

# The Innovation Game: Why and How Businesses are Investing in Innovation Centers



# Why Should Companies Launch Innovation Centers?

We live in an era of digital Darwinism. As technology and society evolves, it becomes imperative that organizations also evolve their business models. Companies that don't invest in counter-disruptive measures will learn that evolution doesn't wait. Fifty-two percent of the Fortune 500 have merged, been acquired or have gone bankrupt since 2000<sup>1</sup>. The threat of startups upending established sectors is greater than it has ever been. The Wall Street Journal now tracks over 100 startups globally valued at US\$1 billion or more, over ten of which are valued at more than US\$10 billion<sup>2</sup>. These high-value companies are, in many cases, not creating entirely new markets, but rapidly eating into traditional sectors using a combination of superior technology and a compelling customer experience.

Over the last ten years, there are myriad examples of established corporates that have fallen on difficult times. Nokia, Blackberry and Kodak are just a handful of the many companies that have been disrupted, decimated or reduced to a shadow of their former selves, after having once dominated their industries. How can companies avoid this fate? The answer is: innovation.

## Innovation Has Never Been More Important...Or So Difficult

In today's highly competitive economy, innovation is more critical than ever. A recent survey of large corporations found that 65% of senior executives face increased pressure to innovate<sup>3</sup>.

However, the challenges of innovation continue to defeat many. In 2014, around US\$1.6 trillion was spent on R&D globally. Despite this significant investment, the results are falling short. In consumer goods, for example, research shows that more than 85% of new products fail<sup>4</sup>.

This is a significant concern given the intensity of today's competitive environment. In recent years, tech startups are threatening or disrupting the fabric of many established industries:

- Markets are becoming increasingly digital and mobile is becoming the preferred channel.
- Digital customers and employees are changing the game. Their behaviors, expectations and values no longer align with tried and true processes, systems and technologies in place now.

To excel in these times requires innovation, to protect against external threats and create new competitive advantage. But, many R&D teams at large and traditional corporations seem ill-equipped to respond. They can be constrained by legacy organizational models, risk-averse cultures, and a rigid approach. A recent study revealed that only 5% of R&D staff feel highly motivated to innovate<sup>5</sup>. This is a worrying tendency given the urgency to innovate.

## Enter the Innovation Center

The weaknesses of traditional innovation approaches have led a number of ambitious organizations to explore different avenues and seek new inspiration. These organizations have launched innovation initiatives or full-blown innovation centers in major technology hubs with the explicit mandate to accelerate digital innovations. These innovation centers, comprising teams of people and often physical sites, are established in a global tech hub. The goal is to leverage the ecosystem of startups, venture capitalists, accelerators, vendors, and academic institutions that these hubs provide (see "The Anatomy of Innovation Centers").

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*52% of the Fortune 500 have been merged, acquired, or have gone bankrupt since 2000.*  
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Organizations increasingly want to understand rapidly evolving consumer behavior. The ubiquity of smartphones and connectivity has created new behaviors. Purchase cycles that customers had followed without change for many years are now being redrawn completely. This focus on customer-driven innovation is echoed by Mark Brodeur, Global Head of Digital Marketing Innovation at Nestlé, who observes that *“We really needed to better understand how consumer behavior was changing as a result of technology, so that our brands were able to stay ahead of the curve versus playing catch-up.”*

Debbie Brackeen, Citi Ventures, says that the mission of their innovation centers is to *“pioneer and test new disruptive solutions for our customers, testing new business models and technologies that advance our position in the market... We’re looking at making significant impact to the overall business and not just incremental changes.”* A leading European financial services group has a team with an explicit mandate to disrupt their own businesses. The executive says, *“We have a group that is a set of centrally-funded startups with the exclusive aim of hiring entrepreneurs who will build businesses that will disrupt our business.”*

Over the last year, we interviewed leaders of innovation centers and also conducted extensive web-based research of the 200 largest companies in the world by revenue. The research probed a number of key issues:

- What kind of companies are investing in innovation centers?
- Where are the preferred locations for setting up these centers?
- What are their mission and purpose?
- What operating models are used?
- What are the challenges and critical success factors?
- How are outputs and results measured?

The research methodology at the end of this paper provides further detail on our approach.

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– Debbie Brackeen Citi Ventures

***“Innovation centers are physical spaces and/or teams set up by organizations in a global tech hub, with the goal of leveraging the startup, industry and academic ecosystem that these hubs provide.”***

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## The Anatomy of Innovation Centers

- Digital innovation centers are teams of people and often physical sites that are set up by organizations in a global tech hub, with the goal of leveraging the ecosystem of startups, venture capitalists, accelerators, vendors, and academic institutions that these hubs provide. According to the Vice President of a major fashion retailer: *"An innovation center is a team, a space and a mindset."*
- The primary objective of a digital innovation center is to accelerate digital innovation by rethinking the customer experience, improving operational efficiency and testing new business models through the use of digital technologies such as Big Data, the Internet of Things, Social Media, Mobile, Robotics, Augmented Reality and 3D Printing. As Ed McLaughlin, Chief Emerging Payments Officer, MasterCard says: *"I think the primary goal is to make sure that we can test, learn, experiment, access, incorporate, leverage all the changes that are happening out there in the industry. It gives us the ability to fail fast, to incubate things, to invest and engage with very early stage companies."*
- Innovation centers also help companies to stay abreast with the latest developments and upcoming technologies in the market. Karin Weining, Global Innovation Excellence Leader at Dupont, says: *"Our Innovation Center Leaders understand what's happening in the local marketplace and the capabilities there...they're focused on finding the trends and cross-business ideas that may not be captured by an individual business."*

### Developing New Products and Services or Proofs of Concept

BMW has set up an innovation center "Future Lab" in Mountain View, with the aim of developing cutting-edge digital products and services. Its flagship product, BMW ConnectedDrive, provides a suite of infotainment features such as MP3 connectivity and weather information. One of the latest projects, currently in progress, is to develop virtual reality goggles that will help drivers park in tricky spots by enabling them to 'see through' the car<sup>1</sup>.

### Designing New Business Models

Medical technology major Medtronic has opened a center for Business Model Innovation in Singapore. This new center, based in the current local Medtronic facility, has the mandate to design, test and scale new business models for developing Asian markets<sup>2</sup>.

### Connecting with Startups

CVS Health, operator of Minute Clinics and one of the biggest drugstore chains in US, has opened a Digital Innovation Lab in Boston that is intended to "be a source of new ideas that will drive the company into the future"<sup>3</sup>. One of the goals of the Digital Innovation Lab is to connect with startups that are developing healthcare-related products and services and to ensure CVS can be an ideal learning lab for early-stage companies<sup>4</sup>.

### Identifying Potential Partners and Forging Strategic Relationships

AXA Lab, the insurance company's innovation outpost in Silicon Valley, aims to "connect AXA with leading companies in the technology industry that have the potential to become business partners for the company's global marketing and distribution teams"<sup>5</sup>. The most notable of these partnerships has been with Facebook, with a goal of further developing its digital, social and mobile footprint in France and globally<sup>6</sup>.

### Developing an Innovation Culture within the Organization

Innovation cannot flourish in a company if it is limited just to an innovation center. According to the head of an innovation center for a major bank, the innovation culture of the center needs to extend into the wider enterprise. *"You want to create a sustainable innovation culture and model inside an innovation center that resides in a group, and have that permeate throughout corporate,"* he explains.

### Incubate and Invest in Startups

Some innovation centers, given they are at the cutting edge of technology developments, are also tasked with identifying exciting startups that the parent company can invest in. For instance, Walmart Labs which is responsible for building and testing technology for online and mobile aspects for Walmart has acquired 14 startups in the past 3 years. However this is relatively rare among innovation centers.

### Understanding the Digital Customer

One of the key challenges facing organizations is in understanding the digital customer. The advent of pervasive connectivity, smartphones and social media is impacting customer behavior significantly. As the innovation lead at a major retailer puts it: *"The mission is listen to our customers about what their needs are."*

### Evaluating and Testing New Technologies

One of the big challenges for large organizations is the amount of time it takes for smaller vendors to reach decision-makers, particularly when it comes to new technologies. This is where an innovation center, with its lean setup, can act as a bridge. Innovation centers constantly engage with, evaluate and test a variety of technologies with various startups. Sephora's innovation lab is modeled after their stores and the labs constantly test beacons, augmented reality applications among other technologies for application within their larger store network.

### Become a Recognized Part of Innovation Communities

Organizations have come to realize that they cannot solve everything by themselves. They need to be a foundation for an innovation ecosystem and be recognized as a part of innovation communities. Innovation centers help achieve this. Indeed, an innovation head for a financial major confirms this as a mission for one of their innovation center when he says: *"The innovation center has a stated goal to host over a million external people for different events. An entire team runs a program of external speakers who speak on Big Data, social media or peer-to-peer lending. The notion is that if you become sort of the epicenter of ideas and innovation in the space, you will benefit from it."*

Source: <sup>1</sup> TechWorld, "BMW developing high-tech goggles to help drivers park", February 2015; <sup>2</sup> Medtronic website, "Medtronic To Set Up Global Center Of Excellence In Singapore For Business Model Innovation", August 2013; <sup>3</sup> CVS Website, "CVS Health to Open New Digital Innovation Lab in Boston", November 2014; <sup>4</sup> The Boston Globe, "CVS to open tech hub in Boston", November 2014; <sup>5</sup> AXA Website, "AXA Lab: Fostering innovation and digital culture", Accessed June 2015; <sup>6</sup> AXA Website, "AXA Announces a Strategic Partnership with Facebook to Further Develop its Digital, Social and Mobile Footprint in France and Globally", April 2014

# The Size of the Innovation Center Prize

Innovation centers offer a range of benefits. They:

- Accelerate the speed of innovation
- Provide a fresh source of ideas
- Enhance risk-taking ability
- Attract talent
- Drive employee engagement
- Build a culture of innovation.

“**Walmart’s internal search engine, developed by Walmart Labs in 9 months, drove a 20% increase in online sales conversions.**”

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## Accelerate the Speed of Innovation

An alarming 90% percent of companies believe that they are too slow to market and often over budget<sup>6</sup>. As an executive at a leading global bank observed: *“When we look at the pace at which digital-native companies operate and launch new capabilities, that’s something that doesn’t really happen in large enterprises.”*

According to the innovation lead at a Telecom major, innovation centers can help resolve this issue. *“We accelerate the delivery of different strategic solutions,”* she explains. *“We have cross-functional teams here that are able to pull from the outside world and reach into any part of the company and be more agile in order to bring new ideas to the table. That is why our innovation center was originally started.”*

Walmart Labs helped Walmart develop its internal search engine in just nine months, driving a 20% increase in online sales conversions. Staples’ innovation lab helped launch a digital wallet service in 9 weeks - Staples’ fastest deployment ever (see Figure 1).

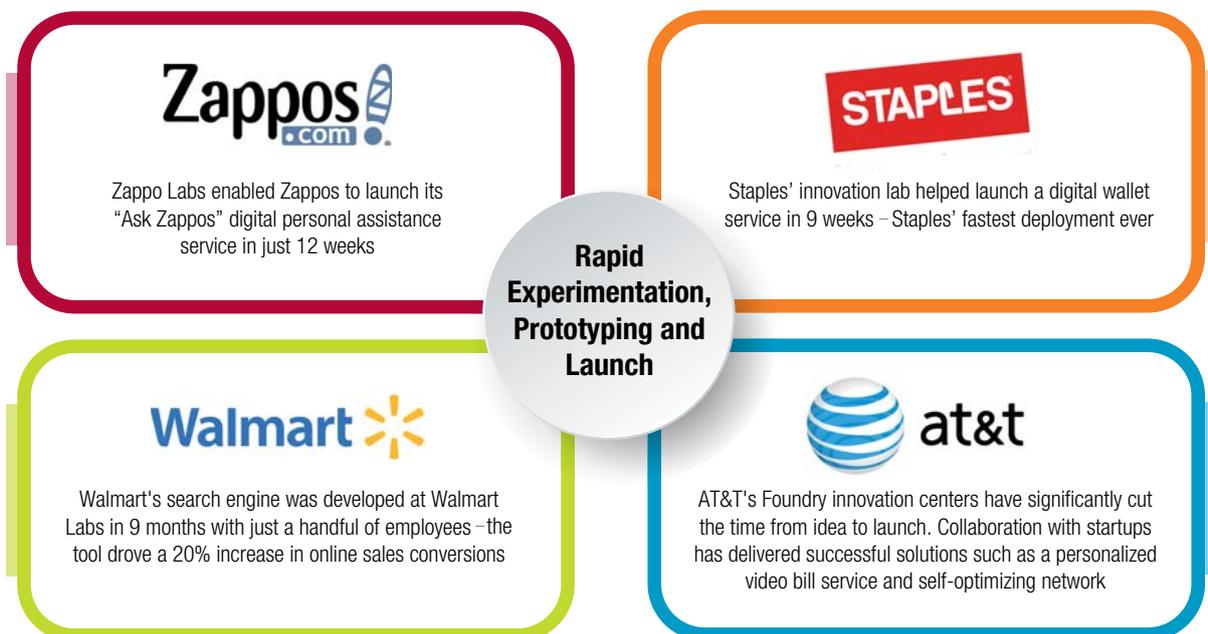
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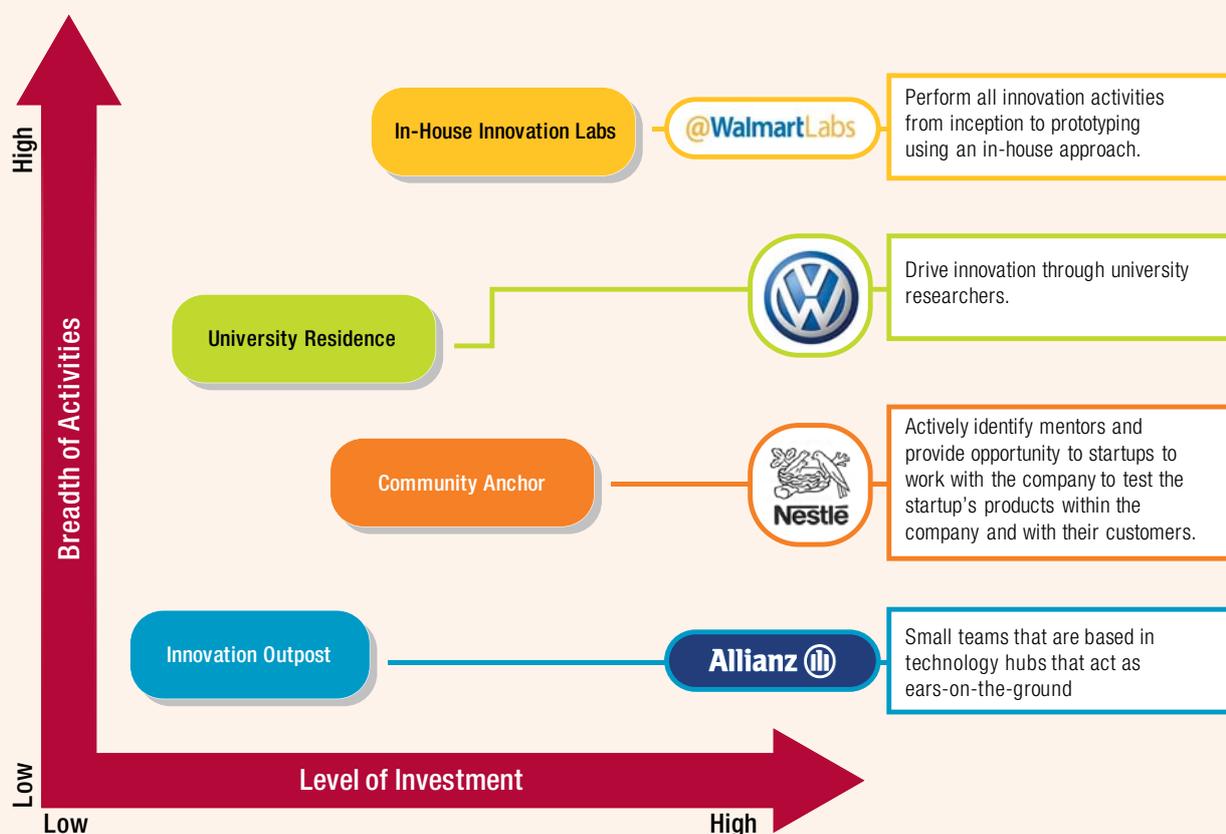
Figure 1: Innovation Centers Accelerate the Speed of Innovation



## Innovation Centers: The Different Categories

Our research has uncovered four broad categories of innovation center. Models include in-house innovation labs, university residences, community anchors, and innovation outposts. Each of these models differ in their goal and the amount of investment required (see Figure 2).

Figure 2: Types of Innovation Center



Source: Capgemini Consulting and Altimeter Analysis

**In-house Innovation Labs** – The innovation engine for their companies, these centers perform all innovation activities from inception to prototyping using an in-house approach. Given this in-house focus, these centers are typically large in size, with hundreds of staff. Walmart Labs is part of the Walmart Global eCommerce team, which runs Walmart's global websites. The two teams work in tandem so that e-commerce innovations can be seamlessly plugged into the websites.

**University Residence** – In this model, companies invest to set up a center at a university campus to drive innovation through university researchers. The Volkswagen Automotive Innovation Lab (VAIL) was established by Volkswagen and Stanford University's School of Engineering to drive innovation in automotive development. The Volkswagen Group has donated \$5.75 million to the creation of VAIL, including \$2 million for building construction and another \$750,000 a year for five years to fund research. Stanford researchers and international visiting scholars will work with automotive equipment manufacturers and Silicon Valley experts.

**Community Anchor** – These innovation centers actively identify mentors and provide opportunities to startups to work actively with the company to test the startup's products. The startups also gain from mentoring and the availability of mature processes to test their innovations. Allianz Digital Labs invites early-stage companies, students and innovators to run proof-of-concept pilots with the possibility of eventual licensing, development and commercialization on a large scale in areas such as Big Data, social media and mobile. Additionally, organizations might take an equity position in startups.

**Innovation Outpost** – Innovation outposts are small teams that are based in technology hubs, typically Silicon Valley. For large organizations, the idea is to be involved in the tech community, without committing significant investment. As time progresses, organizations can then choose to grow these innovation outposts to other forms of innovation centers. Take the case of Renault-Nissan. The company initially set up a small Silicon Valley Research Office in 2011 focusing on vehicle IT, advanced engineering research and technology recruitment. By 2013, the office was expanded to specialize in autonomous driving and connected vehicles. Similarly, Nestlé set up a Silicon Valley innovation outpost in 2013 with the aim of understanding customers better and work with large technology companies. The company has just announced that they intend to strengthen this team with more investment by Spring 2016.

Source: Company Websites

## Provide a Fresh Source of Ideas

Innovation centers, by virtue of their location and extensive engagement with the local community, can be a rich source of ideas. Many innovation centers actively reach out to startups, venture capitalists, academics, and other industry stakeholders for regular events. One executive from a major European financial services firm said: *“We have a stated goal to host over a million external people for different events from big data to social media and emerging payments or peer-to-peer lending. We host hundreds of people in these events every day. The idea is that if you become sort of the epicenter of the velocity of ideas and innovation in the space, you will benefit from that.”*

Regular engagement with startups delivers significant benefits, as an executive from a global financial institution says: *“Engaging with startups is enabling us to quickly build the domain expertise and knowledge around new trends and move much faster.”*

## Enhance Risk-Taking Ability

Unlike their larger, risk-averse parent organizations, innovation centers are inherently “risk-seekers”. In being so, they move the entrepreneurial risk away from the parent organization.

This ability to take on risks is crucial for delivering innovation. In the words of AT&T’s Ruth Yomtoubian: *“Our innovation center lets us take on risks that the rest of the organization may be unwilling to take on.”* One common challenge at large companies is trying to justify experiments. Innovation centers help organizations side-step onerous processes that would otherwise act as a brake. As an executive at a leading financial services firm explains: *“The Innovation center has a pool of funds that is specifically used only for testing, learning, and experimentation. It is independent of the business case or the standard budgeting process.”*

## Attract Talent

Organizations can use their innovation centers to showcase their brand strength and startup culture, and attract top talent at universities. In the words of an innovation executive at a leading Fashion retailer: *“We went to campus placements right after the announcement of our innovation lab and our ticket was hotter than Twitter and Facebook.”*

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*Our innovation center lets us take on risks that the rest of the organization may be unwilling to take on.*

– Ruth Yomtoubian, business innovation lead at AT&T Foundry

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Also, in large organizations, the innovations developed by centers have the opportunity to see mass adoption, unlike most startups. This large canvas is yet another motivation for talent. For the parent company, the innovation centers act as a talent magnet that they wouldn’t have been in a position to attract directly. Bao Nguyen, from Walmart Global eCommerce, says: *“Technologists say that when you work at a startup, you are able to launch things really quickly like an app, but there isn’t really much traction. In our company, they can build something, launch it and millions of people will use it. That’s what we think has been key to our success in hiring these great technologists.”*

## Drive Employee Engagement

The positive impact on employee engagement is an often-overlooked benefit of innovation centers. Engaging with the latest technologies and new ideas excites and motivates employees, even those in industries that are slow to change. An innovation executive at a large bank says, *“If we never graduated a single concept from the labs into production, we would still get a ton of benefit just from employee engagement. That gets overlooked a lot.”*

## Build a Culture of Innovation

The greater positive impact of successful innovation centers includes the development of an innovation culture within the larger organization. The head of innovation at a leading bank says: *“If your company is counting on your innovation center to do all your innovation, you will fail. It should be one of the tools that help, and it is a sort of catalyst for serving the business.”* The goal should ultimately be to, as the executive says: *“institutionalize a culture where people are encouraged and rewarded for trying new things.”*

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*We went to campus placements right after the announcement of our innovation lab and our ticket was hotter than Twitter and Facebook.*

– Innovation executive at leading retailer

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## Who is Investing in Innovation Centers?

While many organizations are struggling to activate their research and innovation efforts, only 38% of the leading 200 companies have set up innovation centers.

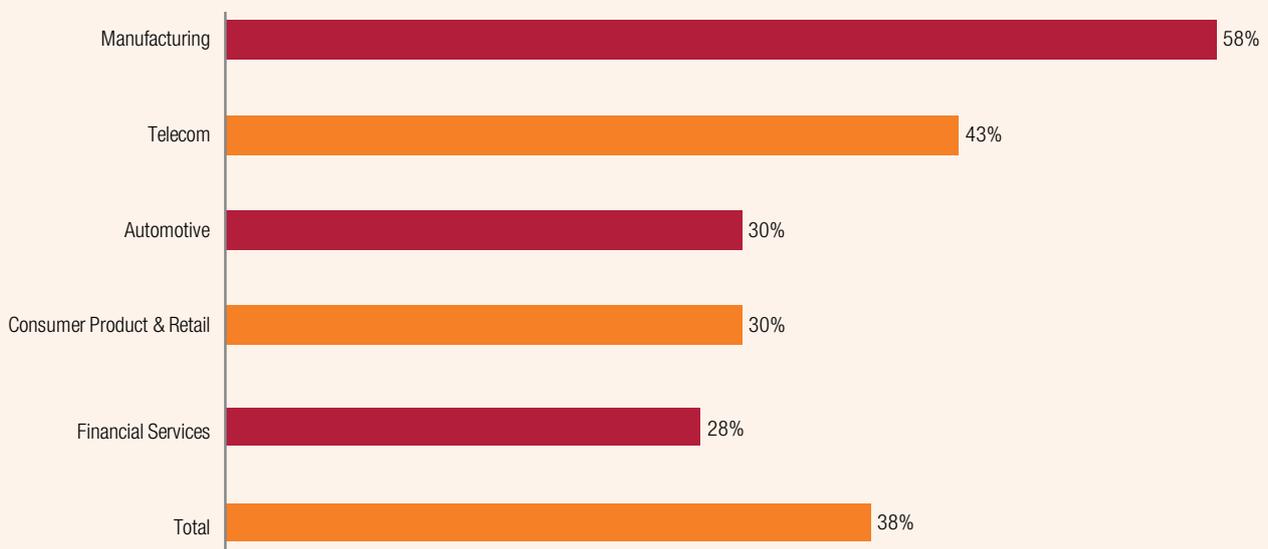
The penetration of innovation centers also varies dramatically across sectors (see Figure 3). Manufacturing companies — particularly those from the high-tech sector — have the highest number of innovation centers. Many of these companies are tackling developments, such as 3D Printing (for prototyping) and the Internet of Things (to constantly monitor supply chain or operations).

Similarly, telecoms companies, which have felt the full disruptive brunt of the digital revolution, have also invested significantly in innovation centers. However, take-up in the financial services sector, which also faces significant disruption, stands at 28%.

Among companies that have established innovation centers, most have committed significant investment. In 2014 for instance, P&G opened its third innovation center in Singapore, investing over US\$186 million<sup>1</sup>. The center focuses on over 18 fields of study — from seeking consumer insights to developing and testing new prototypes, as well as designing new packaging.

Sources: <sup>1</sup> Today News, "P&G opens S\$250m Innovation Centre in S'pore", March 2014

**Figure 3: Penetration of Innovation Centers by Sectors**

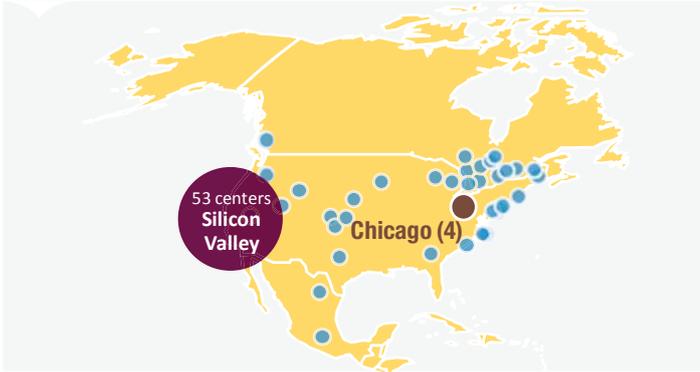


N=200

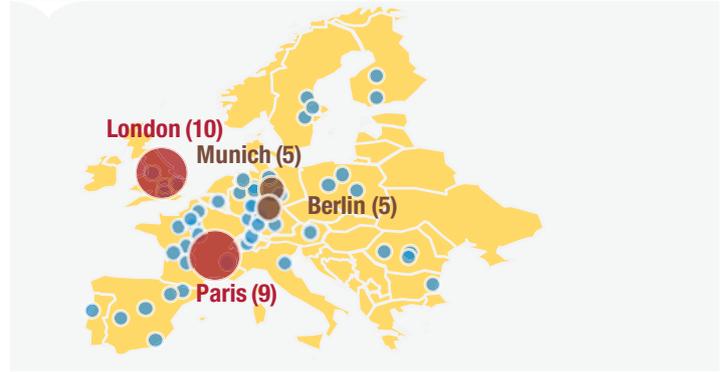
Source: Capgemini Consulting and Altimeter Analysis

# The Innovation Center Heat Map

## North America



## Europe



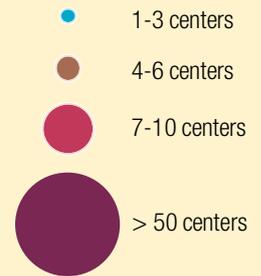
## Asia



## Top Ten Cities

Top Ten Cities	Number of Innovation Centers
Silicon Valley	53
London	10
Paris	9
Singapore	7
Tokyo	6
Shanghai	6
Berlin	5
Munich	5
Tel Aviv	4
Chicago	4

## Legend



**38%** of companies have set up innovation centers

**61%** of companies with centers have a presence in the Silicon Valley...

...But other hubs are also emerging – top 10 locations represent only **35%** of total centers

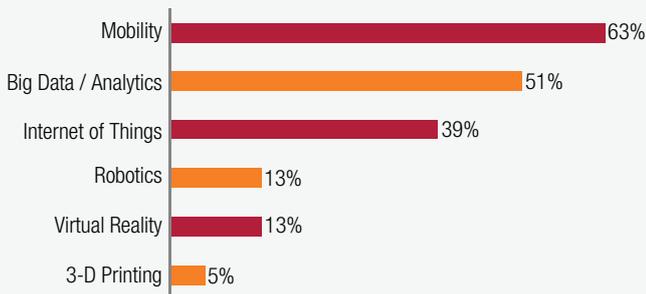
## Breakdown of Innovation Centers by Region



N=309  
Source: Capgemini Consulting and Altimeter Analysis

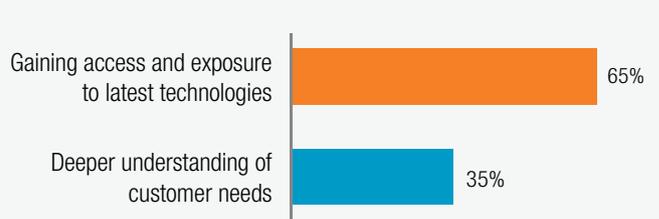
## Focus Area

% of companies



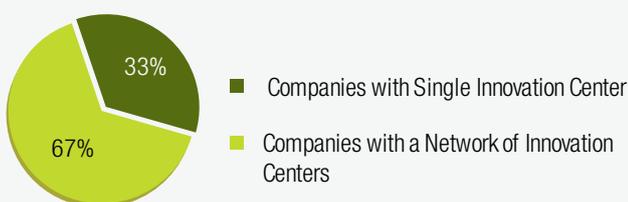
## Main Mission of Innovation Centers

% of companies



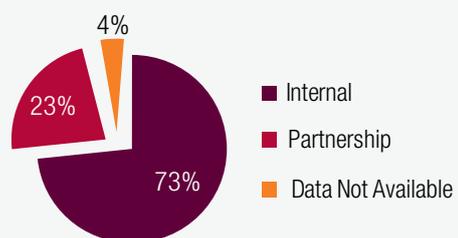
## Single Center Vs Network of Innovation Centers

% of companies



## Distribution of Innovation Centers by Funding Model

% of companies



N=75  
Source: Capgemini Consulting and Altimeter Analysis

# How can Innovation Centers Successfully Scale the Slippery Slope of Digital Innovation?

It is extremely challenging to make a success of innovation centers. A seasoned innovation expert and senior executive at a leading global bank told us: *“About 80 to 90 percent of innovation centers fail, and end up being a massive waste of resources.”* Such high failure rate results from a slippery slope of challenges that innovation centers must overcome to succeed in digital innovation. The challenges range from lack of leadership support and an unclear focus to companies’ inability to scale the innovation at an enterprise level.

Leading companies avert these perils by factoring critical success factors into their journey. These factors broadly fall into three phases – laying down the foundation of vision and governance, harnessing talent and partnerships and delivering on the core innovation promise (see Figure 4).

## Laying Down the Foundation of Vision and Governance

### Define the Right Purpose & Focus

Defining the purpose of the innovation center is critical. Different approaches will deliver different results, with an innovation outpost not delivering the same benefits as an in-house innovation lab.

“*Most innovation centers commit one of two cardinal sins. Either they think too far out into the future, or they get involved in routine projects.*”

– Seasoned innovation expert

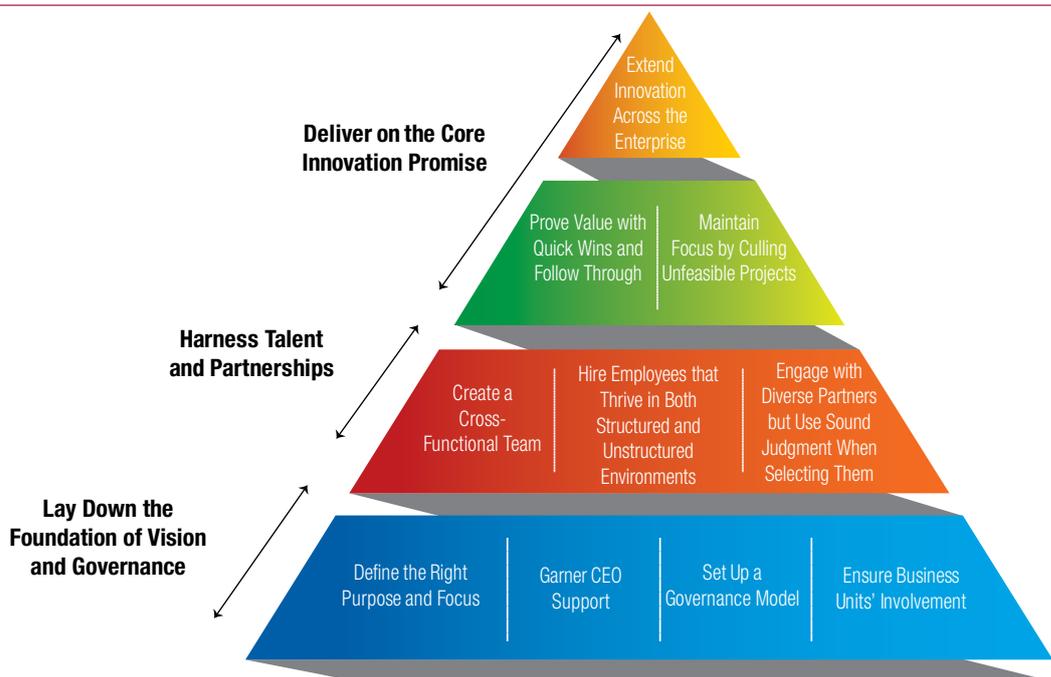
Innovation centers also need to find the right focus and fight the “forces of magnetism” (see Figure 5) between everyday operations and futuristic projects. An innovation executive told us: *“Most innovation centers commit one of two cardinal sins. Either they think too far out into the future, or they get involved in routine projects.”* Successful innovation centers establish clear space between themselves and everyday operations yet ensure their breakthrough innovations can be turned into commercial reality.

## CEO Support is a Must to Nurture Innovation Centers

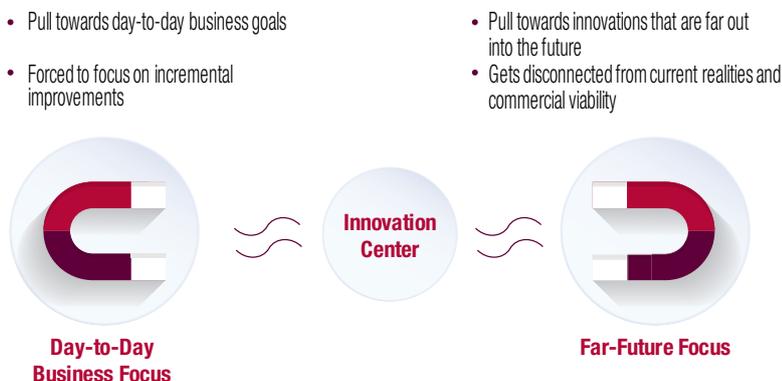
Innovation should be a top-down approach where the leadership team looks to entrench a culture of innovation throughout the organization. Innovation centers are at the forefront of this effort to change company culture. It is imperative that the leadership team nurture the innovation centers and champions its initiatives throughout the organization. Kevin McKenzie, Chief Digital Officer of Westfield, says: *“If companies truly do want to innovate, it’s got be sponsored by the CEO... Our Co-CEO has personally gone out and had a conversation with the CEOs of just about every major retailer in our category of retail about this topic, about our mission, and ultimately that’s ended in a go-to plan with the management teams.”*

Georges Nahon, CEO Orange Silicon Valley and President of the Orange Institute, adds: *“Our CEO is constantly interested in reading or listening to what we have to say. He comes about twice a year here. I’d say that 70% to 80% of the executive committee visits us at least once a year.”*

Figure 4: Critical Success Factors for Innovation Centers



**Figure 5: The Right Focus: Fighting the “Forces of Magnetism”**



Source: Capgemini Consulting and Altimeter Analysis

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**About 80 to 90 percent of innovation centers fail, and end up being a massive waste of resources.**

– Senior executive at leading global bank

**Set up a Governance Model with Stakeholders from Across the Business**

A common challenge cited by many respondents in our research is the need to identify the ‘right’ set of stakeholders from across the business.

An innovation executive from a global financial services firm says: *“It’s not a good answer to have one or two champions for an innovation center. You need a governance body where you have a number of stakeholders at a senior level. This will help avoid dependence on people and move it to a process. This way, you also help innovation permeate throughout the enterprise.”*

At the same time, organizations should ensure that the innovation center is not burdened with multiple stakeholders, with competing agendas nullifying the center’s goal and purpose.

**Ensure Business Units’ Involvement**

One risk that innovation centers face is that, by working in an autonomous fashion, they can get disconnected from the larger organization. It is crucial that business units are closely involved in the selection, scoping and execution of innovation center projects. The lead of an innovation center of a banking major emphasized the importance of working in tandem with the business, saying: *“Too often, innovation centers are looked at as outsiders by those inside the corporate structure, and that can create issues when it comes to deploying their solutions commercially.”*

Ownership and clear governance are critical. In certain cases, innovation centers are directly managed by the business and as a result are in sync with the business requirements. An innovation executive at a large financial services firm explains, *“Labs are owned by their businesses. This means there’s better line of sight and integration with real business needs as well as commercially viable innovation. A global lab coordinates all the business-owned labs.”*

AT&T provides another example of how to overcome this potential disconnect between the business and the innovation center. It has established a network of ‘Foundry’ innovation centers in various locations including in Silicon Valley. But it also has centers in Plano and Atlanta, both of which are locations for important AT&T business units. They have been set up with the express intent of being close to the

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**We bring all sorts of best practices and tools and techniques across the business to help make people more creative, more engaged, more innovative.**

– Head of innovation labs at financial services major

business?. AT&T’s Ruth Yomtoubian believes that early support from the business is critical. *“We are not going to do anything unless there is a need from the business unit or their buy-in”,* she explains. *“This means you have to bring them in at an ideation stage and put a lot of upfront energy into creating buy-in for ideas that challenge the status quo.”*

**Harness Talent and Partnerships**

**Create a Cross-Functional Team**

The composition of the innovation center needs to be diverse. An innovation executive at a leading American financial services firm says: *“It’s about bringing the right people along the journey at the right time – not too soon, not too late – and having the right integrated teams that include the business working on ideas together.”*

**Hire Employees that Thrive in both Structured and Unstructured Environments**

Shortage of digital skills is an issue, but attitude is as important as aptitude. The lead at a telecom innovation center said: *“The people element cannot be underestimated. It takes a certain kind of person to work in any innovation center, where half your time is spent in a very open-ended and ambiguous environment working with startups, and the other half with the traditional and risk-averse side of the business.”*

An associated challenge around skills is

the actual ability of organizations to staff an innovation center with the full range of skill sets that are required to bring an innovation to market. For instance, the innovation executive at a major retailer conveyed her concerns when she says: *“My biggest fear coming into this role was that my team would be a bunch of heads with no arms and legs. We think big thoughts, we have great ideas, but we can’t get any of them done. We are a few people and we don’t have a dedicated IT, UI/UX, creative support, all these people that we need to really create and scale.”*

### **Engage with Diverse Partners but Use Sound Judgment in Selecting Them**

Engaging with the tech ecosystem is integral to the mission of an innovation center, but it is equally important not to waste too much time. As one innovation executive puts it: *“You need to avoid becoming an innovation theater where all you are doing is interacting with a bunch of startups that don’t really care about your company. There are a lot of interesting startups out there. The important thing is to have a judgment as to which ones to spend time with.”*

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*You need to avoid becoming an innovation theater where all you are doing is interacting with a bunch of startups that don’t really care about your company.*

– Innovation executive at banking major

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### **Deliver on the Core Innovation Promise**

#### **Prove Value by Demonstrating Early Wins and Following Through on the Promise**

Innovation centers, by virtue of being standalone units, must constantly prove the value that they add to the business. This challenge is exacerbated by the fact that innovation centers typically work on projects with significant gestation periods. Leading innovation centers overcome this challenge by demonstrating early wins. When Walmart set up its innovation center — Walmart Labs in 2011 — it made several key acquisitions upfront to build momentum. One of its early acquisitions, Kosmix, proved instrumental to garner some quick wins. The first key assignment for the team was to develop a new search engine to power its e-commerce website<sup>8</sup>. Walmart Labs accomplished the task in just nine months. The updated website also increased the conversion of visitors into buyers by as much as 20%. Today, WalmartLabs continues to be a driving force behind digital innovation at Walmart<sup>9</sup>.

#### **Sunset Programs and Ideas that are Unfeasible... But at the Right Time**

Innovation centers are all about experimentation, and a trial-and-error approach is one of its defining features. At the same time, it is crucial to focus resources and energies on the most feasible and viable projects. Since only a small proportion of projects usually succeed, the ones that are unfeasible need to be terminated, and quickly. The VP at the innovation lab of a leading retailer said: *“You need to be honest with yourself and with what is working, regardless of the amount of time, money, or personal capital you have spent. Some of our projects that were initially promising were just not flying, and we had to kill them.”* At this retailer, ideas are tested in 1-2 stores and based on feedback, prototype is created for a pilot in 10-15 stores to quickly assess their potential.

It is important to rigorously scrutinize each innovation before sunsetting it. An innovation executive confirms: *“We try to assess each of our projects against key metrics such as market differentiators, net new revenue or cost reduction, but we are trying not to conduct this assessment too far upstream in the process where it might kill any kind of innovation activities. The key is to implement the right set of controls and the right level of controls at the different stages of the innovation process.”*

### **Extend Innovation Across the Enterprise**

An innovation center can be said to have reached its pinnacle when it is able to extend the innovation practices far beyond its walls and deeper into business units and functions. One way of doing this is to ensure that learning from innovation centers is constantly routed back to the business. The head of innovation labs for a financial major confirms this by saying: *“We bring all sorts of best practices, tools and techniques across the business to help make people more creative, more engaged, more innovative”.*

“  
*You need to be honest with yourself and with what is working, regardless of the amount of time, money, or personal capital you have spent. Some of our projects that were initially promising were just not flying we had to kill them.*

– VP at innovation lab of a leading retailer

”

# The Road Ahead

Organizations need to take a structured approach towards operationalizing their innovation centers.

## Set Up a Governing Body of Senior Stakeholders to Create a Sustainable Innovation Culture

The innovation center will only succeed if its innovations, and a culture of experimentation, are backed by leadership. According to the Director of a global bank's innovation center: *"To create a sustainable innovation culture and have it permeate throughout the corporate structure, you need a governance body of senior stakeholders. This is necessary to build a strong and sustainable connectivity with the businesses and the technology organization. This means that they're all part of the journey and that the innovation center is not like an internal 'agency' pitching for innovation activities."*

There are multiple governance models that can be deployed. Figure 6 shows the centralized, decentralized and autonomous options:

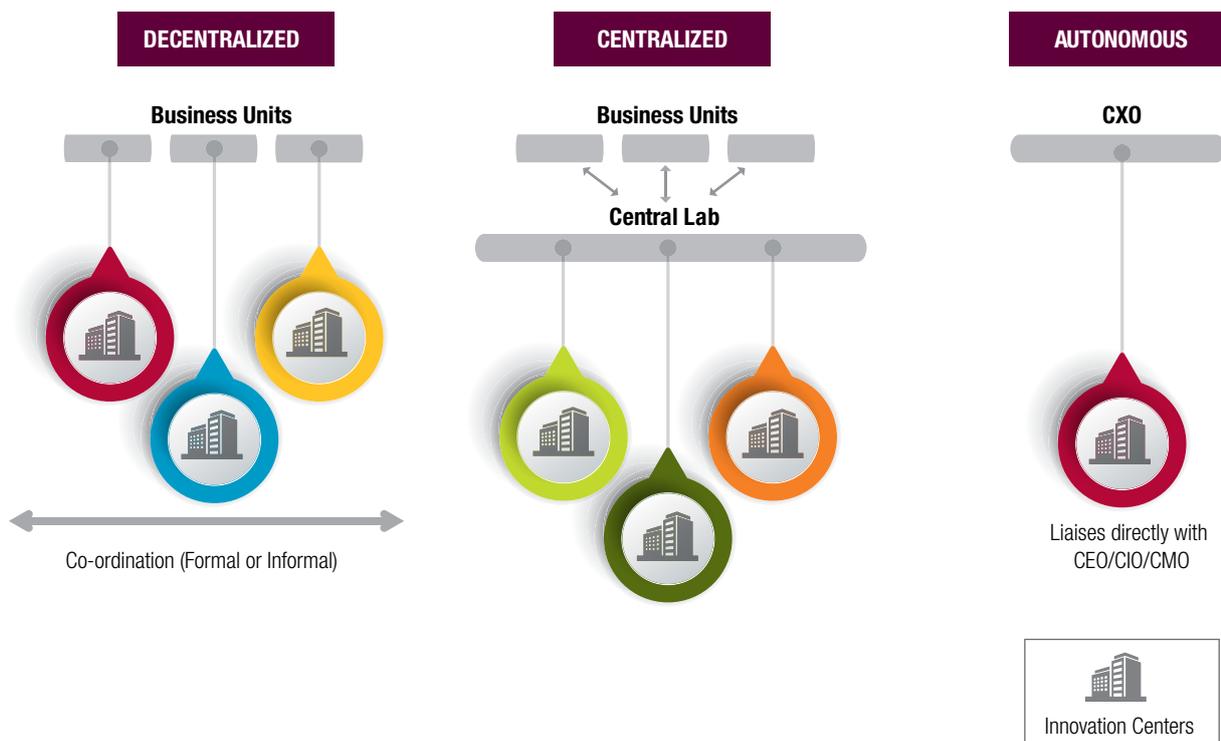
- In a decentralized model, innovation centers are closer to the business and, as a result, are in sync with local requirements.
- Centralized models, on the other hand, operate with a network of innovation centers spread across locations that are also linked to a technology-focused central lab. This enables better control and closer co-ordination across the centers.
- The autonomous model allows for working with specific executives (CIO/CMO/CEO) on targeted missions, working largely independently.

“*To create a sustainable innovation culture and have it permeate throughout the corporate structure, you need a governance body with senior stakeholders.*”

– Director of innovation center at a global bank

”

Figure 6: Governance Models for Innovation Center



## Build Cross-Functional Teams that Give a Diversity of Perspectives

Building a team with people from various functions across the organization will create a rich mix of diverse perspectives. It will also enable the innovation center to maintain strong links with the rest of the organization.

## Allocate Independent Budgets, but Keep the Reporting Aligned to the Business

Budgets should be centralized and kept independent of the business units within the company. This ensures that the innovation centers have the independence to create prototypes for the business units rather than business units selecting which ideas make it to the prototype phase. An innovation center executive said: *"We had the complete, independent budget to pay for everything and all of the people and resources required to run a certain number of tests to play around with technology. We could just do it independently. Even if the business was integrated into alpha tests, we were self-funded, so we did not have to ask for anything."*

## Establish Suitable Metrics to Measure and Monitor Performance

Given the fluid and ambiguous environment that innovation centers operate in, having the right metrics is critical for success. Some examples include number of new products/services developed, reduction in costs, increase in operational efficiency, and so on. But it is not just the output that is important, measuring the quality of inputs and the efficacy of processes is of equal importance. As the innovation lead at a manufacturing major explains: *"We measure the outputs that we are delivering to our corporation, as that is what they are interested in. But internally, we also take into account what we are taking as inputs and also what we are doing as processes."*

Further, the metrics should be ultimately aligned to business objectives. A senior innovation executive at a financial services firm drives home this important point, saying: *"Evaluation metrics may be very different from the business ones, but in the end they need to tie back to the overarching business objectives."*



## Innovation Center Checklist

Parameter	Question	Recommendation	Rationale
<b>Dedicated Center</b>	Innovation Center or Innovation Team?	<ul style="list-style-type: none"> <li>▪ A dedicated innovation center(s )</li> </ul>	<ul style="list-style-type: none"> <li>- Dedicated centers enable sharper focus, greater freedom and stronger ecosystem collaboration</li> </ul>
<b>Number of Centers</b>	One center or a network of centers?	<ul style="list-style-type: none"> <li>▪ A network of centers is preferable over a single center</li> </ul>	<ul style="list-style-type: none"> <li>- A network of centers allows the parent company to harness synergies across sectors, markets and capabilities</li> </ul>
<b>Location</b>	In a tech hub, or close to business and customers?	<ul style="list-style-type: none"> <li>▪ Companies should set up a network of centers to address all (or most) of these aspects</li> </ul>	<ul style="list-style-type: none"> <li>- Proximity to tech, business and customers - each has its own importance. AT&amp;T, for instance, has set up its “Foundries” in Silicon Valley and Israel to leverage the tech ecosystem, and in Plano and Atlanta to be close to business and customers</li> <li>- Availability of niche skills is another criterion. For an example, New York and Boston have emerged as Big Data hotspots, while Israel is a frontrunner when it comes to cybersecurity</li> </ul>
<b>Governance Model</b>	What reporting structure is most effective?	<ul style="list-style-type: none"> <li>▪ Could be centralized, decentralized or autonomous</li> <li>▪ Key is to involve diverse set of senior stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>- A centralized model enables closer coordination between the centers; a decentralized model offers the practical convenience of working with the relevant BU; while an autonomous model provides the freedom that is often indispensable for success</li> <li>- Having senior stakeholders from multiple functions ensures that the innovation center has strong, organization-wide support and backing</li> </ul>
<b>Funding Mechanism</b>	Which funding mechanism is most desirable?	<ul style="list-style-type: none"> <li>▪ Funded by corporate headquarters, not by individual executive sponsors</li> </ul>	<ul style="list-style-type: none"> <li>- Having direct corporate funding ensures both a greater amount of funds, and a promise of continued support even in the absence of immediate, short-term results</li> </ul>

Source: Capgemini Consulting and Altimeter Analysis

## The Next Innovation Wave

The digital economy offers a solution and an inspiration for the perennial challenge of successful innovation. The advent of thriving technology hubs, and the appetite

of new digital entrants to relentlessly disrupt and innovate, has created an innovation ecosystem that traditional organizations can tap into. By combining the culture and approach of innovation centers with the budget firepower and

access to customers that they enjoy, traditional organizations have an excellent opportunity to re-energize their innovation capability.

### Leadership/CEO Checklist

- Have purpose and a clear area of focus for your innovation center
- Ensure innovation centers keep business priorities, rather than technology considerations, at the fore
- Have a mix of quick-wins vs. audacious goals for the innovation center
- Ensure you are quick to translate even small gains from the innovation center back to the larger organization
- Do not measure innovation centers with traditional metrics, but at the same time ensure metrics are tied to larger business objectives
- Ensure there is a spread of innovation centers across key tech hubs
- Ensure innovation centers are not seen as a third-party – Make them a key part of discussions on future strategy
- Encourage a culture of fast-failure within the innovation centers; encourage innovation centers to experiment
- Apply insights and new models to organizational design to improve and optimize culture and work

## Research Methodology

For the purposes of this research, we considered a company to have an innovation center only if at least one of its centers was located in the following tech hubs:

- o Silicon Valley, Tel Aviv, Los Angeles, Seattle, New York City, Boston, London, Toronto, Vancouver, Chicago, Paris, Sydney, Sao Paulo, Moscow, Berlin, Waterloo (Canada), Singapore, Melbourne, Bangalore and Santiago (list based on a study of global tech ecosystems conducted by Telefonica and the Startup Genome in 2012 Telefonica Innovation Hub, “Startup Ecosystem Report”, 2012)
- We adopted a comprehensive research methodology leveraging both primary and secondary approaches:
  - o Focus interviews with executives from leading organizations, overseeing innovation related activities. Representing diverse industry sectors, all of these are large organizations with most having revenues greater than US\$5bn. (see below for list of executives who agreed to be named)
  - o Web-based research of the largest 200 companies by revenue based on the Bloomberg list. We covered the following sectors — Automotive, Financial Services, Consumer Products & Retail, Manufacturing and Telecom, and picked the forty largest companies by revenue within each sector. In all, 309 innovation centers were analyzed.

The research explored innovation centers along multiple dimensions :

- **Mission** behind the centers (e.g. increase innovation output, form relationships with ecosystem partners)
- **Focus areas** for the centers (e.g. mobility, Internet of Things, Big Data)
- **Collaborative relationships** forged (e.g. with large companies, startups, universities)
- **Governance models** adopted (e.g. centralized, decentralized, autonomous)
- **Challenges** faced
- **Results** delivered

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<sup>1</sup>HBR, “Making Sense of Digital Disruption”, May 2015

<sup>2</sup>Wall Street Journal, “The Billion Dollar Startup Club”, February 2015

<sup>3</sup>Lithium, “Corporate America Under Pressure From Consumers’ Rising Expectations”, June 2015

<sup>4</sup>Nielsen, “HOW TO FLIP 85% MISSES TO 85% HITS: LESSONS FROM THE NIELSEN BREAKTHROUGH INNOVATION PROJECT”, June 2014

<sup>5</sup>Forbes, “Why U.S. Firms Are Dying: Failure To Innovate”, February 2015

<sup>6</sup>Oracle, “Understanding the Best Approaches and Tools to Manage the Complexity of Innovation”, 2013

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