NAVIGATING THE CORPORATE INNOVATION PARTNER LANDSCAPE
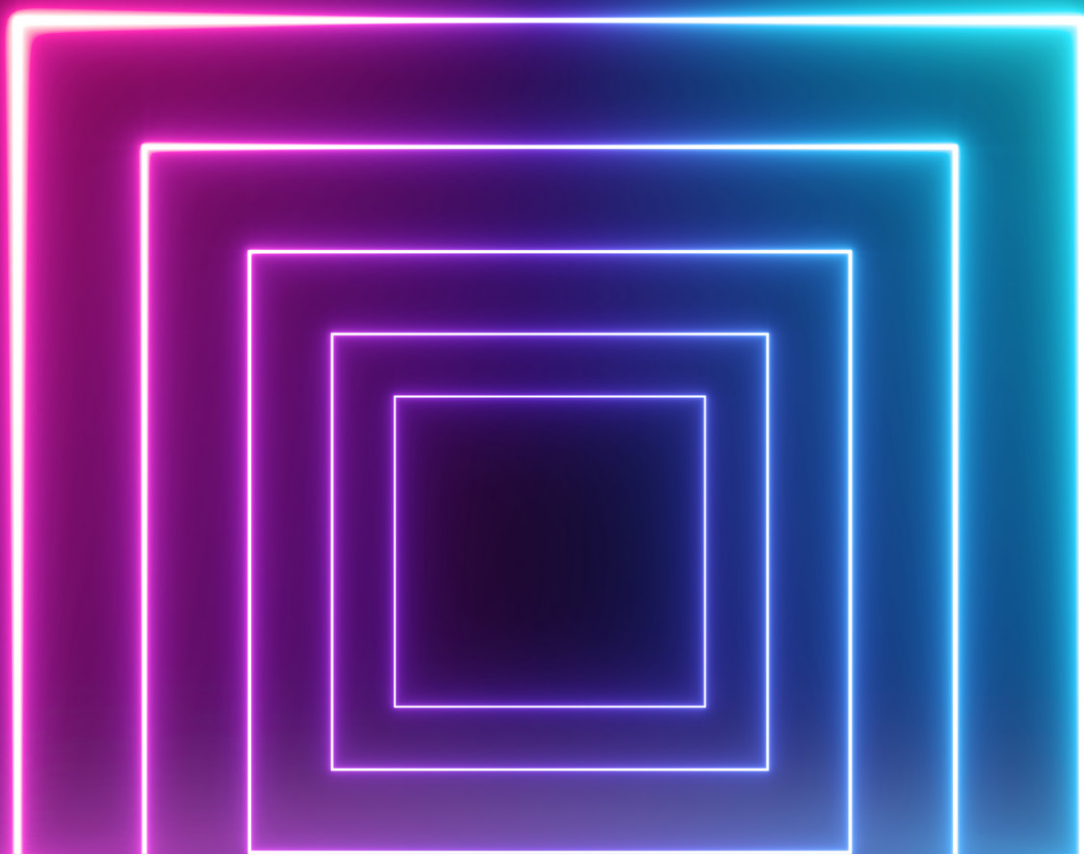
The Experts in
Client:Agency
Relationships

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CONTENTS

INTRODUCTION

There surely can't ever have been a time when corporate innovation was talked about more or the innovation marketplace changed quite so swiftly. Every organisation is feeling the sharp threat of disruption, the need to ramp up innovation programmes and to develop a continuous stream of new value and growth to drive business transformation. And yet, there is a relative paucity of insightful and independent information on the options open to businesses for partnerships, consultancy and support in this rapidly evolving area.

This report sets out to map the innovation partner landscape and provides organisations with an essential guide to making intelligent decisions about innovation partner selection. It will look at key trends in innovation and the context surrounding a quickly expanding marketplace, including the increasing sophistication of innovation functions, the need for operationalising innovation at scale, the different types of innovation and what clients are looking for from innovation partners.

We look at the key factors that are important in partner selection, the range of innovation partners, the different options for engagement and remuneration and how to ensure success when selecting and working with partners, including innovation and strategic consultancies, management consultancies, corporate venture building and startup accelerators.

METHODOLOGY

Author Neil Perkin conducted a comprehensive series of in-depth interviews to inform this report along with extensive desk research into changing innovation models and the shifting landscape. The interviews were undertaken with innovation leads in a wide range of client organisations, along with CEO's and Directors of innovation consultancies, agencies and networks.
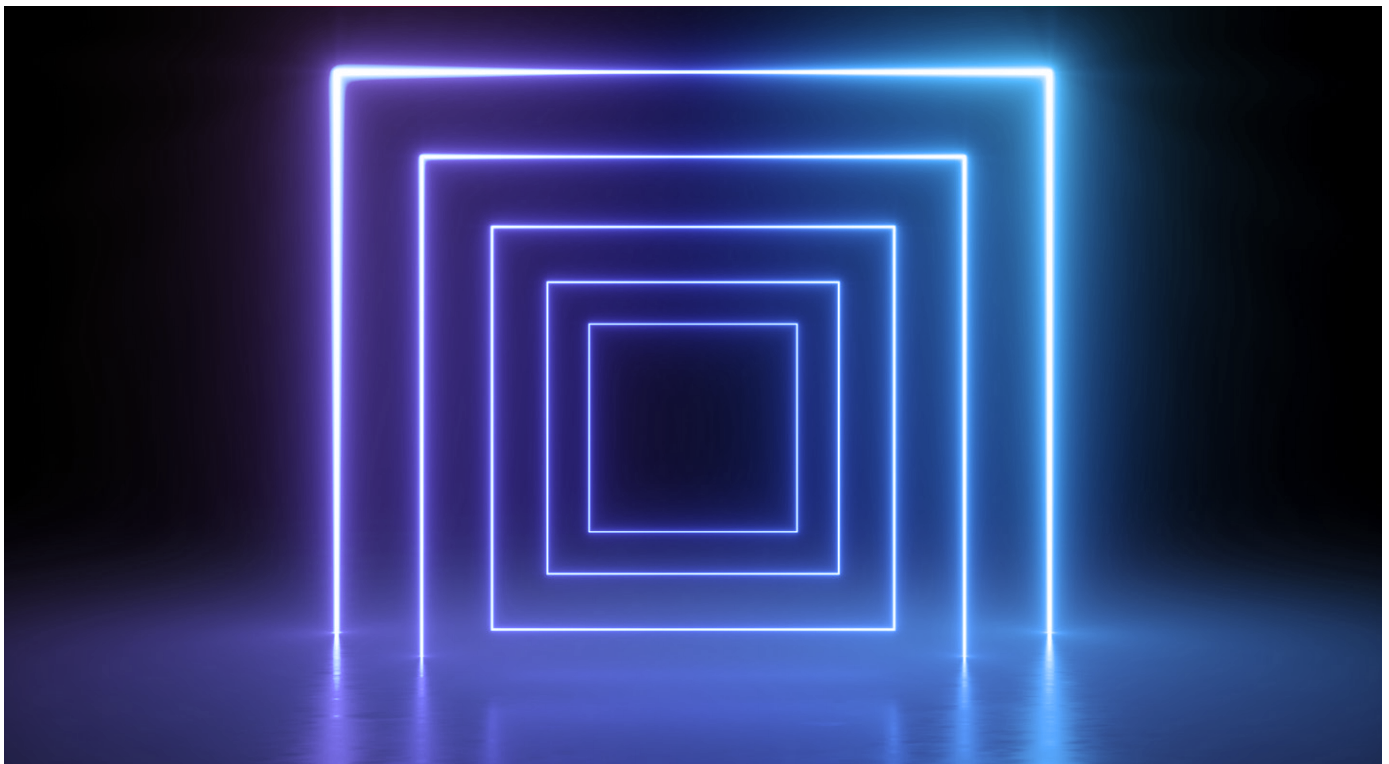
EXECUTIVE SUMMARY

It's clear from our research that the innovation landscape is growing rapidly in vibrancy and sophistication, enabling a greater diversity of partner proposition and more partnership choice than ever. The opportunities have never been greater to work with experienced practitioners to help solve business problems and develop new value in smarter ways.

Our research established some key trends, dynamics and criteria to inform smarter choices in innovation partnerships. Some of the key points:

■ Innovation itself is changing. It's apparent from the research that continuous innovation is now regarded as essential for business survival. As innovation becomes more embedded and sophisticated, corporates are making more informed decisions about which partners can solve specific challenges

■ Alongside this growing sophistication, service design and agile innovation methodologies are enabling businesses to validate concepts rapidly and move more quickly towards innovative solutions

■ Businesses are hungry to learn from their innovation partners and apply new thinking towards supporting broader transformation in the company

■ As innovation partnerships evolve, there are some key attributes which corporates are increasingly looking for that can help enable smarter partnership decisions. These include the ability for the partner to:

> Provide unique insight, useful interpretation of rapidly changing contexts and to challenge thinking
> Afford broader learning and capability development
> Deliver a good solution fit for the type of innovation required
> Align process methodology with desired outcome and the problem to solve
> Ensure a productive culture and team fit
> Facilitate access to great talent or networks, tools and assets
> Work at the appropriate scale
> Support broader business growth and transformation efforts

■ As the innovation partnership landscape grows increasingly diverse, it's becoming ever more important to understand the key strengths of different players in the market, and how they can align these with their specific needs

This report is designed to provide an informed overview and direction to making smarter partnership choices in the innovation marketplace. We've detailed not only the key types of partner organisations operating in the space but also some key insights into the features and benefits that each can provide, drawn from the interviews that we have conducted.

A DEFINITION FOR INNOVATION

Austrian economist Joseph Schumpeter, who taught at Harvard University in the 1930s and 1940s and was one of the early theorists around disruption and innovation, wrote that innovation referred to any new policy that an entrepreneur undertakes to either reduce the overall cost of production or increase demand for their products.

Helpfully, he set out a three step process for technological change: Invention (or ideas); Innovation (the development of new ideas into marketable products and processes); Diffusion (scaling or adoption)[1]. Building on this definition, we'll be using a three stage interpretation of innovation in this report to inform our exploration of the innovation partner landscape:

01. Invention:
The earliest stages of the innovation process involving the origination of ideas and concepts. In this report we've called this stage 'Explore'

02. Commercialisation:
The development of concepts into viable products and services, the creation of a new business model and product / market fit. We called this stage 'Do'

03. Scaling:
Growth, adoption and expansion. We've described this stage as 'Grow'

[1] https://www.ischool.utexas.edu/~darius/17-Schumpeter-innovation.pdf

FOUR KEY TRENDS IN CORPORATE INNOVATION

1. FROM EPISODIC TO CONTINUOUS INNOVATION

One of the key indicators for how innovation partnership models are changing is evidenced by the shift towards continuous rather than episodic corporate innovation. Caught in a perfect storm of rapidly changing competitive environments, just about every organisation is turning the dial up to eleven on innovation and recognising it as a functional imperative for survival.

Alongside this heightened imperative for continuous innovation, there is an escalation in demand for more disruptive, game-changing thinking, ideas and business models. The need for partners that can challenge, facilitate and work with clients in specific ways to support them in the creation of entirely new propositions is increasing exponentially. Business leaders and CEOs are very focused on the importance of having a culture of innovation within their company and on which partners can best help them build and support this.

> "We're getting a diverse set of clients asking us to help them to become more "innovation ready". To help build and reinforce a wider innovation culture across the business."
> **Innovation Consultancy Founder**

This accelerated level of change is generating heightened demand for new thinking, robust innovation processes and external support to challenge, inspire, guide, connect, execute and scale.

The marketplace for innovation partnerships is increasing in scope, scale, sophistication and maturity. Engagement and remuneration models are evolving as corporates seek improved ways to work with a broader range of innovation partners.

2. THE INCREASING SOPHISTICATION OF INNOVATION FUNCTIONS

As innovation rises up the corporate priority list, companies are dedicating increased funding and resources to establish internal innovation functions and initiatives. Internal innovation expertise is becoming more widespread as businesses increase the sophistication of their innovation processes. Now, innovation is a priority at CEO and C-Suite level, innovation touches every part of the business, and there is wider appreciation of some of the very real challenges around generating new and lasting value.

As innovation resourcing and processes within companies has become more advanced, so the innovation partnership landscape has evolved. Where once there were relatively few players in the market who were often focused on early stage ideas and concepting or simply introducing corporates to startups, there is now a vibrant and growing market of potential partners for clients giving them a broad range of options and support.

Some respondents spoke of how businesses had learned from previous failures in innovation initiatives, many of which were simply focused on gaining PR, and were now making smarter choices about both partners and strategies.

> "Ten years ago innovation teams were scarce, we had few counterparts, and innovation was regarding as something of a luxury."
> **Founder, Innovation Consultancy**

As the partner landscape has expanded and matured, many have learned to make informed choices about the best partners to work with and intelligent ways to fit partner propositions into the innovation process, so that they can secure external support in the most optimal way. A wide range of business design and innovation consultancies, incubators, accelerators and corporate venture partners have entered the market.

As innovation knowledge and practice is becoming more deeply embedded within organisations, the requirements for external partners is shifting and the marketplace evolving. External input to the early stages of the innovation process has become more nuanced as companies have learned how to generate and harvest better ideas and turn them into defined concepts.
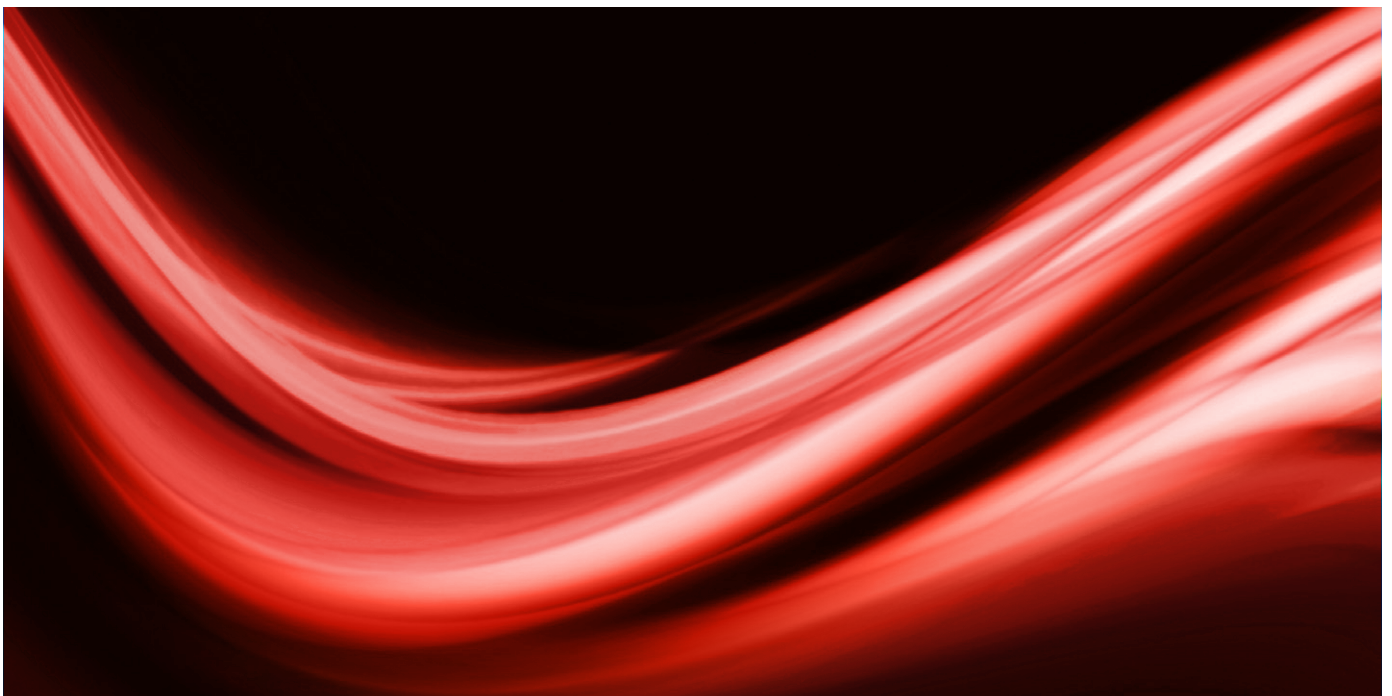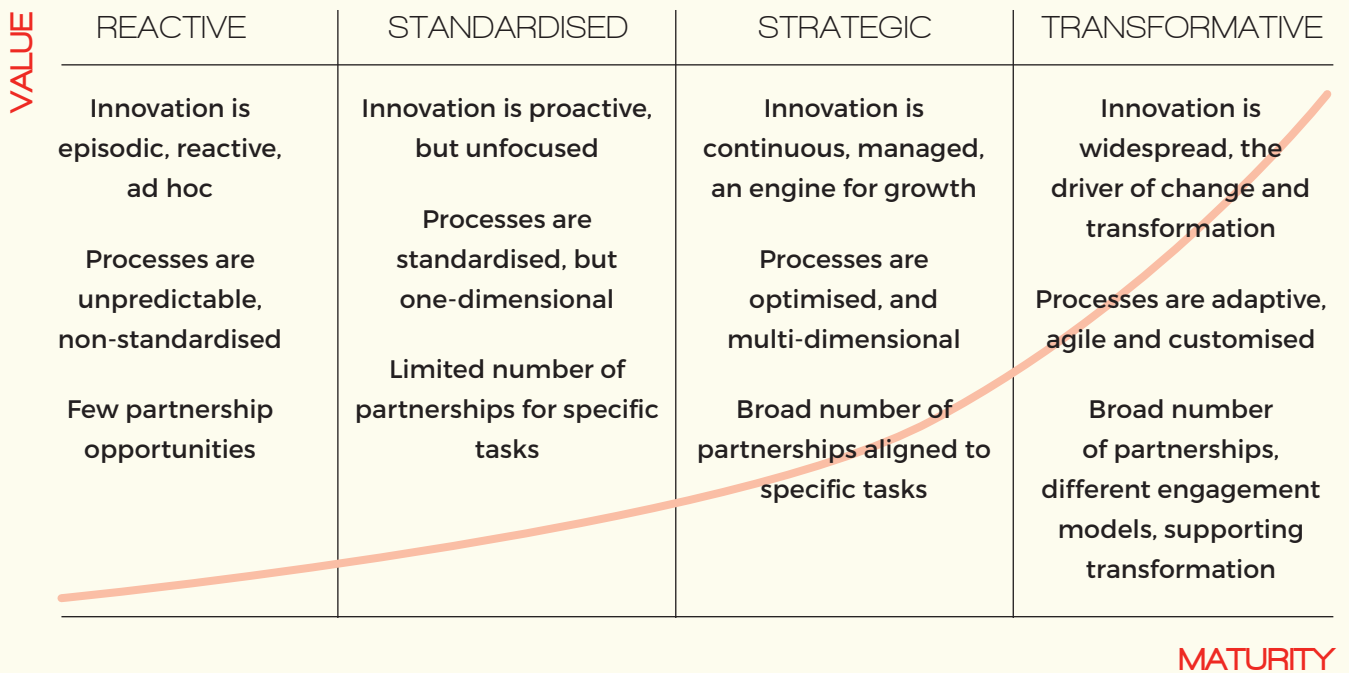
Figure 1: A maturity map for corporate innovation

VALUE	REACTIVE	STANDARDISED	STRATEGIC	TRANSFORMATIVE
	Innovation is episodic, reactive, ad hoc	Innovation is proactive, but unfocused	Innovation is continuous, managed, an engine for growth	Innovation is widespread, the driver of change and transformation
	Processes are unpredictable, non-standardised	Processes are standardised, but one-dimensional	Processes are optimised, and multi-dimensional	Processes are adaptive, agile and customised
	Few partnership opportunities	Limited number of partnerships for specific tasks	Broad number of partnerships aligned to specific tasks	Broad number of partnerships, different engagement models, supporting transformation

MATURITY

Clients are, therefore, in need of partners that can not only ideate but that can also build and execute. They are seeking ongoing learning from their partners to help them to improve their own innovation capability.

Now, an increasing area of focus is on how partners can help transform the wider business through innovation and how they can help build an engine for continuous, scaled innovation and the culture to support it.

The key stages of innovation have remained the same but changes to tools and processes have enabled organisations to upscale experimentation and even use innovation thinking and partnerships as a way to change the culture and behaviours within the organisation.

Effective selection of the right partners to help on this journey is now a source of significant business advantage.

> "The key question that clients are now asking has changed from what's feasible to who can do it? It's all about knowing the partners that can execute and have the knowledge and processes to do this."
> **Innovation Lead, Agency**

3. FROM PHYSICAL TO DIGITAL, FROM PRODUCT TO SERVICE

Disruption has rapidly become something of an overused word and yet the reality of many markets is one of rapidly changing dynamics. Companies like Airbnb, Uber and Tesla may be the poster children of disruption but for many heritage brands, disruptive competition is also coming in the form of multiple small, digitally-enabled, nimble businesses that are attacking specific parts of their product portfolios.

CB Insights has detailed how a whole series of industries, from banking to healthcare, automotive to education, are being 'unbundled' in this way[2]. The example below shows how Procter & Gamble's product portfolio is under attack from multiple startups.

This example is interesting since it demonstrates one of the key trends shaping corporate innovation: products becoming services and the concurrent rise of service innovation and design. Businesses such as Birchbox, Harry's and Hello Fresh are building direct-to-consumer relationships through digital platforms and subscription mechanics and changing the way in which products in the category are sold.

While these businesses are still smaller than the incumbent brands by some margin, they demonstrate the growing importance of service innovation, customer experience and data to just about every brand, even FMCG.

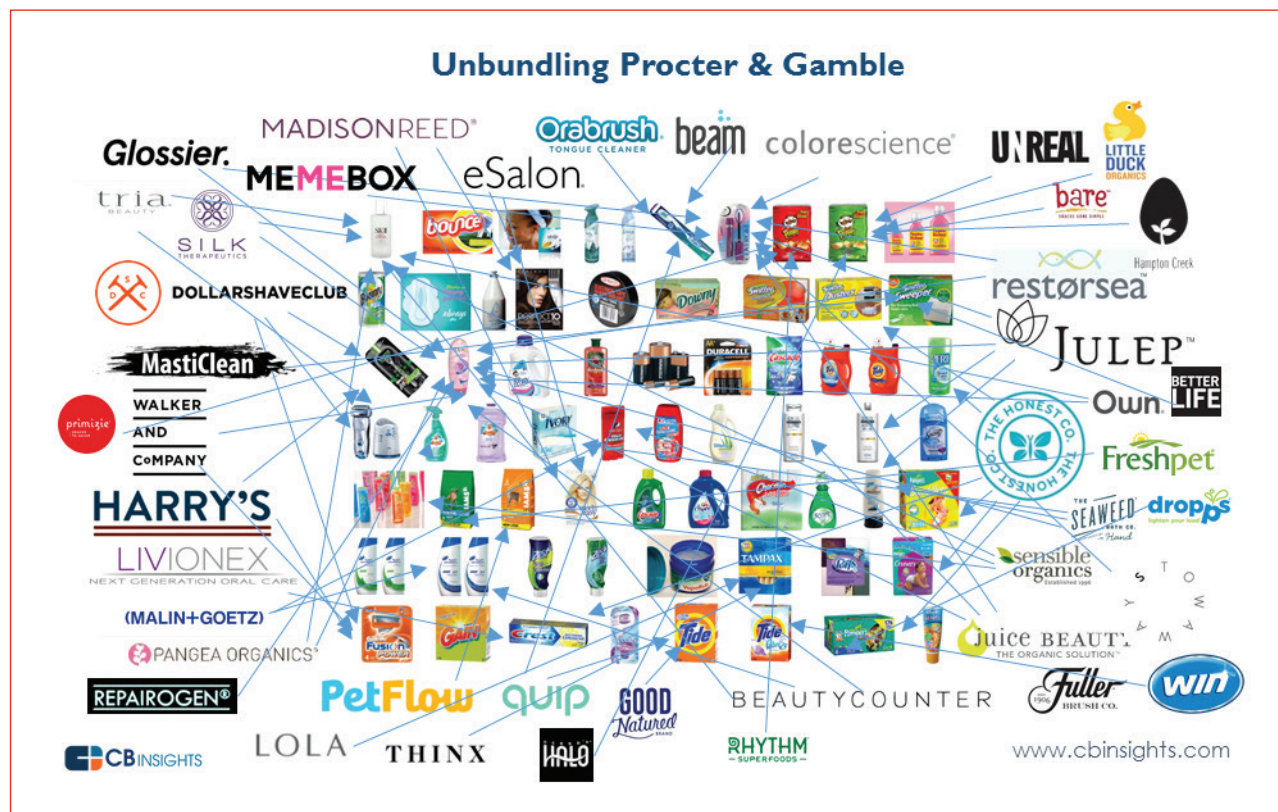**Figure 2**: Disrupting Procter and Gamble

Image source: www.cbinsights.com/research/disrupting-procter-gamble-cpg-startups/

[2] https://www.cbinsights.com/research/disrupting-unbundling/

4. INNOVATION AS TRANSFORMATION

As innovation has risen up the corporate agenda, the need to embed new behaviours and processes is an often welcome outcome from any innovation initiative. Corporates want to work with partners who can not only assist on specific projects but who can also build capability, learning and help support wider culture change in the business.

> " The biggest innovation challenge in businesses is not ideas. It's enabling those ideas to grow. Eventually clients will learn how to do this and it will go in-house. In fact, everything we do today should be what clients should be doing in 3-5 years' time. This is both terrifying and energising. "
> **European CEO, Innovation Consultancy**

There are a multitude of culture change consultancies that have sprung up to meet this need. Whilst they are often not involved in the strategic business transformation work itself, they are brought in to support the organisation as it undertakes the necessary cultural changes to support the innovation work being undertaken. All business leaders speak of wanting their employees to be more entrepreneurial and innovative. Many don't quite know how to deliver this important change, though.

It's against this backdrop that a diverse set of consultancies and corporate innovation partners are converging.

THE BENEFITS OF INNOVATION PARTNERS

Innovation requirements all have different starting points. There is no one way to do corporate innovation. There are a multitude of projects and desired outcomes across the innovation spectrum. Some want help to develop new products, services, propositions and revenue streams, others may be seeking entirely new business models.

Whilst some are looking for help to harvest the best ideas in their business and bring them to life, others may be looking to redesign processes and develop new ways of working. Still more may be looking for much broader culture change, learning and business transformation and see innovation as a key lever to achieve it. We discuss how to ensure your innovation challenge is properly mapped against the solutions that partners can offer when we look at solution fit later in this report.

> " No-one is short of ideas. The bigger problem is how you can get an idea through the matrix organisation without it being de-risked and dumbed-down. "
>
> **MD, Corporate Accelerator**

As well as the importance of defining the exact problem that you are trying to solve, our research identified some key attributes to keep in mind when selecting innovation partners. The knowledge of these attributes can help make smarter partner choices.
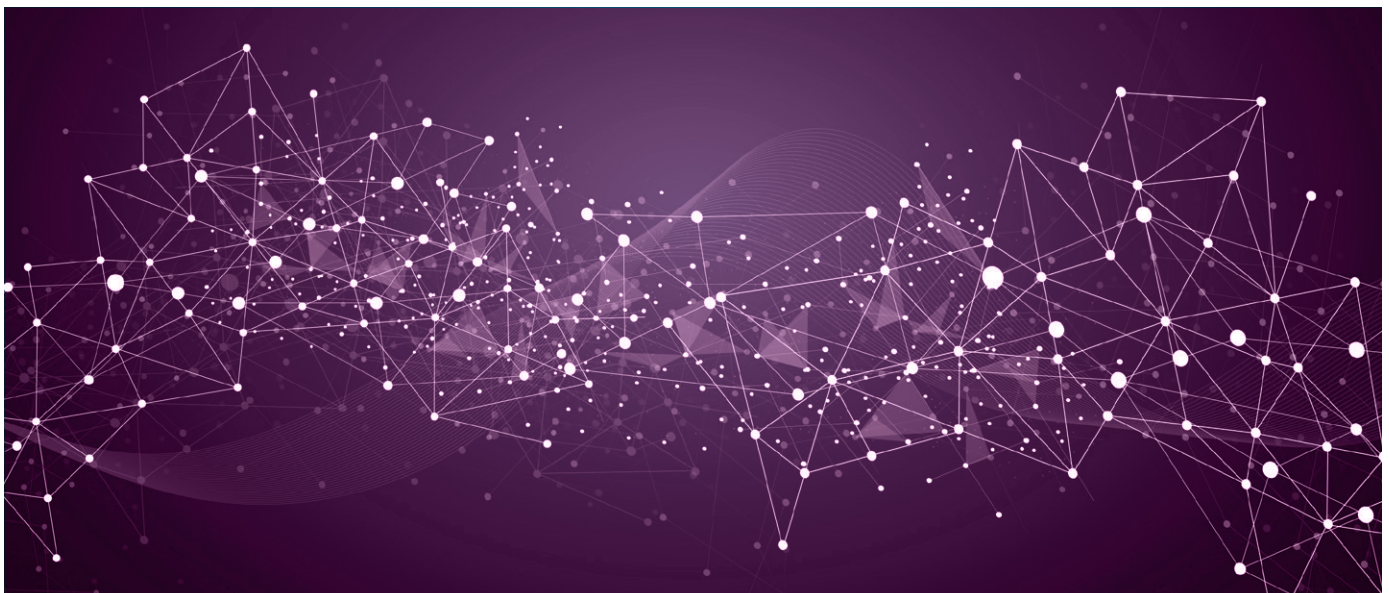
1. CHALLENGE AND INSIGHT

A number of interviewees noted the continuing value of external partners in challenging thinking and assumptions. Provocation that can open up new options and opportunities, and help drag people out of restricted thinking based on current scenarios or assumptions, was often cited as a major benefit.

The right kind of external challenge can lead to truly disruptive opportunities that might otherwise be difficult to develop within the existing business.

> "There's a key role for our partners to play in helping to future-proof our business, to support us in being more outward looking, expand thinking and understand the horizons."
> **Head of Tech and Innovation, FMCG**

> "Everyone wants to create the next Airbnb but they don't understand just how different the model and the thinking is. Corporates rarely have the right internal processes, and thinking to support it, so they need help."
> **Founder, Corporate Accelerator**

Some client-side innovation specialists interviewed were working with external partners that could provide useful insight into customer segments, markets or propositions. But the point was made by more than one respondent that no-one is closer to the customer than the client organisation, so external input in this area typically augments existing internal practices or is focused on specific tasks.

More than one respondent also noted that there is a balance to be struck between helping clients understand the value of new and emerging trends and technologies like Blockchain and AI but couched within the context of what's right for that organisation in their current context.

It was perceived as essential for external partners to have an informed point of view on how corporates can optimise potential innovation value, the relevance of new trends, new ways of working and future scenarios. External partners should act not only as challengers and provocateurs, but sensemakers; helping clients to navigate rapidly changing markets, technologies and consumer behaviours.

Although cultural and team fit is important (as we'll discuss later in the report), the last thing that organisations want is for their partners to 'go native' and start to think like the client business does.

Figure 3: Sensemaker and challenger

SENSEMAKER	CHALLENGER
Future scenarios, trends	Disruptive ideas and thinking
Potential and application of new technologies	New processes and approaches
New options, business models, opportunities for growth	Interrogating current assumptions
Customer insight and interpretation	Opinion, advice, a point of view

2. EXECUTIONAL ABILITIES

Innovation remains a not inconsiderable challenge within corporations, particularly the capacity to move at speed and the ability to rapidly translate ideas into early stage businesses.

Participants noted how most organisations have no shortage of ideas but the greater challenge comes in harvesting the most valuable ideas and then nurturing

> " There's a huge graveyard of internal ideas in most corporates – ideas that were born with the best of intentions but never went anywhere. "
> **Founder, Innovation Consultancy**

them into executable business models and propositions without them getting killed off.

A particularly risky stage in the innovation process is when ideas go back into the business as early stage propositions, when they may be given to managers who have not been involved with the project since the start, and when they can easily be saddled with rigid targets or legacy reporting structures and processes.

For these reasons, clients want partners that can help them execute and not just ideate. The ability to support and guide the client through a process that helps to protect early stage concepts and then nurture and scale them into more sophisticated commercial propositions is hugely valuable.

3. KNOWLEDGE TRANSFER

Every client wants to continuously improve their organisational capability but, in the context of rapidly changing environments and competitive contexts, this has taken on a new level of importance. As clients work with partners through innovation processes, there is the opportunity for key staff in the organisation to learn new ways of working that they can then retain in-house and embed. As time has progressed, knowledge transfer has gone from being a nice-to-have to being a key part of many engagements, sometimes even defined as a specific outcome.

Businesses want to understand how they can work differently and how they can apply new ways of working to solve problems on an ongoing basis. Partners can play a valuable role in supporting this kind of learning-through-doing via their engagements and ensuring that the right people client-side are involved early on in the project.

Co-located teams can also help improve and embed learning. Often, partners will run structured courses and learning programmes through the business as standalone activity or alongside innovation projects.

Or they might run intrapreneur programmes within businesses that are designed to harvest the best employee ideas and then enable those employees to work away from their day job in a process to prototype and bring them to life.

This presents a new challenge for innovation consultancies. As client teams learn new ways of working, the methodologies and capability may well be taken in-house, meaning that the consultancy could well be doing itself out of future work, and has to move on to providing new or different value to the client. But the opportunity in a fast-moving world is that if you are nimble enough, there is always something to move on to.

> " The value in innovation partners is how they can augment capability, or give you learning, or help you make the lateral leaps and really challenge your thinking. "
> **Global Innovation Director, Retail**

FINDING THE RIGHT INNOVATION PARTNER

SOLUTION FIT

TYPE OF INPUTS REQUIRED

Innovation partners are being asked to solve a wider and wider range of challenges, reflecting the increasing sophistication of the market. Broadly speaking, however, we might group these into our three key stages of the innovation process that we mentioned earlier:

Explore, Do, Grow. We illustrate these key tasks and their deliverables below. Regardless of the task required, it is imperative that you are clear about the stage of the innovation process you're asking a partner to input into.

Figure 4: Innovation key tasks

EXPLORE	DO	GROW
FUTURE IDEATION/ INVENTION	**COMMERCIALISATION**	**SCALING**
Research and insight	Business model design	Operating model design
Trends/external radar	Product/market fit	Learning/capability/training
Visioning	Rapid prototyping	Tech implementation
Concepting	Sprint working	Operationalising
Challenge/expand thinking	Proposition development	Culture/behaviour change
Problem definition	Brand strategy and design	Transformation/change management
Idea generation/assessment	Go to market strategy	
Partner sourcing		
Intrapreneur programmes		

TYPE OF INNOVATION REQUIRED: THREE HORIZONS

When choosing the right innovation partner it is, of course, critical to be focused on the specific problem that needs solving and to select the partner that demonstrates both the knowledge and the methodology that can provide a good solution fit for the type of innovation required.

McKinsey's Three Horizons of Growth[3] is a useful model for informing the different types of innovation that businesses need to balance. The model categorises innovation programmes into three different 'horizons':

HORIZON 1: Maintaining & defending the core business

This horizon focuses on activities that are closely aligned to the current business, existing markets or existing technologies. It is more likely to be about incremental improvements or extensions to current brands or products. Goals in this horizon are about improving existing products (possibly through improved customer experience design) or undertaking a line extension and enhancing sales or marketing in some way.

It's likely to be the easiest and most common form of innovation in the business. It's where external partners could work within the existing structure to find incremental opportunities for change and growth. An example of Horizon 1 innovation is Gillette adding 'Flexball' capability to their razors, or brand extensions like Snickers Ice Cream bars.
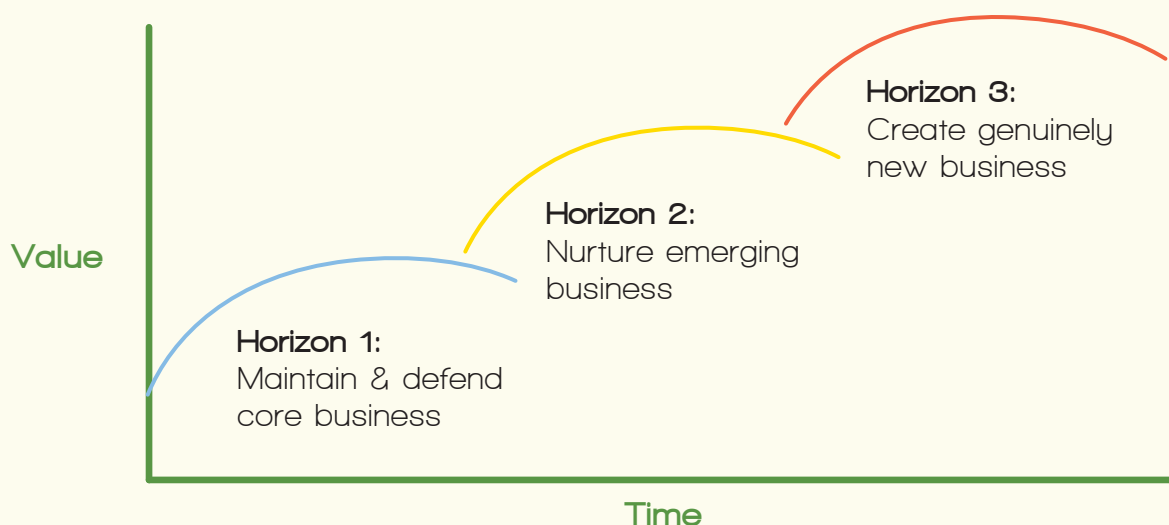
HORIZON 2: Nurturing an emerging business

This horizon is about extending what you already have into new areas and developing new opportunities. It may focus on existing markets or technologies but it would likely be ones that the company is less familiar with. As a result, the thinking and techniques required are often different to those needed in Horizon 1. An example of Horizon 2 may be ING's money management platform Yolt or Amazon's Prime Video platform.

HORIZON 3: Creating a genuinely new business

Horizon 3 is about entirely new propositions, innovations, breakthrough product or categories that can take the business into a new area, push the boundaries and enable it to explore new markets. The projects in this horizon are higher risk, carry a greater level of uncertainty and the payback will be more long-term but this is about creating new and viable options for the future of the business. An example of Horizon 3 innovation might be Fujifilm creating a skincare and beauty range.
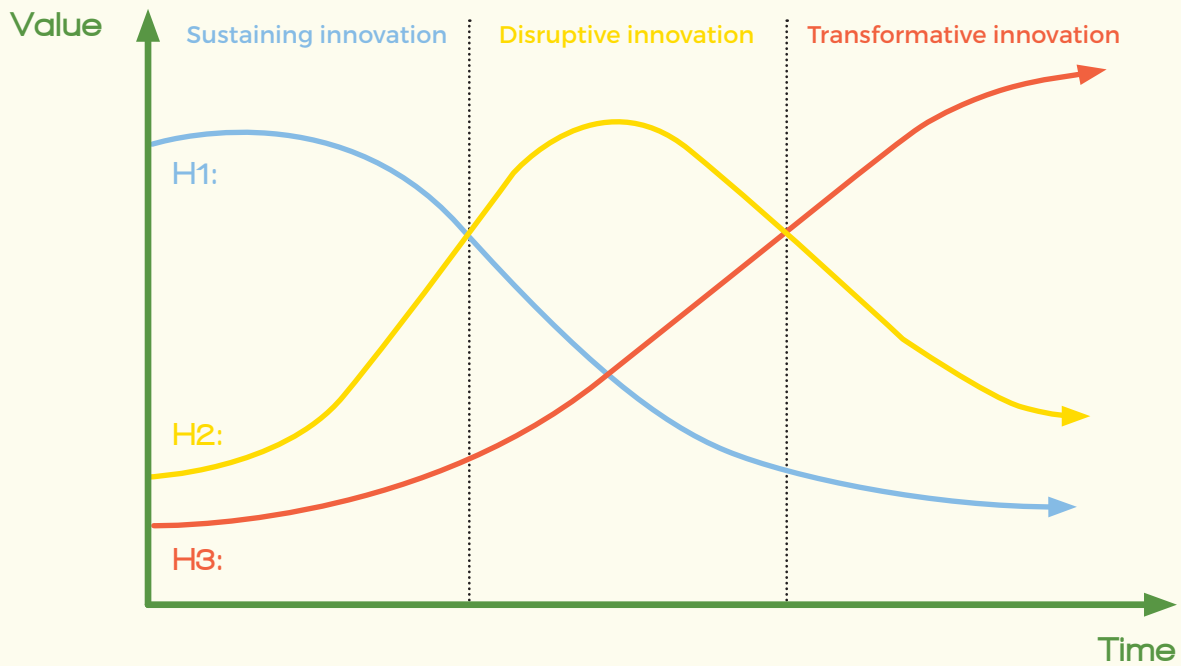
Three Horizons can be used to consider the portfolio of innovation that a company needs if it is to survive and thrive into the future. A good balance between all three areas ensures that the business is both optimising and extending current capability and potential, whilst also developing options that can create the innovative model of the future. Horizon 1 is more likely to be comfortable, familiar and carry less risk than Horizon 3. All three horizons are necessary though to ensure survival.

Figure 5: The Three Horizons of innovation

Horizon 1: Maintain & defend core business

Horizon 2: Nurture emerging business

Horizon 3: Create genuinely new business

Value

Time

[3] https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/enduring-ideas-the-three-horizons-of-growth

Figure 6: Three Horizons of innovation over time

Similarly, Three Horizons can also be a way to align and clarify the role for innovation partners. In Horizon 1, the role for partners is more focused on advancing and improving. Horizon 2 requires the partner to be more challenging, to support and guide into lesser known territories, to help create and nurture early stage ideas. Horizon 3 sets out to explore and provoke, to focus on ideas and concepts that can be truly transformative.

Figure 7: The role for partners on the Three Horizons
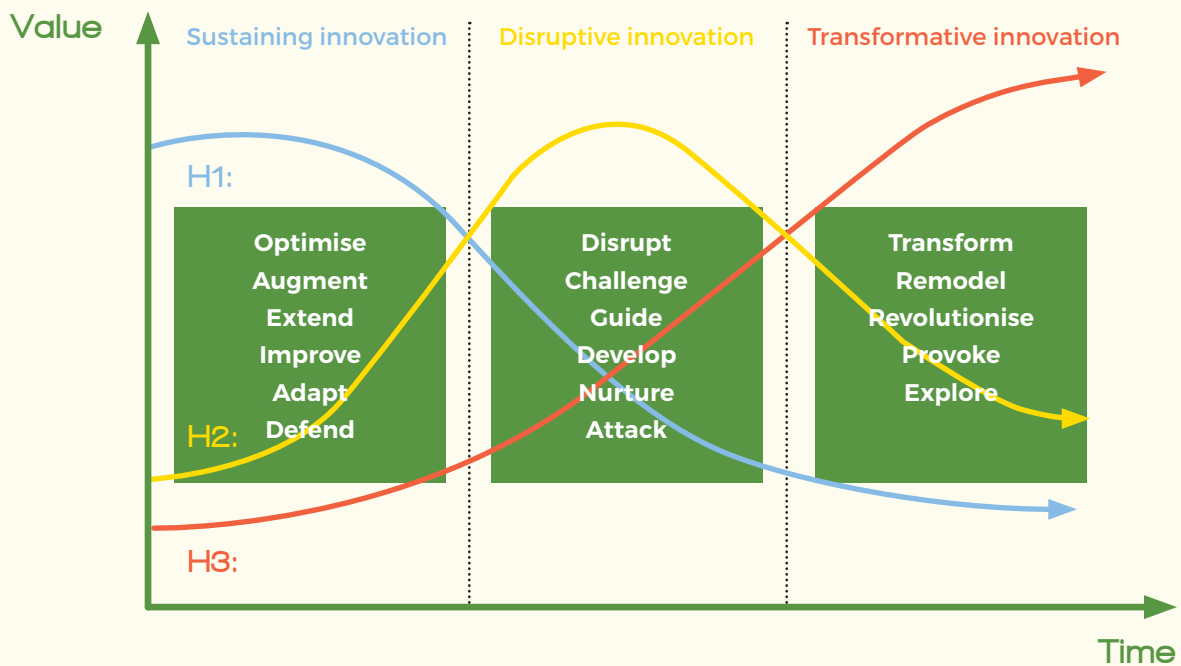
PROCESS FIT

Following on from the solution fit, it's important to consider the different methodologies potential partners employ. The processes of many innovation partners may look broadly similar (for example using iterative Agile or Lean startup product development and prototyping methodologies in the context of service innovation) but it's worth looking closely at the different methodologies and asking a few key questions:

■ What are the outputs of the methodology and are they aligned with the outputs that you need?

■ What inputs (people, data, technology, time, resources) will the process require, and how easy will it be to establish the right support to ensure success?

■ Even processes based on the same fundamental methodology will have nuances in how they are conducted - how will those nuances impact outputs and execution, and how aligned are they to the way in which you'd like to work?

■ What are the execution challenges that the team may face and how suited is the methodology to dealing with these?

■ What tools is the partner proposing to use? Can they help plug gaps in your own capability? How suited are they for the environment in which they'll operate and to the outputs you need?

■ Are there other requirements associated with the methodologies which need to be taken into consideration (for example, some agile processes benefit from co-location of partner and client teams which may or may not be the preferred way of working)

■ What level of experience does the partner have in delivering their preferred methodology successfully?

In order to ensure a good process fit, it's helpful to consider the different approaches and processes that may be required for each different type of innovation, again using the Three Horizons model.

We can generalise slightly and say that most Horizon 1 innovation is likely to be a relatively simple or well understood problem to solve. A good, structured, linear approach may well get the solution you need.

Horizon 2 is likely to be more complicated and have more variables or less well understood problems. The process could well involve the need for external expertise.

Horizon 3 is even less well known territory and will have many evolving variables, creating complex or so called 'wicked' problems. This approach and process needs to be far more emergent, adaptive and characterised by experimentation and validation.

The expectation of the approach that your partners take to solving the different types of problem you have enables you to better understand the likely methodologies and potential process fit.

Figure 8: Fitting process to problem

HORIZON	1	2	3
Problem type	**Simple**	**Complicated**	**Complex or Wicked**
Problem description	Well defined, stable environment	More variables, consequences	Multiple, evolving variables. Unique, changing, ambiguous contexts, potentially incomplete information
Techniques to solve	Repeatable, sequential, linear processes	Application of knowledge and experience	Less linear, more responsive, adaptive approaches characterised by test and learn, to better understand contexts and define the way forward
Partner approach	Best practice, traditional project management techniques	Advisory, expertise, consultancy	Problem, definition, iterative, adaptive methodologies, testing, experimentation, validating hypotheses

CULTURE FIT

One of the softer, but no less important factors in partner selection is the degree of culture and team fit. Respondents talked about how it was important to balance the need for partners to think enough like the client organisation to be able to work well with them, while also thinking differently enough to be able to challenge and provoke.

Personal relationships are hugely important. Business is often won through relationships and a productive rapport on a project can make the difference between success and failure.

In partner selection, interviewees described how philosophy and culture was as important as process and ways of working. Particularly since clients will be spending a lot of time with their partner agencies over the course of a project.

> " We like to build relationships with partners. We're interested in how they work, and projects come about through dialogue. "
>
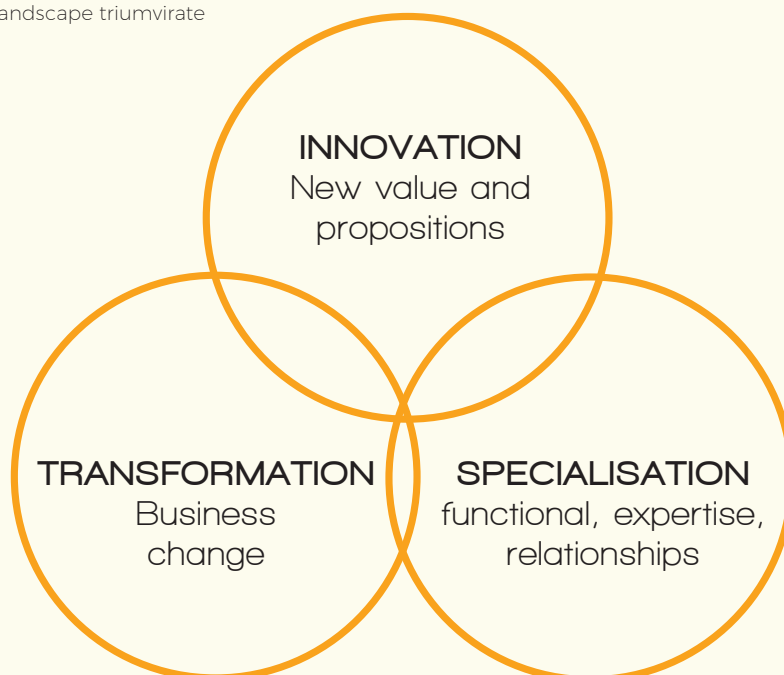> **Head of Strategy & Innovation, Finance Business**

UNDERSTANDING THE INNOVATION PARTNER LANDSCAPE

The innovation landscape spans a triumvirate of overlapping capability areas: innovation consulting, business transformation and areas of specialist functional expertise such as service design, product design, incubation, connection and training.

The research shows that the market is highly diverse (particularly in the UK, which was perceived to be more diverse than the US) comprising a broad range of potential partners depending on your requirements as discussed in the preceding section. This diversity gives clients a lot of choice in partners, but also potential complexity in making the right selection.

Most businesses interviewed were working with more than one partner. The challenge in choosing the right partners lies in aligning their offering with your problem to solve making sure to focus them on key projects but also being clear about the key strengths of individual propositions.

Figure 9: The innovation landscape triumvirate

INNOVATION
New value and propositions

TRANSFORMATION
Business change

SPECIALISATION
functional, expertise, relationships

A LOOK AT PARTNERSHIP OPTIONS

INNOVATION CONSULTANCIES

There is a broad range of innovation consultancies, some long standing and established and a raft of startups, that focus entirely on innovation. Most have a proposition that spans across the 'Explore, Do, Grow' spectrum of innovation tasks.

Many innovation consultancies grew up around the 'Explore' stage of the innovation process, focusing on insight, trends, ideation, concepting, and visioning but they have increasingly expanded their propositions more into execution, rapid prototyping, proposition and business model design and go to market strategy.

Many have also moved into the 'Grow' stage through a focus on learning, training and behaviour and culture change, and business transformation. The heartland of innovation consultancies is really Horizons 2 and 3. The interviewees outlined some important areas of consideration:

■ **Ideation and creativity:**
Many interviewees recognised that idea generation and concepting remains a key strength of innovation consultancies. Some talked of how they are really good at drawing out exceptional ideas from corporates

that they work with, at challenging clients to think differently, and enabling them to start the innovation process with a solid foundation. They draw people from the creative industries and are perceived to have a good understanding of creativity which they can apply in useful ways. This understanding of creativity differentiates them from management consultancies

■ **Insight:**
This was another core strength, particularly around foresight and inspiration, ideation workshops, forms of consumer research, problem definition and framing, concepting and visioning. Many have a good understanding of digital technologies and their applications for consumers, and a good level of thinking and concepting about products and services

■ **Learning and change:**
Many have a good understanding of business transformation, not least because of their recruitment of consultants from the big management consultancies

■ **Connections:**
Innovation consultancies are also differentiated from management consultancies due to the connections they have into the startup and entrepreneur communities

SERVICE DESIGN AGENCIES

These agencies are typically smaller, nimble partners that can work with corporates to develop new and often digitally led products and services. They often bring together technology, product and business design strategy.

Typically, their outputs are new services and digital product design but they can work across the innovation spectrum from landscape mapping, visioning, problem definition, team and project design, concepting, prototyping, solution validation. They are increasingly becoming involved in business transformation by developing new business areas or brands that can catalyse new ways of working for an organisation. Again, there were some specific nuances to the feedback around this type of consultancy:

- **Digital focus:**
  Coming from a service design heritage, these consultancies have an obvious digital focus to innovation and this remains their core area expertise

- **Agile, concurrent working:**
  These consultancies were regarded as particularly agile and nimble, with a range of capabilities but a core focus on digital-focused skillsets and methodologies. Many service design firms have grown up with agile,

iterative ways of working and put these front and centre in client engagements

- **Learning by doing:**
  Service design agencies can help organisations to bridge strategy and delivery and have digital product thinking and practice as a key element to their processes. There was feedback from some of the participants in the research that one of the beneficial outputs here can be that the partner can teach the corporate new ways of working that can then scale more broadly and support wider change

- **Transformation:**
  The current focus on digital transformation has enabled these agencies to apply their skills towards helping companies to not only learn new ways of working but catalyse wider transformation. One interviewee described them as 'consultancy disruptors', able to do end-to-end digital innovation execution and also build entirely new propositions and business within corporates

- **Scale:**
  Many of these service innovation firms are small and nimble, but lack the global scale offered by management and (some) innovation consultancies

INCUBATORS/ ACCELERATORS/ ENTREPRENEUR NETWORKS

There are a number of innovation partners that have created businesses to help corporates connect with startups, scale-ups and entrepreneurs. They often provide a counterpoint to the various consulting offerings in believing that, through their vast networks of startups, scaleups and founders, they can connect businesses with someone who has already tackled their particular challenge.

Some have an incubator/accelerator proposition as a key part of their capability but typically those in this space are seeking to mediate benefits on both sides:

- **Corporates:**
  Offering them a route to access disruptive, entrepreneurial thinking, early stage ideas and startup culture, ways of working and learning

- **Startups:**
  To offer them a potential route to market and benefits in resourcing including office space, investment and access to other business expertise and advice

The Unilever Foundry is a well-known example of a corporate establishing a highly regarded startup incubator but consultancies operating in this area make the point that it is hard for heritage businesses to scale truly disruptive ideas.

Working with startups and scaleups is a way to tackle both Horizon 2 and Horizon 3 innovation which may pose significant integration challenges for businesses. The risk profile of Horizon 3 innovation, in particular, is challenging for corporates to manage.

> " We're pretty good at scaling up. It's the early stages of innovation which is more challenging in large business like ours. "
> **Head of Tech and Innovation, FMCG**

> " The problem with agencies and consultancies is that they don't have skin in the game. They might help the client to build a new product or service but what happens to it then? "
> **Founder, Entrepreneur Network**

There is a spectrum of models that can be used in this space from a basic procurement/supplier agreement at one end, to licensing, joint venture and investment/ acquisition at the other.

Some actively incubate startup businesses themselves in return for equity stakes. Others work with organisations to build corporate accelerator programmes which are designed to support the objectives of both the corporate and the early stage business.

Corporate accelerator programmes are not easy to establish and there are some notable pitfalls including problem definition and misaligning incentives, engaging with the wrong startup businesses at the wrong stage, and challenges around return on investment and timing. Feedback from the research indicated a number of key factors involved with doing corporate accelerator programmes well:

- **Problem definition:**
  It's important for the corporate to work out what are the big problems that they want to solve and design a brief that can fit high level strategic goals. It's better to start with the problem to solve and then to identify the right startups to work with and not the other way around

- **Casting:**
  Once a brief has been created, it's critical to spend a proper amount of time matching the right early stage businesses with the problem you are trying to solve. Don't be tempted to shortcut the process. Many partners that operate in this space have platforms that can help facilitate the process

■ Alignment:

It's important to ensure that all the key people in the corporate are aligned in order to prevent challenges later on (for example slowing the startup down), and to dedicate sufficient resource to support the programme. With early stage businesses, it's critical to engage them at the right point. A number of interviewees pointed out that working with scale-ups which are at a slightly more advanced stage than startups can lead to better alignment of objectives. Investing in an early stage business can bring a different dynamic to the relationship, which can help align motivations

■ Conditions:

Creating the right environment and conditions for people to do their best work helps set the programme up for success. Incubators/ accelerators such as The Foundry from Unilever, and Telefonica's Wayra are good examples of how programmes can be established with enough separation from the corporate to create the right culture and environment, while also retaining strong links with the mother organisation

If done right, these programmes can help corporates become more nimble, inject new thinking, scale potentially disruptive ideas and create significant new value. But they require commitment and a different approach to risk and payback on behalf of the corporate

> " You have to be very focused on the specific problem that you want solved which can be hard when you don't know what you're looking for. The danger is that you end up retrofitting a startup or idea to a problem when it's not right. "
> **Global Innovation Director, Retail**

CORPORATE VENTURE BUILDING

Sometimes described as startup factories or tech studios, corporate venture builders are also in the early stage business space and work to provide entrepreneurs with support and resources whilst working with corporates to help them build new, often Horizon 3, businesses with these new partners. Think of this as M&A in reverse.

Business ideas are typically drawn from the venture builders network, and internal teams are assigned to develop the ideas and work with their corporate sponsors. In this way, they have created a way to systematically create new businesses, identifying new ideas, putting teams around them, finding capital, and managing and growing the early stage startups and scale-ups.

Some consultancies have created venture building propositions that enable corporates to invest in startups, and work with them to create products and services before they then acquire the early stage business, once it has reached a certain stage of development. Often the approach is structured around defined outcomes and may involve a new legal entity where the corporate owns a larger proportion of the business the more they invest, or a shadow equity model where the startup may be housed outside of the corporate but there would be regular reviews, perhaps controlling rights and bonuses involved, and the 'connective tissue' grows as the startup develops. Consultancies overseeing the process may be remunerated based on retainer or a share in the business they help create.

Again, venture building propositions can be an effective way for corporates to develop new and, perhaps, more challenging business models. As an example, Distill Ventures, operated by Independents United[4] working with Diageo, is a full accelerator programme designed to create new products in a way that aligns startup and corporate incentives and objectives.

> " There's good alignment because everyone wants the early stage proposition to succeed and exit into the corporate as a fully-fledged product. Having skin in the game is incredibly important. It means sharing the risk in order that you can share the upside as well. "
> **MD, Accelerator**

Undertaking corporate venture programmes is often seen by corporates as a way to disrupt themselves, their current business models and products before being disrupted by somebody else. Whilst the businesses they are creating are often focusing on Horizon 3 innovation, the risk level to the corporate is perceived as far lower than doing nothing and waiting for their business to be disrupted.

MANAGEMENT CONSULTANCIES

The management consultancies are expanding their innovation capabilities and evolving propositions and ways of working with clients.

The legacy of the big management consultancies might be considered to be Horizon 1, coming from a foundation of business strategy, change management, technology implementation, organisation and operating model design, enabling efficiencies, performance and change. They have, however, moved at pace into innovation through acquisition and capability development, and particularly through the development of digital and innovation focused divisions (Accenture Interactive, IBM IX, Deloitte Digital, BCG Digital Ventures).

Feedback from our interviewees indicated that there were some specific nuances to consider:

■ **Scale:**
   The management consultancies have long specialised in operating at scale, running large infrastructure and technology implementations or restructuring programmes

■ **Breadth:**
   Management consultancies work right across large organisations, solving problems and redesigning processes using specialist knowledge in multiple functions. Their capabilities are very broad, with specialist expertise across many areas of the innovation spectrum

■ **Depth:**
   One of the key competitive advantages is the level of seniority of client contact and engagement. Their contact book goes right across the C-Suite. They are also proficient at identifying and framing problems to solve, and their depth of expertise in data analytics, in particular, is an area of strength

■ **Agility:**
   Some interviewees noted how agile innovation principles are counter to the linear way in which consultancies have traditionally operated. The ability to start small and iterate rapidly is almost the opposite of the legacy consultancy large, stage-gated transformation programme and brings challenges to their traditional operating model. The counterpoint to this is that the interactive divisions have been set up to work in far more nimble ways

■ **Talent:**
   Consultancies have clearly been working hard to attract great design, creative, and innovation talent but there was cynicism from some interviewees about whether consultancies have the right culture to attract and retain design talent, in particular. The counterpoint to this is that as consultancies have been moving to acquire talented creative and design agencies, they have in some instances kept a degree of separation from the main organisation to try and protect the unique culture of the firm they have acquired

■ **Cost:**
   Consultancies are evidently not the cheapest option to partner with. Margins have traditionally been high in large technology implementations and change management programmes. As they move further into the innovation market, where smaller partner consultancies operate to much tighter margins, this may present a particular challenge

> " The talent marketplace is changing a lot, and this kind of business is a talent business. But the best talent wants to work with the cool kids. "
> **European CEO, Innovation Consultancy**

COMMUNICATIONS AND CREATIVE AGENCIES

Many communications and creative agencies have developed propositions to expand their capabilities beyond traditional marketing communications and into marketing innovation. Digital agencies have often been at the forefront of this evolution but creative agencies are developing propositions to apply their creative strengths in new ways.

> " The ability to generate transformational ideas will always be of value to clients-trouble has been that creative agencies have had too narrow a version of what this really means. Clients now want partners that can bring this to life in whichever way is most valuable-including new products/services/propositions. "
> **CSO, Innovation Agency**

A lot of the work here focuses on using communications channels in new ways to reach new customers, including voice, VR, AR and the use of other new technologies and communication channels.

The cynic may point out that agencies long schooled in advertising and creative ideas will always default back to their capability comfort zone but there are some like R/GA and their ventures arm who are putting skin in the game by working directly with startups. In this model, they exchange their marketing savvy for equity in the startups in addition to connecting those startups to their clients.

With any agency that's moving into innovation, the key for the client is in determining the weight and depth of genuine experience that they can bring and how they demonstrate this through execution. If a client needs Horizon 1 innovation to help defend existing revenues, then there is no reason why they cannot consider their existing marketing agency partners if they have depth of experience in this area.

ENGAGEMENT AND REMUNERATION MODELS

It was common for the businesses we spoke with to be working with more than one innovation partner, and often to be using more than one engagement model.

FOUR REMUNERATION/ENGAGEMENT MODELS

- **Retainer:**
  This may come from an existing retained agency providing services in the area, or from a partner who is engaged on a retainer to provide a specific service (e.g. insight, research, trends) over an extended period of time. It seems that, while some corporates have worked on multiple projects with some innovation consultancies, we're yet to really see consultancies becoming the 'innovation partner of record', although as innovation becomes more continuously embedded in large organisations, this could well happen

- **Project:**
  By far the dominant model for both engagement and remuneration. Typically focused on solving for a specific business problem, individual projects can often lead on to further engagements which can lead to consultancies working with a corporate for an extended period of time, but still on a project basis

- **Equity:**
  Startup acceleration, entrepreneur relationships and venture building may often involve an equity relationship. Consultancies may incubate startups themselves in return for equity, or there may also be an equity relationship with a corporate. Venture building relationships may realise return at an agreed

exit point, with terms agreed in advance between the entrepreneur, the corporate and the consultancy

- **Programmes:**
  Projects can also extend into wider engagements where the client has a series of propositions that they want to prototype or test, or they want to build capability in an internal team, or they want to extend into broader transformation work. Some project/programme engagements may begin with in depth RFPs and pitch processes, others may come from existing relationships and extending work in progress. Projects are often costed out on a time and materials basis; programmes may bring in monthly billing

CONCLUSION

SMARTER INNOVATION PARTNER SELECTION

As we've discussed in detail in this report, the innovation landscape is becoming increasingly diverse and sophisticated, giving corporates more options than ever in selecting the right partner for them. There are multiple factors, set out earlier in the report, that are important to consider when entering the selection process, including the alignment of the model and experience with the specific problem to be solved, scale, cost, learning, talent, process fit, solution fit, culture and team fit.

By way of conclusion, it's useful to capture some overarching thoughts that arose from the research on how clients can make smarter partner decisions, and also avoid some of the pitfalls that may arise in these arrangements.

- **Focus and flexibility:**
  Be very focused on the problem that you are setting out to solve, and use that as the 'North Star' to guide decisions about how well partner propositions fit. Write a good brief that is specific enough to outline the core problem in tangible ways, but flexible enough to welcome the unknown. Keep focused on deliverables and outcomes

- **Process and culture:**
  Process and solution fit is critical but forget culture and team fit at your peril. You will potentially be spending a lot of time with partners, drawing learnings from them as you go, so it is critical that they have a similar view on the world and can work well with your team. Trust, collaboration, attitude and passion are all key attributes

to consider. Get under the skin of how they work and how you will work together. Try before you buy (do some immersion days), ask the tough questions and get the evidence you need in order to choose wisely

- **Learning:**
  Look for what you can learn from your partners. Alongside the development of new value, learning is a key beneficial outcome of engagements, so identify the partners who can teach you well and be challenging, where necessary

- **Alignment:**
  Look for the win-win. In this rapidly developing space, the winners will be the ones that can create engagements where both they and their partners grow and succeed. Understand your own organisational weaknesses and challenges and try to support partners by mitigating these as much as possible. Make sure incentives are aligned and that you're evaluating as you go. Be prepared to adjust your course, where necessary

- **Commitment:**
  Look for commitment and understanding - make sure you have good talent working on your brief, ensure that the partner has taken the time to understand what the real needs are and that there is a good strategic approach, avoid 'innovation theatre' and the temptation of believing that 'one and done' workshops mean that you are doing innovation

ABOUT AAR

AAR is a management consultancy that specialises in helping brands establish and manage modern marketing and innovation partnerships. We work with those seeking to appoint partners to deliver brand management, PR, communications and advertising, media management, digital and business transformation.

We work with marketing and innovation teams to help them make the right decisions in choosing new partners. Typical marketing briefs include consultancy in the appointment of new agency partners, roster rationalisation, agency model evaluations, benchmarking fees, and help delivering more effective working partnerships. In our innovation practice typical briefs include helping brands find partners to drive growth and deliver business transformation.

Established in 1975, we were the first intermediary in the world and have pioneered best practice for over four decades. We remain the leading consultancy in the marketplace.
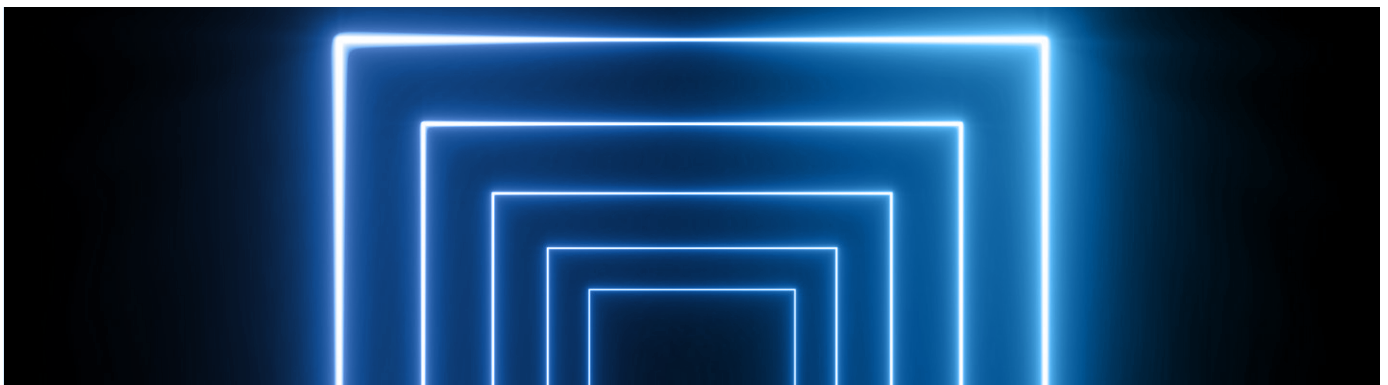
ABOUT THE AUTHOR

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Neil is the author of 'Building The Agile Business' (Kogan Page, April 2017) which provides an essential guide for leaders on achieving greater organisational agility and effective digital transformation. He has run global digital leadership programmes and consulted on transformation with a broad range of large, multi-national businesses and is a regular keynote speaker across Europe on digital transformation and agile strategy and leadership. He's been named by BIMA (British Interactive Media Association) as one of the most influential people in the UK digital industry, and by SAGE as a Top 100 Global business influencer.

He curates the global quarterly series of Firestarters thought leadership events on behalf of Google, is a keynote speaker on the Google Squared programme and has worked with market-leading global businesses including The Financial Times, BBC, Warner Bros, Vodafone, GSK, the UK Government, Samsung and YouTube. He is an associate of The Futures Agency, a collaboration of some of the world's leading forward thinkers and futurists, and is also the co-founder of the Fraggl Twitter curation app.