



DIU

INNOVATE THE INNOVATION

Why Digital Innovation Units close and reinvent themselves

Preface

Opened with a bang, buried in silence

Not so long ago, digital innovation units were hyped with great expectations as an "all-purpose weapon against attacks from startups" but today critical voices are increasingly being raised. Not infrequently, they are dismissed as "playgrounds of hip creatives" or "toys of CDOs" that burn more money than they bring in. The death of Digital Innovation Units has been announced more than once. But what is true?

As we showed in our study "Corporations on the Track of Startups," now in its fifth edition this year, the digital innovation unit scene is alive and well, and the best digital innovation units make important contributions to corporate success. Nevertheless, this year we have expanded our study - in which, admittedly, due to our study design, only successful digital innovation units are participating - include the analysis of an unconsidered area so far: Digital innovation units that have been closed down and no longer exist (in their original form). Even though it usually happens quietly and can only be discovered through extensive research and confidential discussions, around 10% of all units have ceased their activities in recent years.

We asked ourselves: Why are digital innovation units being closed? And did closed units fail or were they able to fulfill the grand vision of making themselves redundant?

We hope you will enjoy reading!

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Study at a glance

Scope of the study

In the "Innovate the Innovation" study, for the first time, we take a look at digital innovation units that have been closed and therefore no longer exist today. The aim here is not to cast the units in a bad light and present them as failures, but rather to identify the overarching reasons for their closure. To do this, we looked at four factors:

UNIT CLASSIFICATION

Understand operation & core issues of the unit and identify characteristics

REASONS FOR CLOSING

Why the unit was closed, how the closure was experienced, and how the closure is retrospectively evaluated

EVALUATION & CONCLUSION

Reconsider what worked well and what could have been done better

REVIEW OTHER UNITS

Leave the perspective of the unit and transfer own experiences and expertise to other Digital Innovation Units

Study design

- × "Innovate the Innovation" was conducted by Infront Consulting & Management between March and May 2021. The aim of the study was to identify reasons for the closure of digital innovation units and to derive lessons for active units. Our analysis is the first of its kind in the German-speaking world.
- × The study was based on a database with time series data of 250+ digital innovation units in the German-speaking region.
- × 25 closed units were identified, of which eight units were analyzed in depth. For this purpose, interviews were conducted with former leaders, sponsors and employees.
- × To minimize bias due to social desirability, anonymity was offered to all participants.
- × In addition, we spoke with experts in digital innovation units and selectively used data from our study "Corporations on the Track of Startups 2021"
- × We also developed public case studies with two of the eight units analyzed, providing exclusive behind-the-scenes insights

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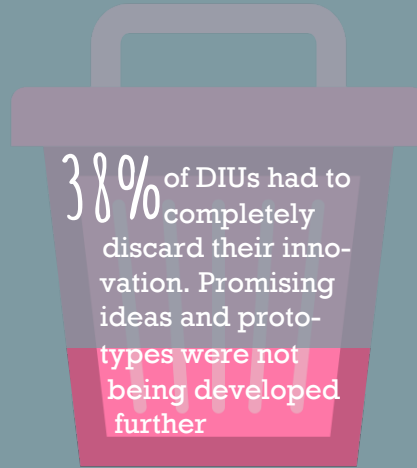
I: Study Results

Closed Digital Innovation Units

Status quo

- × Of the 250+ digital innovation units known in German-speaking countries, we were able to identify 25 units that have been closed in the last five years.
- × We analyzed eight of these closed units in depth and conducted interviews with former sponsors, leaders & employees
- × The automotive and logistics sectors closed the most units; however, this is also where the most units are opened
- × The majority of the closed units we analyzed were founded between 2014 and 2016, and have existed for an average of four years
- × Digital Innovation Units are often closed quietly. Only 12% communicate the closure publicly

Facts & Figures



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

5 OF 8 units have carried out crucial pioneering work, based on which innovation is now being driven sustainably in the core organization



Only 1 OF 10 units closed because it has made itself redundant

60% of closed units report structural challenges that have impeded success. These include: A lack of a legal framework for the spin-off or a lack of premises for the work



The five most common causes of digital innovation unit closures

Causes of closures

A Digital Innovation Unit is not a foregone conclusion. Many hurdles must be overcome on the way to establishing it as an integral part of the company. Some of them prove to be fatal pitfalls. In our analysis, we were able to identify five causes that often lead to the discontinuation of activities.



Cause #1: Unclear goal setting

Many Digital Innovation Units have been created to drive the digital transformation of the core organization. If no clear objectives are defined, the lack of focus means that it remains unclear what the unit is supposed to achieve. As a result, goals are not achieved, and the unit is quickly considered unsuccessful - and is often closed.

Under the magnifying glass

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

Cause #2: Strategic Misfit

If the work assignment and goals are not linked to the corporate strategy, things can quickly get tight. Without a clearly identifiable strategic contribution, the unit's raison d'être is primarily new profit pools - but these need a lot of staying power. If there is a lack of both strategic integration and commercial success, closure is imminent.

Under the magnifying glass

- X If the Group deprioritizes the work areas of a digital unit because it is realigning its strategy, the unit is repositioned or called into question altogether
- X These "weather changes" have been the cause of closures in some cases

The five most common causes of digital innovation unit closures

Cause #3: Hardly any commercialization

The majority of the units examined have a good grip on the early innovation phases - discovery and development. However, they often fail in the scaling phase: The handover of projects to the business units turns out to be a predetermined breaking point. Only a few units succeed in taking the path of external growth.

Cause #4: Management change

Innovation needs sponsorship. In digital innovation units, this is usually the CEO and/or CDO. A strong dependence on only one sponsor can quickly end fatally: A management change of CEO and/or CDO ended for 75% of all closed units with a strategic realignment or closure.

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 often candidates for cancellation - especially if the digital innovation unit in question makes only small financial contributions or deals with topics that are rather remote from the core business.

Under the magnifying glass

- × If the unit closes due to lack of commercialization, things move quickly: six months from decision to closure
- × Failure to commercialize equates to unit failure for many companies - even if goals from other areas are achieved

Under the magnifying glass

- × Management changes were cited by many closed units as the decisive reason for closure
- × If the (main) sponsor leaves the company, critics quickly gain the upper hand and force a closure

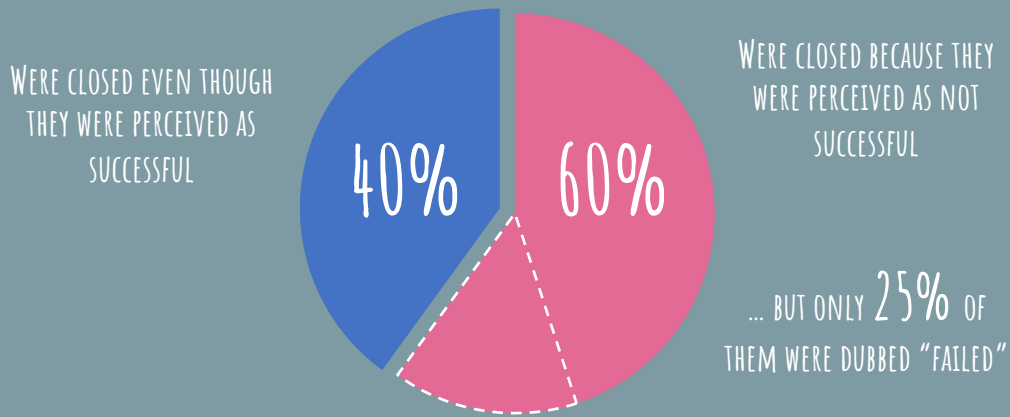
Under the magnifying glass

- × 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

Not all innovation units close because they fail

Closing does not always mean failure

The closure of an innovation unit is often perceived by the outside world as a failure. This is one of the reasons why closures are usually carried out quietly and without public communication. However, our analysis paints a more differentiated picture: The case studies published here show that successful units also close and reinvent themselves - even if the majority of the units studied were actually unable to convince the core organization sufficiently of their value contribution.



Example

One Digital Innovation Unit that was successful in its implementation and was nevertheless closed is the MAN Truck & Bus X-Lab (see case study on page 16): With its focused, agile work, the Lab managed to develop an independent company with RIO, in which the working methods from the Lab are consistently practiced even though the Lab no longer exists in its original form.

What experts say

"I DON'T SEE THE CLOSURE AS BEING NEGATIVE AT ALL. I THINK IT'S MORE OF A SUCCESS TO SAY, 'HEY, WE'VE EMPOWERED THE ORGANIZATION TO THE POINT WHERE WE DON'T NEED THE LAB ANYMORE'" **former DIU director**

Only those who have goals can fail

Success and failure are close together

Every second Digital Innovation Unit closed today was initially founded as a test balloon to find out for themselves what contribution they could make. What is perceived as great freedom at the beginning and often makes real innovation possible in the first place can turn out to be a major problem in later phases: A solid evaluation of success is not possible.

If such a test balloon is closed, there is rarely any talk of failure - because only those who have goals can also fail. If there are no goals, it is easy to sell the closure of a digital innovation unit as a success story. The appropriate story for this is provided by players in the digital innovation unit scene: they propagate that the ultimate success of a digital innovation unit lies in enabling the core organization to innovate digitally and that if this goal was achieved, an innovation unit would make itself superfluous. Digital Innovation Units should thus work toward their elimination.

While this may work as a long-term vision, it again lacks a concrete measurable goal for assessing the success of a unit. Instead, this is used as a backdoor to retroactively sell the closure as a success and allow all parties involved a face-saving termination.

Example

One unit under consideration was launched with an abstract mission: "Develop digital innovations & promote digital transformation". When the unit was closed, it was not really possible to sum up whether it was successful or unsuccessful due to the lack of concrete objectives.

Another unit was founded without a concrete mission. When the self-imposed mission - to establish an innovative mindset - was fulfilled from the Group's perspective, the unit was closed. In a sense, it was thus designed to be closed, without this being clear to those involved in advance.

What experts say

"I THINK THE GOAL OF AN INNOVATION UNIT SHOULD BE TO DO AWAY WITH ITSELF."
former head of a closed DIU

"MANY DIGITAL INNOVATION UNITS START WITHOUT A CLEAR OBJECTIVE AND ARE ALSO BURIED WITHOUT A CLEAR OBJECTIVE." **DIU-Expert**

"FAILURE, AFTER ALL, ALWAYS MEANS THAT IT WAS CLEAR BEFOREHAND WHAT THEY WERE SUPPOSED TO DO." **former sponsor of a DIU**

The fate of an innovation unit depends on a few key players

Each role has its own special influence on the DIU

Everyone thinks innovation is good at first - that's why it's not immediately obvious which people from top management are really committed and how they influence the innovation unit.

- × **CDIO:** Being responsible for traditional IT and digital innovation makes it easier to integrate innovation into the core organization. However, it also carries the risk of diverting DIU resources to urgent core business challenges in the short term.
- × **CDO:** As sponsors of the unit, CDOs need a strong network within the group, otherwise the necessary establishment of the unit will fail.
- × **CTO:** If CTOs are not sympathetic to the DIU, internal turf wars ensure the set-up of redundant innovation projects in the core organization without involving the DIU.
- × **CEO:** Without support from the top, DIUs must quickly achieve measurable successes to justify their high costs in the medium term. Otherwise, they are doomed to close.
- × **Head of innovation unit:** Heads must have a standing in the group that gives their team the backing to work. Their departure can quickly spell the end of the DIU.

Example

In another case, the CEO has left the company. With the new CEO, a new direction was set and instead of exploring digital innovations, the focus is now primarily on efficiency in the core business. The unit initially experienced a 30% budget cut, which prevented it from scaling, and was ultimately closed due to a lack of profitable innovation. A self-fulfilling prophecy, so to speak.

What experts say

"BECAUSE THERE WAS NO LONGER A SPONSOR, THE CORE TOPICS OF THE INNOVATION UNIT WERE NOT INCLUDED IN THE NEW CORPORATE STRATEGY."
former head of a closed DIU

"IF THERE'S SOMEONE AT THE TOP FOR WHOM YOU'RE A THORN IN THEIR SIDE, THEY'LL ALWAYS FIND WAYS TO TORPEDO YOU."
DIU-Expert

Full Stop, Recycling or Resurrection?

One closure is not like another closure

Innovation units close for a wide variety of reasons. But in most cases, closing does not mean that nothing remains of the unit. The working methods, processes and advanced projects are usually not completely discarded: By reintegrating into the group, for example, it is possible to learn from the unit's culture. Alternatively, units are spun off and reopened to continue innovating with a more commercial focus. In both cases, the closed digital innovation unit lives on in a new form and has ultimately at least fulfilled the task of providing impetus. When the unit as a whole is abolished, it is usually due to a radical change in strategic focus or management dissonance.

FINAL CLOSING



- × DIU will be closed permanently and irreversibly
- × Projects that have been started will be discontinued entirely

REINTEGRATION



- × DIU is (partially) integrated into the core organization
- × Culture of innovation lives on throughout the group

REOPENING



- × DIU to be spun off in a new venture
- × Stronger focus on commercialization

How to close a unit?

The winding up of a unit should not be rushed. This is especially true 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

DONTs

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

II: Case Studies

Two case studies of closed units

Which units were closed?

We naturally asked ourselves this question at the beginning of our study. But finding an answer was not at all easy - because closures usually take place quietly and secretly without public communication. Only through extensive research, personal inquiries and confidential conversations were we able to gain an overview of which units no longer exist today.

Most of the participants in our study wanted to remain anonymous. Only a few units are willing to talk publicly about their path and the individual reasons for closure. We are therefore even more pleased to be able to present the closure of two units as case studies.

Thank you very much!

Hermes Digital Lab

In 2017, the Hermes Digital Lab was one of the best innovation labs in the German-speaking world. Today, the unit no longer exists in its original form, as innovation at Hermes has been run at group level since 2019.

PURPOSE

- x Determine potentials of digitization
- x Verify potentials
- x Building digital competence
- x Living and driving cultural change

PERIOD OF EXISTENCE

- x 2016 to 2019

MAXIMUM NUMBER OF FTES

- x about 20

REASON FOR CLOSING

- x Weaknesses in the transfer of projects to the core organization and in scaling in the business units

MAN Truck & Bus X-Lab

The MAN Truck & Bus X-Lab, which won the Digital Lab Award in 2017, now only bears the name "X-Lab" in its signature out of a sense of connection to its former Innovation Lab days. The way it works and its mission have changed fundamentally since the 2018 reorganization. Today, the unit is an independent software company.

PURPOSE

- x Thinking ahead of customer problems and digital solution approaches
- x Digital transformation
- x Exemplifying and driving cultural change

PERIOD OF EXISTENCE

- x 2014 to 2018

MAXIMUM NUMBER OF FTES

- x about 15

REASON FOR CLOSING

- x Lab teams' new focus on entrepreneurial impact

Hermes Digital Lab

Interview with Tim Rudolph, former head of the Hermes Digital Lab



TIM, YOU SET UP THE HERMES DIGITAL LAB BACK THEN AND RAN IT FOR 2.5 YEARS. WHAT WAS THE BUSINESS MISSION OF THE UNIT AT THAT TIME?

We had various goals at the time. On the one hand, we wanted to identify the potential of digitization for Hermes and review and implement it as quickly as possible. On the other hand, we wanted to build digital competence in the company and contribute to cultural change by exemplifying a culture of innovation.

WHAT WENT WELL & WHAT ARE YOU MOST PROUD OF?

We were very strong on implementation. We implemented our identified potentials within 4 to 12 weeks in such a way that they could be used in the real world, and we could quickly determine whether it was worth following up.

WHAT DIDN'T GO QUITE SO WELL?

Transferring these projects to the core organization was somewhat more difficult. At that time, we did not succeed well enough in implementing these projects within an entire business unit and scaling them properly in the interaction between the core organization and Lab.

AND WHAT WAS THE ULTIMATE REASON FOR CLOSING?

Exactly the weak point I just mentioned. We wanted to ensure that we also created real added value on a large scale with these developments in the core organization. This required a culture change and restructuring. This allowed us to take the mindset and the way of working that we had cultivated throughout the organization.

Hermes Digital Lab

WHAT HAPPENED TO THE HERMES DIGITAL LAB?

We shut down the Lab in 2019 and took the people with us into the organization. Initially, we focused on last-mile topics and worked with the business units to massively improve or develop new applications and ways of working. And this has now given rise to an overarching process management system that ensures that we are becoming increasingly customer-centric with the digital expertise we have built up and are really making Hermes fit for the future.

WOULD YOU STILL SAY THAT THE LAB WAS WORTH IT?

Absolutely! I found it and still find it super successful. I also think that the success we had with it would not have been possible without the establishment of a lab, a space in which the methods could be tested. But in the end, in order to really implement the topics on a large scale, the cultural change, the restructuring and the integration of these methods and ways of thinking into the core organization were also necessary.

WHAT WOULD YOU GIVE OTHER UNITS TO TAKE AWAY?

One thing above all: focus on the real work! PR is all well and good and frameworks can also help, but if you really want to achieve something, it is necessary to quickly check the developed potentials in the real world and that usually does not work in PowerPoint.

MAN Truck & Bus X-Lab

Interview with Christian Zingg, former director of MAN Truck & Bus X-Lab



CHRISTIAN, X-LAB WAS SET UP IN 2014 AND YOU HEADED IT FOR THREE YEARS FROM 2015. WHAT WAS THE UNIT'S BUSINESS MISSION AT THE TIME?

When we launched the X-Lab project in 2014, MAN Truck & Bus' mission was to find out what problems we would solve for our customers - assuming we had mastered all the technologies and issues surrounding digitization. So following on from this, we wanted to work iteratively with customers to develop precisely those products that strike a chord with customer needs in order to achieve success.

WHAT WENT WELL & WHAT ARE YOU MOST PROUD OF?

On the one hand, we did a good job in terms of culture and stakeholder management, and on the other hand, we just developed really good software. I really had the time of my life in my role as head of the lab, developing these products with an extraordinary team.

WHAT DIDN'T GO QUITE SO WELL?

Looking at it as an outsider, I would probably say that the commercial success of the Lab was limited. That has since changed with the repositioning and the path we took was also important to be where we are today.

AND WHAT WAS THE ULTIMATE REASON FOR CLOSING?

We never officially closed the X-Lab, but we stopped the explicit Lab work around ideation and exploratory topics for now. The main reason for this was to focus the teams on topics with business impact. Additionally, the idea was to use it to bring the culture and way of working to the rest of the company.

MAN Truck & Bus X-Lab

WHAT HAS BECOME OF THE X-LAB?

In 2018, we began the transformation to evolve the entire organization into a competitive software development company - X-Lab was no longer part of MAN Truck & Bus, but was to become a legally independent company: RIO. With this goal in mind, we embarked on an exciting journey. Step by step, we have grown, developed the structure and culture within the organization, and with RIO we have now created an independent company that really deserves the name "agile working". The basis for commercial success has thus been created. What remains of X-Lab are the people, the culture and the attitude towards work; the name X-Lab is still in the signature out of attachment to this fantastic time.

WOULD YOU STILL SAY THAT THE LAB WAS WORTH IT?

Yes, definitely. The Lab was necessary. An organization can only tolerate a certain amount of change, and the learning environment of the X-Lab helped us a lot to learn on a small scale. Evolution is also never really complete - even if we knew the ideal target image for RIO a year from now, it would be impossible to adapt that directly. The X-Lab was worthwhile simply because we achieved initial successes there and the results triggered the motivation to continue developing.

WHAT WOULD YOU GIVE OTHER UNITS TO TAKE AWAY?

So definitely that customer centricity, stakeholder management and culture are the be-all and end-all. We started by working a lot with customers to figure out what problems we should solve for them. By involving internal stakeholders, we both ensured that the solutions fit into our truck ecosystem and ensured the commitment of the individual players. In order to sow the first seeds toward culture, it is very important to focus on the mindset of the employees at the beginning. This creates a learning environment right from the start, in which products are created that delight customers and create value.

III: Conclusion & Learnings

What can other units learn from this?

Our conclusion

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 under control and those that act on it from the outside. What has long been a matter of course for the development of digital innovations should also apply to digital innovation units: Iterative (further) development according to new findings and customer-centric - i.e., according to the needs of the core organization - work are essential for success! After all, why should digital innovation units, of all things, be perfectly designed right from the start?

LEARNINGS FOR ACTIVE DIGITAL INNOVATION UNITS

- ✗ The success of a DIU requires above all courage, perseverance, and clear & realistic targets.
- ✗ Appropriate KPIs & regular health checks are basic requirements for long-term success
- ✗ Commercialization strategies must be clearly defined and underpinned with orientation features
- ✗ Avoid dependence on only one sponsor in top management - generate added value for the entire management team
- ✗ Establish a network of supporters throughout the parent company & close links with the business units
- ✗ A DIU may well be a test balloon in the beginning - but clear and measurable goals must follow



Interested in a different perspective? Read the leading study on active Digital Innovation Units: www.infront-consulting.com/en/publications/

- x Ranking of the Best Digital Innovation Units
- x Blueprints for successful organizational anchoring
- x Review after five years of analysis
- x Impact of the Corona pandemic



About Infront Consulting & Management

Who we are

- x As a leading strategy and management consultancy for digitalization, Infront supports companies across industries in developing and successfully implementing effective strategies for the future.
- x 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.
- x 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



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

Our range of services for DIUs



Digital Innovation Unit - Structure

- x Benefit from our many years of expertise in building and operating substantially successful innovation units. We use the special success patterns of digital units to ensure performance, minimize risks and inspire stakeholders.



Digital Innovation Unit – Benchmarking

- x 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

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

Imprint

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Publishing Date

July 2021

Thanks a lot

We would especially like to thank the interview partners of the study for their participation and trust. We would also like to thank the teams at Capital and Infront Consulting & Management for their support in carrying out this study.

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