Chapter 16

INSOURCED INCUBATION

What's the Trend?

Companies desperate to bring more innovation into the enterprise turn to a new model of intrapreneurship modeled after the best business incubators—bringing innovators in house, providing support and resources, and starting innovation labs.

Corporate entrepreneurship is the sort of term that has earned its status as an oxymoron. Talk to any business leader and you'll hear that innovation is a top priority, yet when it comes to actually thinking more entrepreneurially to do it, companies have failed for years.

The problem usually comes down to what a seminal 2006 article in the Harvard Business Review, by Harvard professor David A. Garvin and researcher Lynne C. Levesque, called the "two-cultures problem" where big company bureaucracy and traditional thinking usually manages to kill upstart initiatives long before they are able to make an impact. Citing the best known examples of companies meeting this challenge at the time, the article referenced P&G head A.G. Lafley's now-famous directive from the mid 2000s that brand managers needed to spend less time in focus groups and more time in consumer's homes. Starbucks, too, was using a similar outside-in approach of encouraging managers to take inspiration trips to better understand local cultures and trends.

The conclusion of the article was clear: if you were aiming to build a culture of innovation, the key was to get closer to your customers. This belief largely framed the next decade of managerial thinking around innovation. Over the past few years, this thinking has started to shift.

The new solutions for this two-culture problem focus squarely on the innovators themselves. Brands are investing in small innovation pilots and hosting startup competitions. They are following trends in entrepreneurship such as the rise of accelerators and incubators as regional groups that support innovation. They are using "acquihiring" to bring talented thinkers into a company by acquiring startup companies and integrating their talent.

In 2016, this critical ambition to build more entrepreneurial cultures will lead brands towards a new model of Insourced Incubators, where they build nimble, responsive teams designed to work and thrive within a company while still maintaining enough independence to work outside the usual innovation-killing constraints of large organizations.

The insourcing part of this trend is based on the growing idea that a skillset or team that was previously outside an organization could be brought in, more effectively managed and integrated, and run in a way that would generate better business results.

Incubators is a term chosen deliberately as well.

What are Incubators?

As a model, business incubators have been steadily growing as well. As opposed to business accelerators, which usually take startups through a predefined process aimed at launching quickly, incubators focus on providing the resources and support that startups need while allowing them to follow their own paths. The International Business Incubator Association (InBIA) estimates there are about 7,000 business incubators worldwide. Yet the vast majority, according to InBIA, are run by not-for-profit government entities.

Just a few years ago, only 4% of all incubators in the United States were run by for-profit companies, according to the 2012 State of the Business Incubation Industry from InBIA. There are signs that this is shifting and perhaps the most significant implication of this trend in the next year will be just how far reaching it is likely to be in terms of the various industries affected. Let's review a handful of the most exciting of these industries, which saw big changes in the past year.

Content Studio Explosion

The line between advertising and editorial used to be a clear boundary. An advertiser might create content for an advertorial or, more recently, pay for some type of brand integration, but the editorial team controlled the coverage and decided what stories to write, independently of the brands. This was (and still is) the foundation for producing quality, unbiased journalism.

In the past year, though, a new blended model has exploded among nearly every large media organization in response to advertiser demand for more native forms of advertising. The demand led to the creation of the past year of dozens of content studios.

Longstanding media brands like The New York Times, Wall Street Journal, Washingtonian, Forbes, New York Magazine, Crain Media, and Time Inc. are just a few of the larger groups who have invested in creating custom content studios to work with brands. The value proposition is appealing. Brands can now approach these studios and leverage the talents of top journalists, designers, researchers, and production talent in order to produce all kinds of branded content, from custom white papers to digital content hubs.

These new initiatives are examples of Insourced Incubators within the traditional media business, with big ambitions to explore a blended future for publishing brands, who are increasingly crossing over into the world of creative agencies. The custom studio group from Time Inc., for example, is described as an "innovative content and creative lab launched by the storytelling experts at Time Inc." The potential impact of this and other content studios is one that is far wider.

As more publishers experiment with a new form of content creation designed to serve promotional needs of brands (while leveraging the valuable assets of their top notch talent), they are testing another business model that has the potential to overtake (or at least to supplant) traditional advertising as the source of funding for the media itself.

In the coming year, these studios will continue to compete to win brand dollars on the production side instead of chasing media placement dollars alone. The winners will have the chance to pioneer a new future for the media industry, where publishers become adept at taking their storytelling heritage and putting it to work for a growing range of brands desperate to stand out through content but lacking the talent to do so.

There's an Incubator for That!

Though outsourcing content creation to a media studio may be en vogue right now, brands continue to struggle with the new realities of producing great internal content. The same trend driving publishing companies to develop their own studios is also driving brands to find new ways to bring more startup thinking into their organizations.

Coca-Cola has multiple programs serving this purpose, including The Bridge (a commercialization program for startups) and the Coca-Cola Founders platform (an incubator model for growing startups with Coca-Cola as the lead backer). A little over a year ago Marriott launched an incubator program designed to seek out culinary entrepreneurs.

The Unilever Foundry program is another example that drew a lot of attention near the end of 2015, when it introduced 50 top marketing-tech startups after a complex vetting process that allowed the brand to review hundreds of potential ideas and choose the best collaborators. Even efforts like these, though, which are designed to dip a corporate toe into the waters of working with startups, are steadily getting more immersive and truly insourced.

Brands today are seeking to showcase and connect with innovators while also assigning responsibility for developing and building innovation inside the enterprise. This is the innovation lab model, and it is taking off among large brands.

Here is a short list of some innovation lab initiatives that were launched or popularized in the past year alone:

- Ford launched its Research and Innovation Center, a lab in Silicon Valley focused on the intersection of cutting-edge technology and the driving experience.
- The Home Depot founded its innovation lab through the acquisition of an Austin, Texas, startup called BlackLocus, which now operates as a team within a team.
- CVS opened its Digital Innovation Lab to experiment with digital health initiatives and to further its vision of building a "personal integrated pharmacy."
- Despite the uncertainty of its recent merger with Marriott, Starwood Hotels & Resorts currently has an internal innovation lab called Starlab, which has already launched pilots of smart mirrors, digital chandeliers, keyless room entry via mobile device and a host of initiatives in smarter energy usage and efficiency.
- In the financial sector, Standard Bank, Capital One, Visa, Mastercard, Citi, Chase Bank, BBVA, Commonwealth Bank, and Wells Fargo all have dedicated innovation labs that are pioneering new models for digital payment and offering a sort of "show and tell" space for each bank's customers.
- Global alcohol brand Pernod Ricard created and launched a new network of semi-independent distilleries under the umbrella group Our/Vodka, designed to help them customize existing vodka brands with regional flavors for a more local feel. Early markets for testing include Berlin and Detroit, with plans to launch soon in Amsterdam, London, and New York.
- Worldwide shopping-center owner Westfield Group recently announced it would convert the fourth floor of its popular San Francisco shopping center into an incubation space for Westfield Labs, where brands can lease small spaces inside the mall to test pilot concepts.

- Trade groups like America's Health Insurance Plans (AHIP), the National Association of Home Builders (NAHB), and information technology consulting firm AEEC also announced new cutting-edge innovation labs to showcase how technology and new ideas may be changing entire industries.
- Fashion retailer Sephora opened a new innovation lab that is experimenting with augmented-reality storefront window displays and its own version of Amazon Prime, where customers can prepay for expedited shipping for an entire year.
- Fast food brand Wendy's is getting into the innovation lab game, launching its own idea incubator called 90° Labs to test mobile payment technologies and self-order kiosks.

With all the recent investment in these types of initiatives, it is reasonable to wonder how this trend may evolve once all these brands make it past the initial excitement of launching their labs. One answer to this question comes from the retailer Nordstrom, which was one of the earliest to pioneer this trend when they launched their own lab back in 2013.

In 2015, the brand announced that it was shrinking the lab and reassigning employees into other groups. When asked by online site Geekwire about the reasoning behind the move, a Nordstrom spokesperson explained it this way: "rather than just a team focused on innovation, it's now everyone's job." It is the natural evolution of any external skillset that starts with being insourced and eventually becomes integrated into the overall way business is done.

In 2016, these innovation labs and internal entrepreneurship (also commonly known as intrapreneurship) efforts will take an important step towards full integration by finally becoming insourced, and offer a vital chance for brands to benefit from new thinking and different ideas while keeping them separate enough to solve the two-culture problem and really have impact.

Why It Matters

For years brands looked at innovation as the responsibility of some type of research division within the group or something limited to developing new products or technology. In 2016, the popularity of building innovation labs and the necessity to experiment with new business models due to industry shifts will lead many companies to build some version of insourced incubators to inspire more innovation from within. These first efforts have already led to early positive results. Publishing companies are piloting content studios, which represent a fascinating experiment into the future of the media industry. Innovation groups at financial services firms are building and testing new models for payment. Retailers and hospitality brands are launching new self-service kiosks, smart mirrors, and digital displays to better engage consumers and make interactions faster and more personalized.

Ultimately, every new brand that makes this type of commitment to Insourced Incubators and launches some new innovation into the market will present a compelling case study on the value of this model to their industry. Competitors will be watching. Over the coming year, this collective innovation envy will lead even more brands to try this model and introduce the two-culture problem in yet another way. The losers will see these teams dissolve into bureaucracy, while the winners—like Nordstrom—will find new ways to take this commitment to innovation and integrate it even more fully into how they do business.

Who Should Use This Trend?

Any brand that is struggling to build a competitive edge will be able to benefit from the idea of bringing more innovation in house, but it is often not easy, as time has shown. In order to build this type of initiative to be successful, it is critical to find a way to keep this innovation team integrated yet separate. The value of this will be clear for brands in just about any industry—and particularly those who do not often think about their business or industries in terms of innovation.

How to Use This Trend

- ✓ **Invite innovators into the company** – Nearly every corporate-branded effort dedicated to innovation that works finds new ways to bring in entrepreneurs as a first step. Sometimes this takes the shape of startup competitions, or branded curation of the best or most promising startups to work with (as Unilever has done). In other cases, you might explore newer tactics like the ”switch pitch” where established brands are invited to pitch to startups about the business challenges they face, then the startups can try to develop solutions that involve partnering with the brand.

- ✓ **Find and support internal innovators** – There are always employees or internal teams that are devoted to innovation—who are often overlooked. Insourced Incubators don’t always need to start with creating expensive innovation labs with lots of technology and cool furniture. Instead, start by finding the pockets of innovation within your own organization—teams that may already be doing interesting things— and support those initiatives and use them as a starting point.