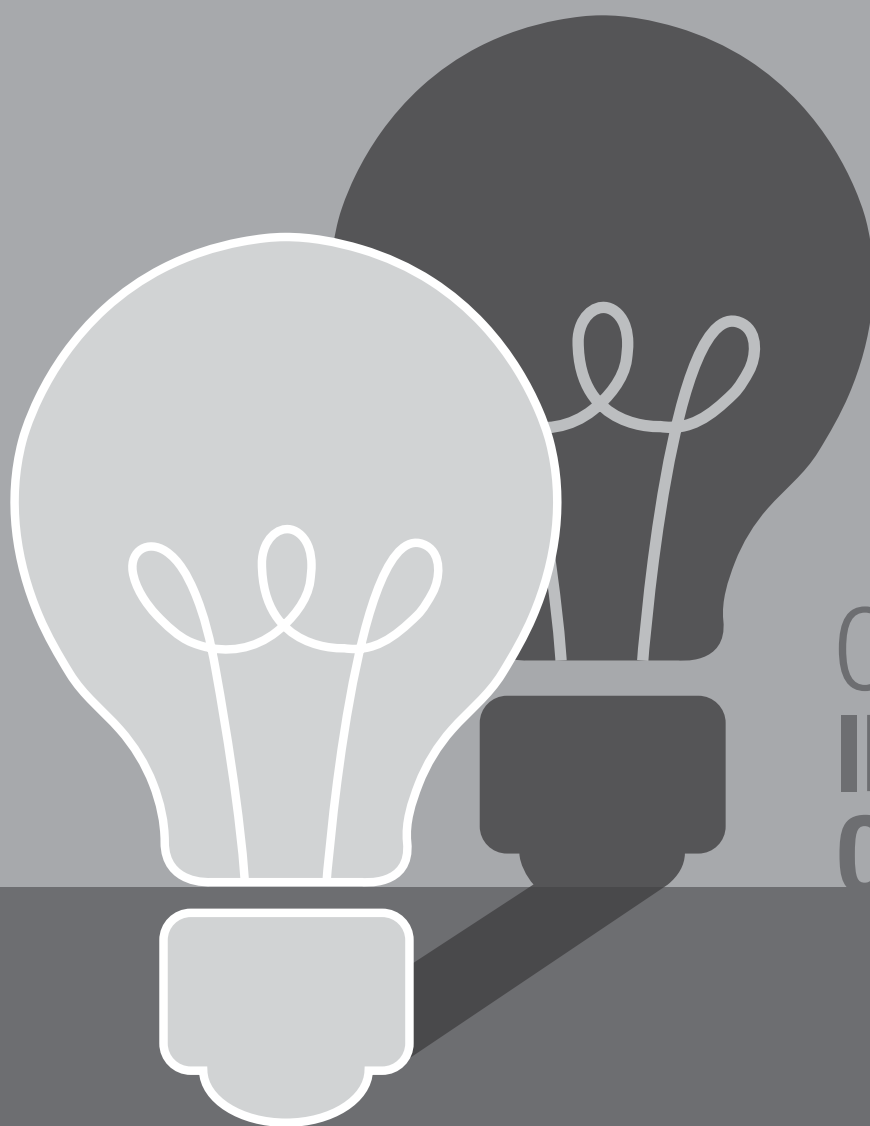




# Insights into the German Landscape of Corporate Innovation Centers



# CORPORATE INNOVATION CENTERS

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# Start-ups continuously rock the boat of companies

## The need to be innovative

Today, the need to be digitally innovative is quite obvious: The top 5 of the most valuable tech-companies in the world are former digital start-ups (see Figure 1). Many previously globally leading companies such as Kodak and Nokia, missed the digital revolution and lost their leading position or even went bankrupt. The message that companies need to be innovative and disruptive in their products and services, culture and processes should have reached every responsible manager today. This is particularly essential when it comes to leveraging the vast number of digital possibilities to transform their business. These developments have a major impact on the market. In fact, 52% of the Fortune 500 have been merged, acquired, or have gone bankrupt since 2000<sup>1</sup>.

## Normal R&D is mandatory and large, but has its blind spots

Large R&D and innovation units spend billions to keep their companies ahead in the market. For 2016, forecasts predict around USD 1.9 trillion of global R&D spendings<sup>2</sup>. Indeed, many highly established companies have a solid R&D and innovation track record. VW (USD 13.1 bn)<sup>3</sup> and Samsung (USD 12.9 bn)<sup>4</sup> are leading global investors in R&D, while Deutsche Telekom has spent millions for structured internal innovations at their T-Labs and Product & Innovations hub. Despite these significant investments, companies fear that the results are



Source: Capgemini Consulting & Altimeter (2015).  
The Innovatio Game: Why and How Businesses are Investing in Innovation Centers

Figure 1: Market capitalization of Top 10 technology companies



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falling short. For consumer goods, recent research indicates that more than 85% of new products fail<sup>5</sup>. After investigating the origin of innovative start-ups, it is apparent that most of the companies grew independently, while famous spin-offs with innovative businesses from large organizations are in fact quite rare.

While R&D costs increase and respective returns decrease<sup>6</sup>, the constant rise of successful start-ups continues, even though they leverage comparably small investments. Managers begin to question how such a large number of start-ups with such small investments can rock the boat of traditional business models, taking significant market share away from large companies. For many branches this development does not come as the result of an incremental process, but rather as a

disruptive surprise. Managers must now consider the impact of digital start-ups and their innovative approaches as a serious threat to their existing business model and market position.

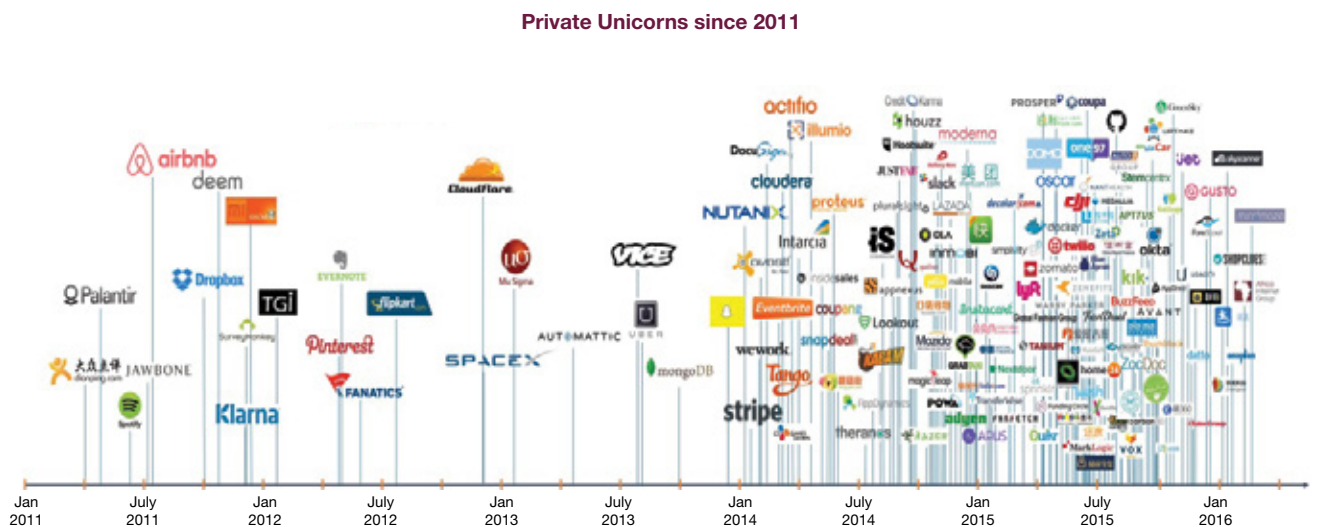
“The majority of banks did not expect Fintechs to have such a clout on the market.”

**Mariusz C. Bodek,**  
comdirect Start-up Garage

The development does not seem to stop. In 2015, 79 new unicorns have emerged (see Figure 2). That is more than in the entire previous decade. The majority of these unicorns (valuations in excess of one billion dollars), however, was formed either in the United States or in China. Still, Germany managed to raise two new unicorns in 2015, hello fresh and home24.

1 Source: Capgemini Consulting & Altimeter (2015)  
2 Source: R&D Magazine (2016)  
3 Source: Volkswagen Group (2014)  
4 Source: Samsung Electronics (2014)  
5 Source: Capgemini Consulting & Altimeter (2015)  
6 Source: Capgemini Consulting & Altimeter (2015)  
7 Source: CB Insights (2016)

Figure 2: The Increasingly Crowded Unicorn Club



www.cbinsights.com

Source: CB Insights

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## Start-ups achieve great results with small investments

What unique qualities do start-ups possess that well-established organizations fail to recognize or develop? What is the secret source, making them so strong and successful? Eric Ries (2011) states in his book "The lean startup" that every entrepreneurial initiative needs to be lean, fast and close to the customers. He carved this in stone and made millions of dollars by convincing traditional managers to buy a book, which would provide them with the recipe to transform their businesses into a start-up. However, as promising as this

might sound, many managers, who have followed the ideas of Eric Ries were then forced to climb organizational mountains and reassess the maze of structures and processes that the organization had in place, in order to get on the path of fostering an agile environment, similar to those of start-ups. In reality, as organizations grow bigger, they tend to become inflexible, both in their processes and in their thinking. This can be confirmed by everyone, who has once proposed certain changes and received the response "Never change a running system", or by those who are still forced to work with legacy IT systems and tools.

While larger companies have failed to implement incremental changes in their existing organizations following the suggestions of Eric Ries, they are still driven by the desire to incorporate the degrees of freedom and the agility of start-ups. This leads to the search of a concept, which is able to combine and connect both worlds, while still keeping ties loose enough to not endanger the start-up spirit.



# How to team up both worlds

## A corporate Y Combinator - the homerun fantasy of CEOs

Dedicated innovation centers such as accelerators, incubators or innovation labs provide an autonomous environment for innovative people with a campus to team up, in contrast to lone wolf garage entrepreneurs. Ideas are born or accelerated in a dedicated environment. The international business innovation association (InBIA) estimates the global population of such innovation instruments to amount to approximately 7,000 facilities<sup>8</sup> and the current trend indicates positive growth. However, there are two common state-of-the-art examples, which are independent and are neither corporate nor governmental: the US American Y Combinator accelerator and the Idealab incubator. Both have become an inspiration for innovation centers around the globe. Moreover,

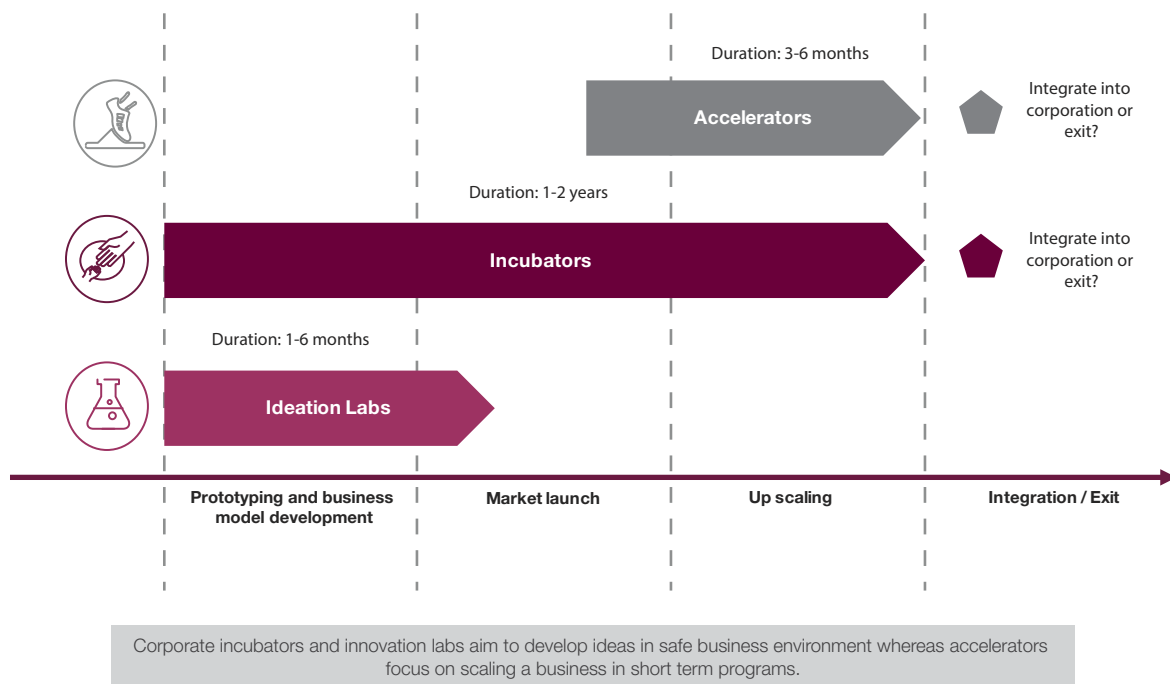
they were the host for success stories, including Y Combinator's recent DropBox and Airbnb or Idealab's earlier Picasa (acquired by Google) and Cooking.com (acquired by Target). These front runners have gained a strong reputation, not only within the global start-up scene, but also among the venture capital community. Every additional success story further amplifies their stardom, attracting new start-ups looking for professionals and capital as well as more venture capitalists looking for attractive investments. The strong pull-effect towards both supply and demand for ideas elevates their top facilities to exclusive market places for innovation, boosting billion dollar venture capital budgets – the homerun fantasy for innovation managers, CEOs and strategists. Cooperating with the Y Combinator and Idealab appears to be the perfect approach to set up a controllable corporate innovation center

to support the strategic interests of the corporate sponsor.

## Innovation centers as part of corporate digital strategy

The promising advantages and specific qualities of innovation centers have proven effective in supporting the setup of an environment to innovate separately from company constraints and create an openness for external ideas and/ or people. Corporations embed innovation centers as an instrument to support their innovation strategy, establishing their own corporate VCs, accelerators, incubators and labs. There are also similar models with additional names like campus or hubs for very similar innovation centers. For the study we solely focused on facilities that actively work with and invest in start-ups. To keep the naming simple, we treat them under the joint designation X-atoms.

**Figure 3: Timing of Support**



The basic assumption and rationale underlying the concept of X-ators is clear: projects or start-ups need a protected, yet stimulating environment to flourish and to deliver new and radical ideas. Labs, incubators and accelerators share this common ground, offering their protégés all types of services, including: secluded work spaces with specialized equipment, networking and exchange platforms, coaching/mentoring, business support services (e.g. legal, finance, IT), and sometimes capital. However, the models also differ in various aspects, such as in their relevance in the start-up lifecycle (see Figure 3). While an incubator provides the right nest and warmth to breed out a fresh “idea-egg”, the accelerator is still a safe, but fast-paced, structured boot camp to nurture and further develop the fledgling for airy heights.

Setting up an incubator or an accelerator is not the only way to foster innovation or establish the promising link to the start-up world. Companies often develop internal short term idea hubs, in effect building whole businesses in their own company. Moreover, companies also often share a campus with universities or join forces with external accelerator services. They all have their own unique approach and profit from different kinds of setups, resources and start-ups in different stages.

### German landscape of corporate innovation centers

In Germany, the landscape of corporate X-ators amounted to approximately 30 facilities at the start of 2016. The highest concentration can be found in Berlin, Germany’s hotspot for the

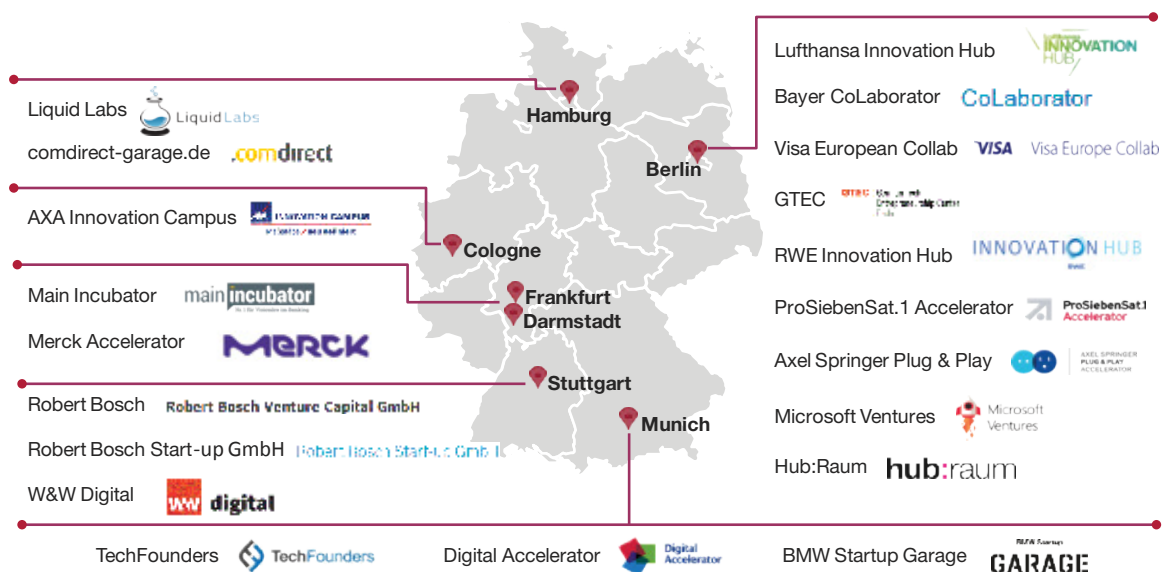
start-up scene (see Figure 4). While the US X-ators started to emerge during the 1980’s<sup>9</sup>, the first significant German X-ator hub:raum was founded by Deutsche Telekom in 2012. Since then, other companies like Bayer have created several innovation facilities such as Grand4Apps or the CoLaborator, ProSiebenSat.1, which initiated the P7S1 Accelerator, or Axel Springer, which has built a joint venture with Plug & Play (see Figure 5). Today, 13 out of 30 DAX companies have invested in an X-ator-approach with a significant concentration in the Finance and Insurance industries (see Figure 6).

We interviewed 21 X-ators heads to deep dive into this breeding culture of German companies and point out the most significant learnings of the first years in the market.



The main goal of the survey is to identify the **motivation, setup** and **critical success factors** of corporate innovation centers such as incubators, accelerators or innovation labs (X-ators).

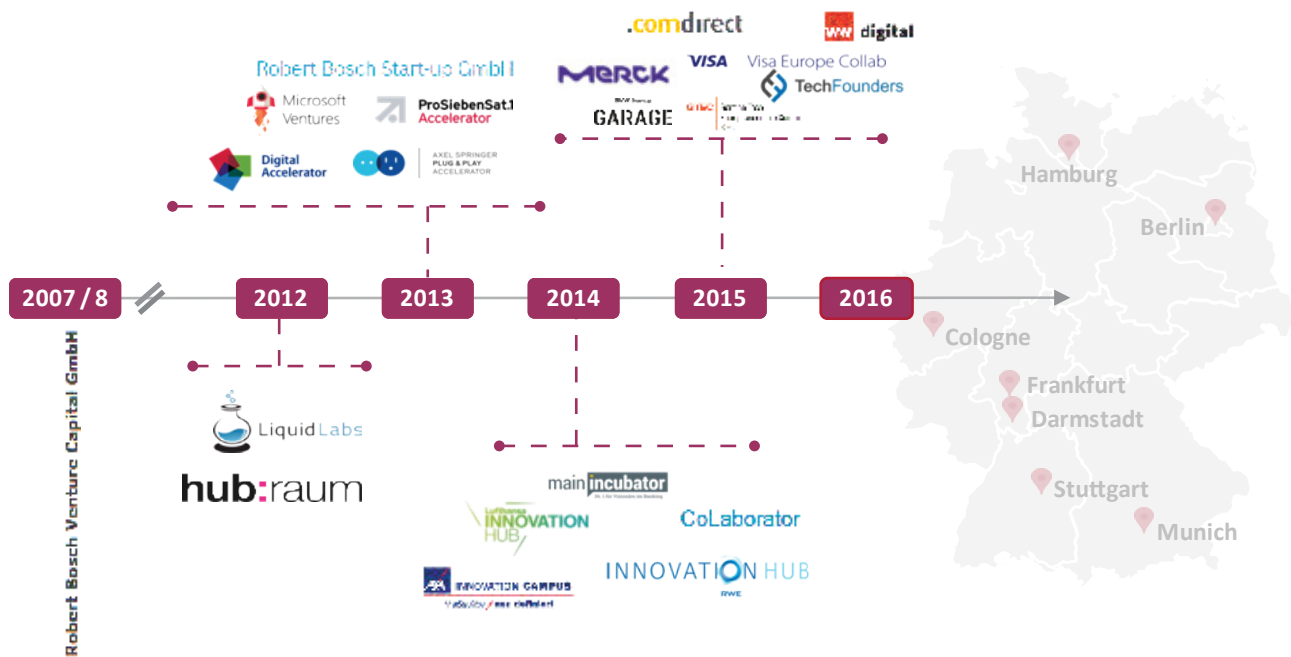
**Figure 4: Landscape of interviewed X-ators in Germany**



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<sup>9</sup> Source: Quinn, J. B. (1985)

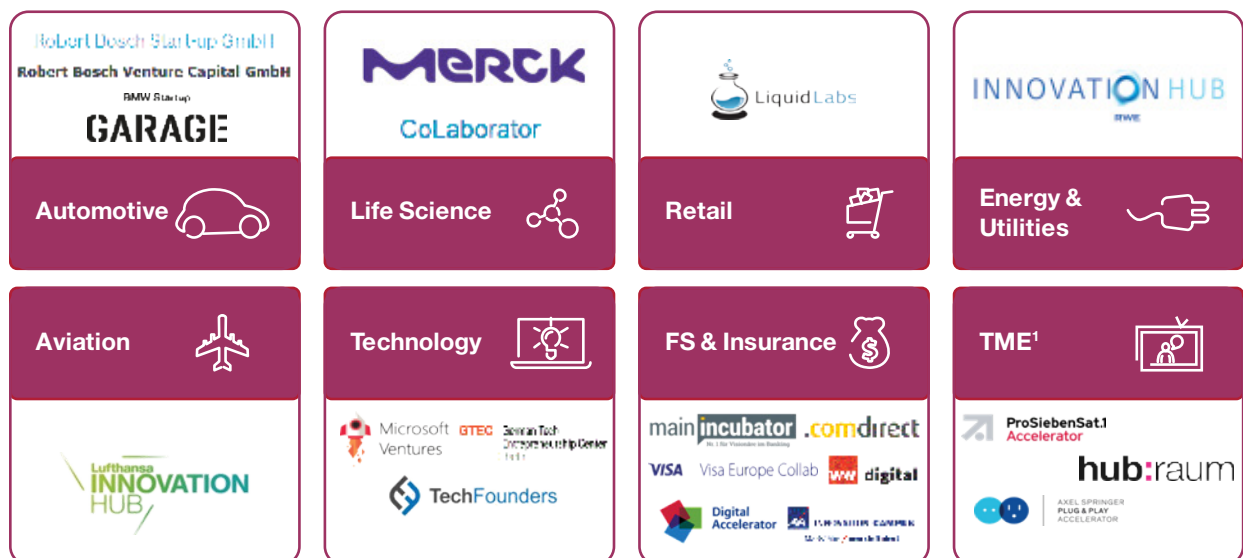
Figure 5: Year of foundation of interviewed X-ators<sup>1</sup>



1 Not listed here 'Innovation Incubator Asia' located in Shanghai, China

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Figure 6: Distribution of interviewed X-ators by sector<sup>1</sup>



1 Telco, Media and Entertainment

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# By whom, why and how it is set up

## Who did it

### Individual initiative

Given the strategic importance of innovation, it is surprising that the initiative was in nearly all cases driven by a single person with good connections to C-level. It was for example the passion and the vision of Peter Borchers for Hub:raum and the initiative of Jens Pippig at P7S1 to set up an entrepreneurial environment that fostered great business ideas externally, whilst being still connected to the organizations. 16 out of 21 X-ator heads have a solid innovation background and were already responsible for innovation tasks for more than five years. This experience is a significant factor as X-ators are strongly associated with the responsible person and the start-up scene is often focused on and driven by names. For the selection of supported projects or persons, founders and investors rely on names that have credibility and a network within the start-up ecosystem and which will, without a doubt, be helpful in the future. This is especially relevant since the scene is still small and restricted to people with a good reputation. To be able to understand the characteristics and the mechanisms of a large company, the X-ator head needs to be knowledgeable about the firm and must have built up a network in the company. The type of background varies from case to case and is mostly aligned with the

purpose of the X-ator: Bosch arranged an internally oriented X-ator and structured it with a stronger company focused background. In comparison, the more start-up oriented approach of the Microsoft Accelerator is led by the well known start-up personality Marius Sewing. A characteristic that can be commonly observed in all X-ators is a strong entrepreneurial mindset with the desire to foster innovative business and a strong commitment to align the X-ator to the bigger success of the corporate sponsor. This might appear obvious, but past research has shown a lack of entrepreneurial thinking within internal R&D initiatives<sup>10</sup>.

### Team up with entrepreneurial experts

Most companies rely on their capabilities to build up their own X-ator, but six X-ators teamed up with external entrepreneurial experts in joint ventures to outsource X-ator services.

Joint X-ator: Some corporations build joint ventures in collaboration with external entrepreneurial experts in order to create joint X-ators. Axel Springer teamed up with the US Silicon Valley giant "Plug & Play" to build up Axel Springer's Plug & Play. Wüstenrot worked with the German company builder etventure to create W&W-Digital. Plug & Play has a network of 300 companies to cover a wide spectrum of industries – IoT, Media & Mobile, Fintech and Retail. Axel

Springer is their German partner for Media & Mobile. Plug & Play also maintains strong connections to VCs for the crucial follow up funding for their start-ups, which greatly affects the reputation of the X-ator. As a result, Plug & Play has already paved the way for start-ups like Dropbox or Soundhound.

Outsourcing: Other corporations focus mainly on their professional knowledge and core competencies and use shared X-ator services for office space, networking, and program support. In these cases, corporations then team up with existing platforms such as startupbootcamp or Startplatz, to quickly set up the much needed environment and gain access to the start-up scene. A collection of companies had their first experiences with external entrepreneurs at startupbootcamp and were able to evaluate their initiative. In comparison, other companies such as RWE founded together with other corporate players the entrepreneur campus GTEC, which is hosted at the German European School of Management and Technology in Berlin (ESMT). AXA uses the space and network of the Cologne based start-up campus "Startplatz" and initiates joint scholarships for insurance related start-ups.

**“ We don't want to be facility managers. ”**

**Dr. Johannes Dick,**  
AXA Innovation Campus

**etventure:** The company builder etventure identifies, develops and tests cross-industry digital business models for enterprises or autonomously.

**GTEC:** Germany's first open campus to unite technology entrepreneurship organizations, resources and expertise in one place.

**Plug & Play:** A global innovation platform for startups, corporations, and investors.

**Startupbootcamp:** Startupbootcamp is a global network of industry focused startup accelerators.

**Startplatz:** More than just a coworking space, STARTPLATZ is a start-up incubator and meeting point for the Rhenish entrepreneurial community.

### **X-ators are the protégé of the CEO**

The management attention for X-ators is tremendous and shows the importance of this tool. 11 out of 21 X-ators report directly to C-Level while 12 even have their sponsor at C-Level. The remaining X-ators are currently reporting to the heads of their internal innovation or R&D departments which are closely related to the C-Level.

X-ators are strongly used on high level communication. They are mentioned in analyst reports, speeches and press releases. Regular visits by top management and their guests to showcase the innovativeness of the company are common. As the X-ator heads are aware of their important role in the company's marketing and communications, they try to profit from the high level of visibility and gain attention from possible applicants, partners and investors.

**“** *Management often quotes us as example but apart from that hardly interferes with our operation.* **”**

**Peter Guse,**  
Robert Bosch Start-up GmbH

However, this attention can put the successful work of the X-ator at risk as it diffuses its focus. More than once, X-ators and the working start-ups became a frequently visited demonstration object for management teams. One X-ator head stated that he finds it essential to protect the internal work and intimacy within the accelerator to not become a “start-up zoo” for management visits.



## What was the motivation

Manifold motivations stand behind the aspiration to set up an X-ator (see Figure 7). The X-ator should provide an environment of fast innovation with a distinguished culture and less constraints when compared to the structured company. Among all interviewees, the most mentioned motivation was to establish a constant connection to the start-up scene.

*“The X-ator is the bridge between corporation and start-up ecosystem.”*

**Sebastian Herzog,**  
Lufthansa Innovation Hub

Many X-ators play the role as the connector to the entrepreneurial ecosystem and all of its players. Consequently, the second most mentioned motivation is to gather trends and insights. Therefore, for large companies, the X-ator also plays the role of an outpost or a seismograph in the start-up ecosystem, an early indicator of market trends, innovations and disruptions.

*“We have seen most of the important start-ups in our business fields.”*

**Dr. Johannes Dick,**  
AXA Innovation Campus

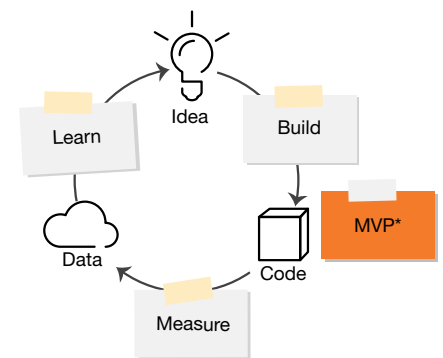
No company wants to be hit by the next big thing without any time to prepare. Subsequently, the question arises: Do X-ators also serve as a breakwater? Nowadays, X-ators absolutely play a significant role in market analysis. The process behind this is simple and obvious.

Many start-up CEOs dream of a large exit. X-ators can play this card and connect to most of the start-ups in the very early stages. This results in X-ators gaining a good overview of the start-ups in their sector and the current market trends and innovations. The lack of knowledge vanishes and lowers the probability of unwanted surprises in the market. Insights gained by the X-ator help companies to better react, use the knowledge and maintain their competitive advantage. However, gathering existing insights and following the market is not the only goal. X-ators have the power to set trends in their industry with cutting edge innovations and to revolutionize the market.

*“Set trends not just identify and follow.”*

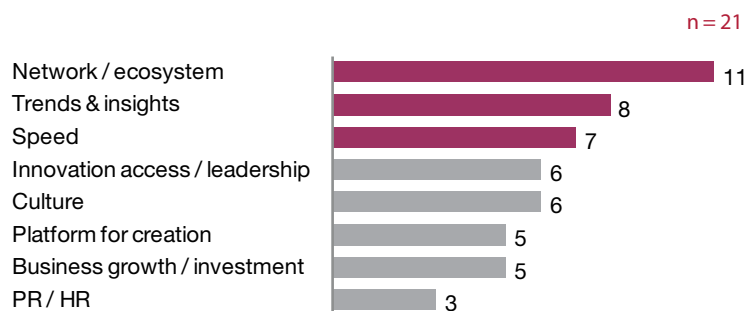
Main Incubator

Another top motivation within most X-ators is innovation speed and agility. During our analysis we recognized a broad usage of the lean innovation (start-up) methodology in most X-ators. Ideas quickly evolve into prototypes or minimum viable products, which are constantly being checked, adapted and improved. This lean methodology applies to both the whole business case of the start-up or the innovation process within the X-ator, but also as a basic principle to work on ideas and speed up their realization.



\* MVP = minimum viable product

**Figure 7: Reasons to set up an X-ator<sup>1</sup>**



1 multiple choice possible

**Top 3 motivations** to set up an X-ator are:

- 1. Network / ecosystem** (collaboration, partnerships, etc.)
- 2. Trends & insights** (knowledge of market developments)
- 3. Speed** (to quickly generate and test new ideas)

Overall answers were given on a wide range and grouped in 10 categories.

*Note: Although PR is not a prominent motivational factor, it turns out to be one of the top perceived benefits of X-ators.*

## How it was designed

The individuality and uniqueness of each X-ator is absolutely surprising. No blue print has yet emerged and all initiatives are still quite young. With longer track records, however, a consolidation of different forms and types may lead to a few preferred setups with proven success. The

current design and characteristics of X-ators vary for each company as they have all created their own version to meet their specific goals. Accordingly, the survey shows both internal company builders with mostly externally hired entrepreneurs and experts, as well as accelerators, e.g. P7S1 with a large media-for-equity program, which shall help to boost early stage companies with proven business models.

**“An X-ator has to fit the corporate culture and goals. That's why there are so many different programs.”**

Allianz

The survey shows four basic decision fields for the design of the X-ator and five for the program within the X-ator, which set barriers and highlight individual advantages (see Figure 8).

**Figure 8: Decisions to make for the X-ator setup and program design**

| X-ator setup   | Roadmap exists 43%   |  | No roadmap 57%  |  |
|----------------|--|--|---|--|
|                | + Planned and structured on a long term horizon                  |  | + Can be set up quickly                                       |  |
|                | + Embeddable in long term strategy of corporate                  |  | + Less planning and preparation cost                          |  |
|                | + Can be measured against predefined milestones and goals        |  | + More flexible to react                                      |  |
|                | Stand alone (make) 76%   |  | Cooperation (buy) 24%   |  |
|                | + Individual learning path "from the beginning"                  |  | + Very quick setup  |  |
|                | + Build own network and reputation                               |  | + Rely on experience and network of partner                   |  |
|                | Separate legal entity 55%  |  | No legal entity 45%   |  |
|                | + No restrictions due to corporate governance                    |  | + Fast setup as a project within the company                  |  |
|                | + High risk business does not effect corporate risk portfolio    |  | + Own strategy for accounting and governance                  |  |
|                | + Easy inner corporate controlling and accounting                |  | + Easy usage of corporate shared services                     |  |
|                | Strong support of corporate Shared Services 50%                  |  | Independent from corporate 50%                                |  |
|                | + Usage of internal experts for administrative tasks             |  | + Independent from corporate restrictions                     |  |
|                | + Saving money and time  |  | + Usage of best of breed solutions                            |  |
| Program design | Early stage (<1y) 43%  |  | Late stage (>1y) 57%  |  |
|                | + Participation is fundamental to setup phase                    |  | + Rely on ideas with a proof of concepts                      |  |
|                | + Deeper involvement   |  | + First mistakes have already been made                       |  |
|                | + Possibility to breed promising ideas                           |  | + Focus on scaling the business                               |  |
|                | Long batch (<6 months) 29%                                       |  | Short batch (>6 months) 71%                                   |  |
|                | + Ideas and start-ups need time to develop their full potential  |  | + Processing of more ideas and people                         |  |
|                | + Time to get a closer relationship with the team                |  | + Regular PR buzz with every new batch                        |  |
|                | + Time to adjust a certain approach                              |  | + Diversification on more ideas and start-ups                 |  |
|                | Own ideas 19%  |  | External ideas 81%  |  |
|                | + More control over ideas and ideation process                   |  | + Not biased by influence of mother company                   |  |
|                | + Closer to original business                                    |  | + Bigger chance for disruption                                |  |
|                | + Clearer image of pain points of mother company/market          |  | + New and external mindset                                    |  |
|                |  |  | + Closer to flexible start-up character                       |  |
|                | ROI oriented (take equity) 65% (of 17)                           |  | Strategic/ idea associated (No equity) 35% (of 17)            |  |
|                | + Better influence of decisions and direction of the startup     |  | + Lower risk of financial losses or rejection to share equity |  |
|                | + Financial start-up aid/investment supports ramp up             |  | + Independent and higher degrees of freedom for the start-up  |  |
|                | + Higher commitment to start-up                                  |  | + Not influenced by strategic direction of mother company     |  |
|                | Regional focus 37%   |  | Global focus 63%  |  |
|                | + Focus on local German market                                   |  | + Larger pool of start-ups to choose from                     |  |
|                | + Better collaboration, communication and conduction of meetings |  | + Only choosing the best in their fields                      |  |
|                | + Regional/ national regulation hurdles                          |  | + Emerging markets with high potential                        |  |

## X-ator setup

### With or without a roadmap

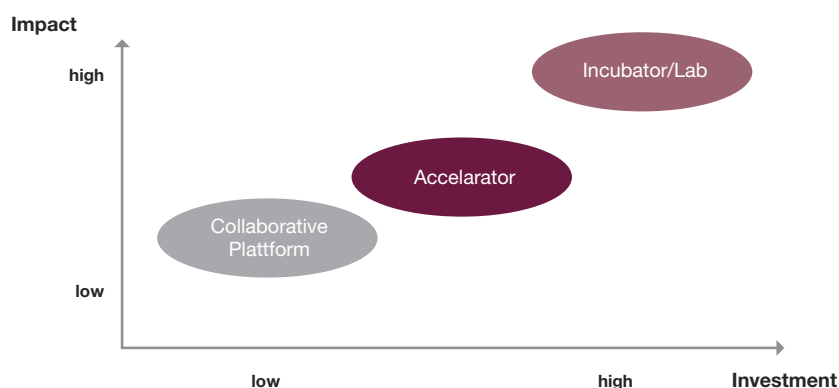
While most companies have long term innovation strategies and follow a strategic roadmap over many years, 12 of the interviewed X-ators did not have a strategic roadmap at all. Albeit the cornerstones of the program were defined for the setup and the start-up was provided with barriers set forth by the X-ator, some variables in the X-ator are able to alter over time. It is aligned to the lean start-up culture where testing and improving is substantial and pivotal to a viable decision. These flexible variables can be focus industries, evaluation and investment strategy, program assets, geographic scope or benefits, which can be achieved. Nevertheless, some X-ators such as Bosch are completely planned and invest considerable amounts to accompany their start-ups through long term innovation processes.

### Make or buy

16 out of 21 initiatives have set up their own X-ator. However, we have already introduced the opportunity to use external resources for joint ventures or as entrepreneurial platforms for companies that are not willing or able to build up their own X-ator. This varies from using the workplace at Startplatz by AXA to leveraging the full academic and entrepreneurial expertise of GTEC for scouting, evaluating and progressing start-ups. Companies including RWE and Henkel use the capabilities of GTEC in order to effectively enter the entrepreneurial scene in less than two months.

We observed that external involvement can be the beginning of future cooperation with start-ups. External platforms have fewer commitment, investment and involvement of the corporation in contrast to internal X-ators (see Figure 9).

Figure 9: Types of X-ators by impact and investment



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### Legal entity or not

Most X-ators start as projects and not as legal entities. This accelerates the setup and makes use of internal resources. The majority of the X-ators prefer to be or to become a legal entity in the future, with their own profit and loss calculation and all the necessary independence. A legal entity can mostly operate according to their own rules and is not under the supervision and constraints of an existing workers council or the corporate compliance rules, which sometimes do not fit to the working environment and culture of the X-ator. A shared github server for developers, shared Google documents with confidential information or communication software like Skype often do not pass high IT security standards set forth by the mother company. Investment constraints or code termination restrictions can affect the freedom of the actions and influence the flexibility and response time of the start-up.

### Company service attached/ free flow

The corporations have highly established processes and shared service centers to serve their internal units with needed services like HR, IT or legal counseling. These services are sometimes not the right support for neither the X-ator nor

the start-up. The start-ups are mostly dependent on their low cost and flexible cloud software, which cannot be provided by internal IT departments. However, some services can make administrative hurdles redundant which would be either time consuming or too expensive to buy. Legal departments can set up contracts for foreign markets, tax advisory can bring a hook into the business case or a procurement specialist can help by purchasing needed assets. These services can significantly influence whether a start-up becomes highly successful, since many start-ups struggle to overcome administrative hurdles.

## Program design

### Early stage (incubator/lab) / late stage (accelerator)

The stage of the start-up determines whether an incubator or an accelerator program is more appropriate. Early stage start-ups can be nurtured within an incubator or lab environment from idea refinement up to a stage that indicates a viable business case. The global credit card company Visa for example involves its Visa Collab facilities in the early stages, generating ideas as well as business models and eventually supports these projects up to a proof of concept stage.



Given a proven use case for Visa, the idea gets implemented into the firm's portfolio. P7S1 steps in at a slightly later stage, taking early stage companies with proven business models into their program. These start-ups have already proven that their products generate revenue, but need an additional "acceleration" to kick off into new heights. Bosch works with their start-ups from the idea generation phase to the full incubation phase and accelerates their start-ups to become successful million euro businesses in their respective industries.

#### Internal or external

An important decision that the X-ator must make is whether to work with internal employees or external participants. Some X-ators take only external start-ups and innovators to work on their external ideas. Others have decided to cooperate with external experts to develop internal business ideas from the mother company. Another approach is to allow internal employees to apply with their ideas similarly to external start-ups. The basic consideration always refers to whether the business needs internal experts with secure working contracts or whether it is possible to trust external entrepreneurs with entrepreneurial mindsets and the desire to make their idea successful. Axel Springer simultaneously set up the incubator "Axel Springer Ideas" with internal employees and the accelerator "Axel Springer Plug & Play" with external start-ups. Today, only the accelerator remains. The management of Axel Springer realized that the accelerators output and the benefits were more satisfying and required minimal resources.

#### Long batch or short batch

Long batches are for sure the way to incubate and develop business concepts along the journey and accompany the start-up from the idea phase through to the transformation of the business and scaling phases.

The advantages we observed in short batches were the cooperation with manifold start-ups and ideas, as well as the ability to develop a great network, not only with the participating start-ups, but also with all of the evaluated start-ups and applicants. Additionally, the likelihood of hitting one of the very successful start-ups or future unicorns increases with the number of start-ups that apply. Every new batch also generates a new PR buzz, new talents can be met and new trends observed. Furthermore, the likelihood of hitting the jackpot increases from batch to batch.

#### Strategically associated (no equity) or ROI oriented (take equity)

"The competition for start-ups is fierce", as one X-ator head stated. This leads most of the companies to decide not to take equity anymore as an entry fee from the start-ups. For many of them, giving away equity is not an option as a prerequisite to cooperate with an X-ator. It is valid for the majority of X-ators, that their cooperations are strategic and not directed to achieve a high ROI, but focus on a strong relationship with the start-up, the team and their product.

*"We do not take equity as we believe that this deters many promising start-ups from working with us."*

#### Local or global

Local X-ators such as P7S1 focus on start-ups which can take advantage of the local, in this case German, media advertising budget. A start-up with a non-German focus market would not fit into the program. The focus market is an important deciding factor of whether to cooperate with a German or international start-up. Still, we observed international start-ups that are using a German X-ator to get access to the German market. Local start-ups are also an advantage when it comes to staying in contact before and after the participation. Administrative hurdles like travel costs or

visa constraints occur less often in X-ators with a primarily local focus, than in globally oriented initiatives.

GTEC or Visa on the other hand foster internationality in their programs and are keen to invest in the most lucrative ideas with the best entrepreneurs from all around the world. This broadens the pool of possible start-ups and extends the reach of the X-ator to emerging markets in Asia or South America.

#### The honey pot for participants

A well designed program which accompanies the start-up influences whether or not start-ups apply for the program. Most of them are not interested in the program due to the office or to the free internet, but rather the connection and access to the assets of the company.

*"We don't get the A entrepreneurs but we know our sweet spots."*

#### Classical goodies without a competitive edge

Most X-ators offer basic services: office space, free internet and other physical goodies that make the innovation process easier (e.g. coffee flat rate). Clearly those assets do not provide a unique selling proposition in the race for the best start-ups and innovators as they are widely spread among the X-ators. Despite this, we recognized that some X-ators managed to gain the attention of start-ups by appealing to their desire for good office locations.

#### Deal

Some X-ators also provide capital. P7S1 or Axel Springer for example provide up to EUR 25,000 funding. Besides these fixed deals, we interviewed X-ators such as the AXA Innovation Campus, that offer individual deals and a very broad investment range, starting with small (pre-)seed investments up to seven digit growth stage investments. These deals are based on the individual start-ups and their business case.



P7S1 still offers a very remarkable deal. The company provides EUR 500,000 of media budget that can be spent on all P7S1 advertising channels in addition to the EUR 25,000 of base capital. This deal can definitely be the necessary acceleration for a start-up focusing on a mass market in the region of the P7S1 advertisement empire.

#### Connection to corporate/ mentors/ VCs

We observed that one of the most important assets an X-ator can offer is a valuable network. This network is either focused on entering the market in collaboration with the corporation or by gaining the corporation as a customer. Just a few X-ators had ambitions to become the customer or to reach out together for customers in a go to market strategy.

Hub:raum identified the need for start-ups to have supported connections to the corporate business units. Mostly, start-ups do not have the knowledge of whom and where to ask in the company for cooperation potential or do not have the visibility or lobby to get the right partner. To overcome this problem, hub:raum has installed three relationship managers who arrange and connect the start-ups with potential partners within the company. Hub:raum is not only keen to build bridges into their own company, they also connect their start-ups with external mentors: a fixed network of over 54 mentors from different industries or expertise comprised primarily of successful entrepreneurs.

All X-ators foster relationships with venture capitalists. The funding of the start-ups is a key success factor and contributes to the reputation of the X-ator.

#### Unique assets provided

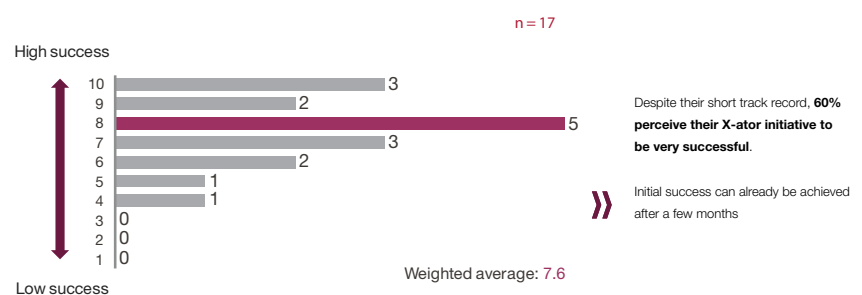
Axel Springer → Media attention and advertisement  
 Bayer → Laboratories usage for studies and experiments  
 Microsoft → Technology specialists and software kits  
 P7S1 → Advertisement

#### Internal assets provided

As mentioned previously, P7S1 offers half a million media budget to promote a highly functional start-up that needs more attention in the market to advance to the next level. P7S1 benefits from a rising company assessment, which leverages their investment through opportunistic advertising costs. Additionally, the new market members are now well connected to the media seller at P7S1 and have gained experience in how they can gain customers through advertising. This potentially turns start-ups into future advertising customers and leads to a win-win situation with a positive outcome for all parties.

With their existing number of customers and the countless corresponding transactions, companies handle a mountain of data. This data is an absolutely amazing asset for many start-ups. Big data analytics can be used to evaluate the success of a product or alternatively, to find a way to monetize the data. Nevertheless, in many companies big data is still a black box of which no one knows how to lift its treasures. We have also discovered a trend to provide data to the start-ups to experiment with big data analysis.

Figure 10: Perceived X-ator success



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# Evaluation

We asked the X-ator heads to rank their perceived success on their goals on a scale of 1-10 (see Figure 10). Overall, we received very positive responses. More than half of the X-ator heads rated the success of the X-ator at 8 or higher. Three X-ators even rated their initiative with 10, illustrating perfect success.

Yet, the obtained results do not come close to the success story of the Y Combinator, creating potential unicorns batch by batch. But is this the underlying goal of German corporate X-ators? Our survey shows that the business cases and ideas processed in the X-ator are the main focus. X-ators offer a large number of benefits. In fact, some of the advantages are nearly impossible to achieve with a different model. Large companies get access to the start-up scene, get credibility among entrepreneurs, show their employees, customers and shareholders their innovativeness or kick off a new entrepreneurial mindset and cultural change for the whole company.

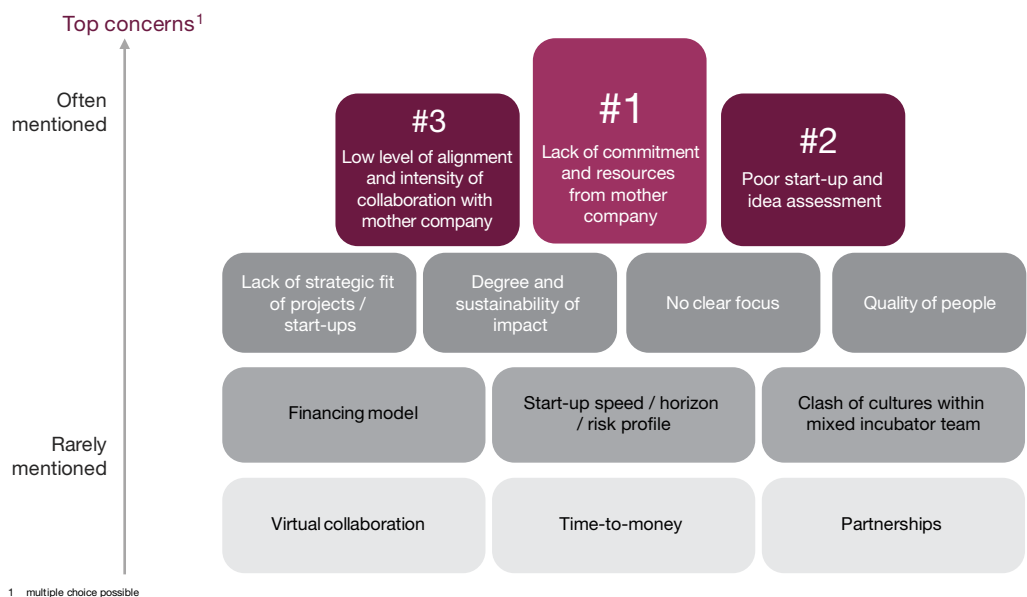
Other instruments or investments would have consumed large budgets to produce similar positive PR messages, to scout for talents for emerging technologies, to gain insights into trends and start-ups already operating in the industry or to establish a distinct and innovation friendly environment.

Besides their success, most X-ators also learned their own lessons from initial experiences. To resolve concerns (see Figure 11) and to improve on their overall concept to create innovation, ongoing tweaks to their operations are part of the game: more sophisticated investment strategies and investor relations, become more independent and set up own legal entities or better start-up idea assessments. X-ators build up their own independent IT and HR departments or attach specified legal support. Others have changed their investment strategy from direct investments into convertible bonds. The X-ators have already obtained investment knowledge

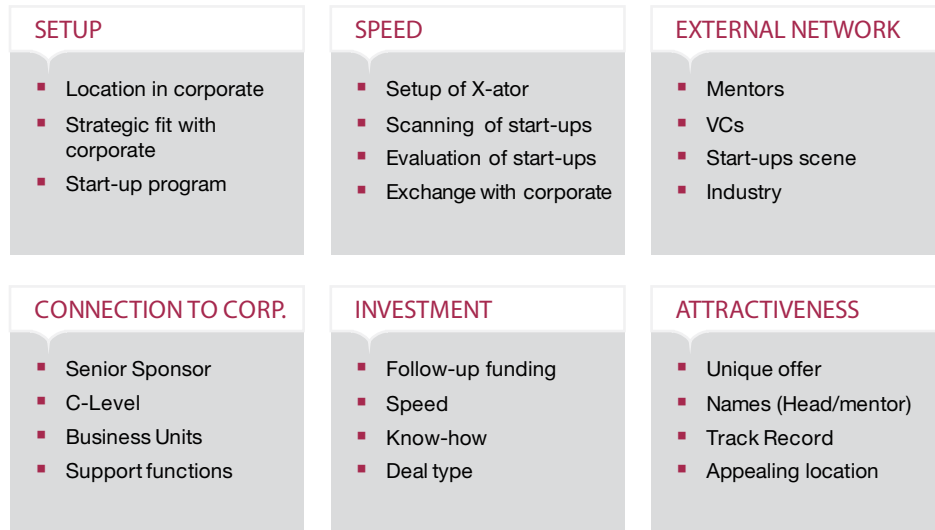
for start-ups, which can be used companywide. To be able to measure their success, most X-ators have a predefined set up of KPIs.

Nevertheless every X-ator head stated that they are still at the beginning of their learning curve and therefore, it is certainly too early to make a résumé of their success. All the relevant stakeholders and sponsors are aware that a “next big thing” or a positive Return on Investment (ROI) needs time. Until this point is reached, the X-ator is able to fill this period with success stories from other benefits, such as positive PR. To be able to climb up the learning curve, we identified six key success factors (setup, speed, network, connection to corporate, investment and attractiveness) which need to be consistently and constantly improved upon (see Figure 12).

Figure 11: What are the top three concerns regarding your X-ator?



**Figure 12: Six Critical Success Factors**



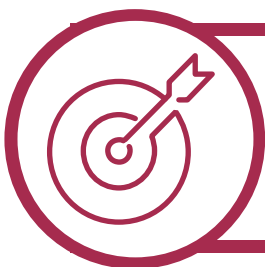
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#### Our conclusion

A compelling 100% of all X-ator heads answered with a clear “yes” when asked, if they would set it up again. This shows the positive attitude among all initiatives. Most budgets are relatively small for their corporate sponsors. But the benefits and the effects are outstanding. In Germany, this is just the beginning.

Certainly, some X-ators will fail due to a number of previously mentioned reasons. However, some will be great success stories and will play an important role in corporate future. Simply consider the potential Yahoo would have had with Larry Page and Google in their X-ator. We are thrilled about the opportunities

and the development of X-ators and we can only recommend that every large and mid-sized company considers the option as part of their innovation and digital strategy.



- A significant share of German industry leaders already uses corporate innovation centers as a **vital pillar of their digital strategy**
- The safe and secluded environment of the innovation centers provides the right setting to **develop incremental and disruptive business model innovations**
- The most important success driver is the **right orchestration and phasing of the different innovation instruments**

# Further studies by Capgemini Consulting on Innovation Centers and Digital Strategy

## The Innovation Game: Why and How Businesses are Investing in Innovation Centers



- Report on current corporate challenges with traditional R&D efforts
- Insights in innovation center as the new alternatives
- Location study for innovation center hubs

## Digital Dynasties: The Rise of Innovation Empires Worldwide



- Detailed global location study innovation center hubs
- Study of different innovation center types
- Insights in focus areas and goals of innovation centers

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