Keeping your technology innovation projects on track

Think like an enterprise, act like a startup, invest like a VC

Across industries, companies today are facing increasing disruption and a breathtaking pace of change. Competition is emerging from all quarters, from traditional players to disruptors from other fields. And a focus on the consumer is as relevant in the B2B environment as it is in B2C.

In an ever-changing market, the most successful companies understand that failing to innovate could lead to a failure to thrive. In contrast, staying ahead of the curve is critical not only for maintenance or expansion of a given business, but also for its survival.

At the same time, it can be challenging to launch an innovation project only to have it shelved or deprioritized due to resource constraints, competing priorities, or an unanticipated change in the landscape. Therefore, we suggest that forward-reaching companies keep innovation projects on track by adopting the following three-part framework:

- Think like an enterprise
- Act like a startup
- Invest like a venture capitalist

Four underlying considerations for a successful innovation journey

Based on our experimentation work with clients, there are four caveats that should be considered at various stages of the innovation journey:

- **Feasibility:** Whether you can build something **should not** be the only data point you consider when deciding whether to greenlight an innovation project.
- **Desirability:** It is **not** enough to understand what customers desire; you also need to know how they want products and services delivered and at what price points.
- **Viability:** If a project **does not** create sustainable economic value, it is not likely to survive.
- **Scalability:** A many-faceted innovation **does not** have to be built all at once but can be approached in incremental steps.

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1. Think like an enterprise

Have a plan for today and a vision for tomorrow

An enterprise should look at emerging technologies in terms of not only how they can change the business today, but also how they will help the organization realize its vision for the future. Leveraging emerging technology will have the added benefit of forcing organizations to innovate their businesses and pricing models to demonstrate value, keep pace with the ever-changing environment, and remain competitive in the future.

It is critical to tie emerging-technology projects to today's enterprise and business unit strategies; this is key to avoiding innovation projects being sidelined. This is where the concept of viability comes in: Innovation projects need to have sustainable economic value to the business, and you must be able to quantify how emerging-technology investments are likely to impact the bottom line.

There is room for improvement at many companies when it comes to assessing viability. Nearly 70 percent of companies we surveyed reported that they either lack a clear set of criteria to help them prioritize the technologies that have the greatest potential to deliver value or weren't sure whether these criteria exist.[i] At the same time, the same survey respondents said that their senior leaders view the viability of innovation products through the lens of revenue generated (70.4 percent) or new efficiencies/cost reduction (72.8 percent).[ii]

It is also important to get the organization excited about a long-term vision; enthusiasm and understanding of how emerging technologies will enable growth can help infuse an innovation mindset across the enterprise and unlock resource constraints. When it comes to your vision, keep in mind that even if you can't imagine it, that doesn't mean it's not going to happen. To establish your enterprise's vision, ask yourself:

- What changes are already happening in my industry?
- Are these changes a result of a natural evolution or disruption?
- How are emerging technologies already impacting my industry and/or adjacent industries?
- Are these technologies offering competitive advantages to our existing peers, as well as potential new peers from adjacent industries?

[i] Innovation Leader: Delivering value through emerging tech and innovation. Sponsored by KPMG LLP, 2021.

[ii] Ibid.

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Bring outside innovation in

Most organizations look at emerging technologies from an inside-out perspective, i.e., is it feasible to build a project and what is the best way to approach it? Recent research shows that 72.6 percent of survey respondents use internal teams to identify emerging technologies for further exploration, and 58.2 percent tap into internal business units.[iii]

This approach can lead to a myopic view.

It's important to approach projects from an outside-in perspective as well by, for example, bringing in perspectives from academia, consultants, venture capital firms, startups, corporations in other industries, etc. The most common external sources of intelligence are start-ups and venture capital firms, cited by 55.2 percent of respondents to a recent Innovation Leader survey.[iv]

All this intelligence should ultimately lead to a clearer view of customers and their changing needs and desires. Even if you're a B2B firm, today's customers are likely to approach their buying decisions from a consumer perspective.

Innovation Leader also conducted research into where innovation dollars are being spent in large companies. For example, are companies in certain industries more likely to invest in internal, organic creation of new and improved offerings, or do they choose to "buy" innovation or invest in startups?

Overall, most organizations today lean toward inside-out activity—including industries like energy, construction, and, surprisingly, technology. On the other hand, industrial manufacturing companies are most likely to fulfill their innovation aspirations through acquisitions and startup investments.[v] (See the following exhibit A.)

Exhibit A

Do you build or buy innovation?

Survey respondents were asked about the balance between investing in internal innovation or development activities versus accessing innovation by acquiring new companies or investing in start-ups. Answers are broken down by industry.

Balance of internal vs. external innovation activites by industry

Industry	Score
Industrial Manufacturing	6.1
Pharmaceuticals & Life Sciences	5.5
Consumer Goods/Consumer Products	4.4
Technology	3.8
Healthcare	3.7
Automotive, Transportation & Logistics	3.6
Professional Services	3.5
Financial Services	3.1
Engineering & Construction	2.5
Energy & Utilities	2.3

[iii] Innovation Leader: Delivering value through emerging tech and innovation. Sponsored by KPMG LLP, 2021.

[iv] Ibid.

[v] Innovation leader: Innovation, Agility and Openness, Sponsored by KPMG LLP, 2021.

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2. Act like a startup

Be selective about resource allocation
When it comes to emerging-technology innovation, start-ups are typically resource constrained. This means they must operate in a lean and agile style. Larger enterprises would be wise to take a page from this book by being selective about the innovation projects on which they focus. For example, organizations need to differentiate and prioritize between innovation to provide a competitive advantage, innovation to remain viable, innovation to explore new markets, and innovation meant to create totally new business models.

Projects that put the customer at the center should be prioritized. However, when you consider the desirability of an innovation, it is not enough to understand customer desires. Equally important are the specifics of:

- How customers want new products and services delivered
- What factors trigger buying behaviors
- How much customers are willing to pay for innovations

This strategic intelligence can be gleaned through customer surveys, questionnaires, face-to-face interviews, focus groups, etc. Taking this approach will help companies avoid the tech "toy lab" scenario where designers build shiny, cool products only to discover that customers don't want them.

Don't fail fast, learn fast
Many companies embrace action and are eager to have their designers build prototypes before testing the hypotheses behind the innovations. In contrast to "failing fast," which is really a misnomer, companies have to adopt a culture of "learning fast."

This means first focusing on the hypothesis and testing it out as best you can before investing heavily in internal development. This may also mean talking to and surveying consumers, clients, suppliers, and others who may be able to deliver insights into whether your hypothesis is valid.

Managing an unpredictable future is a critical part of innovation, but it's important to remember that a prediction that doesn't come to fruition shouldn't necessarily be considered a failure. Success should be defined by whether the organization gained insights that can be used to inform and influence future behavior.

Learning fast also means acting fast. Organizations that can reduce innovation cycle times are able to create new knowledge by uncovering the unknowns. For example, instituting curbside pickup and curated meal models during the pandemic were critical innovations for restaurants that faced obsolescence during the height of social distancing.

The same could be said for food-delivery apps that increased their restaurant offerings or offered incentives for repeat customers. Finally, physician practices' rapid adoption of telemedicine technologies in the early days of the pandemic is a great example of the need to innovate in real time, in this case to save lives.

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3. Invest like a venture capitalist

Take a portfolio approach

Much as venture capital firms do, innovative companies don't put all their eggs in one basket. Instead, they take a portfolio approach, raising their odds of success by making smaller investments in a greater number of initiatives. Of course, this isn't a matter of just throwing ideas at the wall to see what sticks. Instead, assessing experience, markets, areas identified for growth, and the risk/reward balance are critical to selecting the right investments.

A central tenet of the portfolio approach is proactively reducing or eliminating initiatives that don't meet certain metrics or are misaligned with the enterprise's overall strategy and priorities. Although a portfolio model can reduce the risks associated with innovation, projects must be actively managed and prioritized to ensure efficient capital and resource deployment.

To manage a portfolio, you need to start by defining success.

Define success metrics

The most successful venture capital firms identify and track metrics for their portfolio companies. Within an enterprise, this means clearly and explicitly defining what the success of an initiative looks like up front so that the portfolio can be evaluated in an objective and practical manner.

Success can be defined several ways; however, potential metrics could include:

- New revenue growth (expanding market share or creating new market share beyond legacy services and products)
- Increased profitability or productivity
- Insights that inform acquisitions and other inorganic efforts

The key take-away is that innovation groups should define success criteria and use a VC-oriented framework to drive a continuous review of the portfolio and help allocate the firm's limited resources to the most promising new efforts.

Double down on success

Just as venture capital firms use metrics to evaluate their portfolios, they often reinvest in successful portfolio companies. Enterprises can apply this same principle by creating a mechanism to evaluate their internal innovation portfolios and gain approval for additional funding based on specific milestones and achievements.

A key consideration for additional funding should be scalability, including how to quantify economies of scale and the degree to which a project must be scaled to create competitive advantage.

As an example, consider a large online retail company's "grocery experiment." When the company decided it wanted to get into the food business, it piloted a handful of different point-of-sale formats across the country, including small quick-serve markets, four-star stores, drive-through shops, and, of course, selling through large brick-and-mortar retailers.

After a year, the company reviewed and analyzed which formats worked best, whether certain demographic and geographic groups preferred one format over another, and what kinds of product extensions they might want to consider. Ultimately, the company discarded most of the piloted formats and doubled down on the partnership with one brick-and-mortar retailer.

Final thoughts: A new approach to innovation is essential

Across industries, emerging-technology innovation has evolved from a practice relegated to the IT group to a company-wide mindset and a way of operating daily. The need for this shift is being driven by the inevitability of disruption—from peers, non-traditional competitors, and worldwide events like the COVID-19 pandemic and the current geopolitical situation.

In this climate, the companies that navigate most successfully into the future will be those that take a three-pronged approach to innovation—acting like an enterprise, thinking like a startup, and investing like a venture capitalist.

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