



# State of Innovation Survey: Insights

May 2020

Research Sponsored by:



Highline Beta



## > **Executive summary: Stormy seas, but a continued commitment to innovation**

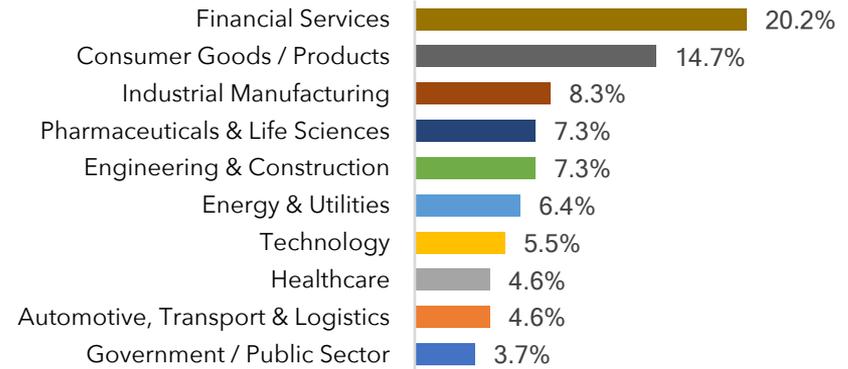
As the coronavirus pandemic led to shelter-in-place orders and sharply reduced economic activity around the world, Innovation Leader fielded a survey to understand how such changes were impacting innovation, R&D, and new product development teams. We found:

- Significant changes to innovation priorities, including increased support of the core business
- Innovation-related hiring freezes and budget reductions, but limited layoffs and furloughs
- A surprisingly durable commitment to developing transformational growth businesses
- An emphasis on “doing more with less” until budgets are expected to rebound in 2021
- Quick adaptation to virtual ways of working and collaborating
- Some companies seeing the crisis as an opportunity “to go on offense,” or, as one financial services industry respondent put it: “Uncertainty creates opportunity for innovation.”

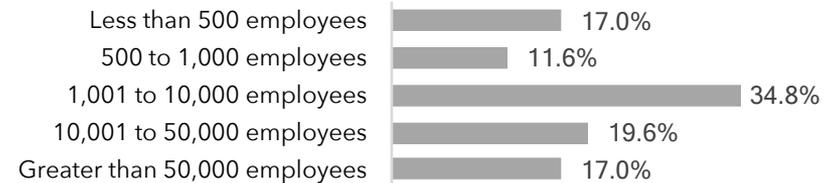
## > About the survey

- Fielded April 27 - May 4, 2020
- Designed by Innovation Leader and Highline Beta
- 11 questions seeking qualitative and quantitative responses
- 112 respondents

### Top 10 Industry Representation



### Organizational Size Representation



## > High-level impact: A significant shift in innovation priorities

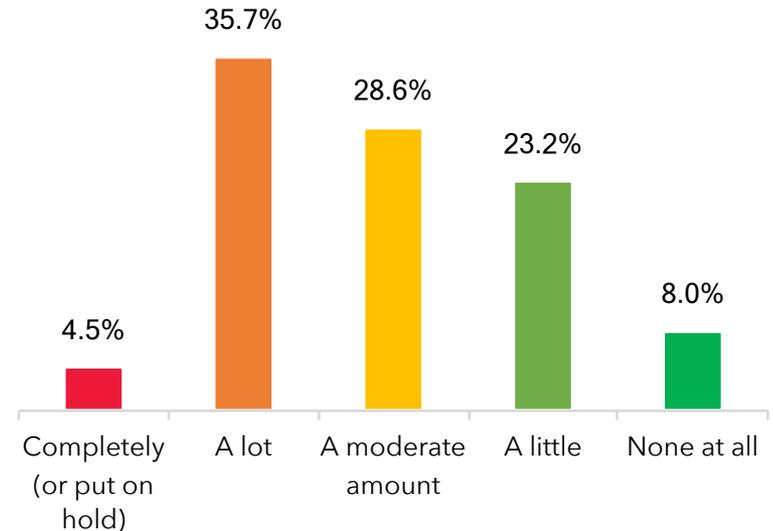
### What we learned...

- Nearly 69% of innovation team priorities are changing at least a moderate amount.
  - The industry sector most affected by changing priorities? Consumer goods and products.
- Many teams are now focused on short-term wins, often tied to COVID-19 response.
- Nearly one-third of teams (31.2%) are staying the course, recognizing the opportunity to build competitive advantage.

### What it means...

- A significant decline in revenue, or disruption to business operations, is causing many organizations to reassess ongoing innovation activities.
- Short-term wins are now especially important, as they can convince senior leaders to protect innovation team resources and priorities.

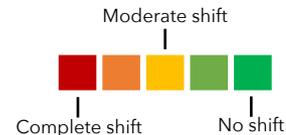
### Q. How has the current crisis impacted your organization's innovation priorities?



## > How priorities are changing, in survey respondents' own words

From those experiencing more significant shifts...

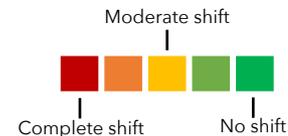
- "We pivoted nearly 100% of our new innovation programming to responding to COVID-19." – *Engineering & Construction*
- "All our priorities are under review, and we are focusing only on quick wins or on projects that bring value [in the] short term." – *Financial Services*
- "With the crisis impacting all the revenue generating BUs, our unit is slowing down activities significantly." – *Aerospace & Defense*
- "[We're experiencing] budget cuts [and increased focus] on the core, with the exception of one large innovation project that is already too far in process at this point." – *Consumer Goods / Products*
- "We are doubling down on innovation, spending and prioritizing it more – especially on further movement to digital." – *Financial Services*
- "Budget cuts have caused people to focus on perceived core functions. They don't see innovation as a core function." – *Higher Education*
- "Nearly all focus on innovation...has been put on hold. I see it as we were accelerating and gaining speed as we were coming up from the rear in the race, then there was a big crash. Now, the yellow flag is flying and we're idling behind the pace car in caution laps..." – *Industrial Manufacturing*
- "Many retailers stopped selling products, including [those from] our most profitable division that makes over half of our annual profit." – *Government / Public Sector*
- "More innovation is happening as our staff adopts technology to help them work internally and with clients while working from home. More inquiry with clients [is taking place] about their evolving needs and the new economy that will emerge. That is leading to more ideation and experimentation." – *Engineering & Construction*



## > How priorities are changing, in survey respondents' own words (con't)

From those experiencing moderate to no shifts...

- "We have put new projects on hold but are still working on current projects." – *Automotive, Transport & Logistics*
- "The focus of innovation has changed. We are still pursuing longer-term innovation, but a few sprints related to the COVID-19 crisis have been added to our work." – *Consumer Goods / Products*
- "Initially slowed down as several internal partners diverted to address COVID response teams. Core innovation resources stayed course at a slower pace where possible. A few things [have been] put on hold." – *Financial Services*
- "We hit the pause button for a few weeks while we were trying to understand what COVID-19 meant for us as a company and as an industry, and have now pivoted to pursuing ventures that were in-flight (virtually if possible) and to accelerating the virtualization/digitization of core business service/product delivery." – *Financial Services*
- "Our priorities remain the same, but we have added [to them] helping employees stay connected during shelter-in-place." – *Aerospace & Defense*
- "We have paused hiring, so this has delayed when we will start some of our innovation projects. But other than this, all innovation and product development initiatives are continuing as normal (other than social distancing)." – *Consumer Goods / Products*
- "COVID-19 has accelerated innovations in the company where our solutions and data can benefit society." – *Technology*
- "We are well positioned to go on the offense. Uncertainty creates opportunity for innovation." – *Financial Services*



## > Challenges for teams: Hiring and budget freezes, refocusing on the core

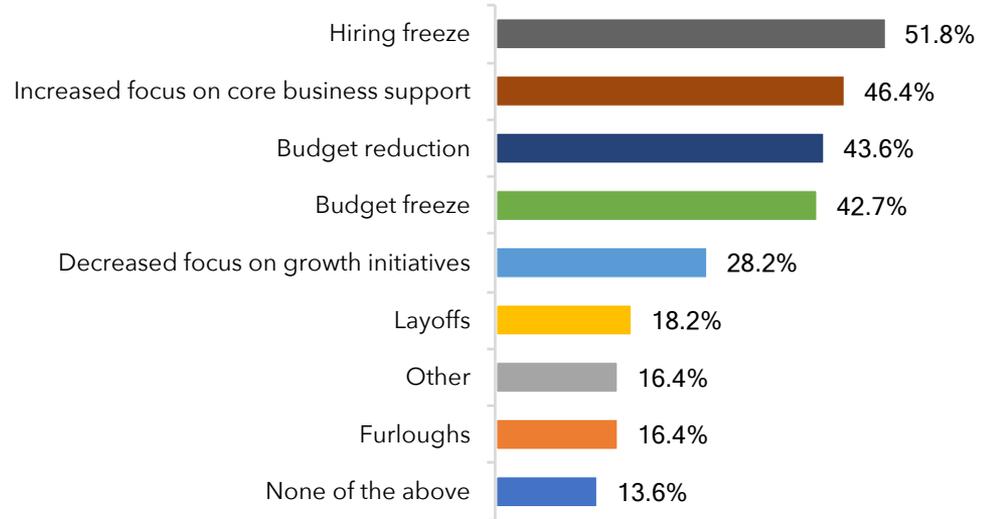
### What we learned...

- More than 40% of respondents say they're experiencing a hiring freeze, budget reduction or freeze, or that they are dialing up their focus on core business support.
- Layoffs or furloughs are affecting a relatively small number of respondents.
- Other challenges include a return to "command and control," a lack of attention from key supporters, and the limits of virtual collaboration.

### What it means...

- The relatively low incidence of layoffs and furloughs suggest that leaders, while proceeding cautiously, may recognize how hard it is to recruit innovation talent.

### Q. When it comes to innovation, which of the following challenges have you or your organization encountered?



## > Resource allocation: People, money, time investment shifting across horizons

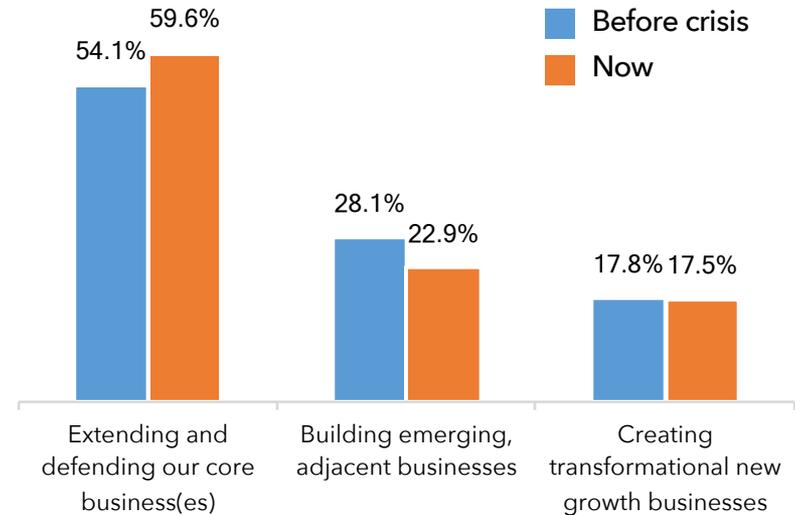
### What we learned...

- As expected, there was a reallocation in resources to core business innovation projects.
- But the small size of that shift (~5%) and the durability of commitment to transformational/new growth projects (0.3% decline) were both somewhat surprising.

### What it means...

- Most senior executives naturally prioritize core business initiatives during times of crisis.
- Recognizing the crisis will eventually abate, progressive executives may be reluctant to cease more strategic innovation initiatives.
- Resources allocated to creating transformational new growth businesses may also be hard to simply reallocate to core business initiatives.

### Q. How are you allocating your innovation resources (e.g. people / money / time)?



# > Budget realities, expectations: Reductions in 2020, yet optimism for 2021

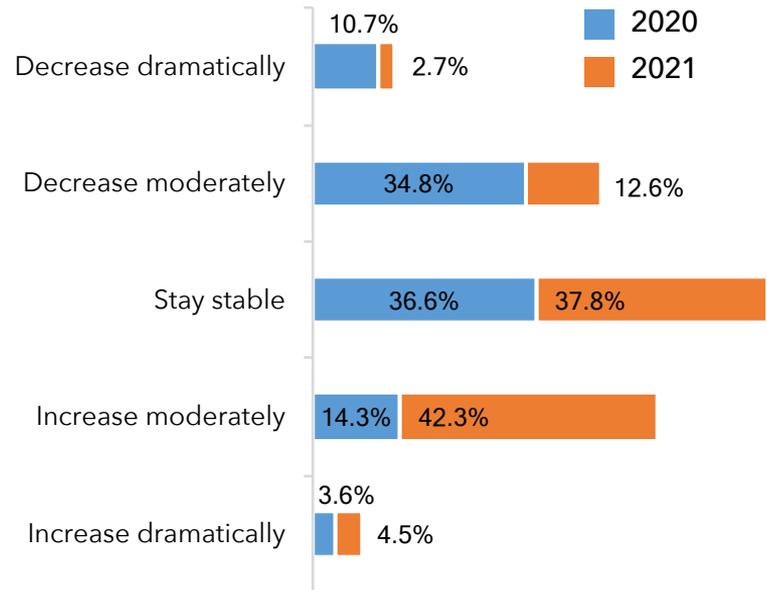
## What we learned...

- In 2020, ~45% of respondents expect their innovation budgets to decrease at least moderately; just under 11% expect to suffer dramatic budget reductions.
  - Industry most likely to be expecting a budget increase or stability in 2020: Financial services. Most likely to be expecting a budget decrease: consumer goods/products.
- In 2021, more than 46% of respondents expect their budgets to increase at least moderately.

## What it means...

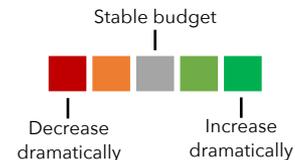
- The fact that most respondents expect their innovation budgets to remain at least stable during 2020, if not increase, may reflect the growing senior executive recognition that funding innovation is a critical investment.
- Respondents expect innovation resources to rebound in 2021, perhaps suggesting broader societal optimism for next year.

## Q. I expect our innovation budget to...



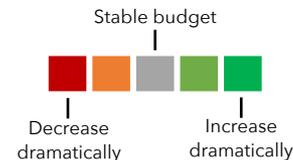
## > 2020 budget realities, in respondents' own words

- "The increased focus on core business and supply chain support has diverted many resources." – *Consumer Goods / Products*
- "The oil and gas industry is in a major downturn, and revenues will be far lower than last year." – *Industrial Manufacturing*
- "As resources are used to keep product shipping out to stores and [that puts] constraints on moving innovation forward, there will be a moderate decrease." – *Consumer Goods / Products*
- "We're [restricting] spending on a lot of innovation aimed at our traditional channels...We're incrementally aiming our innovation towards the new normal of the coronavirus, and what the post-coronavirus world will be." – *Engineering & Construction*
- "Our innovation budget is a percentage of shipment revenue, and we are seeing a slowdown in our sales pipeline." – *Industrial Manufacturing*
- "We have to save the world economy, so we will have to participate in the economic effort. I am even giving back [budget from my innovation group proactively] to participate [in] the effort [to] avoid being obliged to cut it under pressure." – *Financial Services*
- "Our long-term objectives are longer-term than the current crisis, [although] we recognize that the world may be entering into a new normal." – *Financial Services*
- "Innovation covers the majority of what we do, and our overall revenue is likely to be flat, hence our innovation budget will also be flat." – *Pharmaceuticals & Life Sciences*
- "Innovation is working, and we want to advance our maturity level." – *Energy & Utilities*
- "Greater focus on building a pipeline of new business opportunities to be able to thrive post-COVID." – *Engineering & Construction*
- "The pandemic is causing significant ripples in what is normal; that must be considered from both an [invest in] protection and [invest in] growth perspective." – *Financial Services*



## > 2021 budget expectations, in respondents' own words

- "Mobility businesses are expected to slow down, and the company might face years of drawbacks given the increased adoption of 'forced' trends such as remote work." – *Automotive, Transport & Logistics*
- "Business growth is not expected, so [it's] difficult to justify spend." – *Industrial Manufacturing*
- "I expect a level of conservatism coming out of coronavirus market impacts. R&D/Innovation focus will adjust in line with overall business performance." – *Pharmaceuticals & Life Sciences*
- "The new normal should have stabilized, and innovation is still very important to the company." – *Consumer Goods / Products*
- "Our innovation budget has never been the constraint. Our point-of-view (top-down / change theater) has been the core problem. The budget battles have been a symptom-based distraction." – *Energy & Utilities*
- "We have an important and breakthrough project to launch in 2021" – *Consumer Goods / Products*
- "So far, the budget has increased every year as described [in] our maturity development plan." – *Energy & Utilities*
- "We will likely face several years of tough challenges as a result of COVID-19 that will require adaptation and transformation through innovation." – *Engineering & Construction*
- "Sense of urgency is heightened." – *Financial Services*
- "We will have demonstrated our ability to help the company move swiftly into areas that are necessary." – *Financial Services*
- "I expect we'll put investment behind new growth strategies; the goal is to create transformative opportunities [in] the new modes of 'remote' workplace, education, and healthcare." – *Education, K-12*
- "[We] expect new critical priorities / opportunities to emerge from this that will require investment to move quickly." – *Technology*
- "Get ahead of those that are scaling back." – *Technology*



# > Tactical implications: Activities and behaviors starting, continuing, stopping

## What we learned...

- **Start:** Working remotely; prioritizing near-term, core business, inexpensive wins.
- **Continue:** Communicating, demonstrating value creation (particularly for core business).
- **Stop:** Reliance on in-person activities, new project kick-offs, longer-term and “less certain” projects.

## What it means...

- Universal near-term commitment to virtual solutions will likely translate to new practices / behaviors continuing as in-person work resumes.
- Generating quick, tangible returns is now more important than ever.

## Q. To be successful in the current environment, what are some of the things you've had to...

Start	Continue	Stop
<ul style="list-style-type: none"><li>• Working remotely</li></ul>	<ul style="list-style-type: none"><li>• Advancing current initiatives</li></ul>	<ul style="list-style-type: none"><li>• In-person meetings, research, collaboration</li></ul>
<ul style="list-style-type: none"><li>• Virtual research, events, collaboration</li></ul>	<ul style="list-style-type: none"><li>• Generating tangible returns</li></ul>	<ul style="list-style-type: none"><li>• Traveling for research, events</li></ul>
<ul style="list-style-type: none"><li>• Narrowing focus to what matters most</li></ul>	<ul style="list-style-type: none"><li>• Enabling digital transformation</li></ul>	<ul style="list-style-type: none"><li>• New projects</li></ul>
<ul style="list-style-type: none"><li>• Doing more with less</li></ul>	<ul style="list-style-type: none"><li>• Communicating clearly</li></ul>	<ul style="list-style-type: none"><li>• Longer-term initiatives</li></ul>
<ul style="list-style-type: none"><li>• Core business support</li></ul>	<ul style="list-style-type: none"><li>• Core business support</li></ul>	<ul style="list-style-type: none"><li>• Projects without clear promise</li></ul>

## > What's starting...continuing...stopping, in respondents' own words

### Start

- "Utilizing more digital tools, searching for stakeholders through company databases instead of walk-arounds." – *Technology*
- "Figuring out how to talk to consumers remotely, including how to send them product to sample." – *Consumer Goods / Products*
- "Highlighting all the innovation our people implemented to adapt to the new normal. Many did not even realize they were being innovative." – *Energy & Utilities*
- "Being flexible and being willing to accept a change in scope regarding job responsibility and only drive minimal evolutionary innovation within the core." – *Consumer Goods / Products*

### Continue

- "Keeping on track with 2020 plan, motivating the team, and staying more and more tuned [to] all the external signals." – *Consumer Goods / Products*
- "Pursuing in-flight ventures that are focused on significant problem/opportunity areas." – *Financial Services*
- "Digitizing the business." – *Higher Education*
- "Reminding customers of the long-term and medium-term importance of innovation investments." – *Pharmaceuticals & Life Sciences*

### Stop

- "Hesitating to try something until it is fully baked (minimum viable actions are working)." – *Energy & Utilities*
- "Long-term projects that require a lot of budget, [and which] will not have any return in 3 to 5 years." – *Financial Services*
- "Assuming that the business will be the same that we deeply knew two months before." – *Consumer Goods / Products*



# > Innovation outcomes: Leaders seeking core growth, organizational support

## What we learned...

- Respondents identified maintaining or growing the core business as the most important outcome.
- Growing revenue beyond the core business is least important right now.

## What it means...

- The common wisdom is that new growth innovation teams should not invest time supporting core business units; yet core business unit leader buy-in is often critical to innovation team survival.
- As a result, innovation leaders might consider how to creatively sustain core business value creation beyond the current crisis.

## Q. How important are the following innovation outcomes to your senior leadership team right now?

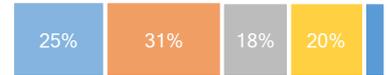
1. Maintaining or growing the core business(es) (e.g. by identifying new needs, developing new features)



2. Supporting the broader organization (e.g. through scenario planning, developing "safe workplace" solutions)



3. Reducing cost in the core business(es) (e.g. by refining core processes)



4. Growing revenue beyond the core businesses (e.g. through advancing adjacent or transformational initiatives)



(Note: Ranked by weighted average of votes)

Votes ■ 1st ■ 2nd ■ 3rd ■ 4th ■ N/A

## > Asks of senior leadership: Same as before; ROI may be particularly strong

### What we heard...

- **Recognize:** New opportunities to prioritize and pursue *right now*.
- **Invest in:** Digital solutions; the human-side of innovation (customers, employees).
- **Reward:** The right innovation behaviors, including appropriate risk-taking and internal capability-building.

### What it means...

- Innovation leaders continue to seek many of the same things from senior leaders as they did pre-crisis.
- Senior leaders able to actively support innovation now may realize particularly compelling competitive gains and ROI as the crisis abates.

### Q11. If you could wave a magic wand and convince your senior leadership team of one thing right now, what would it be?

#### Recognize...

- Opportunities emerging from the crisis
- The need to come out of the crisis stronger
- The importance of dedicating greater resources to innovation
- The imperative to move faster
- How hard teams are working (even though remote)

#### Invest in...

- Scenario planning
- Customer-centricity
- Digital transformation
- New innovation tools and platforms
- Culture improvement
- Talent development

#### Reward...

- The courage to take risks
- Customer validation
- Increased collaboration
- Streamlining processes
- Removing roadblocks

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Highline identifies new growth opportunities through a discovery and venture validation process, accelerates and scales partnerships with startups through its accelerator program, and builds corporate ventures and spins them out into new companies. And they invest.

Highline's seed stage venture capital fund invests in startups that Highline has co-created with its corporate clients, or partners. Highline supports each portfolio company with ongoing mentorship and additional services. Partners include RBC, AB InBev, Kraft Heinz, and American Family.

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