Executive summary

Delivering agile innovation

Creating value from collaboration with entrepreneurs in consumer products and retail

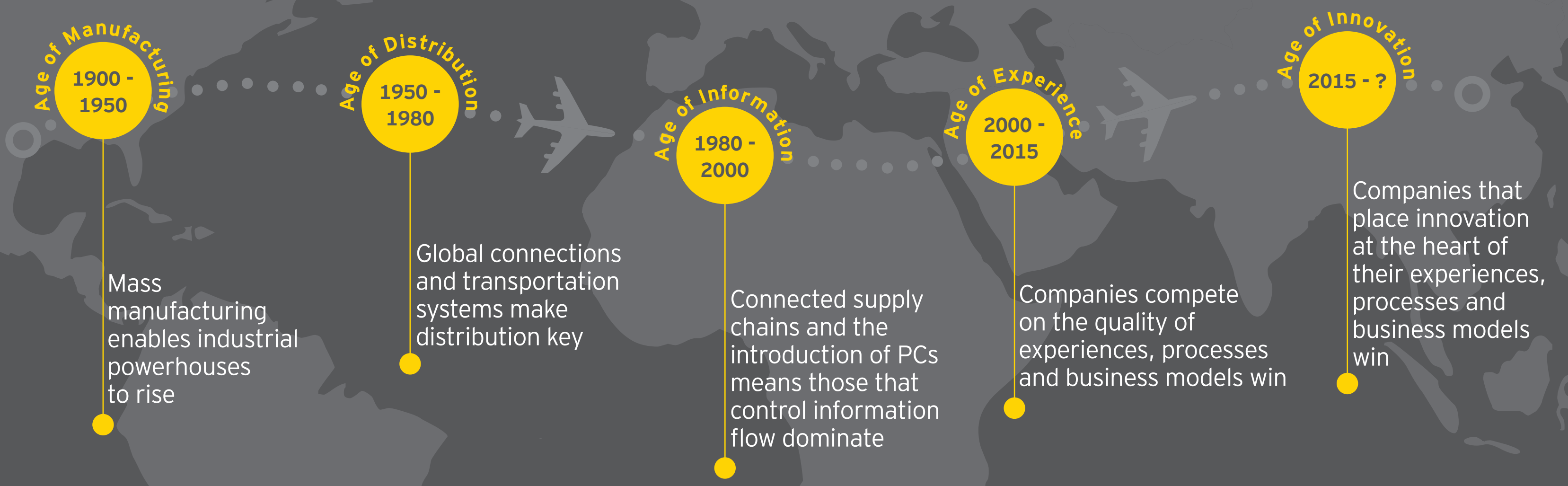
EY

Building a better working world

'Age of Innovation'

"The traditional internal innovation road map is no longer fit for purpose. Navigating the age of innovation requires companies to develop an innovation flight map."

David Jensen, Global Innovation and Digital Strategy Leader, EY



Of consumer products and retail company executives

66%

say collaboration is increasingly important to achieve strategic goals

Of consumer products and retail company executives

61%

are collaborating with startups and entrepreneurs.

EY conducted a global survey of 267 executives from retail and consumer products companies. Nearly half (44%) of respondents were C-level or board-level executives with the total pool from a range of sub-sectors, including food, beverages, home and personal care, luxury, tobacco and apparel. The respondents were from 30 different countries, including mature and emerging markets.

In addition, EY conducted 45 in-depth interviews with senior executives from across the consumer products sector and entrepreneurs to seek their views on the pain-points companies encounter in this collaboration process and identify the ways companies are overcoming challenges.

Winning in the 'Age of Innovation'

"It's increasingly difficult for large companies to deliver innovative products, services and processes. The world gets evermore competitive and so being open to new sources of innovation is just a smart business move because otherwise you're closing your eyes to real opportunity."

Dominic Oughton, IfM Education and Consultancy Services, University of Cambridge

Of consumer products and retail company executives

50%

say failure to collaborate puts them at a disadvantage.

Of consumer products and retail company executives

53%

can no longer rely on solely on internal innovation.

We live in the age of innovation, driven by the rapid evolution of technology and data which has fundamentally changed consumer behavior. This is creating unrelenting pressure on consumer products (CP) and retail companies to put innovation at the center of their business. Succeeding in this environment requires CP and retail companies to develop a highly agile model for innovation that accelerates speed to market and helps them to re-imagine business models and transform consumer experiences.

Yet delivering transformation on this scale is extremely challenging and as the survey conducted as part of our research confirmed, innovation is becoming increasingly difficult. Most large companies are hardwired to maximize efficiency, minimize variances and avoid experimentation. This can be incompatible with a culture in which risk-taking is a prerequisite for success.

A growing number of companies are now looking outside their organizations for new ideas. They are collaborating with external partners, and particularly smaller entrepreneurs and startups, to identify, develop and scale up promising new product and process ideas. Forty-nine percent of executives from CP and 32% from retail companies we surveyed said that they will increase the proportion of product innovation that they source from external firms over the next three years.

Smaller entrepreneurial firms offer the agility and creative thinking that larger organizations need to unplug innovation bottlenecks. Sixty-eight percent of CP executives and 64% of retail executives agree that collaboration with smaller entrepreneurial firms has become increasingly important for them to achieve their strategic goals. And half agree that failure to collaborate with external partners puts their company at a disadvantage.

The distribution power, scale and brands of the large multinational, and the innovation capabilities of the small entrepreneurial firm can be a powerful combination. Yet, in practice, it is very difficult to get these collaborations right. Almost half respondents say that they recognize the potential value of collaborations with smaller entrepreneurial firms, but have found it very difficult to make them work. Just 10% across CP and retail companies say that they are very effective at sourcing potential collaboration partners, only 9.5% at aligning incentives between the two partners and just 16% at putting in place an appropriate governance model.

Winning in the ‘Age of Innovation’

> “Brands just don’t know how to work with these small companies. All that happens is a lot of talk and not enough action. Brands aren’t always comfortable moving quickly, at the speed of a startup. But if you move too slowly then one of your competitors is going to end up doing something with a startup before you’ve even begun.“
>
> **Ed Kaczmarek,** Co-Founder and Managing Director, Brand Accelerator

Collaborations can get bogged down in bureaucracy, relationships can fail to move beyond the transactional, and the smaller firm can become frustrated by what they perceive as the slow speed and risk aversion of the larger partner. The outcome is that just 19% of companies in our survey are very effective at realizing revenue increases, 16% at achieving margin increases and only 10% at generating intellectual property from these partnerships.

Chart 1: How effective is your company at working with smaller entrepreneurial firms on innovation in the following areas?

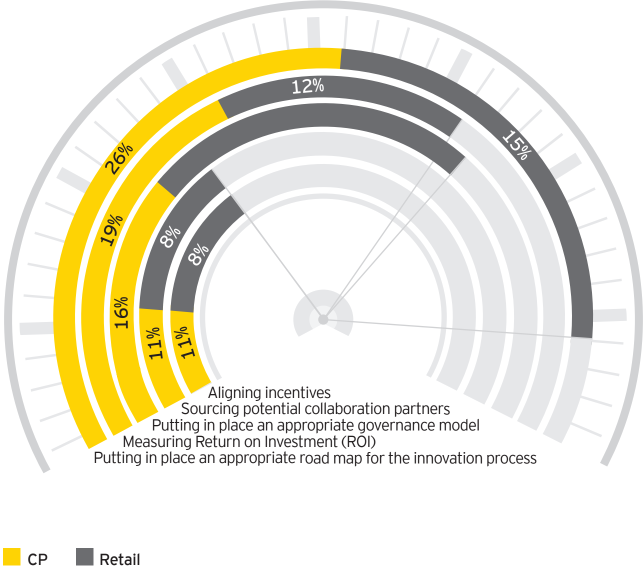


Chart 2: How effective has your company been at realizing the following potential benefits of collaboration with smaller entrepreneurial firms?

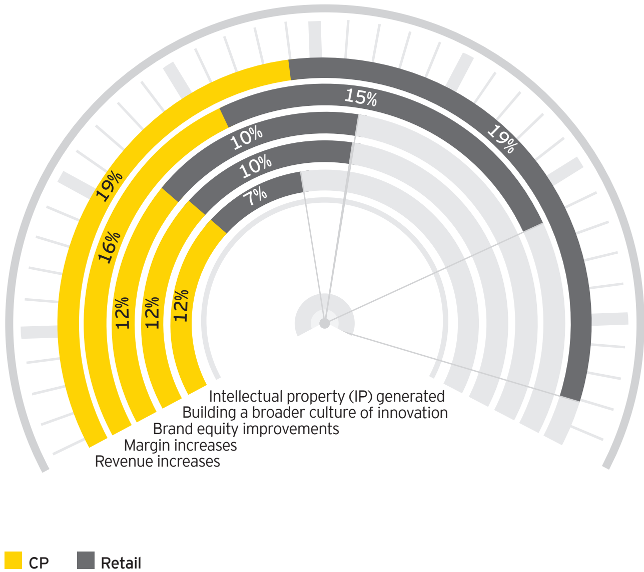
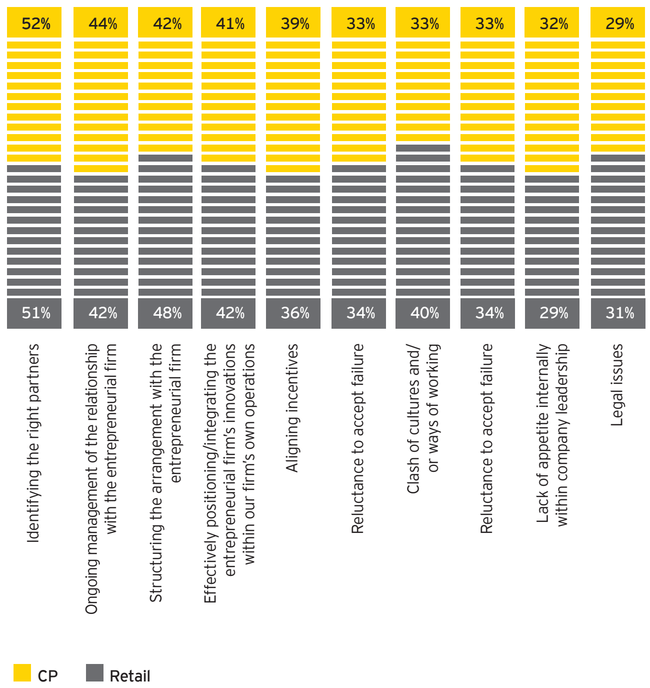


Chart 3: What are the key challenges of collaborating on innovation with smaller entrepreneurial firms?



Only

16%

are very effective at sourcing potential collaboration partners.

Only

19%

are very effective at realizing revenue increases from collaboration.

The nine principles of agile innovation

Overcoming the challenges of collaborating will be critical to delivering agile innovation. Based on our experience, successful collaboration with entrepreneurs and startups requires companies to adopt nine principles:

Create

1. Make the case for being agile

Lead courageously

CP and retail companies recognize the need to change the way they innovate. But making this change, and adopting a more open approach, is a major undertaking. To achieve effective collaboration with entrepreneurs, we believe leadership must be the catalysts for change and ensure that the organization as a whole is willing to rally around new models of innovation. Companies need a clear rationale for which ideas get developed internally, and which should be candidates for external collaboration. A holistic innovation strategy, which defines objectives for both internal and external innovation, is essential.

"It's critical that leadership gives you the flexibility and breadth of opportunity to try new and different things. Just as important are the logistical and structural support systems that allow you to do that and those come from the true top-level support."

Kathryn Sheaffer, Senior Associate Brand Manager, Mondelēz International

"Big brands typically want everything to be perfect when it goes out to market. When working with startups you have to realize that not everything you do is going to be perfect or succeed. And you have to also be willing to evolve and tweak the program as it's live."

Ed Kaczmarek, Co-Founder and Managing Director, Brand Accelerator

2. Cultivate an agile culture of experimentation

Encourage ideas and embrace failure

The startup mentality of "fail fast, fail cheap and fail often" is anathema to the traditional CP and retail innovation model. Large companies frequently have a fear of failure and a reluctance to experiment. Initiatives, such as Six Sigma, which are designed to minimize variances, can exacerbate this. Business leaders must therefore nurture a culture in which ideas and experimentation are encouraged and embrace failure as an opportunity to learn, while ensuring the benefits of the Six Sigma model are not lost. The two cultures must co-exist.

3. Think simple, act fast

Set clear and transparent objectives

Entrepreneurial firms are typically unencumbered by bureaucracy. Many embrace near-lean methodologies, which means they have a very efficient approach to identifying, discarding or pursuing new innovations. Large CP and retail companies should embrace this attitude as much as possible, empowering managers to make rapid decisions. Common agreement and clarity around the problem statement is also critical. In the world of agile innovation there are many levers that managers can pull. A clear and transparent objective enables the optimal innovation strategy to be executed.

"I spend a lot of time with entrepreneurs and I am always impressed by the speed with which they make decisions and capitalise on new opportunities. Diageo is a large, global company, but it is important for us to keep an entrepreneurial spirit and a flexible approach to innovation in all of our markets. Seeing the way entrepreneurs work can give us ideas that may enable us to work quicker and leaner."

James Ashall, Innovation Director, Futures Team, Diageo

The nine principles to agile innovation

Incubate

4. Identify the right team

Bring together the right internal team members with the right external partners

As CP and retail companies become more experienced at collaborating, their approach to identifying potential partners becomes more strategic and less ad hoc. Successful companies use both inbound and proactive approaches, and ensure that collaborations are closely aligned with their broader strategic goals. However, serendipity is still an important ingredient in many collaborations. We believe companies must "make their own luck" by ensuring that they are exposed to as many new ideas as possible and have the right processes to filter these approaches and spot the most promising. But successful collaborations do not just depend on finding the right entrepreneurs. Large companies also need to identify the right internal team to manage those relationships. CP and retail companies need to look for individuals who have the right mindset and can serve as effective, "multilingual" translators between the entrepreneurial and corporate worlds.

"We have learned over the years in Connect + Develop℠ that identifying successful collaborators involves both proactive search and "planned" serendipity. Planned serendipity requires us to not only know what we want and to be at those places where the unexpected connection can be made, but importantly for us to be ready for the conversation. We have created robust systems at P&G that assures we connect the right individuals internally to review ideas and then act quickly with a response. This efficient review process has demonstrated time and time again to be a critical factor in our success."

Laura Becker, VP Global Business Development, Procter & Gamble

"Businesses need to be open minded when entering this space, and be sensitive to the needs of the person or organization they are partnering with – while being clear about their own needs. Be ready to adapt and manage change. Big corporate research and development (R&D) teams sometimes see external partners as a threat rather than as an opportunity to learn new skills. But it is diversity of thinking, which allows you to innovate and overcome challenges."

David O'Reilly, Group Scientific Director, British American Tobacco

5. Determine the appropriate framework for each collaboration

Understand the asymmetries and apply lean governance

There is no one-size-fits-all model for collaborating with entrepreneurs. We believe CP and retail companies need a framework that provides the flexibility to allow different engagements, but within defined parameters. Some companies will prefer to use an intermediary as the broker between their own business and the entrepreneur, while others will choose an incubator model to nurture promising innovations. Keeping collaborations at arm's length from the core business will typically make sense, in order to give them space to breathe and the ability to operate under slightly different rules. Whichever approach is chosen, companies must take into account the asymmetries of the relationship – for the large company, this is just another small project, but for the entrepreneur, this may make the difference between the success and failure of their entire venture.

6. Maintain open, frequent communication

Align expectations and set rules of engagement

CP and retail companies have very different cultures, processes and speeds of working compared with startups. Aligning expectations requires a certain amount of give and take, and the ability to understand clearly the opposite party's concerns. It is essential to set clear parameters for the engagement at the outset. EY believes both parties should be clear about their roles, responsibilities and expectations. Robust governance needs to be in place, without stifling the collaboration or burying it in bureaucracy. Open, frequent communication between the two parties is essential. This should go beyond regular conference calls and occasional meetings. Successful collaboration requires both parties to embed themselves in each other's business environment so that there is a deep mutual understanding and alignment.

"Aligning with expectations is key to success. As a big company, we have proven gates and decision-making framework that may look cumbersome and slow to a smaller, leaner company. So we at P&G need to be cognoscente of the expectations of our partners and be in constant communication so they don't feel neglected. At the same time, we have learned helping our partners understand our decision process and why in the long run it actually reduces time by minimizing rework and improving success rate has been very beneficial. Like any relationship, open communication is key."

Laura Becker, VP Global Business Development, Procter & Gamble

The nine principles to agile innovation

Activate

7. Adapt processes and break rules as necessary

Avoid rigidity in project planning

Business processes need to be changed in order to collaborate effectively with entrepreneurs. For example, the large company's procurement processes may take several months to navigate, but that may be too long for the small startup with just a few months of funding to develop a new idea. Business leaders must accept variance from the corporate norm and ensure that these normal processes and rules can be circumvented, without undermining their validity for the core business.

"A multidimensional business needs multidimensional support. It needs a serious commitment of resources, of organization, and of patience. From the top, there needs to be an understanding that this is an investment that's going to take time."

Seth Goldman, President and TeaEO, Honest Tea

"We truly collaborated with our partners. We removed all the standard KPIs and said go see what you can do, and figure out what we can do in this space. We took off those handcuffs of you have to achieve X or Y or Z, because we didn't even know what those X, Y and Z could be yet, so to try to define them ahead of time would be really limiting."

A consumer products executive

8. Define and measure success

Set parameters to conduct innovation health checks, but don't obsess about perfection

In a transactional relationship, the purchasing company tracks the performance of the supplier and ensures that it meets clearly articulated targets. But when collaborating with entrepreneurs on innovation, tightly defined performance metrics will not work. Equally, it is important not to obsess over perfection. Developing ideas quickly that are "good enough," then testing and refining them in an iterative process, is often a more effective way of innovating than laboring over perfection.

9. Iterate and work incrementally

Embed mechanisms to quickly learn from the experience and failure and be prepared to course correct and pivot

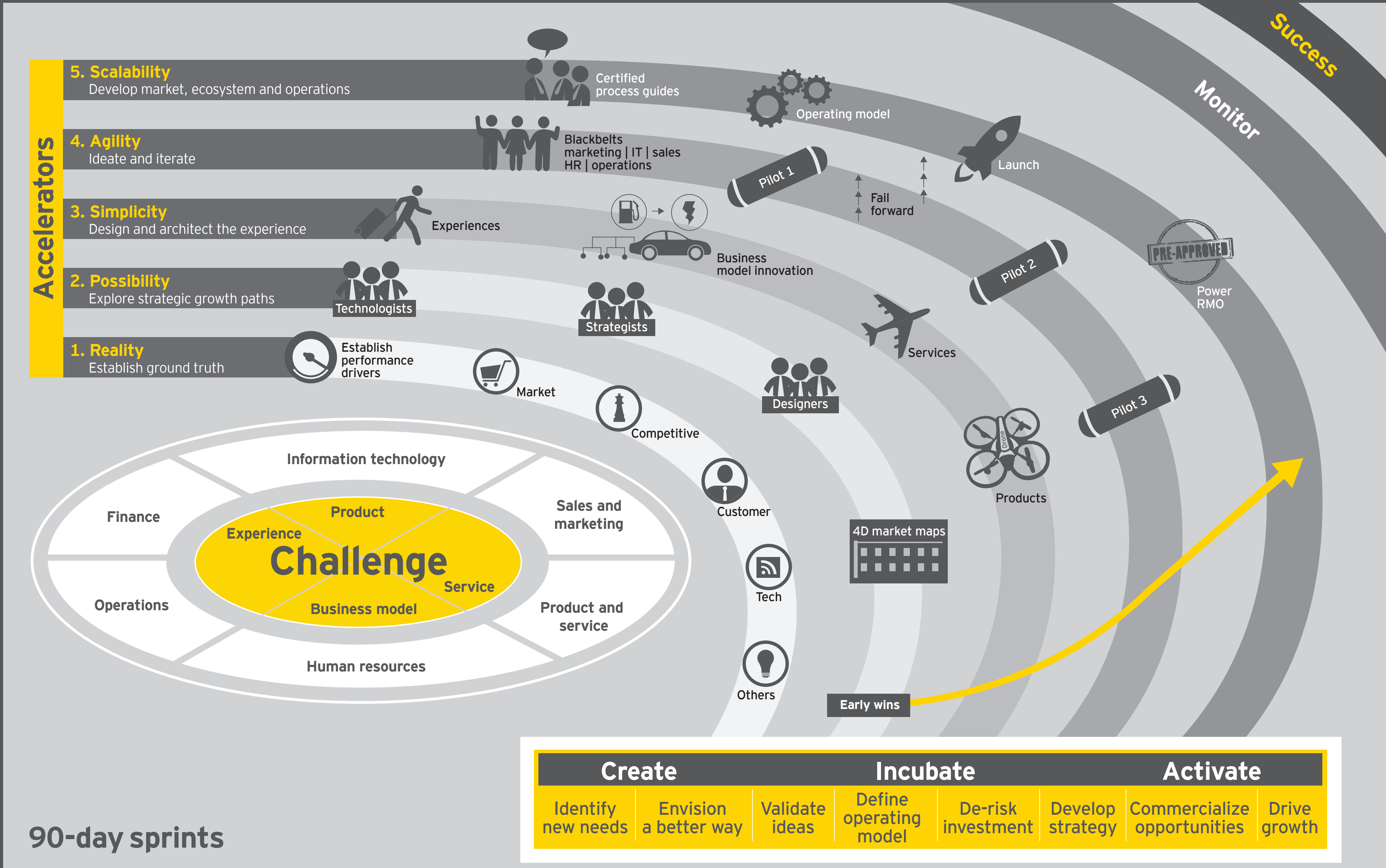
Entrepreneurs have much to teach large organizations about innovation. Their emphasis on rapid prototyping, and their willingness to take risks and learn quickly from mistakes are the bedrock of their capacity to innovate. Although multinational CP and retail companies may never have the agility of the startup, we believe it is essential that they embed mechanisms to learn from smaller collaborators, and refine their own approach to innovation by adopting some startup behaviors and approaches.

"Working with external partners has brought the philosophy of innovation into the company. We have learned to be more open minded and more willing to say, it's OK to get this wrong as long as we learn from it. When you meet entrepreneurs and inventors, the question that we ask is how could we do this as well, or better?"

David O'Reilly, Group Scientific Director, British American Tobacco


Create
Incubate
Activate
Rules

EY's agile innovation flight map



Why EY

Crowd sourcing subject matter resources

When EY engages the practitioners on the ground they bring the expertise of the SMRs in the cloud by utilizing firm communication and collaboration tools. In this way any one resource can bring the minds of the firm to their work.

Life of the customer

Rather than trying to analyse and create new individual customer transactions, EY looks at what customers are looking for outside of the immediate transaction and value proposition to explore the full customer experience, including the footprints they leave on the organization, and the emotional impact of the experience.

4D market maps

Overlays of patterns, positioning, scenarios, and customer experience to define disruption opportunities.

Incubator Spin Cycle

Innovation demands doing something new, which requires piloting fresh ideas, revising them and piloting again.

EY's Incubator Spin Cycle allows the creation and adaptation to happen simultaneously with experience modeling and incubating, then capture failures and successes necessary for each pilot to test something new and continuously improve.

Air readiness

Transformational readiness assessment takes the pulse of an organization's ability to transform, including operating model, emotions, social styles, functional buckets, skill sets, bandwidths, technologies, etc. The measure of readiness in each area is based on feasibility, speed to execute, costs, etc., a unique blend of risk and performance-based metrics.

An air readiness assessment is richer than a traditional transformation readiness assessment by including internal and external lessons learned and research, and creating teams to reflect on feasibility based on operating model, emotions, social styles, functional buckets, skill sets, bandwidths, technologies, etc.

Data and social interpretation

By utilizing the data from customer transactions, feedback and social media experiences, EY creates a similar view to traditional business intelligence, but of the organization's emotional impact and the reality of the customer journey and experience.

Go-to-market and channel strategy

Rather than piloting internally or within test environments, incubation needs to occur with real customers in the actual market environment so they experience channel strategies. Adaptation and creation must be able to occur simultaneously with the customer experiencing the envisioned change. EY has developed the structured method for "real" pilots and how to capture the impact of what has been envisioned and incubate further.

Power PMO

Rather than requiring PMO teams to hold typical go/no-go conversations with leadership teams and steering committees, program sponsors are granted the power and authority to decide when and what is launched in the market. Leadership grants the authority based on the vision and charter for the program and trusts the team to make the decision.

Examples of agile innovation in CP and retail companies

British American Tobacco established Nicoventures in 2010 as a standalone business with the aim of commercializing innovative nicotine products. Products launched through Nicoventures include Vype and intellicig, which are both electronic cigarettes.

The Unilever Foundry serves as the hub for the company's engagements with external technology innovators. The program invites innovators to submit proposals in a number of key areas, and then provides mentorship, investment and assistance with developing pilot projects for successful applicant.

Launched by John Lewis, JLab is a startup incubator focused on areas, including simplifying customers' lives and helping customers shop. The winner of the process will receive approximately US$170,000 investment and the chance to further develop their technology with the John Lewis team.

The Mobile Futures initiative was set up by Mondelēz as a vehicle for collaboration with mobile startups to transform consumer engagement. Mobile Futures involved connecting nine brands with nine startups, with pilot marketing programs launched within 90 days.

Launched in 2001, Procter & Gamble (P&G) 'Connect + Develop[SM]' initiative has led to more than 2,000 partnerships. It has transformed the culture into one where an open approach to innovation is expected throughout the company from R&D to supply chain.

Since 2011, @WalMartLabs has been helping WalMart to accelerate collaborative innovation with a number of external entrepreneurial companies. Its emphasis is on social and mobile commerce platforms that can be applied to support the retailer's global multichannel strategy.

Diageo set up incubator Distill Ventures to identify and develop craft distilling and boutique brands. Qualifying companies receive funding, access to expertise and cash flow. Diageo has an option to purchase those that are the most successful which will then be brought into the main business to form part of the core portfolio.

Contact us

David Jensen, Global Innovation and Digital Strategy Leader
david.jensen1@ey.com
+1 213 977 3691

Alex Jung, Principal, Global Strategy Advisory
alex.jung@ey.com
+1 312 879 2778

Mark Beischel, Global Consumer Products Leader
mark.beischel@ey.com
+1 513 612 1848

Markus Heinnen, Principal, Advisory
markus.heinen@de.ey.com
+49 6196 996 26526

David Takeuchi, Principal, Advisory
david.takeuchi@ey.com
+ 1 41 5894 8235

Richard Taylor, Global Consumer Products Advisory Leader
rtaylor5@uk.ey.com
+44 20 7951 4004

Dr, Suzanne Wosch, Senior Manager, Advisory
susanne.wosch@de.ey.com
+49 211 9352 25217

Mike Kanazawa, Principal, Advisory
michael.kanazawa@ey.com
+1 41 5894 8239

Andrew Cosgrove, Global Consumer Products Lead Analyst
acosgrove@uk.ey.com
+44 20 7951 5541

267

Executive respondents to EY's global survey of CP and retail companies.

44%

Nearly half of respondents were C-level or board-level executives.

For more information visit **EY.com/CP-innovation** or **www.ey.com/consumerproducts.**
Follow us on Twitter **@EYConsumerGoods.**

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About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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How EY's Global Consumer Products Center can help your business
Consumer products companies are operating in a brand new order, a challenging environment of spiraling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behavior and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. Our Global Consumer Products Center enables our worldwide network of more than 16,000 sector-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can assist you in making more informed strategic choices and help you execute better and faster.

EYG no. EN0598
ED None

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