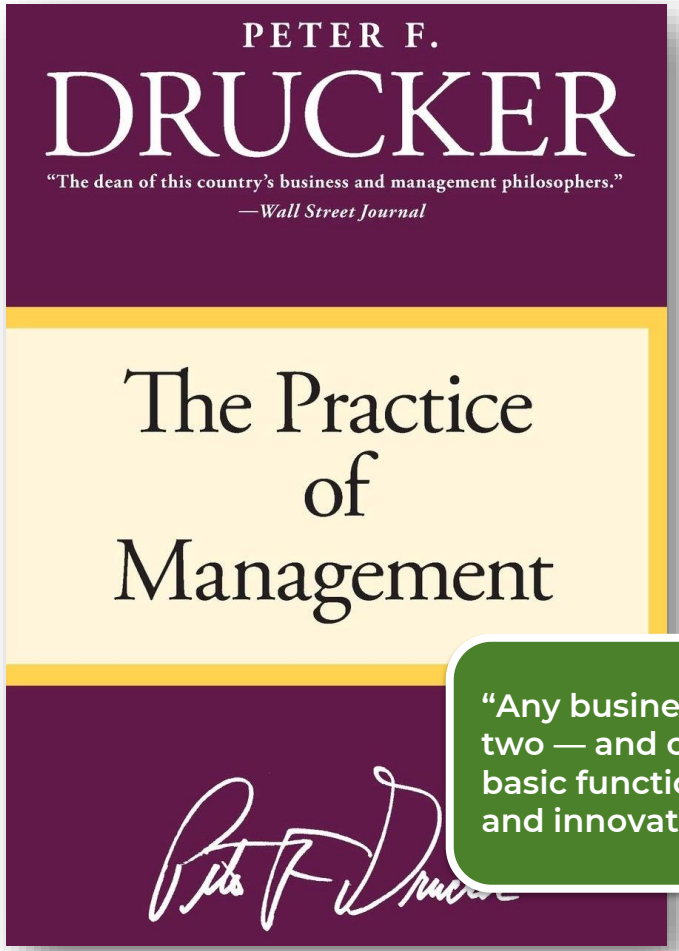
Innovation is often positioned primarily as a growth engine. But there is a more fundamental requirement: Companies must continually innovate simply to maintain their position.

Competitors improve. Customer expectations change. Products age. New capabilities become standard.

That creates a baseline level of innovation that is not optional.

- Operational innovation protects the competitiveness of the current portfolio.
- Expansive innovation creates opportunities to enter new products or markets.
- Underinvesting in the first can create long-term competitive decline.
- Investing in the second creates opportunities for additional growth.

Executives should understand this distinction before evaluating whether their innovation spending is delivering enough.



"Any business enterprise has two — and only these two — basic functions: marketing and innovation."

© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Product cycles help determine how much innovation you need

Key takeaway: *Faster product refresh cycles generally require greater R&D intensity.*

The appropriate level of R&D investment varies significantly by industry. One important reason is the speed at which products must be refreshed.

Lux's analysis shows a relationship between product refresh rates and R&D intensity across sectors. Faster-moving portfolios generally require more R&D to remain competitive.

Volkswagen illustrates the dynamic. As product cycles shortened over time, R&D intensity increased.

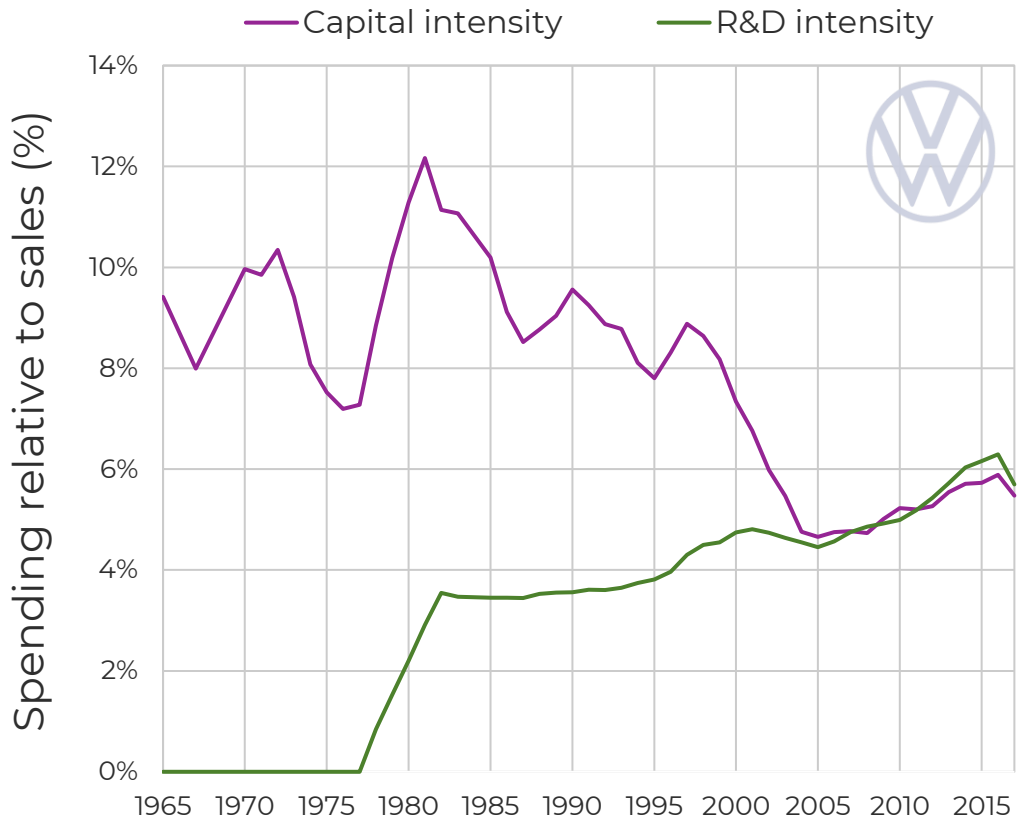
For executives, that means innovation spending should not be benchmarked against a generic target.

Instead, ask:

- How quickly does our portfolio need to change?
- How does that compare with our industry?
- Are we trying to refresh faster than competitors?

A more ambitious refresh rate may require a correspondingly larger innovation investment.

Volkswagen's R&D intensity vs. capital intensity



© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Compare your innovation spending in context

Key takeaway: *Sector averages are a starting point, not the final answer for determining an appropriate innovation budget.*

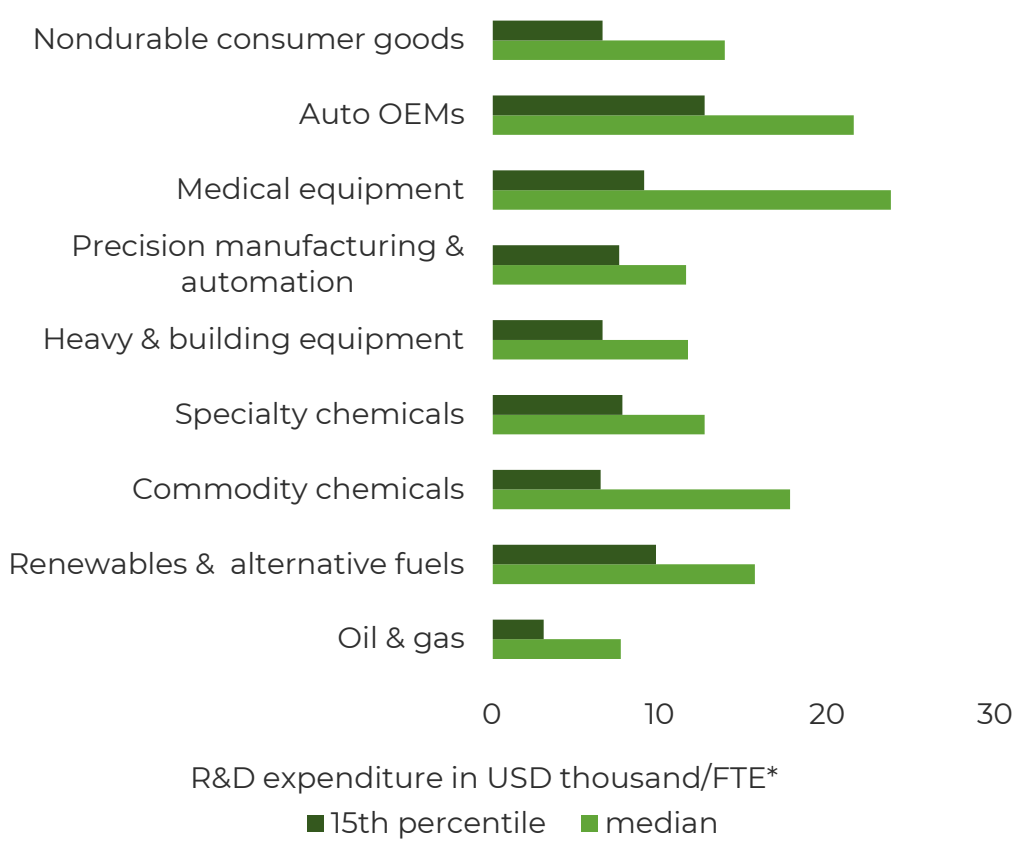
Lux Research analyzed more than 2,000 corporations to understand how innovation investment differs across industries. The data shows substantial variation in R&D spending, reinforcing the need for contextual benchmarking.

Three factors matter:

1. **Sector:** Industries have fundamentally different R&D requirements.
2. **Company size:** Larger companies generally spend less on R&D as a percentage of sales, even while spending more in absolute terms.
3. **Product refresh rate:** Companies seeking to change their portfolios faster than peers may require greater investment.

The goal is not simply to reach the industry median. It is to establish a defensible baseline and determine whether your spending matches your company's actual innovation requirements.

Industry sector determines your baseline

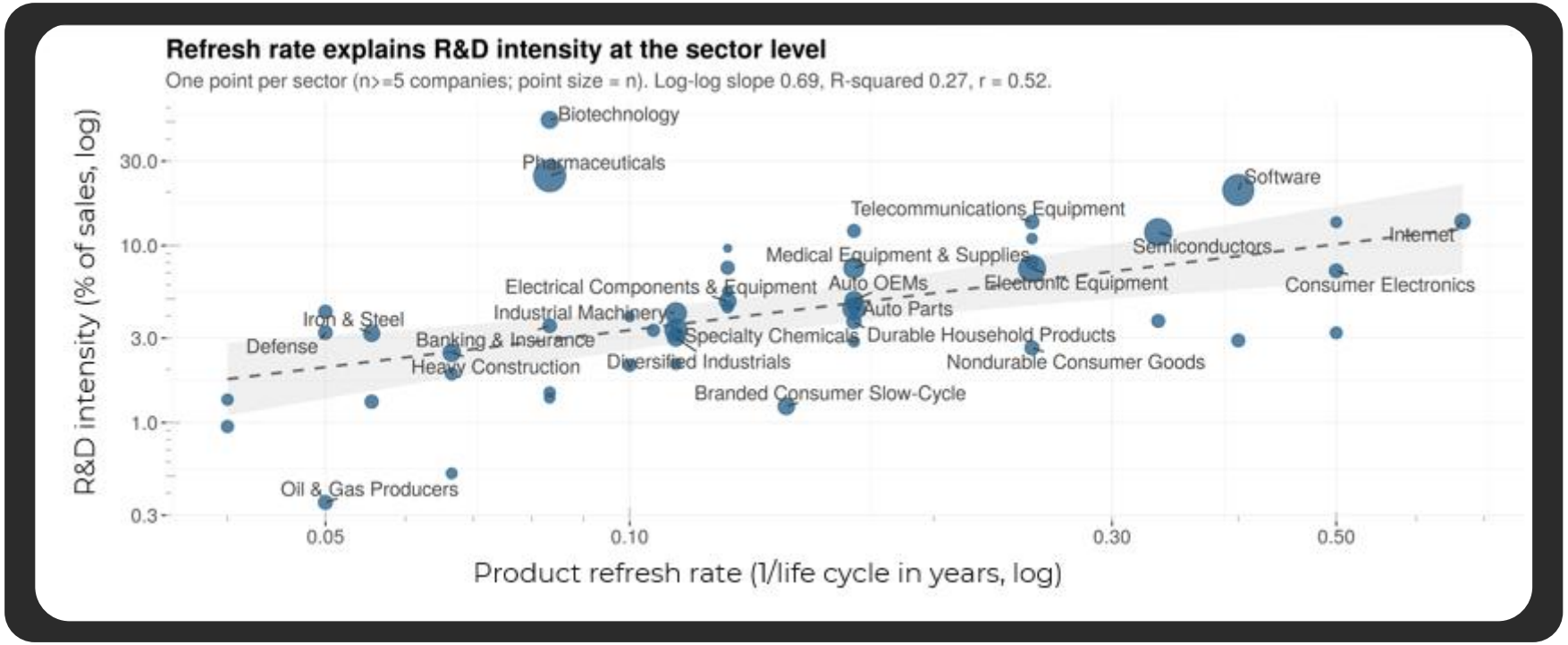


© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Product cycles help explain R&D intensity

Key takeaway: *Sectors with faster product refresh cycles generally require greater R&D intensity to keep their portfolios competitive.*

Companies operating in fast-refresh sectors must continually invest to develop, update, and commercialize products at the pace their markets demand. This helps explain why sectors like biotechnology, pharmaceuticals, and software typically operate at higher R&D intensities than industries with longer product cycles. For executives, product refresh rate provides important context when determining whether innovation spending is appropriate.



© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

PORTFOLIO ALLOCATION

Separate operational innovation from expansive innovation

Key takeaway: *Treat innovation required to maintain the business differently from innovation intended to expand it.*

Not every innovation project serves the same strategic purpose. Lux separates innovation investment into two categories.

Operational innovation

- Keeps the existing product portfolio competitive
- Is required rather than optional
- Operates against hard milestones and market deadlines
- May still require entirely new technologies or knowledge
- Should be measured using efficiency, quality, and delivery metrics

Expansive innovation

- Targets new markets or entirely new products
- Is discretionary in the short term
- Can be incremental, disruptive, or transformational
- Is time-sensitive but typically lacks fixed product deadlines
- Should be evaluated using investment-style metrics

© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Know how much of your portfolio is truly expansive

Key takeaway: *Peer comparisons can reveal whether growth-oriented innovation is being funded intentionally or hidden inside the broader R&D budget.*

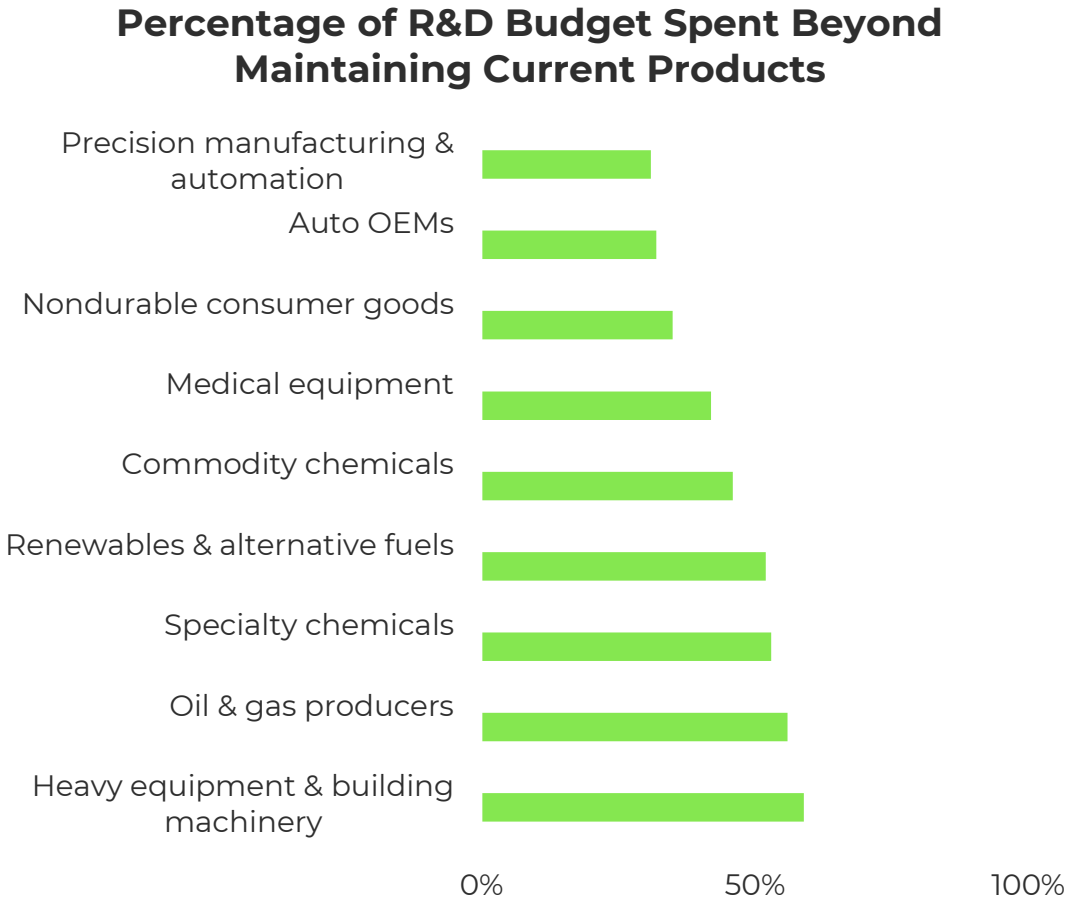
Once operational requirements are established, executives can better estimate how much investment remains available for expansive innovation.

Lux's analysis suggests significant differences by sector. Estimated median expansive innovation ranges from roughly 31% of R&D spending in precision manufacturing and automation to 59% in heavy equipment and building machinery. Oil and gas producers are estimated at 56%, while specialty chemicals are estimated at 53%.

These figures are benchmarks, not prescriptions.

Use them to ask:

- What percentage of our budget maintains the core?
- What percentage pursues new growth?
- Can we identify the projects behind each category?
- Does the allocation reflect our strategy?



© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Build the capabilities your strategy actually needs

Key takeaway: *A complete innovation engine does not mean having every possible function. It means having the right capabilities for your strategy.*

Innovation can operate across three horizons:

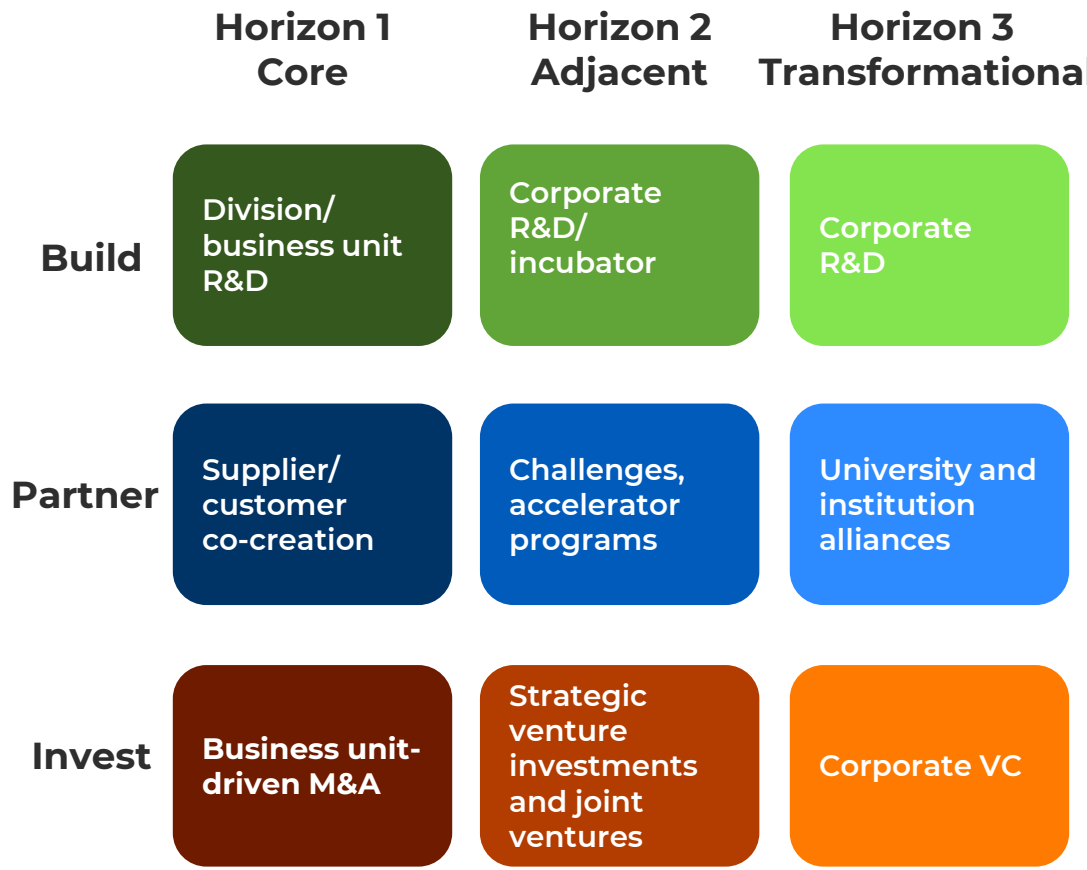
- **Horizon 1:** Core businesses and markets
- **Horizon 2:** Adjacent opportunities
- **Horizon 3:** Transformational, longer-term opportunities

Across these horizons, organizations can use three fundamental approaches: build, partner, and invest.

That can involve everything from business unit R&D and supplier co-creation to university alliances, strategic venture investments, joint ventures, M&A, and corporate venture capital.

Executives should not attempt to fill every box. Instead, determine which capabilities the company's strategy requires and whether each is appropriately resourced.

Completeness should be defined by strategic fit, not organizational complexity.



© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

Turn benchmarking into your 2027 priorities

Key takeaway: *Benchmarking is valuable only when it leads to deliberate decisions about where to invest, organize, and improve.*

For 2027 planning, begin by establishing a clear view of both spending and organizational capability.

1. **Benchmark your investment**
   Compare R&D spending with peers while accounting for sector, company size, and product refresh requirements.
2. **Understand the allocation**
   Separate operational innovation from expansive innovation and determine whether the balance reflects your strategy.
3. **Assess the organization**
   Identify whether you have the necessary functions and whether opportunities flow effectively between them.
4. **Set priorities**
   Decide where change is actually required, which products demand operational investment, and where expansive opportunities deserve resources.

The objective is not simply to spend more. It is to make innovation investment deliberate, defensible, and aligned with where the business intends to go.

© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential

About Lux

Lux Research fuels innovators to not only imagine what's possible in the future but also operationalize innovation success in the near term. We deliver research and advisory services to inspire, illuminate, and ignite innovative thinking that reshapes and grows businesses. Using quality data derived from primary research, fact-based analysis, and opinions that challenge traditional thinking, our experts focus on finding truly disruptive innovations that are also realistic and make good business sense.

The "Lux Take" is trusted by innovation leaders around the world, many of whom seek our advice directly before placing a bet on a startup or partner — our clients rely on Lux insights to make decisions that generate fantastic business outcomes. We pride ourselves on taking a rigorous, scientific approach to avoid the hype and generate unique perspectives and insights that innovation leaders can't live without.

READ

http://www.luxresearchinc.com/blog/

VISIT

www.luxresearchinc.com

EMAIL

questions@luxresearchinc.com

CONNECT

LuxResearch

© LUX RESEARCH, INC. | All rights reserved. | Lux Proprietary and Confidential