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Capgemini Consulting and Altimeter global report reveals leading businesses continue to struggle with innovation, with traditional R&D model 'broken'

Major companies look to 'Innovation Centers' in tech hubs as potential solution

Paris, San Francisco, 23 July 2015 – A global report ["The Innovation Game: Why and How Businesses are Investing in Innovation Centers"](#) by Altimeter Group's Brian Solis and Capgemini Consulting, the global strategy and transformation consulting arm of the [Capgemini Group](#), reveals that leading businesses continue to struggle with innovation, with the traditional R&D model viewed as 'broken'. The report uncovers a shifting approach to digital innovation, with R&D teams at large, traditional corporations viewed as ill-equipped to rise to the challenge of digital Darwinism. In response, companies are increasingly looking to launch physical 'innovation centers' in major global technology hubs such as Silicon Valley to leverage an ecosystem of startups, venture capitalists, accelerators, vendors, and academic institutions.

Brian Solis, Principal Analyst at Altimeter Group, said: *"For the world's largest organizations, innovation has never been more important – or more difficult. We find ourselves in a world where disruption is imminent and can come from anywhere and these digital-savvy competitors are threatening the very fabric of many established industries. Without constant innovation, once dominant players are finding their tried and trusted paths to innovation are now dead ends. It's time to innovate or die!"*

Jerome Buvat, Global Head of Research at Capgemini Consulting, said: *"Many organizations are solving the issue of embracing innovation by partnering with or acquiring technology startups, but too often this is a sole focus. A more equal balance between external and internal thinking is required. Innovation centers are proving an effective means to cultivate the agile startup mentality needed to remain at the forefront of the market, but it is clear that establishing an effective center has many challenges."*

Altimeter and Capgemini Consulting researched the innovation center efforts of the largest 200 companies globally across five sectors including Automotive, Financial Services, Consumer Products & Retail, Manufacturing and Telecoms. In addition, they also conducted focus group interviews with senior executives responsible for overseeing innovation-related activities at leading organizations.

Key findings of the new study reveal a varied approach to innovation centers, in terms of locations, focus areas and governance models:

- 38% of the leading 200 companies have set up innovation centers in a global tech hub
- The US and Europe have the largest share with 29% of total innovation centers respectively followed by Asia at 25%
- Silicon Valley is the most attractive area to locate an innovation center for leading organizations – 61% of companies have established one or more centers in the Valley. But many more hubs are emerging – the top 10 cities in our analysis represent only 35% of total innovation centers
- The most popular areas of research for innovation centers remain well-established technologies such as mobility (63%) and big data/analytics (51%)
- Less mature technologies, including 3D printing (5%), virtual reality (13%) and robotics (13%), are currently less of a research priority
- Innovation centers help to accelerate the generation and implementation of new ideas, attract talent, drive employee engagement, and establish partnerships with startups
- The report identified four main types of innovation centers:
 - **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.
 - **University Residence** - in this model, companies invest to set up a center at a university campus to drive innovation through university researchers
 - **Community Anchor** – these innovation centers actively identify mentors and provide opportunity to startups to work actively with the company to test the startup's products within the company and with their customers
 - **Innovation Outposts** – these are essentially 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.
- Penetration varies significantly between sectors; Manufacturing is a clear leader at 58%, but despite facing increasing pressures from digital disruptions, Financial Services lags at only 28%.

However, while innovation centers are receiving substantial investments from many global organizations and some are seeing significant benefits, establishing a successful center is proving a challenge - the report quotes a seasoned innovation expert as saying that 80-90% of these centers fail.

Innovation has to be properly focused

The report advises that for organizations seeking to move away from a traditional innovation model, investment in physical centers can deliver huge potential business returns. However, their purpose must be clearly defined and well aligned to the business' needs.

To deploy successful innovation centers, the report recommends the following strategies be employed:

- Define a clear purpose
- Create a strong governance model, with senior leadership support, to implement innovations across the enterprise
- Have an optimal focus – neither too futuristic, nor too close to current business operations
- Closely involve business units to avoid isolation
- Create a truly cross-functional team that thrives in both structured and unstructured environments
- Operate with a degree of budgetary freedom, but know when to abandon projects
- Work with a diverse group of partners in the innovation ecosystem, but use sound judgment when selecting them

Seamless integration of innovation at Walmart

The report cites an illustrative example of well-focused, integrated innovation at Walmart. The integration of Walmart Labs – Walmart’s innovation center – within the larger Walmart global ecommerce unit, that is running the company’s global websites, enables e-commerce innovations to be seamlessly plugged into its online sites. A team at the Walmart Labs helped develop Walmart’s internal search engine in just nine months, which drove a 20 percent increase in online sales conversions.

AT&T innovates close to home

AT&T has established a network of ‘Foundry’ innovation centers in various locations, including Silicon Valley and Israel. The Foundry also has centers in Plano and Atlanta, both of which are locations for important AT&T business units, which have been set up with the express intent of being close to the company. AT&T’s Foundry innovation centers have cut the time from idea to launch, while collaboration with startups has delivered successful solutions such as a personalized video bill service and self-optimizing network. The Foundry helps to drive a culture of innovation and creativity into the larger AT&T organization, and move AT&T from a telecom to a technology company.

“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,” concludes Fernando Alvarez, Global Chief Digital Officer, Capgemini Consulting. *“By combining the culture and approach of innovation centers with the budget fire power and access to customers that they enjoy, traditional organizations have an excellent opportunity to innovate and re-energize their capabilities.”*

For the **“The Innovation Game: Why and How Businesses are Investing in Innovation Centers”** report, through web-based research conducted in February-July 2015, Capgemini Consulting and Altimeter analyzed the largest 200 companies globally (based on the Bloomberg list), across five sectors (Automotive, Financial Services, Consumer Products & Retail, Manufacturing and Telecom), selecting the 40 largest companies by revenue within each sector. In the same period, they also conducted focus interviews with senior executives responsible for overseeing innovation-related activities at leading organizations, most having revenues greater

than \$5bn. For the purposes of this research, a company was considered to have an innovation center only if at least one of its centers was located in the following tech hubs: 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 the *Telefonica Innovation Hub "Startup Ecosystem Report", 2012*).

To download a copy of the report visit – [The Innovation Game: Why and How Businesses are Investing in Innovation Centers.](#)

About Altimeter

Altimeter Group is a research and strategy consulting firm that helps companies understand and act on disruption. Founded in 2008 by best-selling author Charlene Li, the company works with more than 150 companies including nine of the Dow Jones 30 and 16 of the Fortune 100. Named by Fast Company as one of the "Five Most Creative Small Businesses", Altimeter is headquartered in San Francisco, CA. For more information visit www.altimetergroup.com.

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