

The Breakthrough Incubator: A proven approach

Explore and conquer new business territories



In the post-COVID world, achieving long-term revenue growth can be challenging, especially when core business growth prospects are limited or when disruptions or convergence mean a company has to move into new or unfamiliar areas. Acquisition-driven growth is expensive, while organic growth is slow and incremental. Many CEOs today therefore focus on innovation to overcome this growth gap, with most large companies putting in place a breakthrough innovation capability alongside core R&D. However, while many good ideas may be generated, identifying the strongest and progressing these through to the creation and launch of full-scale new businesses is not easy. Arthur D. Little (ADL) and Presans have been working with clients using a powerful and proven 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 “\$1 billion challenge”: how do I deliver the significant growth that the markets expect? For companies in established mature sectors 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. Incremental growth through continuous improvement is simply not significant enough. While acquisition is one route, acquiring a \$1 billion revenue business is both 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 startup incubators, accelerators, and corporate venturing schemes. Any disruptive innovation requires three steps: detecting new business territories and selecting promising concepts, experimenting rapidly at a small scale to ascertain technical issues and product market fit, and then scaling up to billion-dollar businesses.

However, despite some successes, many companies find that these initiatives still fall short of their expectations in creating significant new business growth. For example, in our own breakthrough innovation survey, only 21% of companies were satisfied with their breakthrough innovation performances – and these tended to be the largest spenders.

Companies face internal and external challenges identifying and then deploying breakthrough innovation:

Rapid market transformation

- **Greater complexity.** Businesses face a double convergence challenge when it comes to detecting and identifying breakthroughs – they need to move into wider industry spaces, while requiring new scientific and technological knowledge.
- **Accelerated innovation cycles** and the exponential growth of some enabling key technologies. Innovation now happens at a much faster speed than traditional industrial cycles. For example, gene editing has moved from the lab to the mainstream in just a few years.

Internal cultural limitations

- **Built-in biases** at both an individual and organizational level. Businesses face an ideation challenge as their employees’ cognitive biases and the organization’s legacy strategy both hinder a clear view to define interdependencies and sideways disruptions.
- **“Tissue rejection” of radical new products.** Many large companies have built-in “antibodies” that hinder or reject radical new innovations, especially if their delivery is seen as a threat to the current business.

Poor fit between innovation and organizational structures

- **Lack of resources and capabilities.** Often there is insufficient availability of resources or capabilities to pursue or scale noncore innovation, or resources are distributed too thinly across the organization to achieve sufficient impact.
- **Complexity of internal processes.** Slow stage-gate approval and a lack of Agile processes prevent the design of breakthrough innovations, due to the difficulty of managing technological and market uncertainties.
- **Brand and receptivity constraints.** Great new innovations can be killed prematurely if they don't easily fit with the existing portfolio of brands or because they can't find a home within the current structure.
- **Scale-up risks.** Many innovative prototypes falter at the deployment stage, when more thorough market/consumer testing is conducted, or when the practicalities of large-scale material sourcing and manufacturing are properly assessed.

All of these factors mean that businesses can struggle to identify the strongest concepts that will drive success – and even if they do, they then lack the capabilities to scale up or commercialize them.

Presans

Founded in 2010, and now part of the Arthur D. Little group, Presans is a leading consulting company for industrial open innovation. Presans's mission is to help industrial corporates see through the technological fog in order to anticipate and shape the future. To do this, Presans uses its proprietary big data technology to map expertise worldwide, a network of over 6 million experts, and its team of Fellows (former research and innovation directors). It employs unique creativity methodologies to bypass cognitive biases.

Identify and conquer new business territories with the Breakthrough Incubator model

The Breakthrough Incubator (BI) model is a proven approach to help overcome these issues. In the BI model, ADL conducts an entire end-to-end innovation process, managing a network of other players, from ideation through to launch

and commercialization. The model incorporates strategic, commercial, and operational planning, as well as technical development.

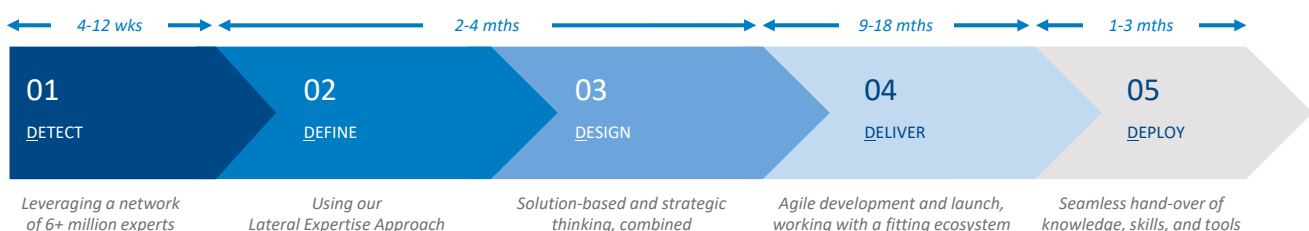
In essence the model applies a "build, operate, transfer" philosophy specifically to innovation and product development. It creates a vehicle to quickly turn out breakthroughs with a modular approach that can be customized to client requirements.

The Breakthrough Incubator brings together Presans's strengths in understanding complex markets and generating innovative concepts free of cognitive bias with ADL's long experience and skills in strategy, technology, and ecosystem access and Agile program management. Working together as a single, seamless team, ADL and Presans deliver deep expertise across all phases of the BI model.

Key features of the BI model's "5D" approach (see figure below) are:

- **Detect.** Gain an expert-led, 360-degree vision of potential market disruptions. Based on access to Presans's global network of technology experts, this phase identifies potential technology and market disruptions and new business areas with potential for breakthrough innovation.
- **Define.** List and assess potential disruptive concepts to identify priorities and optimal operating models, overcoming built-in biases using Presans's Lateral Expertise Approach and ADL's strategic concept design capabilities.
- **Design.** Move from promising, high-level concepts to discrete solutions through analysis, prioritization, assessment, and rapid experimentation. Includes building a core team and vision while designing and planning product and go-to-market strategy.
- **Deliver.** Employ an Agile approach to development and launch, driven by a dream team of fitting and relevant partners. Set up a dedicated external vehicle to create, test, de-risk, launch, and ramp up the new business venture.
- **Deploy.** Transfer the breakthrough innovation, skills, and tools to scale up and harvest the benefits by creating a separate entity or through a sale or complete reintegration into the overall business.

The Breakthrough Incubator model



Source: Arthur D. Little analysis

The benefits of delivering breakthrough incubation at scale

The BI model offers clients major benefits, including:

- Detect and define the strongest concepts for growth.**
 Remove corporate bias by using state-of-the-art methodologies to identify the right opportunities. Reduce rejection rates by experimenting and proving the concept technically, commercially, operationally, and strategically before transitioning the business back into the company.

- Rapid low-cost growth.** Swiftly create new businesses at a fraction of the cost of a large-scale acquisition and substantially faster and cheaper than internal development. As an example, ADL can engage external partners much faster and cheaper than typical large-client companies. Reductions in time to market of 20%-30% or more are achievable, along with potential cost savings of between 15% and 30%.

Case study examples

Faurecia

Tier 1 automotive supplier Faurecia saw the need to transition from being a supplier of key components to an architect for car interiors, working within a complex ecosystem. This strategy shift required mastery of new technologies and user practices associated with future vehicles, including innovative human-computer interfaces and autonomous vehicles.

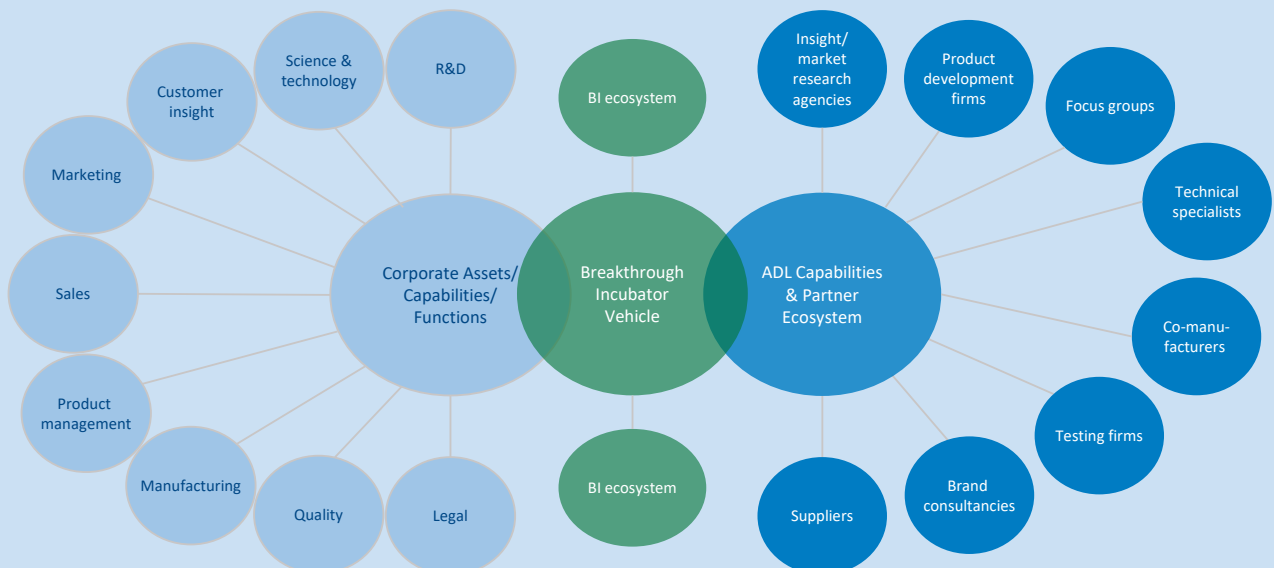
Presans worked with the company's strategy and R&D departments to map both new, disruptive technology and also evolving usage patterns within vehicles. A team of experts selected by Presans spanned user practices, cognitive sciences, and human-machine interface technology and boosted Faurecia's internal expertise through knowledge transfer. This led to Faurecia's Cockpit of the Future project and the formation of a new Smart Surfaces department, with Presans contributing to its organizational design.

Project Sycamore

A leading food and beverage company set out to target new segments of the consumer population by developing innovative products tailored to consumers' specific needs. While the initiative aimed to develop and launch new products and platforms, it also focused on bringing the organization up to speed on the targeted segments, as they were deemed important future growth drivers. With ADL's help, the company created an external incubator with the charter to ideate, create, develop, test, and launch new products that fulfill the strategic objectives.

As the project orchestrator, ADL created and implemented an Agile approach using an ecosystem of collaborators tailored to the overall project. While only a fraction of the concepts developed were launched, an important benefit was the creation of a portfolio of concepts/products and future brands that could be introduced to the market within subsequent launches. The insight and learnings about the segments' emotional and functional needs also forms 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.

Example ecosystem used for Project Sycamore BI



Source: Arthur D. Little analysis

- **Mitigation of risk.** Develop innovation on time and within budget using the BI model's delivery methodology. And by keeping the project external – and brand anonymous – until it is largely proven, the BI model mitigates risk.
- **Bridge across functional divides.** Take a fully integrated, cross-functional approach across the organization.
- **Advance internal expertise.** Bring the best-available global expertise to advance know-how and capabilities in key areas and technical competencies.

6 levers to control and minimize risk

- **Lever 1.** The Presans network of more than six million global experts and its Lateral Expertise Approach help uncover and assess the right concepts for breakthrough innovation.
- **Lever 2.** ADL maintains close client contact at both a strategic and day-to-day level, with clear responsibilities and regular reporting. All internal staff and external partners engaged on the project are approved.
- **Lever 3.** ADL creates and orchestrates the right ecosystem to drive innovation through best-of-breed specialist partners.
- **Lever 4.** Projects can be divided into discrete, modular stages with separate budgets to allow client flexibility.
- **Lever 5.** As lead partner, ADL takes on the overall delivery risk, rather than the client having to manage multiple partners. An external vehicle led by an entrepreneur CEO ensures independence and agility.
- **Lever 6.** ADL conducts a comprehensive transitioning program to integrate all the insights and data back into the client company on completion.

Conclusion

We believe that the Breakthrough Incubator model is transformative for any business needing to deliver rapid new high-impact 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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