BUSINESS+INNOVATION

VOL. 6 | JUNE 2017

SPECIAL REPORT

INNOVATION LABS

How to disrupt your own business model from within

INNOVATION LABS

In-house innovation labs often exist for no less reason than securing their parent companies' longer-term survival. Rather than waiting for an uprising start-up to disrupt their business model, long-lived organizations around the world launch innovation task forces as hubs of creativity and inspiration. Especially the digitization mega trend added a lot of noise to an already complex business environment and only those companies that quickly build the required digital capabilities will be well positioned to exploit the opportunities provided by digitally enabled innovations. Take Mastercard as an example. Already in 2010, the company launched its innovation think tank Mastercard Labs to gain a foothold in the evolving digital payment market. At this time the market for mobile payment solutions was still in its infancy but expected to potentially disrupt Mastercard's existing business model. Thanks to the lab's rapid product ideation and commercialization, Mastercard could launch solutions such as the digital wallet Masterpass or the mobile payment application Qkr! and is now well positioned in the digital payment landscape.

Innovation centers mimic the dynamic culture, agility and speed of born-digital start-ups – within the walls of the larger corporation. Even though success is not guaranteed, the innovation hubs create a protected environment for experimenting, testing and piloting new ideas which potentially evolve into new business opportunities. That being said, it is clear why investments in the development and expansion of innovation centers have been a top priority for many large, established corporations for years now. But how can top management increase the likelihood of their labs delivering actual results? In fact, around "80% of all innovation centers fail and end up being a massive waste of resources" as a seasoned innovation expert admits. Now you already hear managers asking "how does my innovation lab belong to the 20% succeeding?". While there is certainly no one generally true answer, several things need to be done right in order to increase the chances of success.

The right purpose

Through innovation centers, corporations may be able to reap a number of different benefits such as an accelerated speed of innovation (ideation), drastic reduction in time to market (commercialization), or the dissemination of an entrepreneurial mindset throughout the organization (culture). However, given the wide range of opportunities, it is easy to lose focus – and risk that the innovation labs end up being not more than some good PR.

Hence, management needs to lay down the right foundation and define the innovation hubs' raison d'être. But wait. Whereas the expected results should be clearly communicated to all stakeholders, the how should be left to the innovation labs. Otherwise their very existence is put into question.

The right incentives

What gets measured gets done. So clearly, setting the right incentives is essential when striving for innovation excellence. As already noted, innovation labs should function as start-ups within the organization. It follows that not the same (due to investor pressure often short-sighted) performance indicators of the larger corporation should be copied and pasted to track performance of innovation hubs. Such KPIs would almost certainly jeopardize the culture of fast-failure needed for successful experimentation. Much more, metrics should not only measure raw output but rather the efficacy of processes relied upon to derive results. Hence, measuring return on investment can be ambiguous and fluid – just as the environment of innovation centers.

The right way of working

Management should start with noting the single most important difference between long-lived corporations and upcoming start-ups: successful corporations are executing a proven business model whereas start-ups are still in the process of discovering a winning business model. Corporations are execution machines that seek to maximize the profits they derive from their business models through a rigorous focus on efficiency. On the other side, start-ups are testing assumptions, listening to customer feedback, scrapping ideas, reformulating hypotheses. And eventually end up disrupting the incumbents' business models by radically rethinking existing value chains. However, such radical innovation can only happen in the right environment. Therefore, just like start-ups, innovation centers need to have immediate access to technology hubs in the Silicon Valley, Tel-Aviv or Berlin. Here, real innovation happens. And only looking at it from far distance won't be enough. Positioning innovation teams in such tech communities and networks will facilitate the absorption and inward transfer of new technologies. And because large corporations have the required pocket money, they can even afford being present in more than one tech cluster, ultimately boosting their innovation capacity.

The right governance

9 out of 10 start-ups are doomed to fail. There must be more losers than there are winners in the fierce competition for consumers' disposable income. Therefore, talent at innovation centers cannot be expected to come up with a constant stream of blockbuster products – even less if the goal is radical innovation. More realistically, it will take many failed ideas and prototypes until a product finally gains traction in the market. Hence, during hard times, innovation centers need to be backed by top-level management.

Only with the support from senior-level project sponsors, innovation centers can keep their legitimacy when facing one failed idea after another. Certainly, backup from C-suite is not a free ticket for innovation managers to engage in lofty projects with little prospect of success. Rather, it demonstrates that top management has understood that failing is part of the process when disruption is the mission. Accordingly, innovation labs can only benefit when they are kept autonomous of the rest of the organization and report solely to CxOs. Following such a business-unit independent structure when drawing boxes and lines gives innovation centers the necessary freedom to think differently.