

Capital

infront



Corporations on the Track of Start-ups 2021

From playing fields to digital business units and innovation platforms

Preface

Dear reader,

You are reading the 5th edition of our study! Unbelievable - after all, we were also skeptical at the start in 2016/17 as to whether the digital labs that were springing up like mushrooms would last more than three years. Their approach seemed too new, their appearance too revolutionary, the corporate structures too rigid, and the internal support too focused on the CEO.

The revolution failed to materialize. But 5 years and almost a whole pandemic later, corporations are still on the track of startups. Business models, products & services, interaction with customers and partners, and their own company are becoming more and more consistently digitized.

This year, we want to know whether the Digital Innovation Units are producing commercially relevant progress, all the way to the hoped-for 'corporate unicorns'. We want to take stock and, in doing so, also understand why a whole series of these units disappeared from the market.

The results are very exciting. Thanks a lot to the study team and participants!

We hope you enjoy the study and gain many valuable insights!



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About the fifth edition of the study

Playgrounds for innovation or game changers for digital business transformation?

The good news first: The scene of digital innovation units is alive as ever, and even a global pandemic has not changed this. So this year we again set out to find commercially successful, scaled innovation successes. We also focused on the units' contribution to the overall transformation of their parent companies: Can they deliver a real difference in results from the perspective of the overall company? Or do they remain an often worthwhile but commercially insignificant playground?

Our findings reveal the many advances that have been made in recent years - but also obstacles. While some units are now generating 8-figure revenues with their ventures, we also see units that don't make it past the prototyping stages. Some DIUs have also been closed over the years.

We are therefore supplementing our study this year with a post-mortem analysis. For this purpose, we conducted interviews with more than 20 (former) heads of innovation units that are now closed.

We have summarized the most exciting findings from over 1,000 pages of survey and more than 50 hours of interviews with lab leaders, CEOs, CDOs & Co. on the following pages. Enjoy reading!



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About the study

Scope of the study

This year's study focuses on the success of digital innovation units in the areas of near-core and non-core innovation.

DIGITAL INNOVATION UNITS* are units operated by established companies that operate outside existing structures and aim to regularly develop digital and/or digitally enriched products and services. Depending on how innovations are created, we distinguish between Innovation Labs and Startup Labs.

NEAR-CORE INNOVATION

is located on the periphery of the company's specific area of expertise, they expand existing business models and focus on existing markets



NON-CORE INNOVATION

lies outside the company's specific area of expertise, replacing existing business models and opening up new markets



Study design

- x *Corporations on the Track of Start-ups 2021* was conducted by the strategy and management consultancy Infront Consulting & Management in cooperation with the economy magazine Capital in the first half of 2021.
- x Digital innovation units from German-speaking countries were eligible to participate. Participation was possible in the categories of near-core innovation and non-core innovation. To enable a fair comparison, the units were assigned to the service and industry sectors. With a return rate of approx. 20%, 49 units participated.
- x The study design is based on a two-stage procedure. A screening phase via an online survey was followed by validation interviews with managers and principals of the units that placed among the best units in the screening phase.
- x The success of the digital innovation unit was evaluated, measured by successfully scaled innovations, whereby the unit did not necessarily scale the innovations itself, but must have been significantly involved in their development. Scaling success was assessed using the three dimensions of Growth & Potential, Speed, and Commercial Success on a scale of 1.0 to 5.0 points. The ranking was based on the Total Score.
- x For the analyses we use our exclusive database with information & time series data of about 250 Digital Innovation Units.
- x In the companion study "Innovate the Innovation" we also examined closed innovation units (see page 26).

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I: Successes 2021

The sheep are further separating from the goats

The bar was raised this year!

After one year of the pandemic at the latest, it is clear that the question of whether a company survives in the long term depends massively on its ability to innovate and its digitization skills. This year, we have therefore raised the bar a little higher and a significantly larger proportion of the units examined did not make it into our ranking. Scaling obviously remains the supreme discipline, which only a few units succeed at.

- ✗ Only just under half of the DIUs rate the growth of their innovations on the market as "high" - and only 45% for internally developed projects.
- ✗ Overall, we found only 7 innovation cases that really scaled (criterion: 7-digit new sales or cost savings in the millions).
- ✗ Difficulties in convincing external funders contribute to the failure of innovations in nearly one-third of the units.
- ✗ Other hurdles: Lack of qualified personnel (25% of participants), difficulties in finding cooperation partners (23%), fear of failure - ideas not tried (20%) and lack of support from the core organization (20%).

It is all the more pleasing that we were able to find impressive examples of success in both the industry and the service sector. Here we see exciting patterns that can also be transferred to other contexts.

Contents of this chapter



The winners

In the categories near-core business & non-core business from industry and service



The 2nd and 3rd places

We present the other award winners per category and give an insight into their success stories

This year's winner in the "Industry" category

Awards

The selection of the best Digital Innovation Units is the result of our two-stage evaluation process of online surveys and validation interviews. All of this year's awards were presented by CAPITAL and Infront Consulting in June 2021.

This year's winners of the Digital Lab Awards - Industry



NEAR-CORE INNOVATION

- 1 Körber-Geschäftsfeld Digital
- 2 Heidelberg Digital Unit
- 3 Henkel dx Ventures



NON-CORE INNOVATION

- 1 Körber-Geschäftsfeld Digital
- 2 Henkel dx Ventures
- 3 Prismade – FutureLab of edding

Körber – Business Unit Digital

Digital enabler and innovation factory under one roof

Körber is an international technology group with annual sales of around EUR 1.8 billion (2020), more than 10,000 employees, and a decentralized structure geared to target industries such as pharmaceuticals, tobacco, tissue, and supply chain.

The Körber-Geschäftsfeld Digital was founded in 2017 and is now the group's digital business unit with locations in Berlin, Karlsruhe and Porto with around 150 employees from 30 nations.

The focus: machine-independent, user-centric SaaS solutions based on AI through co-development. The mission: harness the power of AI to maximize the efficiency of manufacturers around the world.

The Geschäftsfeld Digital is ideally positioned close to and far from the core business:

- ✗ As a co-creator and enabler for the other Körber Business Areas, it offers the skills that are lacking there for digital product design, in quality, quantity and at competitive costs: artificial intelligence, data science & deep tech integration.
- ✗ Markets for the same skills that are remote from the core business are tapped directly through corporate venturing and company building. In the event of success, this is significantly more sustainable and less expensive than the alternative purchase of enormously highly valued startups.
- ✗ The digital solutions are manufacturer & industry agnostic and can be used in all sectors of mechanical engineering, which logically also increases the addressable market for the company's own ventures.



Success story

Corporate Unicorn in Sight - FactoryPal

- In 2020, FactoryPal became the first venture to be spun out.
- In a Software-as-a-Service (SaaS) model, it offers sophisticated machine learning algorithms for the continuous optimization of overall equipment effectiveness in process manufacturing and is paid primarily through measurable successes
- Early on, after the usual prototypes, the MVP was used to win and realize a long-term contract with one of the leading tissue producers in Europe. Further customers are in the pipeline and onboarding
- The target market in process manufacturing is huge, despite competition from IoT specialists: companies in the packaging, food, pharmaceutical, steel or textile industries have thousands of production lines worldwide that are not yet AI/ ML optimized
- Data suggests that FactoryPal can become a corporate unicorn in the foreseeable future on its hyperscaling path (doubling team and investment, expanding to the US)

WINNERS IN THE CATEGORY "NEAR-CORE BUSINESS INNOVATION - INDUSTRY "
2ND AND 3RD PLACE

Heidelberg Digital Unit - Digitizing Customer Interfaces

The world market leader for printing presses is transforming itself from a classic press manufacturer to an XaaS provider. This means that machine-related subscription offers are becoming more important.

Heidelberg combines all digital marketing, eCommerce, and digital innovation & data science activities in the HDU. Almost 60 employees are working on providing a modern data platform for the Group, expanding the eCommerce channel into an ecosystem, and developing new digital business models.



Success story

PAT (Performance Advisor Technology) is an AI that advises customers on performance enhancement via the Heidelberg Assistant portal. The supervised learning algorithm supplements the scarce resource of specialist advisors and will take on up to 60% of cases in the future. The specialists focus their work on the remaining special cases.

- Supporting pillar for the establishment of subscription models
- Already over 2,000 active users, roll-out in 25 countries started

Henkel dx Ventures - bundled digital competence in the hub

Henkel is rigorously pursuing its strategy of creating competitive advantages through innovation, sustainability and digitalization. The Innovation Hub bundles the necessary competencies and attracts digital talent from all over the world to the group. The hip location in Berlin Kreuzberg may give rise to the suspicion that a big marketing spectacle is being staged here. But the seriousness with which innovations are driven forward and the innovation successes already achieved speak a different language.



Success story

Henkel dx Ventures supports all group sectors. Some striking examples can currently be found in the consumer goods sector:

- In the beauty sector, Henkel dx Ventures helps with the systematic development, validation & placement of digital born brands like M:ID.
- With StreetBees comes consumer response in real time & rich media
- In the Middle East/Africa region, Henkel supports local intermediaries with a mobile sales platform that can also be rolled out to other markets

2ND AND 3RD PLACE

Prismade – FutureLab of edding

Prismade (contraction from **Printed Smart Devices**) has been co-funded by Edding as an emerging startup since 2018 and tied to the company as FutureLab. The unit's goal is to commercialize printed electronic solutions to enable digital security features for IDs, banknotes and other documents.

For Edding, Prismade is the pioneer of "new ink solutions" beyond markers and the like. It is impressive how consistently the medium-sized company from Ahrensburg is acting here.

Henkel dx Ventures - bundled digital competence in the hub

Henkel also invests in innovation with the help of digital business models, products and services in areas that are far removed from its immediate core business. To this end, 10 strategic search fields along four megatrends are interlinked with open innovation formats, company building, startup cooperation and venture capital. Henkel dx Ventures is present in several global markets close to the (end) customer. The link with the Group's strong business units has been successively strengthened.



Success story

Edding creates a new core competence with Prismade

- X **Prioritization:** Printed Smart Technologies open up a whole range of new target markets from trading cards to packaging and forgery-proof ID cards. The team follows the roadmap with strategic focus and agile adaptation along specific customers
- X **Division of labor:** Prismade pushes application development in sparring with the new business unit 'edding Tech Solutions' which tests the use cases and is responsible for marketing - this is scalable



Success story

Henkel dx Ventures is driving different topics about company building and startup investments with increasing success. Two examples:

- X With the US startup Sampler, the model 'product samples in exchange for information' becomes digital and globally scalable for many branded companies.
- X A self-designed B2B SaaS platform in the area of sustainability, resource reduction and offsetting, for which Henkel's own expertise is used

This year's winners in the "Service" category

Awards

The selection of the best Digital Innovation Units is the result of our two-stage evaluation process of online surveys and validation interviews. All of this year's awards were presented by CAPITAL and Infront Consulting in June 2021.

This year's winners of the Digital Lab Awards - Service



NEAR-CORE INNOVATION

- 1 Wayra, Telefónica Innovation
- 2 ERGO Innovation & Digital Transformation
- 3 SAP.iO sowie 3 VINCI Energies Digital



NON-CORE INNOVATION

- 1 EnBW Innovation
- 2 Lufthansa Innovation Hub
- 3 Greenhouse Innovation Lab für G+J / RTL

Wayra, Telefónica Innovation

Venture Clienting at its best

With 7 hubs in Europe and Latin America, Wayra is probably one of the most global digital innovation hubs in our study. As Telefónica's Digital Innovation Unit, Wayra aims to connect technological disruptors with the parent company. In doing so, Wayra acts as a strategic partner to accelerate the business of both the startups and Telefónica itself.

The German Wayra Hub in Munich focuses on startups in the areas of Big Data, AI, Network Technologies, Cyber Security, HR Solutions, Customer Service Solutions and Retail Technologies, which can already show initial revenues and customers. Promising startups can carry out a pilot project with Telefónica Deutschland in a four-month venture development program. If the pilot project is successful, startups receive a contract with Telefónica - and can thus benefit from a network of over 350 million customers and clients. In addition, there is the option of investments of up to 350,000 euros.

The Wayra Hub in Munich not only (over)fulfills the goals set by the group, but also impressed us: Wayra is the first digital innovation unit to achieve a score of over 4.5 in our ranking and thus receive a 5* rating - chapeau to this achievement!



Success story

Convincing innovation portfolio

- × The Wayra Hub in Munich is becoming more successful every year. Despite the pandemic, 15 PoCs were conducted with startups in 2020 - more than ever before. With revenues in the high single-digit millions, Wayra now not only enables cost savings, but also delivers a tangible commercial contribution
- × The venture clienting approach is working: A commercial contract is signed with approximately every second startup after the pilot phase. Telefónica is currently working with more than 30 of the funded startups
- × With three strong exits, Wayra also leads minority investments in startups to commercial success: Foodora was acquired by Delivery Hero, Paypocket was acquired by Continental and Relayr was bought by MunichRe

2ND AND 3RD PLACES

ERGO Innovation & Digital Transformation

ERGO's Digital Innovation Unit aims to give policyholders nothing less than peace of mind and a straightforward insurance experience - while digitizing its own processes end-to-end. Currently, around 40 employees are working in the areas of "Digital Culture", "Technology Push" and "Customer Centricity" - and with great success!

SAP.iO

SAP's early-stage venture arm takes a holistic approach to ensuring SAP's future growth. With innovations developed by SAP's own employees and through collaborations with B2B startups, the SAP ecosystem is continuously strategically expanded and gaps in the product portfolio are closed.

VINCI Energies Digital

The German digital unit of the global system integrator VINCI Energies wants to accelerate the digital transformation and energy transition. As an innovation platform, VINCI uses a variety of innovation vehicles: from in-house development and an intrapreneurship program to startup cooperations.



Success story

A number of commercially successful initiatives have been developed in the platform unit

- X Nexsurance: trial platform for new insurance products & business models.
- X RPA Unit: process automation with active bots and >100k transactions/month.
- X AI Unit: with 7-digit earnings contribution



Success story

"SAP Ruum" - the no-code tool for work management and process automation is one of several examples of successful product innovations from SAP.iO that have been incorporated into the SAP product portfolio.

- X Developed in the group's own product incubator SAP.iO Venture Studio
- X 5-digit number of active users



Success story

Vinci has created a scalable recipe for success in digital innovation & transformation

Supporting over 70 business units per year, 19 launches and over 40 startups funded since 2017 - no wonder VINCI Energies is establishing Digital Innovation Units in three more countries, following the VE Digital model

EnBW Innovation

Experience pays off

EnBW is one of the top three German energy suppliers and, with more than 23,000 employees and annual sales of over EUR 22 billion, a real heavyweight in Europe as well.

The Innovation department was established in 2013 as part of the fundamental transformation to a green energy group. CEO Frank Mastiaux expects the team to achieve measurable successes through successful new business models outside the core business as well as the establishment of startup working methods within EnBW itself.

The range of topics is strongly grounded in the ability to design and operate grids and networks of various kinds: It's about vehicles and fleets, individual properties and entire cities - and, of course, the digital energy provider.

The team works internally, e.g., via incubation and method transfer. With the increasing establishment of agile methods in the core company, the development of new businesses - in company building, via cooperations and with investments in startups - became more and more important. With the experience of 8 years, over 55 projects and 7 spin-offs, a strong core team and a significant budget, EnBW Innovation is well positioned.



Success story

Successes are the result of hard work

EnBW has been focusing on the same strategic innovation fields for several years now. The team has demonstrated an ability to learn, creativity and perseverance. Much of it has been laborious and lengthy, but now the successes are showing:

- × SMIGHT, started with a smart streetlight, has pivoted and now offers SMIGHT Grid, the foundation for digital operation of distribution grids
- × WTT CampusONE, born out of an HR initiative for online training, offers digital platforms, tools and content for human resources development remotely - and has gone through the roof in the pandemic
- × Virtual Power Plant, the homegrown digital energy provider, has grown 50% in the last year, already bundling one gigawatt of power and achieving official KRITIS (critical infrastructure) status
- × LIV-T, started as an IoT incubator, is now one of the top 10 companies in the European tank remote monitoring market with over 70,000 sensors sold and is present in seven countries

2ND AND 3RD PLACES

Lufthansa Innovation Hub

The Lufthansa Innovation Hub works on much more than flying tomorrow and the day after tomorrow. The unit deals with the entire Travel & Mobility Tech ecosystem and, in this context, initiates partnerships and develops its own ventures for the Lufthansa Group. In addition, the Hub supports the core organization in transformation projects, including training, upskilling and employer branding.

Greenhouse Innovation Lab for G+J & Mediengruppe RTL

The Greenhouse Innovation Lab is working on the media world of tomorrow, developing new digital business for Gruner + Jahr and the RTL media group.

It's not always radically new ideas that are pursued at Greenhouse, but the commercial successes speak for themselves. The example of AppLike shows how Greenhouse has laid the foundation for a digital product ecosystem. At scale, assets of the parent companies - media power in online, print and TV - are used selectively.



Success story

RYDES - Promising Pivot to Flexible Employee Mobility

- X With Rydes, employees receive a mobility budget for the use of different modes of transport instead of classic leased vehicles
- X Started as a B2C loyalty points system, now developed into a B2B mobility platform
- X Spin-off in February 2021 and entry of Forward31, the company builder of Porsche Digital, as investor



Success story

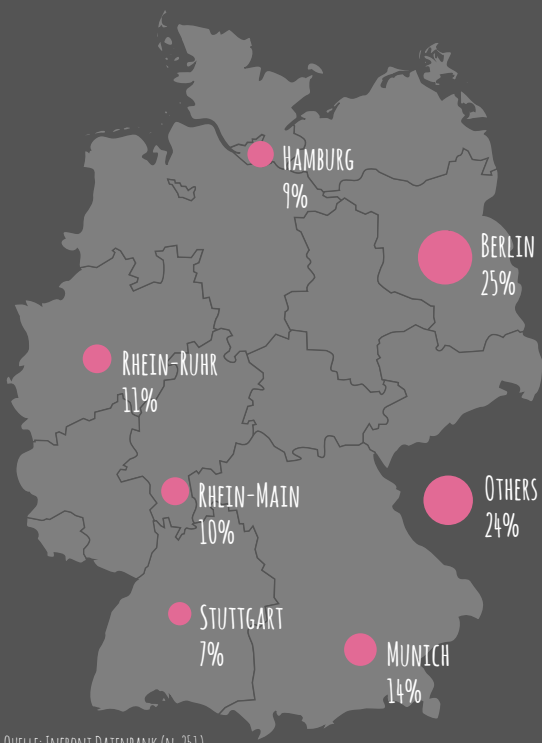
AppLike - from core marketing to global tech company

- X What started in 2017 as an approach to opening up new marketing channels is now an independent, global holding company with three companies: While Adjoe focuses on disruptive advertising revenues, JustDice develops app discovery products in the gaming sector. Sunday as mobile game publisher complements the portfolio
- X With double-digit million earnings, the track record of the AppLike Group is impressive - and the potential to become a tech unicorn is there

II: Study results in detail

Digital Innovation Units

Demographics

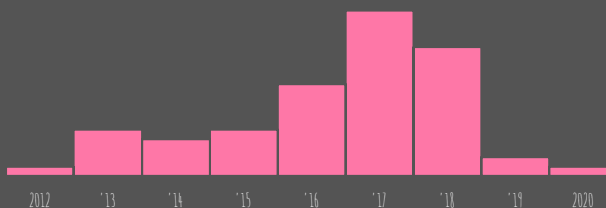


QUELLE: INFRONT DATENBANK (N=251)

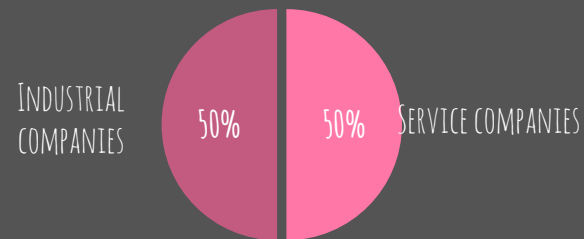
BACK TO THE ROOTS

Whereas 5 years ago the majority of all digital innovation units avoided the location of the core organization and sought connections to startup ecosystems in major cities, today 60% of all units are located in geographical proximity to their parent companies. Synergies can thus be better exploited.

DIGITAL INNOVATION UNITS WERE FOUNDED IN...



DIGITAL INNOVATION UNITS ARE OPERATED BY...



EVERY SECOND

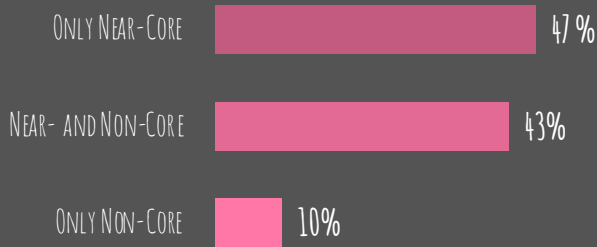
Digital Innovation Unit was established after 2016. The average age of a unit is four years.



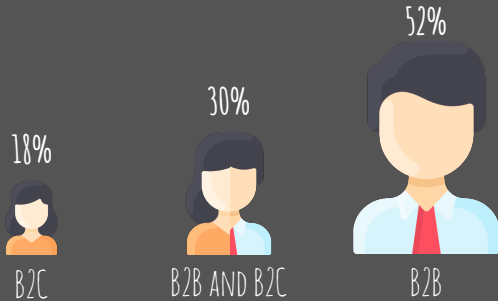
Digital Innovation Units

Focus on innovation & governance

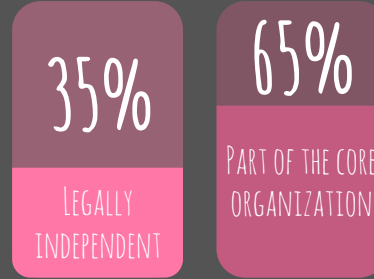
THE INNOVATION FOCUS OF THE DIGITAL INNOVATION UNITS IS...



INNOVATIONS ARE DEVELOPED FOR...



DIGITAL INNOVATION UNITS ARE ...



THREE OF FOUR

Digital Innovation Units provide training and coaching for the core organization

Support from top management is essential for digital innovation units - and is now a given in almost all units. Whereas five years ago less than 20% of all DIUs received sustained support, today around 80% are closely linked to management or C-level and report to them.



Digital Innovation Units

Resource allocation

The annual operating budget of a unit averages



The range extends from 500,000 to 25,000,000 Euros.

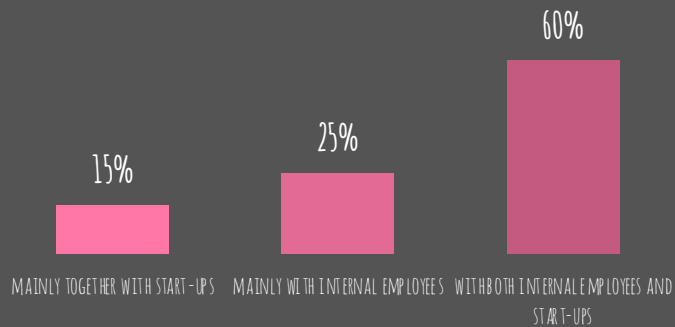
25

Employees does a digital innovation unit have on average, with just four working in the smallest unit and 130 in the largest.

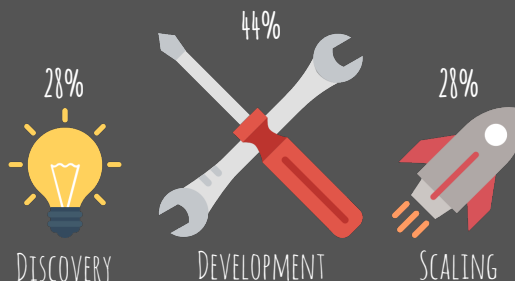


in 4 out of 5 units, at least 80% of employees work full-time

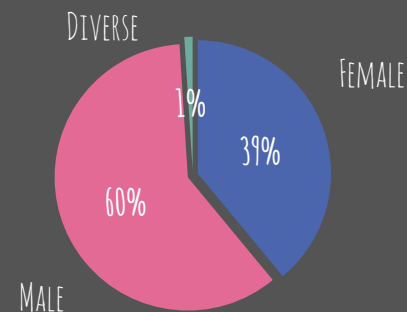
THE DEVELOPMENT OF DIGITAL INNOVATIONS TAKES PLACE...



ALLOCATION OF RESOURCES ALONG THE INNOVATION PROCESS



EMPLOYEES ARE



Innovation approaches continue to evolve

THE KEYBOARD OF INNOVATION VEHICLES

MAKE

Develop innovation yourself

BUY

Buy in innovation



Own development

Company Building

Co- Creation & Partnering

Venture Clienting

Buy & Build programs

Startup – Corporate Accelerators

Startup - minority shareholding

Startup - majority shareholding

M&A



OWN DEVELOPMENT

All forms of internal projects (m/o Lab) for mostly core business related innovations.



VENTURE CLIENTING

Establishment of (pilot) customer relationships between startups and group units



STARTUP MINORITY SHAREHOLDING

Acquisition of less than 50% of the shares of a startup company



COMPANY BUILDING

Spin-off of new businesses, especially for innovations outside the core business



BUY & BUILD PROGRAMS

Expansion of own spin-offs through acquisition of suitable startups and teams



STARTUP MAJORITY SHAREHOLDING

Acquisition of more than 50% but less than 100% of the shares of a startup company



CO-CREATION & PARTNERING

Development of digital innovations in cooperation with external partners



STARTUP – CORPORATE ACCELERATORS

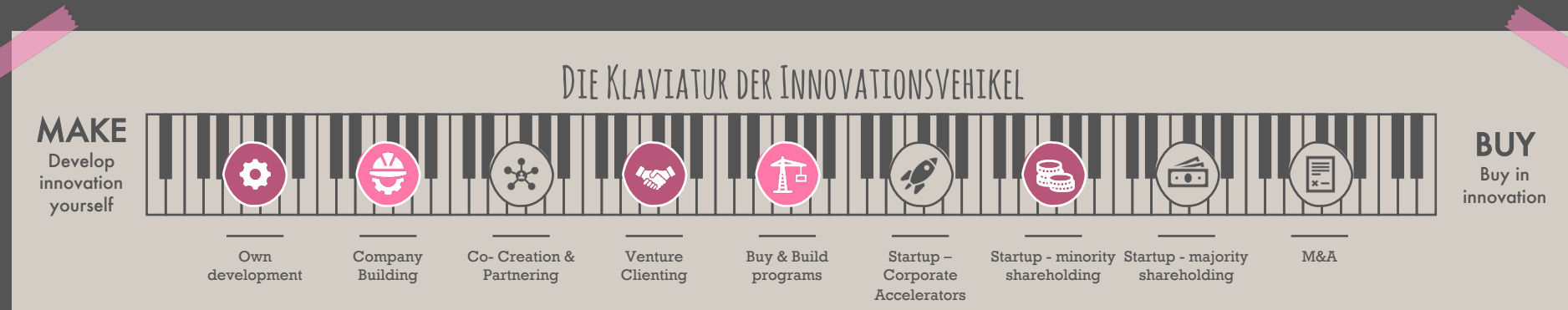
Programmatic collaboration with usually several startups at the same time



MERGER & ACQUISITION

Acquisition of the shares of a mature startup or an established company and its integration into the Group

The winners know the keyboard of innovation vehicles - and know exactly where they play



IN FOCUS RIGHT NOW



WILL GAIN RELEVANCE IN THE FUTURE

Which innovation vehicles are trending?

In our first study in 2017, the landscape of digital innovation units was still dominated by units working on innovations either with their own employees ("Innovation Lab") or with startups ("Accelerator" & Co.). Today, between "Make" and "Buy", we see significantly more innovation vehicles deployed and also more hybrid forms.

On average, our study participants reported using more than four different innovation vehicles, with "Make" oriented instruments being particularly popular: Over 80% of units develop innovations in their own teams.

Instruments that enable strategic spin-offs are becoming increasingly relevant. In addition to Company Building, more and more units want to establish Buy & Build programs.

Classic accelerator programs for startups are few and far between. That's right - opportunities don't come in batches! The most successful DIUs use models like Venture Clienting that harness the assets of the core organization to create competitive advantage. Many units want to - and will - follow suit.

Managing with Metrics

Clear trend towards KPI driven management

There have also been changes in the management of innovation units, which in many cases is becoming more similar to the management of traditional business units. This applies in particular to larger units, which are measured against firmly defined output criteria (quantitative and qualitative) set over several years.



In addition, 55% of the Innovation Units use OKR as a tool for setting targets and measuring key performance indicators, continuing a trend from last year.

Key figures for innovation units

THE BOTTOM LINE IS NOT THE ONLY THING THAT COUNTS. Digital innovation units are also expected to make a positive financial contribution to the overall result of the parent organization. This is where smaller units differ from larger ones in particular, as the latter usually work toward concrete annual key figures, while the former pursue less concrete and more long-term goals.

But it is not always just about money. The number of (successful) collaborations or investments, the number of (successful) internal projects, and the number of participants in training courses, events, or similar programs are also measured. In the case of successful units with a mission to contribute to the transformation of the core organization, internal customer satisfaction is also measured.

KPIs for projects

BEST PRACTICES: The top units follow phase-specific evaluation logics modeled on VC investors, i.e., funding oriented on binding KPIs/milestones, with criteria changing over time. It is also important to define termination criteria so that teams can make a face-saving early termination (if necessary).

EVALUATION CRITERIA OVER TIME



IDEATION/ DISCOVERY

Rather qualitative with focus on team suitability



PROTOTYPING/ DEVELOPMENT

Focus on hypothesis validation



SCALING

Rather quantitative with focus on the business case

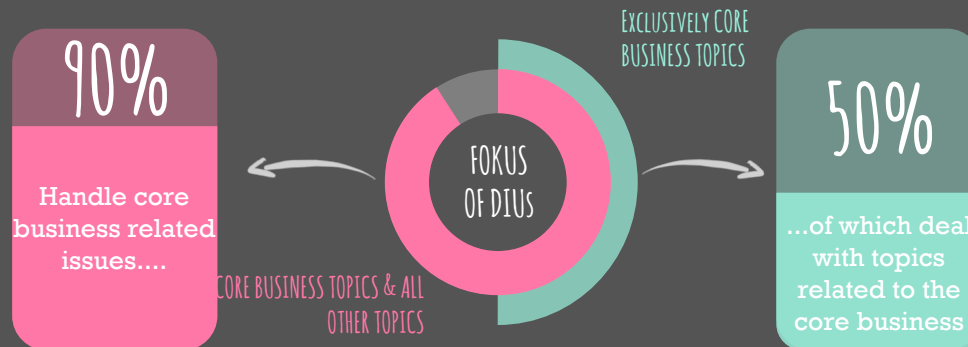
DIUs increasingly focus on core business issues and sustainability

Basic orientation

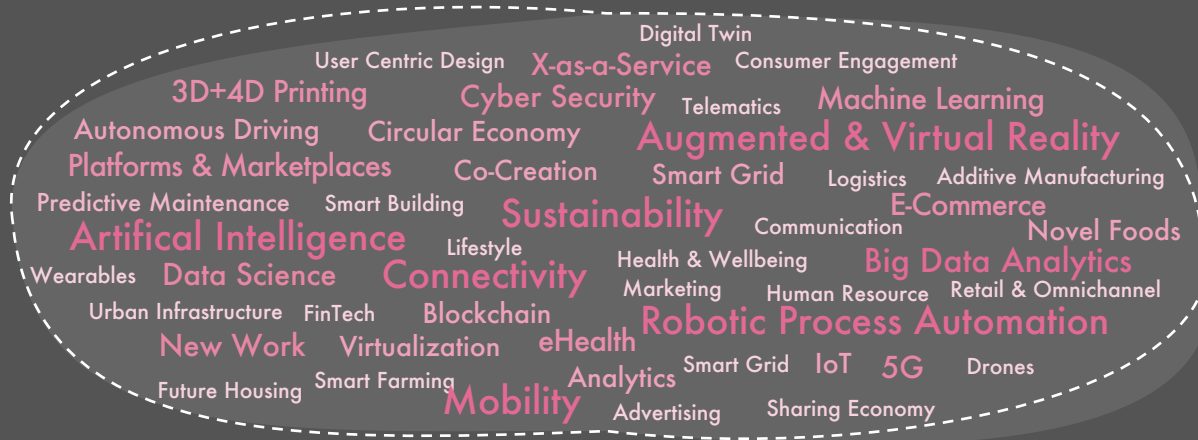
CORE BUSINESS-RELATED TOPICS: The relationship to the core business of the parent organization is relevant for almost all DIUs. 9 out of 10 units deal with topics close to the core business, and half of the units even focus exclusively on this. This continues a trend from previous years.

Focus areas: Focus on sustainability

SUSTAINABILITY As in the past, sustainability appears on the agenda of many DIUs. But compared to previous years, we see more examples of consistent implementation this year. 11 cases were mentioned to us in which sustainable ideas were successfully implemented commercially. So most labs are now following up their words with actions.



SOURCE: STUDY PARTICIPANTS (N=49)



Reducing innovation costs

DIUs were able to maintain and expand successes despite low budgets

Despite a year-on-year reduction in the average budget - from EUR 5.9 million in 2020 to EUR 4.3 million in 2021 - most of the digital innovation units in our study have managed to maintain or even improve their performance. One trend that helps here: driven by new tools, but also by the global availability of experts for prototyping and development, innovation costs have dropped significantly. This is especially true for the early phases of development.

Along the Discovery, Development and Scaling phases, we have identified six levers that are used by the various units to reduce their innovation costs:



Innovation Discovery

- × **More focus:** through clear strategic guidelines in the development of ideas, wastage is minimized
- × **Shorter time-to-fail:** Companies have become better at stopping innovation projects early if critical success hypotheses cannot be validated. One lever to prevent "zombie projects" is to define face-saving termination criteria at the outset and apply them consistently.



Innovation Development

- × **Low-/no-code tools:** Just a few years ago, there was no way around professional coders, even for initial prototypes. Today we see intuitive tools, not only for wireframes and website design - but also in areas like AI and process automation.
- × **Near-shoring:** We see more DIUs expanding globally and benefiting from cheap developers abroad. Remote working and English being the working language in many companies support this trend



Innovation Scaling

- × **Synergies with the core organization:** innovation units make greater use of business processes, marketing and sales channels, and other assets of the core organization in the commercial scaling of innovations
- × **External capital** can leverage capital for spin-offs - but most importantly, external capital providers mean strong validation of innovation

Corona-Update

Impact of the Corona Pandemic

Past experience has shown that innovation is a popular shut down candidate in times of recession in order to quickly save resources and costs. In this regard, Corona was an endurance test for many innovation units, where the core organization experienced substantial declines in day-to-day operations.

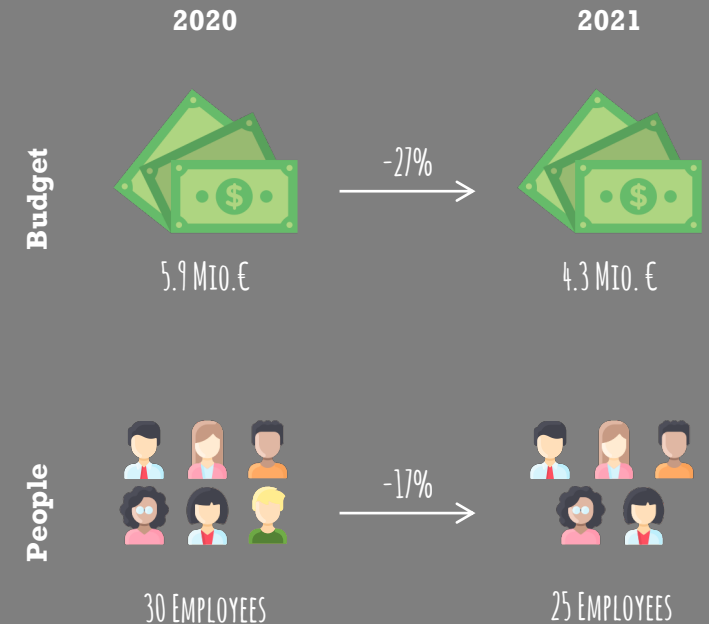


The initial impact of the pandemic on DIUs - which we analyzed in our study last year - was (still) manageable: While isolated projects were paused and employees were put on short-time work, many DIUs acted as home office facilitators for the core organization. Many units also scored with fast digital solutions for the no-touch economy.

What pleases us is that even after more than a year, the big wave of innovation unit closures has failed to materialize. The pandemic in particular has moved the prioritization of digitization and innovation to a higher priority. But: Clients are taking a closer look, the pressure on results is growing. Budgets were also cut last year, which is also reflected in employee numbers (chart on the right).



Declining resource endowment



SAMPLE: STUDY PARTICIPANTS IN 2020 (N=44) AND 2021 (N=49).



Excerpts from
the study
"Innovate the
Innovation"

III:

Post Mortem – Examining closed units

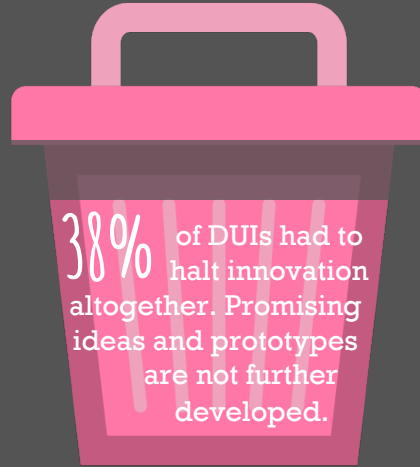
Graveyard of Digital Innovation Units

Status quo

- ✗ Of the 250+ digital innovation units known in the German-speaking world, we were able to identify 25 units that were closed in the last five years
- ✗ We analyzed eight of these closed units in depth and conducted interviews with former sponsors, leaders and employees
- ✗ Most units were closed in the automotive and logistics sectors; however, this is also where most units are opened

Post Mortem

- ✗ Most of the closed units we analyzed were established between 2014 and 2016
- ✗ The average lifespan of the closed units was 4 years
- ✗ Only 1 in 10 units closed because it had made itself redundant



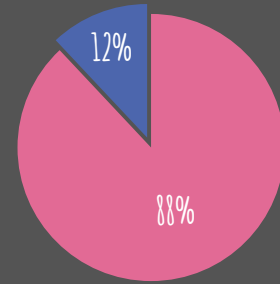
Some units close for surprisingly mundane reasons such as relocations or lack of cost centers for test sales

5 OF 8 units have carried out decisive pioneering work. Based on this, innovation is now being sustainably driven forward in the core organization



DIGITAL INNOVATION UNITS CLOSE QUIETLY

CLOSURE WITH PUBLIC ANNOUNCEMENT



CLOSURE WITHOUT PUBLIC ANNOUNCEMENT

Three causes are homemade

Cause #1: Unclear goal setting

Many Digital Innovation Units have been created to drive the digital transformation of the group without having a clear objective. Due to a lack of focus and undefined responsibilities, it remains unclear what the unit is supposed to achieve. A digital unit is thus more quickly perceived as unsuccessful.

Cause #2: Strategic Misfit

If the unit's mission and goals are not firmly linked to the corporate strategy, things can quickly get tight. Without a clearly identifiable strategic contribution (including buy-in from top management), the unit's raison d'être is primarily new profit pools - but these need a lot of staying power.

Cause #3: Hardly any commercialization

The majority of the units examined have discovery and development well under control. However, scaling and commercialization often fail. The handover of projects to the business units turns out to be a predetermined breaking point. Only a few units succeed in finding external growth paths.



Under the magnifying glass

- × Very vague goals were conspicuous in many closed units. With these goals, however, neither success nor failure can be measured
- × No investigated unit had the same goal at the end as at the beginning



Under the magnifying glass

- × If the group deprioritizes the work areas of a digital unit because it is realigning its strategy, the unit is repositioned or questioned altogether
- × In some cases, these "weather changes" have been the cause of closures.



Under the magnifying glass

- × If the unit closes due to a lack of commercialization, the process is quick: six months from decision to closure.
- × If commercialization fails to materialize, the unit is perceived as unsuccessful. Past successes then no longer count

Loss of sponsors and corporate crises are hard to compensate for

Cause #4: Management change

Innovation needs sponsorship. In digital innovation units, this is usually the CEO and/or CDO. Abrupt changes then have a full impact: they produce uncertainty in the DIU team, prolong urgent decisions, and can mean upwind for skeptics in the group.

Cause #5: Corporate crises

If the market environment changes very quickly for the worse, companies tend to focus on their core business. Innovation units are then candidates for closure. However, the great wave of Corona closures has so far failed to materialize, partly because the existing digital expertise is needed everywhere.

How to close a unit?

The winding up of a unit should not be rushed. Especially when it comes to special talents and highly developed projects.

DOs

- ✓ Structured processing with involvement of all stakeholders
- ✓ Transparent communication & honesty especially towards employees
- ✓ Finding a new home for innovation in the core organization



Under the magnifying glass

- × Management changes were cited by many closed units as a very important cause
- × These digital innovation units were too dependent on their sponsors



Under the magnifying glass

- × When the core business is in danger, explorative topics quickly disappear from immediate focus
- × Survival first - innovation projects without a crystal-clear rapid benefit are parked, costs for DIUs are saved

DONTs

- × Provocation of floor rumors through late communication & raising unrealistic expectations
- × Unfounded hiring freeze in the unit
- × Suspension of further development of projects under pretexs

WHAT CAN OTHER UNITS LEARN FROM THIS?

DIUs need clear goals and the freedom to work, but must also be measured against their actual results

Our research shows: Not all units close because they fail! The reasons are more complex and result from factors that the innovation unit itself has in hand and those that act on it from the outside. As far as performance is concerned, the unit itself determines the dosage of the elixir of life, but this does not promise immortality, because as soon as interfaces to the core organization and strategic connection are not clearly defined, the effect is extinguished.

LEARNINGS FOR OTHER DIGITAL INNOVATION UNITS

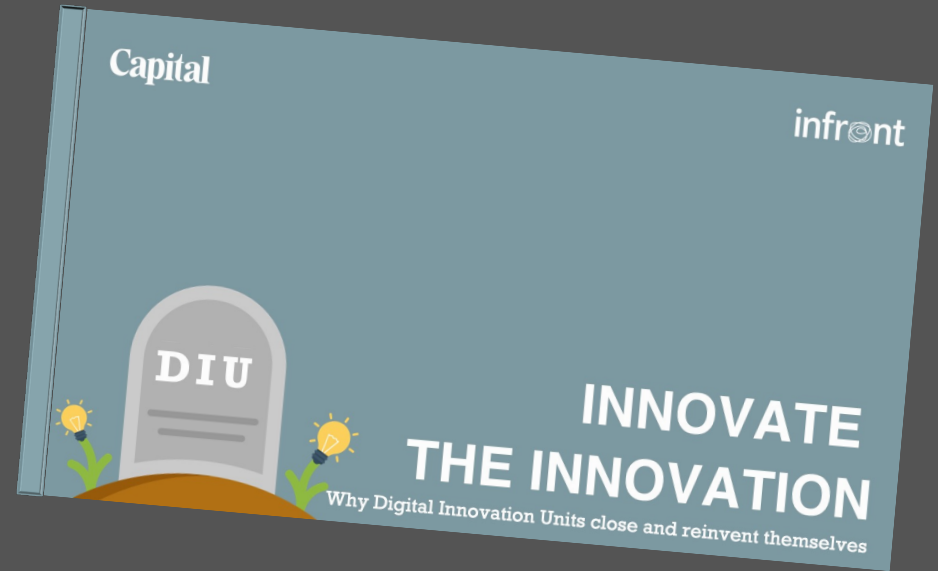
- X The success of a Digital Innovation Unit requires above all courage, perseverance and clear, realistic targets.
- X Appropriate KPIs and regular health checks are basic requirements for long-term success
- X Commercialization strategies should be clearly defined and underpinned with orientation features
- X Digital Innovation Units should not depend too much on top management - they need multiple supporters in the parent company
- X Establishing a network of supporters throughout the parent company and close links with the business units is essential
- X A Digital Innovation Unit can be a test balloon at the beginning, but the initial goals should not be held on to too stoically.



Want more insights?

The full study will be available July 15, 2021 at www.infront-consulting.com/publikationen

- x Causes of closures
- x What happens after a closure?
- x Case studies: Hermes Digital Lab and Man Truck & Bus X-Lab
- x Learnings for other units

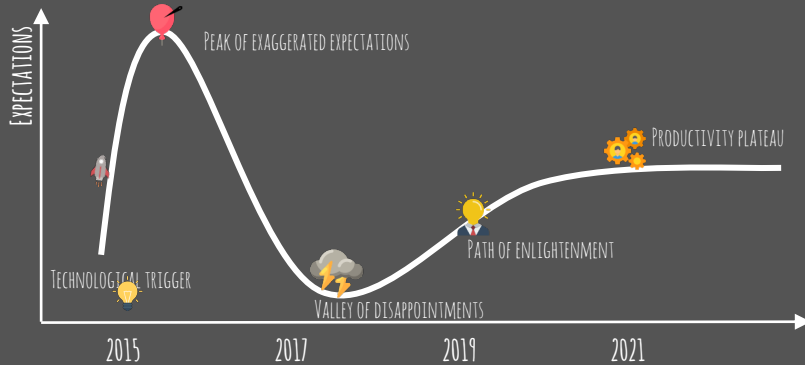


IV: Conclusion

Conclusion after five years of investigation

After several years of hype, we see a plateau in productivity

When we began systematically analyzing the landscape of innovation units in the German-speaking world five years ago, many of these programs were still in their infancy - or did not even exist. We encountered many units in trial or marketing mode. Not infrequently, they were founded with exaggerated expectations, as all-purpose weapons to harness new technologies. The founding boom was quickly followed by disappointment: Great successes usually failed to materialize. It was not uncommon for DIUs to be declared dead.



The perseverance of many units pays off: For about two years now - and after refocusing on the path of enlightenment - the fruits of success have also been visible on a larger scale. Today, their contribution to results is also much more clearly defined. The winners know exactly which innovation tools they are using and have established functioning routines for prototyping, testing and commercialization.

The main trends

- × DIUs seek greater proximity to the core business in terms of content - both in the selection of topics and in terms of cooperation with business units, support functions and greater alignment with the corporate strategy.
- × Focus: Instead of pursuing "innovation" in general, DIUs focus on strategic search fields & selective innovation tools with a clear mission
- × DIUs are less mission-driven, less strident and more focused on their core missions
- × DIUs are more strongly networked in the ecosystem of startups, digital pioneers, customers, service providers and companies

Success Patterns

Crux question for the organization of innovation - vertical business unit or horizontal platform?

Many innovation units have proven in recent years that, although they are a worthwhile investment, in the context of the company as a whole - with a few exceptions such as this year's winners of the Digital Lab Award - they still make hardly any significant contribution to the business result. The leap into the league of truly results-relevant innovation units can only be made with a lot of courage, determined decision-makers and strategic planning.

Among the best units, we see two patterns of success that differ in business mission and organizational anchoring. For CEOs and CDOs, it's a directional decision: Which organizational form for anchoring digitization and innovation do they believe in?

Digital Business Unit

As Digital Business Units, Innovation Units have a focused scaling mission for the digitization of the core business

- × Characteristics: Outcome responsibility for innovation, tends to be more insourcing of required resources.
- × Advantages: easy implementation of end-to-end responsibility for results.
- × Examples: Körber, EnBW, ERGO



Innovation platform

Innovation platforms have a broader innovation and transformation mission bundled in a hub

- × Features: comprehensive internal range of services (e.g. training, intrapreneurship, networking, events)
- × Advantages: parallel use of several innovation instruments, combination of innovation and transformation
- × Examples: Wayra, Henkel, VINCI Energies



Appendix

Ranking

Core business innovations - Industry

With a total score of 3.0 and above, 17 of the participating digital innovation units are among Germany's top units

	Growth & potential	Speed	Commercial success	Total Score
Körber-Geschäftsfeld Digital	4,3	4,0	4,6	4,3
Heidelberg Digital Unit	4,6	4,3	3,8	4,2
Henkel dx Ventures	4,5	4,2	3,9	4,2
ZF Innovation Factory	4,2	3,5	4,2	4,0
Hansgrohe InnoLab	3,8	3,8	3,8	3,8
Krones Innovation Lab	3,9	3,4	3,9	3,7
BMW Startup Garage	4,0	2,9	4,2	3,7
Bilfinger Digital Next GmbH	3,5	3,7	3,7	3,6
StationX by Siemens Mobility	4,0	2,9	4,0	3,6
AMAG Innovation & Venture LAB	3,7	3,3	3,6	3,5
Gnerator powered by Gira	3,3	3,6	3,6	3,5
KSB Business Innovation Lab	3,7	3,4	3,4	3,5
BSH Startup Kitchen	3,7	2,8	3,9	3,5
EagleBurgmann Digital Lab	3,6	3,8	2,9	3,4
Beam GmbH (BEUMER Group)	3,5	3,2	3,5	3,4
Agro Innovation Lab GmbH (by RWA & Lagerhaus)	3,5	2,3	3,8	3,2
The Nest – Elia Group Innovation Lab	3,0	3,1	3,0	3,0

Ranking

Non-Core business innovations - Industry

With a total score of 3.0 and above, 7 of the participating Digital Innovation Units are among Germany's top units

	Growth & potential	Speed	Commercial success	Total Score
Körper-Geschäftsfeld Digital	4,5	4,2	4,2	4,3
Henkel dx Ventures	4,2	4,0	3,9	4,0
Prismade - FutureLab of edding	3,7	3,7	3,5	3,6
Hansgrohe InnoLab	3,7	3,7	3,4	3,6
KSB Business Innovation Lab	3,8	3,4	3,4	3,5
NEDGEX powered by NETZSCH Group	3,8	3,6	3,2	3,5
Beam GmbH (BEUMER Group)	3,4	3,2	3,4	3,3

Ranking

Core business innovations - Service

With a total score of 3.0 and above, 16 of the participating digital innovation units are among Germany's top units

	Growth & potential	Speed	Commercial success	Total Score
Wayra, Telefónica Innovation	4,6	4,3	4,7	4,5
ERGO Innovation & Digital Transformation	4,5	4,3	4,6	4,5
SAP.iO	4,8	4,1	4,4	4,4
VINCI Energies Digital	4,7	3,9	4,7	4,4
Vodafone Innovation	4,3	4,4	4,5	4,4
EnBW Innovation	4,8	3,9	4,4	4,4
comdirect Startup Garage	4,5	4,2	4,0	4,2
Lufthansa Innovation Hub	4,0	4,5	3,9	4,1
Eurowings Digital	4,1	3,7	4,0	3,9
Innovationsmanagement der Westnetz	4,1	3,9	3,8	3,9
Greenhouse Innovation Lab für Gruner + Jahr und die Mediengruppe RTL	3,8	3,7	4,0	3,8
CodeCamp:N GmbH (NÜRNBERGER Versicherung)	3,5	3,7	3,7	3,6
Einheit Innovations & Ventures der DB Systel GmbH	3,7	3,5	3,7	3,6
minnosphere, company of msg	3,5	3,2	3,6	3,4
Health Innovation Port (Philips)	3,9	2,6	3,8	3,4
Sparkassen Innovation Hub (Star Finanz GmbH)	3,5	3,3	3,3	3,4

Ranking

Non-Core business innovations - Service

With a total score of 3.0 and above, 10 of the participating digital innovation units are among Germany's top units

	Growth & potential	Speed	Commercial success	Total Score
EnBW Innovation	4,5	4,4	4,4	4,4
Lufthansa Innovation Hub	4,5	4,3	3,8	4,2
Greenhouse Innovation Lab für Gruner + Jahr und die Mediengruppe RTL	4,1	3,9	4,5	4,2
comdirect Startup Garage	4,3	4,1	4,0	4,1
SevenAccelerator (bisher ProSiebenSat.1 Accelerator)	4,2	3,3	4,3	3,9
Main Incubator (Commerzbank Gruppe)	3,8	3,7	4,0	3,8
Sparkassen Innovation Hub (Star Finanz GmbH)	4,0	3,3	3,3	3,5
CodeCamp:N GmbH (NÜRNBERGER Versicherung)	3,3	3,5	3,5	3,4
minnosphere, company of msg	3,5	3,2	3,6	3,4
Health Innovation Port (Philips)	3,5	2,6	3,8	3,3

About the economy magazine Capital

Who we are

- ✗ CAPITAL has been defining business journalism in Germany for almost 60 years.
- ✗ The brand's reputation has always been based on top expertise in the field of financial investments as well as creativity and analytical substance in reports on companies, the global economy and the major trends in our society.
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The magazine is divided into three parts: World of Business, Invest and Life - because CAPITAL's triad is Earn Money, Invest Money and Spend Money.

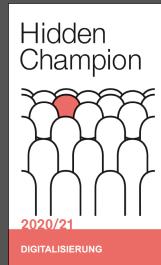
- ✗ World of business: economic and social issues from surprising perspectives
- ✗ Invest: Analyses and expert tips on all aspects of private financial investment
- ✗ Life: The finer things in life



About Infront Consulting & Management

Who we are

- ✗ As a leading strategy and management consultancy for digitalization, Infront supports companies across industries in developing and successfully implementing effective strategies for the future.
- ✗ Since our founding in 2004, we have developed over 1,200 business model ideas and more than 100 market-proven innovations. We develop holistic solutions for strategy, innovation and transformation.
- ✗ Since 2018, Infront has been an independent strategy arm of KPS AG, the sixth largest German management consultancy with a pan-European presence and more than 1,000 employees



- ✗ More information at: www.infront-consulting.com

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Digital Innovation Unit - Benchmarking

- ✗ In a compact project, we systematically identify development potential for your innovation unit. Our structured benchmarking is based on anonymized data from our studies as well as experience from 100+ innovation projects.



Innovation Scaling

- ✗ Commercial scaling is the supreme discipline of digital innovation projects. We support your core business-related scaling projects with our data-based weSCALE framework.

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