CHAPTER 1

ACCELERATORS AND CORPORATE INNOVATION

> The type of disruption most companies … are facing right now is a once-in-every-few-centuries event. Disruption today is more than just changes in technology, or channel, or competitors – it's all of them, all at once.
>
> STEVE BLANK
> ENTREPRENEUR AND AUTHOR

Source: Harvard Business Review[1]

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Innovation is a smoldering hot topic for executives in all industries, all across the globe. As with our allegorical team at FabCo, business leaders are increasingly concerned about the disruptive technologies and business models taking over their industries. In fact, the word disruption was mentioned more than 1,800 times each quarter in public company earnings calls in 2019, up from only ~300 times per quarter in 2009.[2]

According to a McKinsey survey, 80% of executives think their current business models are at risk to be disrupted in the near future, and 84% say that innovation is important to their growth strategy.[3] A similar survey by Accenture tells the same story: 84% of executives in the United States consider their future success to be "very" or "extremely" dependent on innovation.[4] A survey by KPMG showed that 88% of corporate executives thought that collaboration with startups was essential for their own innovation strategy.[5] There are a lot of surveys from consulting firms saying essentially the same thing: innovation is important for the future success of most companies, and partnering with startups is a critical component of that innovation plan.

Innovation is good for corporations in important ways – such as enabling faster growth, increasing stock prices, and even sheer survival. The *Forbes* list of the most innovative companies shows an innovation premium of 65–90% on the stock price of their top 10 innovators. This is billions of dollars of equity value attributed to innovation.[6]

On the flip side, companies that missed the innovation tidal wave in their industry have crashed and burned. For example, The Eastman Kodak Company dominated photography in the twentieth century and one of their engineers actually invented the first digital camera in 1975.[7] But executives did not see the full potential of this new technology, along with the new business model of online photo sharing, and this eventually led to the company's bankruptcy in 2012.[8] Many corporations live in fear of having their own "Kodak moment."

And there is real money to be made in helping corporations achieve their innovation goals. The "Innovation Management Market" is projected to grow from $422 million in 2017 to $1.5 billion by 2022, a 29% compound annual growth rate (CAGR).[9]

With all this talk about innovation, what's a corporate executive to do? Making innovation a part of a risk-averse corporation with legacy businesses requires hard work. Culture change over time requires unwavering management buy-in from the highest levels and the ability to overcome a lot of challenges along the way. There must be something quick and easy we can do to seem innovative, right?

Well, it's time to launch a corporate accelerator, of course! This is the newest and most exciting thing to ever hit the corporate world. And it checks all the boxes. Cool hoodie-wearing startup founders? Check! Trendy co-working spaces? Check! Guest speakers who are innovating innovation? Check! Disrupting disruption before it disrupts your business? Check! Lots of great marketing opportunities? Double check!

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ONE TICKET TO THE INNOVATION THEATER, PLEASE

Are you ready to launch your corporate accelerator now? I hope not. If so, you're headed straight to the Innovation Theater. Unfortunately, too many corporate innovation programs feel like a lot of hype without much substance. They also lack a baseline understanding of what innovation programs, including corporate accelerators, are meant to achieve in the first place.

With the increasingly rapid pace of change coming from new technologies and business models, figuring out "innovation" has become an urgent priority for most businesses as they struggle to compete with new digital-native challengers who are dead set on taking their place. These disruptive newcomers can eat up market share quickly before the incumbent dinosaurs have time to mobilize their complicated corporate machines to compete.

To combat this threat of extinction, big companies have tried to copy startups by using the same tactics – hackathons, design thinking, lean startup methodology, agile development, and more – in their own organizations. The result is a variety of programs, including accelerators, that look innovative on the surface and generate a lot of activity, especially marketing, but rarely produce meaningful results.

This is innovation theater.[10]

For example, there is a professional services firm in Europe that launched a splashy accelerator program. They hired an interior designer from Google to create a gorgeous, super hip co-working space for the participating startups. The partners at the firm often wander downstairs to look at the companies and bask in the glow of their innovation, but there have been no partnerships or product integrations of significance. This has led to the program being known sarcastically as "The Zoo," where the startups are seen as curious things to look at, but not real partners. This did not win them any credibility from the gossipy startup or venture communities, or from their peers.

The worst thing about innovation theater is that, not only is it a waste of everyone's time and energy, it is almost always counterproductive. It might achieve some marketing wins at first, but this fades quickly. If a corporate accelerator program doesn't actually help the startups or the sponsoring big companies achieve their business goals, what's the point? Startups eventually get the message and stop taking you seriously, and once the word gets out it's difficult to change that perception, even if the program itself improves. It also often leads to high attrition rates on the accelerator team, as they are not able to achieve their own professional goals. (More on this, and how to prevent it, in Chapter 8.) Finally, and most destructive, is a sense that innovation

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isn't possible here and a reluctance to spend real time and energy on serious new initiatives.

Let us assuage your doubts: successful innovation is absolutely possible at every organization. A corporate accelerator can be part of a lasting, high-impact program that continuously pushes a company toward a better future – or it can be the first act of a bad performance of innovation theater. Corporate accelerators are a tool that big companies can use to foster innovation, but, like all tools, they need to be used properly to be effective. This book outlines the best practices and the pitfalls of corporate accelerators as a key element to enable meaningful and lasting innovation, giving corporate innovation leaders a better chance of success.

WHAT IS REAL INNOVATION?

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Innovation is one of the most overused and misunderstood business buzzwords. So what does it actually mean?

There are at least 40 acknowledged definitions of the word *innovation*.[11] Merriam-Webster defines it as "the introduction of something new."[12] When put in a business context, noted management consultant and scholar Peter Drucker suggests that it is "change that creates a new dimension of performance."[13]

Both the concept of "something new" and "performance" are important here, and we think the goal of long-term growth should also be included. Therefore, we define *corporate innovation* as "the introduction of new technologies and business models that drive performance improvements and sustainable growth over the long term."

The word *innovate* comes from the Latin word *novus,* which means "new." It originally had negative connotations, signifying excessive novelty without purpose. For example, George Washington supposedly said on his deathbed, "beware of innovation in politics." However, in 1939 economist Joseph Schumpeter published an important study of business cycles, where he used the word *innovation* for the first time to mean bringing new products to market. This meaning of the word spread slowly in economics and business literature, gaining momentum in the 1990s, and becoming ubiquitous in the 2000s.[14]

How does this apply to big companies? Large corporations tend to be slow moving, process driven, and risk averse. This is by design and makes logical sense in many ways. They optimize for preventing failure and increasing margins incrementally, both of which are meaningful at scale.

But to innovate, you need to move fast, minimize processes, and take risks. Margins are less important than rapidly capturing market share.

The scale at which new initiatives need to succeed also makes innovation challenging for big companies. If a new startup gets to $10 million in revenue in three years, it's considered a massive win. But if a publicly traded Fortune 500 company creates a new business unit and doesn't achieve $150 million in revenue in three years, then it's likely not worth the company's time. It would not be considered a good use of shareholder money to invest its resources on such a small return on investment (ROI), especially if there is a high risk of failure.

Many corporations are forced to simply buy promising innovative companies in their industry – and pay a premium to do so – rather than nurture innovations internally. Big companies get criticized for being unable to innovate, but it's not always fair. They often have no acceptable way to unleash their innovations, compete with startups, and do experimental, creative, and risky projects that could prevent their future disruption.

But mighty oaks grow from small saplings. There is a pathway to achieve blockbuster results from corporate innovation programs, but the company must be willing to do what it takes. Just like many other business disciplines, innovation is a mix of art and science. There is a backbone of hard theory and research; then it's about hiring the right team and empowering them to execute, with a long-term commitment to see it through. Innovation is extremely hard to do well, and although there are some shining examples of success, the majority of big companies are still really bad at it. Most accelerators fail after only two years,[15] and most innovation programs do not live up to their potential.

This is what we hope to demystify with this book, with clear-cut, research-driven suggestions on how to not suck at accelerators. It's a guide to the background theory, the strategic planning, the tactical design, and the measurements of success. By having a framework and lessons learned from others in the market, innovation leaders (we suspect that's you!) can substantially increase their chances of success and create meaningful, lasting innovation for their companies and the world.

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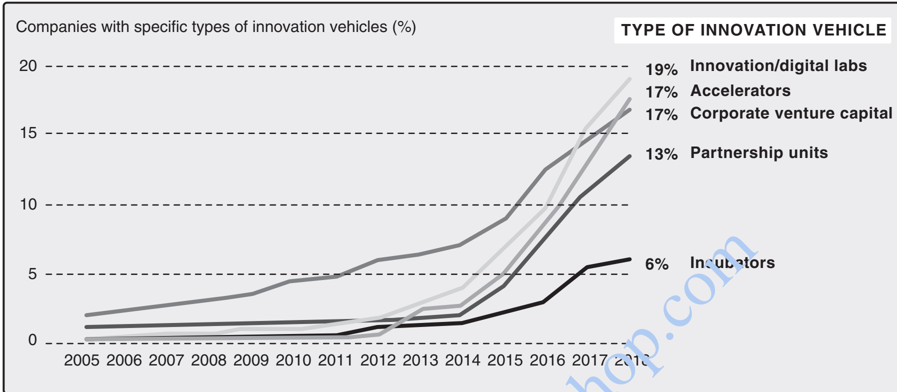
IS INNOVATION WORKING?

Many corporations already dedicate time, team, and capital to innovation in some combination of accelerators, corporate venture capital (CVC) programs, venture studios, and more. (These will be defined in more

detail in Chapter 2.) According to a 2018 study by BCG, 19% of corporates were using at least one innovation lab or digital lab, 17% were using one or more accelerators, 17% were using one or more CVC units, 13% were using one or more partnership units, and 6% were using one or more incubators.[16]

CORPORATES CONTINUE TO BUILD MORE INNOVATION VEHICLES



Source: Boston Consulting Group[17]

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But are these initiatives working? The data suggests that they are not.

Deloitte's Doblin innovation consulting unit found that 96% of all new innovation initiatives do not make a return on investment.[18] And 95% of all product innovations fail, according to Clayton Christensen at Harvard Business School.[19]

Many innovation teams are launching programs in isolation with limited resources. They are not doing the up-front strategic planning process common with other new initiatives, such as benchmarking themselves against and learning from other programs in the market. As a personal example, when Jules was at IBM and asked to launch a new blockchain accelerator as a one-woman team, IBM already had at least a dozen other accelerators up and running around the world. Despite her reaching out proactively to these teams, there were no shared resources or structured lessons learned, and she ultimately had to build the program from scratch. This is within just one company, not even looking to the wider market. Why are we re-creating the wheel every time with corporate accelerators?

Measuring success is also a major challenge, and Chapter 12 is devoted entirely to key performance indicators (KPIs) and metrics. If you

get this right, your program has a better chance of being supported by the parent company in the long term. Metrics are notoriously tricky to get right in corporate innovation, but what gets measured matters.

The innovation industry is still maturing. We have laid the groundwork and done a lot of experimentation, but are still unsophisticated compared to other business initiatives. However, there are some emerging success stories and indicators that we are moving in the right direction. As we enter the next phase of corporate innovation, where things actually work the way they're supposed to, this book should serve as a guide to do it right.

WHY INNOVATE?

The way businesses succeed and survive has changed. Corporations used to develop new products exclusively in their R&D labs, where scientists and researchers spent years, often decades, testing and perfecting new technologies or product offerings that may or may not ever be commercialized.

With the explosion of technology startups starting in the 1990s, a new model of innovation was created by smaller companies, who were more nimble and could take bigger risks. The pace of change became faster, and commercialization happened in real time with no R&D lab involved. New technologies and business models blazed a trail of disruptive destruction to entire industries who could not adapt fast enough. The corporate graveyards are full of former incumbents who were laid to rest by not taking these external innovators seriously.

Netflix was founded in 1997, and, in 2000, then-Blockbuster CEO John Antioco refused a $50 million offer from founder Reed Hastings to buy his company.[20] Netflix then went public in May 2002 and continued to grow. Yet, in 2008, Jim Keyes, the Blockbuster CEO at that time, still proclaimed that it was not "even on the radar screen in terms of competition." In 2010, Blockbuster declared bankruptcy and was delisted from the New York Stock Exchange. The last Blockbuster store on Earth – in Bend, Oregon – is a monument to this failure, and there is even a forthcoming documentary movie called *The Last Blockbuster* that will likely be watched on streaming services such as Netflix.[21] Meanwhile, Netflix was the best-performing stock in the S&P 500 from 2010 to 2019.[22]

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Amazon was founded in 1994, and has left a wake of corporate destruction in its path, creating a sense of fear in many corporate executives of "getting Amazoned"[23] if the company decides to enter their space. Amazon devoured unsuspecting industries starting with bookstores, then quickly expanded to music, toys, and sports, causing major problems for companies including Barnes & Noble, Toys "R" Us, and Sports Authority. With Amazon Web Services (AWS), launched in 2006, it created the now market-leading cloud computing service and retains a nearly 50% market share,[24] threatening (though not destroying) incumbents including Microsoft and IBM.

Even as one of the largest companies in the world, achieving more than a trillion-dollar market cap in 2018, Amazon continues to innovate. With the acquisition of Whole Foods in 2017, it expanded its threat to the grocery industry, and with the 2019 acquisition of PillPack[25] it will compete with brick-and-mortar pharmacies. In it's 2018 earnings report,[26] Amazon quietly announced that it's Amazon Logistics business is competing with other shipping services such as UPS and FedEx. Immediately after this news, FedEx's senior vice president of integrated marketing, Patrick Fitzgerald, still said he's not worried: "We honestly don't see a world where Amazon would be a competitor to FedEx; there is no sensible way to compare them."[27] Amazon is even testing grab-and-go technology – where consumers simply take products in a physical retail store and walk out – with the express purpose of selling this as a service to brick and mortar retailers. After conquering digital, they're coming for physical retail. These would-be competitors still say they are not worried.

Companies that used to be mainstays of the corporate world have shrunk or disappeared, while a new breed of technology-native companies have

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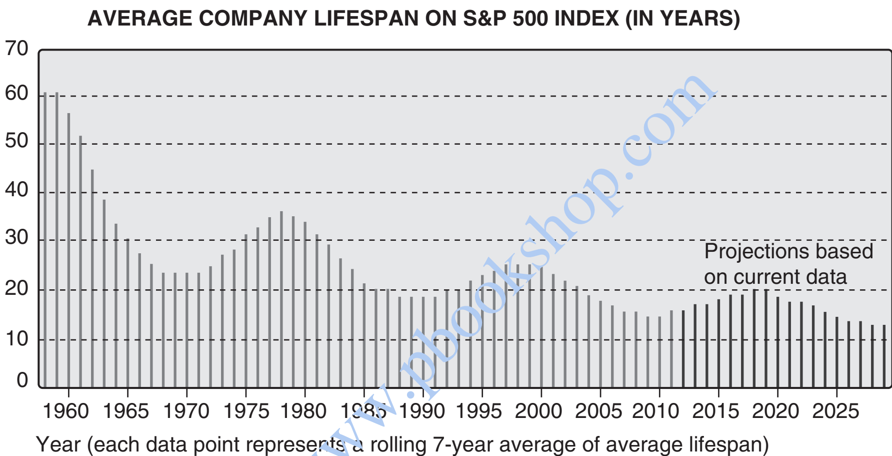
emerged rapidly, seemingly out of nowhere, to displace the largest corporations in the world. The stakes couldn't be higher.

In fact, the average lifespan of companies on the S&P 500 Index has plummeted. In 1958 the average tenure of companies on the list was 61 years. By 2011 it had shrunk to 18 years, and is forecast to be only 12 years by 2027, according to data from consulting firms McKinsey[28] and Innosight.[29] In 2018, 23 companies were replaced, making it the fourth year in a row that more than 20 companies have dropped out of this index (28 in 2015 and 2016, and 26 in 2017). At the current churn rate, only about half of the current list of 500 companies on the S&P 500 will be there in 10 years.



Source: INNOSIGHT[30]

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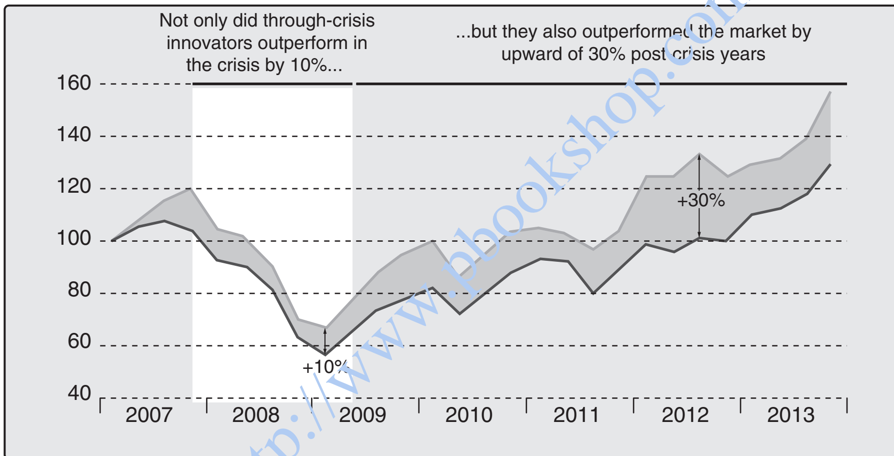
This rapidly changing market landscape is a barometer for a global trend that is not going away. Previously, a company at the top of their game had to do very little to stay there. Now, there are constantly disruptors who can move faster and take more risks to topple them and take their place. In order to remain competitive, companies can not afford to miss the opportunities presented by technological and market shifts. Big companies move slowly, but shifts in market adoption can happen swiftly. A company's leadership position, and maybe their company as a whole, will be gone before they have time to respond.

This is especially true in a time of crisis. At the time we wrote this book, the entire world was paused from the COVID-19 pandemic. Many businesses won't survive; many more will have a long path to recovery and will never be the same. This is a time to continue, and even push harder,

on innovation investments. The COVID-19 crisis has mostly accelerated the technological changes and business trends that make innovation so important.

In past crises, companies that invested in innovation delivered superior growth and performance after the crises ended, compared to ones that were either not innovating to begin with or paused their innovation initiatives until there was more clarity. According to data from McKinsey,[31] organizations that maintained their innovation focus through the 2009 financial crisis, for example, emerged stronger, outperforming the market average by more than 30% and continuing to deliver accelerated growth over the subsequent three to five years.

HISTORY SUGGESTS THAT COMPANIES THAT INVEST IN INNOVATION THROUGH A CRISIS OUTPERFORM PEERS DURING THE RECOVERY



Source: McKinsey[32]

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We will only know the long-term effects of the COVID crisis after many years. But one thing we do know is that businesses certainly cannot go back to how they were operating before. The global pandemic made it exceedingly clear that technology – in the form of digital transformation, enabling remote workforces, and increased automation – is needed in all businesses. There is no going back, and the pace of this change in the way of doing business is only increasing. The question is, can your company continue to innovate and keep up with these changes?

HOW DO CORPORATE ACCELERATORS FIT IN?

For corporations used to focusing on fine-tuning their massive operations and squeezing out efficiencies, it's neither possible nor practical to simply throw out what's working and embrace every shiny new object of innovation. Leadership can almost always see when a tide is turning in their industry, but often does not have the tools, processes, or talent to steer the ship in that direction without risking the core businesses. How can they bridge this gap?

The answer often lies with the one of the most promising, yet misunderstood tools of corporate innovation: the accelerator program.

Most executives understand that they can't possibly have all of the smartest people in the world at their own organization, and that the next truly disruptive idea is almost certain to come from outside their company. Accelerators provide the "innovation interface" and allow big companies to connect with and evaluate outside innovations coming from the startup world without having to change their entire organization immediately.

There are many types of innovation programs that bridge the external world of startups to the internal world of corporates operating at global scale. But the corporate accelerator remains a constant and is often one of the first forays into a more diversified corporate innovation program. However, what works in the startup world, with independent accelerators operating with a financially driven venture capitalist mindset, usually does not work in the corporate world. This is the first mistake made by corporate accelerator programs.

Many corporations have mimicked the models from independent accelerators, such as the popular Techstars and Y Combinator programs, by creating their own internal accelerators. Called "corporate accelerators," these programs are popular in large for-profit companies, many of which are publicly traded and need to be seen as innovative in the eyes of their shareholders. They provide some combination of office space, training, mentorship, product development, investment, and partnership paths for startups.

Independent accelerator programs focus on achieving financial returns through ownership in the participating startups. They make money when those shares in the company become liquid via an acquisition or initial public offering (IPO), and are motivated to help the startups succeed so they get a bigger financial outcome.

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Corporate accelerators often do not have such clear-cut goals. The complex machinery of large corporations can pull these programs in many different directions, trying to please multiple stakeholders while satisfying none. Generally the goals are some version of market intelligence to prevent their own disruption and increased revenue for themselves. In the worst-case scenario, they only use the programs to boost their own PR agendas and to seem innovative (remember innovation theater?).

This is not necessarily a bad thing. In fact, self-preservation and profit are a fiduciary responsibility of public companies. Sure, some people within those companies are interested in helping startups for personal reasons, but big companies are not philanthropies and the potential financial reward from equity alone is likely not a big enough incentive.

As long as startups understand this, there are a lot of good things that can come of it. But never forget that the reason a corporation will launch an accelerator program is to benefit that corporation in some way. Unlike independent accelerator programs, who win big if the participating startups win big, corporate accelerators may not have the best interest of the startups as their main priority.

Despite this, the trend has caught on, and corporate accelerators have invested hundreds of millions of dollars in tens of thousands of startups.[33] However, we know that these programs tend to be short-lived, with 60% of accelerator programs failing after just two years.[34] Designing a corporate accelerator with the template that works for independent accelerators – where ROI is the focus and 5- to 10-year horizons can be the norm – instead of meeting uniquely corporate goals, can be a recipe for failure.

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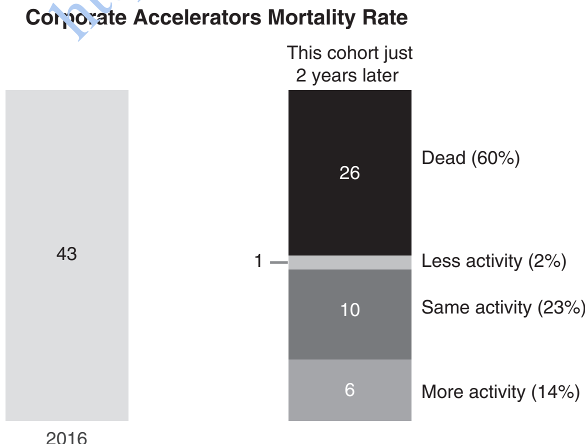
60% OF CORPORATE ACCELERATORS FAIL AFTER 2 YEARS



Source: CBInsights[35]

It's like an innovation "cargo cult." Cargo cults are a metaphor for when we imitate behaviors without understanding how they work in the hope of achieving the same results.[36] They arose in the South Pacific as native islanders sought to mimic the behaviors and technologically-superior physical structures that brought rich cargoes and supplies to the soldiers stationed there during World War II. The GIs in the New Hebrides (now known as Vanuatu), part of the Melanesian islands off the northeast coast of Australia, found the natives re-creating their foreign planes, radios, roads, and landing strips from materials such as wood, straw, and sand. They practiced rituals and built these artifacts in the hopes that their wooden structures would rain down the same gifts of food and guns that they saw coming from the magic ships and planes sent by "Rusefel" (Roosevelt), the friendly king of America.[37]

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Obviously the planes made from wood and straw did not yield bounties of food and supplies to the South Pacific islanders. But are the behaviors of corporate innovation executives mimicking the success of Y Combinator and others really so different? Just as islanders building wooden planes didn't result in their ability to fly, neither will simply copying nimble venture accelerators result in successful corporate innovation.

There are many challenges to corporate innovation, but there are also an impressive number of tools available for companies looking to be more innovative. In particular, partnering with startups in a structured program such as an accelerator helps companies stay up to date on transformational technologies that will drive the evolution and disruption of their industry. Corporate accelerators are one important piece of the complex innovation puzzle.

GOALS FOR THIS BOOK

In the following chapters, we will present a portfolio approach to corporate innovation and how accelerators fit into this. We'll share our thesis on corporate innovation and a framework for success. Then we will give you three models of accelerator programs, based on your desired outcome, which you can use and adapt to your own organization. Finally, we will go through the various tactical components of an accelerator program and share case studies of what works and what doesn't work.

Corporate accelerators are powerful tools that, when wielded correctly, can jumpstart your corporate innovation program, drive cultural change, open new revenue channels, and transform your business. But getting corporate accelerators right for any given organization can be extremely tricky, as evidenced by the sheer number of failures. To tackle this challenge, we spoke with dozens of leaders from across the world's top accelerators and innovation programs to identify and highlight best practices that you can use to inspire the success of your own program.

Consider this publication your personal handbook outlining the accelerator rules of the road, identifying meaningful best practices and tools to make your corporate accelerator program a success.

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