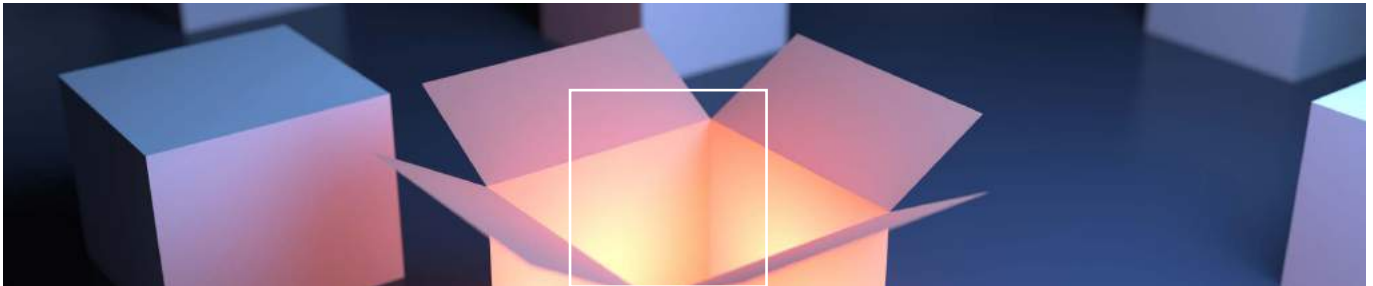


The Breakthrough Incubator

How to rapidly create and launch new step-out businesses



Achieving the revenue growth that markets expect can be challenging, especially when core business growth prospects are limited, or when disruptions or convergence mean that the company has to move into new or unfamiliar areas. Growth by acquisition is expensive, and organic growth is slow and incremental. Many CEOs today therefore look towards innovation to overcome the growth gap and most large companies have already put in place a breakthrough innovation capability to complement core R&D. However, whilst plenty of good ideas may be generated, progressing these through to the creation and launch of full-scale new businesses is not easy. Arthur D. Little (ADL) has been working with clients using a powerful new external incubator approach to overcome the challenges and accelerate new business creation.

Creating new step-out businesses is not easy

Many CEOs face something like the “\$1billion challenge”: how do I deliver the significant growth that the markets expect? For companies in established mature businesses with low single-digit growth prospects, or where technological disruption is threatening to erode or even destroy the current business, this challenge is critical and even existential. Acquisition is clearly one route to consider, but acquiring a \$1billion revenue business is extremely expensive and not without risk. Innovation is another route to growth, but creating new businesses requires ‘breakthroughs’ and is unlikely to be delivered by core R&D. Consequently many companies have created stand-alone, semi-independent breakthrough innovation teams and are using vehicles such as start-up incubators, accelerators and corporate-venturing schemes.

However, despite some successes, many companies are finding that these initiatives still fall short of their expectations in creating significant new business growth. For example, in our own breakthrough innovation survey¹, more than 85 percent of companies were unsatisfied with their breakthrough innovation performances. There are several reasons for this, for example:

- **Failure to go beyond the prototyping stage:** Many innovative prototypes falter when more thorough market/

consumer testing is conducted, or when the practicalities of large-scale material sourcing and manufacturing are properly assessed.

- **Internal rejection of radical new products:** Many large companies have built-in “antibodies” that hinder or reject radical new innovations, especially if they are seen as threats to the current business.
- **Brand and receptivity constraints:** In most B2C and some B2B businesses, brand is king. Sometimes great new innovations are killed prematurely because they don’t easily fit with the existing portfolio of brands, or because they can’t find a home within the current business unit structure.
- **Lack of resources and capabilities:** Often there is not enough resource availability to pursue non-core innovation, or else the company lacks the right in-house capabilities to support growing a new, non-core business.
- **Scale-up risks:** In many companies, concepts and prototypes can stay on hold for years, without being either properly commercialized, or finally killed off. This is often due to the level of investment required for scale-up and the perceived high residual risks, combined with reluctance to give up on a pet project.

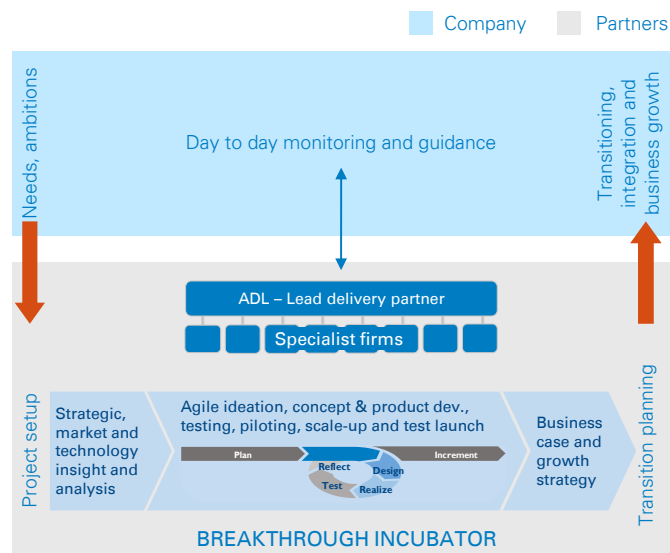
¹ Arthur D. Little Survey, “Systematizing Breakthrough Innovation,” 2015

In other words, lack of success is more often due to failures at the scale-up and commercialization stages, rather than lack of good ideas or concepts at earlier stages of the innovation cycle.

How the Breakthrough Incubator model can help

The Breakthrough Incubator (BI) model is a new approach to help overcome these issues. In the BI model the entire end-to-end innovation process is externalized and conducted by a lead delivery partner managing a network of other players, from ideation through to launch and commercialization. This includes strategic, commercial and operational planning, as well as technical development.

Key features of the BI approach



Source: Arthur D. Little

In essence this is a “build, operate, transfer” philosophy applied specifically to innovation and product development.

ADL has strong experience and expertise in acting as the lead delivery partner. A typical BI program commences with an ambition from the company’s top team to create a new business based on innovative products or services in an area which is non-core to the existing business. The key features of the BI model are as follows:

- ADL holds full responsibility for delivery and acts as an “orchestrator”, conducting every part of new-business creation, with only a small client focal-point guidance team involved in close, regular interactions with our team.
- Once the basic scope and aims are defined and agreed, ADL commences the program with an initial strategic review aimed at establishing and confirming the feasibility of the proposition, as well as the “art of the possible” in terms of an achievable ambition. Initial steps also include in-depth market/ customer/consumer insight studies (“pull”) and technology analysis (“push”).

- The product/service development process then proceeds using agile approaches with early testing and fast development cycles, including prototyping, scale-up and in-market testing stages.
- The scope also includes supply chain sourcing, manufacturing/operational analysis and planning, pricing, brand strategy, channel strategy, business case and growth strategy.

Once the development is complete, ADL transitions the proven and tested new business from the incubator back into the company.

The benefits for clients

The BI model offers clients major benefits, for example:

- **Rapid low cost growth:** The BI model offers rapid new business creation at a fraction of the cost of a large scale acquisition, and substantially faster and cheaper than internal development
- **Speed and agility:** The agile approach means typical delays caused by formal phase-gate approvals are reduced or eliminated. ADL can engage external partners much faster than typical large-client companies can due to the absence of procurement red tape. Reductions in time to market of 20–30 percent or more are achievable.
- **Removal of corporate bias and/or rejection:** Inherent bias or rejection of new concepts/prototypes is greatly reduced, since ADL proves the business technically, commercially, operationally and strategically before transitioning it back into the company.
- **Resourcing and costs:** Externalizing the development to ADL means that new resources do not need to be taken on at the development stages. The ADL team is more resource efficient than a client team. Development cost-savings potential is 15–30 percent.
- **Mitigation of risk:** The BI model mitigates risk by keeping the project external – and brand anonymous – until it is largely proven, not just at prototype scale, but also at full scale.
- **Bridge across functional divides:** ADL is able to take a fully integrated, cross-functional approach much more easily than a large client organization can.
- **Expertise synergies:** ADL will bring the best-available global expertise to advance the company’s know-how and capabilities in areas such as marketing, consumer insight, product/platform development methods and technical competencies.

When is the model applicable?

The BI model has broad applicability across both the B2B and B2C sectors. Examples include companies which are:

- Looking for rapid revenue growth outside the core business
- Looking to create new products and services in areas where they lack internal expertise
- Already resource-constrained on core business innovation, yet need to make rapid progress on non-core innovation due to perceived threats and opportunities
- Concerned about their breakthrough innovation performance and wish to “unblock” key innovation projects.
- Looking to engage support in not only identifying new growth opportunities, but also realizing these in practice and building a new business rapidly

How the risks are controlled

Companies may instinctively feel that externalizing a complete, end-to-end innovation program is too risky, or that they will fail to capture the learnings and insight from the work. However, ADL’s approach is designed to carefully control these risks:

- Firstly, ADL maintains very **close day-to-day contact** with a small client guidance team during execution, sharing full details of the execution on a daily or weekly basis, as well as ensuring that all internal staff and external partners engaged on the project are approved.
- Secondly, a **joint ADL/client steering group** is put in place to provide strategic guidance and direction.
- Thirdly, the project can be divided **into discrete stages with separate budgets** (e.g., scoping, discovery, development, scale-up) to allow client flexibility.
- Fourthly, as lead partner, **ADL takes on the overall delivery** risk, rather than the client having to manage multiple partners.
- And fifthly, ADL conducts a very **comprehensive transitioning program** to integrate all the insight, learnings and data back into the client company on completion.

Why engage ADL for this type of project?

Delivering a Breakthrough Incubator project requires a unique combination of skills, including business strategy, technology analysis, innovation management, market and customer insight, product design and development, supply chain and manufacturing planning, commercial strategy, digital strategy, transformation and program management.

Most strategy consulting firms are unable to cover the deep technical expertise required to deliver the work successfully.

Breakthrough, end-to-end product innovation for a large food and drink company

A leading food and beverage company set out to target new segments of the consumer population by developing innovative products tailored to their specific needs. It wanted the initiative to be consumer-needs led, scientifically and quantitatively driven, and independent of its existing portfolio of businesses and brands. While the initiative aimed at developing and launching new products and platforms, it was also focused on learning and bringing the organization up to speed on the targeted segments, as they were deemed important future growth drivers. With the help of Arthur D. Little, the company created an “incubator” outside of its own organization with the charter to ideate, create, develop, test, and launch new products that fulfilled the strategic objectives.

As the project orchestrator, ADL created and implemented an agile approach using an ecosystem of collaborators that met the needs of every step of the project. ADL also coordinated with the client team on a regular basis to ensure input and buy-in to critical decisions and milestones. While only a fraction of the concepts developed as parts of this project ended up being launched, an important benefit to the client was the creation of a portfolio of concepts/products and future brands that could be introduced to the market as parts of subsequent launches. The insight and learnings about the segments’ emotional and functional needs will also form the basis for the development of strategic platforms around which the client will transform the business to focus on key growth segments of the future.

Conversely, specialist product development and design consultancies are weak in business and commercial strategies. With its 130-year heritage as a “problem solver” linking strategy, technology, innovation and transformation, as well as a deep and broad track record to draw from, ADL is uniquely qualified to deliver a BI project.

Key success factors

When we work with clients using the BI model we apply five key success factors:

- **Top management commitment:** Because an end-to-end innovation program cuts across many different functions and potential vested interests, top management needs to be an active sponsor to ensure lack of interference during development and smooth transitioning back into the company.

- **Ensure clear scope and governance:** Agree the scope, ambition, tasks, deliverables and milestones very clearly and with sufficient detail at the outset. Split execution into discrete phases with separate budgets. Establish a joint steering committee with senior executives from both the company and the BI partner.
- **Use an agile approach:** As far as possible, use an agile approach in the development phase with early prototyping, rapid quantitative and qualitative testing in the marketplace, and seamless integration across strategic, technical, commercial and operational functions.
- **Maintain arm's-length independence during development:** To ensure freedom from overall corporate interference and maintain confidentiality, keep contact only with the nominated guidance team during development.
- **Provide a comprehensive transitioning process:** Ensure that transitioning back into the company includes structured interactions with all key internal stakeholders involved, and fully captures the insight and lessons learned.

We believe that the Breakthrough Incubator model is transformative for any business needing to deliver rapid new business growth through innovation. If you would like to discuss how the model could apply to your business, please contact your local Arthur D. Little representative.

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Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. ADL is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

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