

# CHASING EUROPEAN UNICORNS

How to position the European  
innovation ecosystem  
to the forefront?  
Solutions for Businesses  
and Institutions

A collaborative initiative  
of AmCham's innovation  
working group members.

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### Strategyzer: a world leader in innovation tools and methodologies

Our mission is to help companies reinvent themselves by providing the tools and methodologies for innovation, including tools that enable leaders to make the right decisions at the right time. To increase their organization's resilience, we help leaders manage an innovation portfolio, and create an exploration culture that lives in harmony with the exploitation culture under the same roof.

Strategyzer has three main activities.

The design of innovation tools and methodologies. We have published 4 books so far enjoyed by over 2 million people in over 40 languages: Business Model Generation (2010), Value Proposition Design (2014), Testing Business Ideas (2019), The Inevitable Company (2020).

The development of a digital platform providing access to our training courses (e-learning) and enabling collaborative work by innovation teams and entrepreneurs. This lets them design and test their new business ideas directly on the Strategyzer platform.

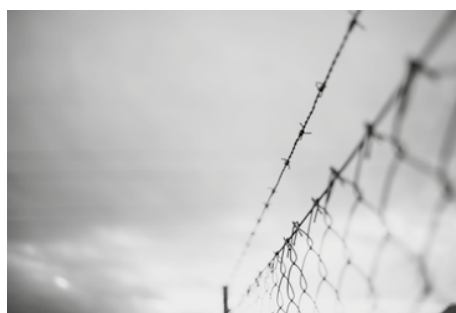
Consulting and coaching on how to evaluate and/or strengthen an innovation ecosystem: culture, processes, programmes, etc.

### Why write *The Inevitable Company*?

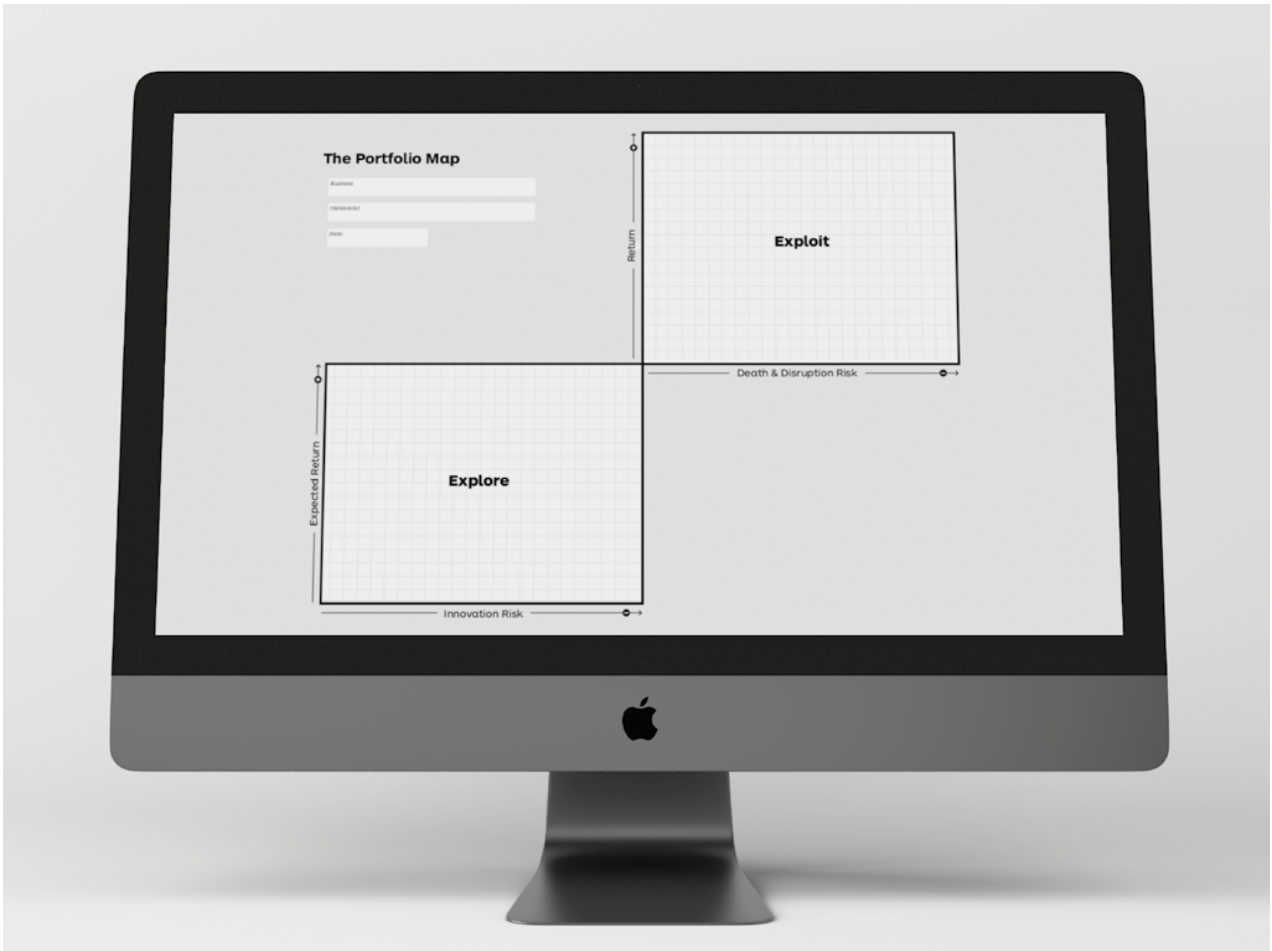
Over the past fifteen years, three people have contributed to the revolution in entrepreneurship and innovation practices.

Steve Blank, the American entrepreneur, author of *The four Steps to the Epiphany* book (2005), and founding father of the Lean Startup movement. His student Eric Ries, author of *The Lean Startup* book (2011). And finally, Alex Osterwalder, the Swiss inventor with Yves Pigneur of the Business Model Canvas, the missing business tool to visualize and implement the innovation processes proposed by the other two.

Today, the Business Model Canvas and other Strategyzer tools such as the Value Proposition Canvas are used all over the world, by startups as well as innovation departments of Global 500 companies. And yet, despite the spread of these methodologies, innovation in large companies is rapidly hitting a glass ceiling, that of the Leadership team and the Board of Directors. At this level, innovation still appears to be a black box, because leaders and directors do not have the right models in mind and the necessary tools at their disposal for managing innovation.



Our challenge over the last two years has been to create these models and tools for leaders. This is why we wrote *The Inevitable Company*. In this book, we introduce two new tools:



a. The Portfolio Map, a tool to visualize and manage the collection of business models a company exploits (Exploit Map) and the new business models it explores to avoid disruption and ensure longevity (Explore Map).



b. The Culture Map, a tool to understand, design, test and manage the culture an organization wants to develop.



The objective is for companies to develop resilience and be able to cope with the disruption of one of their business models. We have been working on this issue long before the Covid-19 pandemic. And it is even more relevant today because a large number of companies have seen their main business model really impacted, and they urgently need to pivot to new ways of creating value for their customers.

#### **What will most often block innovation in a company?**

For innovation to thrive in an organization, you need new innovation tools, skills and processes for sure. This is what we call the innovation practice, but putting those in place is not enough. You also need to understand where the enablers and blockers are in an organizational culture that will impact the development of innovation.

We help companies with innovation readiness assessment by looking at those enablers and blockers in three main areas.

The first is leadership support. What resources are allocated to innovation by leaders? How much time do executives spend on innovation? Is there an explicit innovation guidance for innovation teams? Etc.

The second is organizational design. What is the legitimacy and power of innovation within the company? Where does it sit in the org chart? What's the system of incentives and rewards for innovation? Etc.

As already mentioned we also look into the innovation practice. Do innovation teams use the right tools and processes? Do they have the necessary skills? Etc.

For a company to create new products and services repeatedly, and not as an exception or accident, you need to create an innovation ecosystem. This ecosystem feeds on the elements already mentioned, but also on exchanges with the outside world, such as: contributions from experts, co-creation with suppliers, partnerships with startups, universities, etc. Not forgetting, of

course, frequent interactions with prospects and customers that must be mobilized very early in the innovation process (design and/or testing of new products and services).

### Finally, what's the "recipe" to transform into an invincible company?

No company is invincible, but some companies are more resilient than others. Over the past 50 years, the average life span of companies in the S&P 500 has been cut in half. It is more critical than ever to help leaders increase resilience. To develop this resilience, three fundamental ideas must first be accepted and widely disseminated.

### The first is that exploration is fundamentally different from exploitation.

Too often, we see companies carry out innovation projects as they manage "business as usual".

But exploration and exploitation are completely different.

In exploitation the focus is on managing the existing business model(s). The key words are efficiency and growth. The level of uncertainty is relatively low, because you already know the market, customers and products/services. Investors can expect steady returns and dividends. Planning and execution are possible. Failure is a sign of poor planning and/or execution and is therefore prohibited. Executives and managers know their business inside out and ensure execution on time and within budget.

Exploration on the other hand focuses on the creation of new business models. The key words are search and breakthrough. The level of uncertainty is high, and the investment logic is closer to the one in venture-capital, with a large portfolio of small investments. The process requires rapid iterative experimentation with frequent "failure" leading to learning and adaptation. The people involved are more like explorers who excel in an uncertain environment, and are capable of recognizing patterns and making sense of weak signals.

Resilient companies accept this difference between exploration and exploitation, and are able to develop a culture of exploration and a

culture of execution living in harmony under one roof.

### The second key idea is to balance investments in different types of innovation.

People often don't understand each other when they talk about innovation. The main reason for this confusion is that there are different types of innovation. To be understood, it is fundamental to specify what type of innovation we are talking about.

The first type of innovation is aimed at improving operational efficiency. When Amazon automates the management of its warehouses with robots, it is very innovative, but it does not change Amazon's e-commerce business model. Nor does it create additional revenue. But it does make one of the key activities necessary to operate this business model a lot more efficient.

The second type of innovation is sustaining innovation (incremental, adjacent). The idea here is to add new value propositions to an existing business model. When Amazon adds e-books and e-readers (Kindle) to its e-commerce site, these new value propositions create additional revenues. But we're still very close to Amazon's core business.

The third type is transformative (disruptive) innovation. When Amazon reuses its IT and technology expertise to create Amazon Web Services, we are at the heart of transformative innovation. A new value proposition for a new customer segment that leads to the a new business model that exists alongside the e-commerce business model.

Most of our customers do not innovate like Amazon. They have an innovation portfolio that is massively geared towards efficiency innovation, with a low percentage of sustaining innovation projects, and a few rare transformative innovation projects. Yet, it is this type of innovation that produces the highest long-term value and creates protection from disruption. One of our goals with The Invincible Company is therefore to help companies rebalance their exploration portfolio towards more transformative innovation.

**The third key idea is that more transformative innovation requires more volume.**

In transformative innovation, the rules of the game are different from the other two types: transformative innovation is a volume game.

In venture capital, investors understand that it is impossible to predict in advance which startups will become tomorrow's successes. To maximize the chances of investing in future successes venture capitalists invest in a large number of projects, and accept to lose their investment in the vast majority of cases.

According to a study by Correlation Ventures on the return distribution of their funds between 2004 and 2013, only 1 investment out of 250 leads to a real success, with a return of more than 50x.

There is no rational and statistical reason to think that business leaders can beat the venture capital industry. The success rate that leaders can expect from transformative innovation will therefore be similar or even lower than that.

Too often, companies invest in one, two or three ideas. These big projects will receive significant funding and leadership support. It then becomes impossible to stop them or make them change course, even when all the signals point to a future financial debacle.

To develop resilience, an organization must be prepared to manage a portfolio with a large volume of ideas and projects and accept high "failure" rates. Leaders need to become comfortable with "killing" the vast majority of projects along the way. "Killing" a project is not natural for most executives in large companies who approach these types of decisions with the reflexes of the exploit world. But it is a necessary shift to allow the innovation portfolio to produce much better outcomes.

In conclusion, and to answer the central question of this book, three key ideas could enable European business leaders to unleash the transformative innovation potential of their organizations:

- a. Understand the difference in nature between exploration and exploitation, and switch to an exploration mindset,
- b. Understand the different types of innovation, and balance investments in these different types of innovation,
- c. Understand that, in order to achieve more transformative innovation, you need to bring more volume into your innovation portfolio.

