Seven Best Practices to Create an Innovation Center

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Many organizations aiming to grow digital innovation capabilities and impact are creating physical innovation centers. This research highlights best practices to help business and technology executives establish innovation centers delivering on dual goals of creative exploration and business value.

Key Challenges

- Establishing an innovation center is a major commitment that requires careful consideration of goals and expectations.
- Several key decisions can make or break the success of an innovation center, including location, level of resources and program focus.
- Center startup challenges include addressing the end-to-end innovation process (including transfer or delivery of ideas), relationships and intellectual property issues, and metrics for success.

Recommendations

Business and technology executives:

- Identify clear goals for the innovation center, including the type of programs and projects that will be addressed, the expectations for external relationships and the ways that the physical space will be used.
- Select location based on access to talent and experimental resources, and ensure that funding, staffing and resources match your ambitions.
- Focus programs on areas of opportunity and growth, and design activities to span the innovation process. Clarify the relationships to internal groups and external partners.
- Measure qualitative as well as quantitative outcomes in determining the level of success of your innovation center.
“We want to establish an innovation center. How do we get started?”

That is a question Gartner is hearing from a growing number of enterprises interested in taking their digital business and IT innovation capabilities to the next level. By establishing a physical innovation center, they aim to focus time, attention and resources on generating impactful new ideas, and to provide a safe place for those ideas to be developed and evaluated apart from the bureaucracy and short-term pressures of mainstream business.

However, not every company has the same goals or expectations for its innovation center. One company might send three people to Silicon Valley to establish relationships with technology startups; another might be planning a 30-person R&D center dedicated to exploring the customer
experience. The creation of a center might be part of an existing bimodal capability, or it could be a way to jump-start a major new bimodal initiative (see "How to Achieve Enterprise Agility With a Bimodal Capability").

This research provides CIOs, chief innovation officers, CTOs and other technology and innovation leaders with seven best practices in establishing an innovation center that delivers on the organization’s goals, with a particular emphasis on centers that inhabit a distinct physical space. Note that enterprises are using a range of terms to describe this type of center, including "innovation lab" or "hub."

Analysis

Determine the Goals for the Innovation Center

The overarching goal of creating a dedicated innovation center distinct from other business units is typically to provide a physical and psychological separation from near-term pressures, in order to encourage creativity and experimentation, and to develop the skills for effective investigation and evaluation of innovative projects.

Given the high expense of creating a dedicated location and assigned staff — compared to innovating from within existing organizational structures and locations — innovation centers generally focus on very high-impact, strategic opportunities that need proving out before an investment decision can be made. Local and incremental innovation, and driving a culture of innovation more broadly within the rest of the company, are not usually primary goals for an innovation center.

Common goals of an innovation center relate to projects, relationships and use of a distinct physical space (see Figure 1).

Example innovation project goals:

- Create a critical mass of skills and knowledge in key areas such as the Internet of Things (IoT) or customer experience.
- Accelerate innovation in strategically relevant areas (e.g., mobile consumers or digital health) to drive revenue and competitive advantage.
- Offer technology environments, tools and testbeds that facilitate rapid experimentation and/or Mode 2 development. Also, build up skills in how to run innovation activities.

Example relationship goals:

- Be a catalyst for open innovation relationships with academic institutions and technology partners.
Establish a presence in a high-tech hub to take advantage of local connections and talent, including startup accelerators and venture capital (VC) firms that invest in your market or technology space.

Provide a base for innovation through acquisition, including leveraging acquired assets.

Provide a focal point for incubator or corporate venture capital activities (that is, corporate investments in startups).

Example goals for the physical space:

- Provide a demo showcase for branding and marketing.
- Create a space for workshops, events and other creative activities for the whole company.
- Offer immersive technology environments for people to experience the innovations.

Figure 1. Goals of an Innovation Center

Source: Gartner (January 2016)
Most centers combine multiple purposes and goals. For additional information and ideas on innovation goals and focus, see "What a World-Class IT Innovation Charter Should Contain and Why You Need One"

Although not a primary goal, the commitment to a separate physical space or location also helps in maintaining innovation activity over a longer period, as it is more disruptive to close down or repurpose a whole center, compared with just reallocating innovation staff who are already collocated with other parts of the organization. High-grade, high-visibility facilities — that customers and investors can tour and within which executive like to hold meetings — succeed better in the long term. Lots of glass, white walls and attractive lighting make these facilities display intent and pride. While there are no guarantees, creating an innovation center can be an effective way to lock in a corporate commitment and protect the innovation investment in lean times.

Select Location Based on Access to Talent and Ecosystems

Location is a critical decision factor, involving multiple factors and trade-offs. These include:

- Which country and city
- Urban or campus
- Proximity to headquarters or other facilities

Note that an increasing number of companies are investing in a global network of interconnected centers to take advantage of a multicultural approach perspective on innovation, as well as the 24/7 possibilities.

Country and City

Many large, international corporations immediately think of the California Silicon Valley area as a first choice location for an innovation center. This is where the greatest pool of tech talent, supporting services and intense culture is to be found. Examples of innovation centers in Silicon Valley established by nontechnology companies include Toyota, Ford, McDonalds, GE and Australia’s Westfield shopping mall group.

However, there is a downside to going with the crowd, which is that it can be tough to attract and retain key talent in a highly competitive geography. There are other general digital tech hub locations in the U.S. that may be attractive and more accessible, such as Research Triangle in North Carolina. These alternatives are sometimes associated with industry clusters; for example, biomedical and robotics around Boston, financial technologies (fintech) in New York, and travel technologies in Dallas and Austin, Texas.

Internationally, there are many other cities that act as regional hubs and clusters, including Toronto in Canada; London (especially for fintech and media); Amsterdam; Stockholm; Berlin and Helsinki in Europe; and Mumbai, Bangalore, Tokyo, Seoul and Shanghai in Asia. In the Middle East, Tel Aviv is an important tech hub, with significant activity in the security sector. European technology parks include Eindhoven in the Netherlands and Sophia Antipolis in France.
If your company headquarters is in a city or country without a strong technology cluster or anchor university, you may have an uphill battle finding the right kind of talent, the supporting network of other tech companies and services — or the culture bubble that helps reinforce innovation striving behaviors. Also, be aware of the varying quality of infrastructure — digital, transportation, political system — as well as any legal restrictions on moving technologies between countries.

Tax breaks may also be a factor in selecting a country or city. Gartner does not track and analyze the financial inducements that various national, local and city governments make available to attract R&D investment. However, we are aware that some of the inducements do extend to digital technology innovation work, and could be a serious factor in your location decision.

**Urban or Campus**

The location type is an important decision. Many innovation centers are located in industrial suburban belts (for example, DHL near Cologne) or in countryside campus locations (for example, Safran Snecma, southwest of Paris). The advantages include lower land and facilities operating costs, a quiet off-grid "thinking" location, perhaps some protection from casual competitor espionage and the opportunity to purpose-build facilities with fewer town planning restrictions. If the work involves certain kinds of manufacturing effort such as metal machining or public risk activity such as drone flying, then an industrial zone or extra urban location may be required.

Central city locations have certain advantages and are sometimes preferred. They can be valuable for attracting young talent in the 20s age range, who wish to experience city life. For example, retailer Argos has taken this approach in London, and BBVA bank in Madrid.

Establishing a joint innovation center on a university campus may also be attractive as a way to access academic expertise and student participation in projects.

**Proximity to Headquarters or Other Facilities**

For many corporate cultures, this will be the most important and difficult trade-off. Keeping the innovation center within or close by the company headquarters facilities means it is close to strategic decision-making power. If the innovation matters, then doing it close to those who set corporate direction can be valuable. However, there is again a downside — the innovation center will also be close to the political "white blood cells" of the organization that might interfere, bureaucratize and constrain.

One answer to this conundrum is to select a location just close enough to be convenient for the power players to visit frequently, but far enough away to be "out of sight/out of mind" for the majority of the well-meaning-but-interfering administrators who would slow progress. That separating distance can be surprisingly short: one block away within a city or even less is often sufficient.

Particularly for smaller innovation centers, there is an additional branding benefit in keeping the location close to headquarters or other major corporate site:

- Executives and senior management see it —gaining buy-in from those in charge.
- A variety of staff see it — causing a variety of interactions that generate ideas.
- Customers and investors might see it — creating wider influence.
- It is harder to close down when business conditions wane.

Ensure Funding, Staffing and Resources Match Your Ambitions

Most innovation centers are established with central or corporate funding, as the goal is to prove out ideas and technology in advance of being able to provide the type of firm business case that operational units need to justify expenditure. The actual amount of funding is completely dependent on the size of the center. For small, in-house units, most of the funding simply involves the salaries of the dedicated staff plus some allowance for technology. For larger teams with separate facilities, the cost can be tens of millions of dollars.

Many larger innovation centers also work with third-party technology providers, startups or universities with varying commercial agreements relating to intellectual property. Technology partners may provide funding or advertising for the center to showcase and promote their technology to specific target audiences. Some centers also run competitions for internal or external contributors, similar to an "internal VC" fund (see "Fuel Innovation by Funding Ideas Using Venture-Capital-Like Practices") In some countries, setting up an innovation center allows companies to qualify for government funding or to bid for research grants and programs.

The number of staff in the innovation center is determined by funding levels. We see a wide range of sizes — for example, retail innovation centers may range from 20 staff investigating technology advances up to hundreds of employees prototyping customer experiences. One of the longest-running centers is the Fidelity Center for Applied Technology, which has stayed small and focused, growing from around 30 to 75 people since it was founded in 1999. Most centers aim to "hit the ground running" with a critical mass of staff, rather than bootstrapping a slow startup, although many also grow over time.

Smaller centers are typically staffed with technology generalists who can learn any new technology very quickly and who have a strong sense of the business needs (see "Best Practices in Staffing for Technology Innovation"). Larger centers are likely to have specialists in relevant technology areas (for example, mobile, analytics, collaboration and networking), as well as a strong interdisciplinary focus including, for example, anthropologists, behavioral scientists, designers, mathematicians, material scientists and entrepreneurs. They may also balance working styles and behaviors to incorporate "creative types" as well as people who can challenge the innovations, collaborate with other areas and externally, and those who have a bias for implementation and execution.

Full-time center staff are frequently augmented with rotating internal staff assigned to specific projects, or with external contributors from technology partners, startups or university relationships. For example, Nestle's Digital Acceleration Team (DAT) invites staff from across the world to train and work jointly for eight months on Mode 2 projects irrespective of the brands that they represent, thus creating their next-generation innovators.
From a technology resource perspective, much of the technology will be project-specific to test out the capabilities of new approaches and technologies. However, a core environment that is able to model relevant operational environments will also be a key element, as will be the ability to use typical datasets (for example, for analytical or artificial intelligence technologies) in a secure and anonymized manner. For innovation centers that offer internal or external demos, it is important to keep the technology "fresh" by updating or replacing exhibits over time. This also has implications for the relationships with suppliers and vendors that showcase their innovations in the center or that deliver components in the solutions provided and developed.

Focus Programs on Areas of Opportunity and Growth That Require Central Attention

The primary value of an innovation center is the ability to investigate topics and take risks that are not easily covered by the rest of the organization. This may include:

- "Game changers" or "big bets" — that is, the high-benefit, high-risk opportunities that need additional resources to establish their viability. Some organizations characterize these as "10x" programs — projects that aim to deliver 10 times the capabilities or performance of current approaches.
- Emerging topics or trends that don't yet have a home or that fall between the cracks of organizational or technology silos.
- Areas of investigation that require primary research and experimentation.
- Topics that benefit multiple areas of the company, such as client experience, supply chain or analytics.
- New processes and cultural norms — in this case, the innovation center acts as a change agent for the innovation behavior and risk appetite within the organization (for example, hands-on experience of Mode 2 experimentation and development approaches).

Many innovation centers design a portfolio of innovation programs spanning multiple goals and objectives by having streams incorporating different levels of risk or targeting different timeframes. For example, delivering a stream of quick wins during the early days of a center establishes credibility and a bias for action that promotes support for higher-risk or longer-term initiatives.

Although the overall focus (for example, technology, business area or customer) should be determined as part of the center’s founding charter, the specific drill-down topics and projects are likely to evolve over time. They may arise from executive analysis of business challenges and opportunities, or based on technology investigations by the researchers.

Design Activities to Span the Innovation Process

The activities that innovation centers engage in generally span a process that includes the generation, evaluation and transfer of ideas and approaches, including:

- Creation of future visions of possibilities (for example, store of the future mock-up)
- Idea generation through internal exploration and relationships with outside academic, commercial and government groups
- Idea development through technical investigations, prototypes, demos and experimentation
- Feasibility testing and business case analysis through customer or employee pilots or A/B testing
- Transferring promising ideas to other groups or lines of business (LOBs) to deliver business value
- For some centers, spinning out new ventures or LOBs based on new opportunities

The issue of transfer is a perennial challenge for many innovation centers, so it is important to address from the outset. It may be tempting for the center’s staff to think, "We’ve done our part in proving out the idea or technology, so it’s up to someone else to run with it;" but this type of thinking rarely leads to successful outcomes — nor to a long-lived innovation center. As shown in Figure 2, evangelizing and transferring ideas are key ingredients of the overall innovation process that must be planned and resourced like any other. Some innovation centers may stay involved in the delivery stage or spin out of intellectual property. Others hand off to a predefined group who takes the ideas to the next stage, while many find themselves needing to identify next steps on a case-by-case basis. See "Driving the STREET Process for Emerging Technology and Innovation Adoption" for more details on essential elements of the innovation process.

Figure 2. Design Activities to Span the Innovation Process, Including Transfer

<table>
<thead>
<tr>
<th>Scope</th>
<th>Track</th>
<th>Rank/Filter</th>
<th>Evaluate/Experiment</th>
<th>Evangelize</th>
<th>Transfer</th>
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<tr>
<td>Visioning exercises</td>
<td>Rapid prototyping</td>
<td>Transfer to existing channels</td>
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<td>Creativity workshops</td>
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<td>Crowdsourcing</td>
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<td>Mining of academic relationships</td>
<td>Digital anthropology</td>
<td>Launch with partners</td>
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<td></td>
<td>High-velocity, low-cost experimentation</td>
<td>Sell intellectual property</td>
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Source: Gartner (January 2016)

Centers also require management activities such as:
- Managing ongoing relationships with external innovation partners
- Managing intellectual property resulting from projects or acquisitions
- Managing and improving the innovation process
- Creating an ongoing showcase of prototypes and project results to demonstrate to visitors
Clarify the Relationship to Internal and External Partners

When an organization has reached the point that it has the resources to create an innovation center, the center is unlikely to be the only place where innovation is occurring. Creative ideas, prototypes, pilots and experimentation may be happening in multiple areas of the business, applied to various areas and opportunities. In establishing the goals and charter of the center, and during the first year of operation in particular, it is important to clarify the relationship with these other pockets of innovation, both to leverage the combined power and to head off any resentment or passive-aggressive behavior based on a sense that the new center “owns” all innovation.

The center may plan and develop the following types of internal relationships:

- Incubating ideas originating in the center, and handing them off to other areas of the business
- Providing deep investigation to solve challenging problems requested by business executives
- Conducting research as a center of excellence (COE) that informs organizational strategy
- Hosting and mentoring innovative projects originated and staffed by other parts of the organization
- Exchanging knowledge and results between multiple centers, each with a distinct focus

Partnerships also play a key role in most innovation centers, particularly those that are focused on research and also on incubating and mentoring startups. Some centers are founded formally between partners to provide complimentary skill sets and resources. For example, IDEALondon is a post accelerator/innovation center formed by UCL, Cisco and DC Thomson to build on the skills and capabilities of a leading university focused on innovation and entrepreneurship, the technical resources and broad customer base of a technology company, and the experience of a global media player with a focus on investment.

In other cases, partnerships are formed on an ad hoc basis based on program or project needs. Local external resources may include universities, investment companies, incubators, startups, local or national government, industry bodies or consortia. Competitions, hackathons and internships can be effective ways to discover local talent and to add to the center’s staffing resources. For example, Visa Europe has developed a collaboration center to work with the many smaller parties and startups in the payments fintech arena.

Once external parties become involved, the center needs to pay close attention to intellectual property (IP) issues. You may aim to retain all IP the center touches, develop a series of joint ventures, take an equity stake in startups, or help develop technology that you later buy or license from the third party. There are many common and potentially profitable approaches, but you need to establish legal clarity at the outset of a relationship.

Measure Qualitative as Well as Quantitative Outcomes for Creativity and Business Value

The metrics you use to evaluate your innovation center should be based on the goals of the center, for example:
If your center is mostly focused on external marketing and brand perception, record and measure the reactions of people as they tour the center. Pleased surprise would be high on the scale, whereas tepid reactions would be low.

If your center targets external relationships with startups or academia, measure the number and quality of those relationships and what they are yielding in terms of creative input or output.

If your center is focused mainly on the pursuit of innovation projects or the creation of innovative new products, measure the business outcomes associated with that output.

No matter what the goals of the center, there are some metrics that everyone should implement:

- Measure the culture of the center. Are work styles sufficiently different from elsewhere in the organization they are likely to create something new and different that could not be created otherwise? Is it a learning culture where insights from the last experiment, client tour, event or external relationship are being immediately fed into the next one? Is the center creating the buzz that we wanted?

- Measure the activities and processes you adopt. Are you using the right mix of process and serendipity? Are activities and innovation approaches being updated fast and often enough? Is your process moving ideas along the innovation pipeline? Is your process in line with current best practices inside and outside your organization (for example, the stage gate processes of your R&D or product development group)? What portion of projects result in a delivered outcome — is it too low (a possible symptom of poor transfer), or too high (indicating you may be playing it too safe for an innovation function.)

- Measure business outcomes. At the end of the day, the center is there to provide some kind of business outcome, tangible or intangible. These can range from improving brand perception through to increasing revenue, increasing speed to market or decreasing cycle time — the metrics that the whole organization cares about. Are your projects targeting these eventual outcomes? Do you have an appropriate balance, based on your goals, of high and low risk, short and long term?

Because the results of innovation are often hard to measure quantitatively and difficult to know in advance, we recommend using a mix of objective and subjective metrics beyond the ROI metrics that predominate in business-as-usual activities. For example, you could use a scale of 1-10 as a subjective, quantitative metric to measure the buzz your center is creating, or people’s reactions to the center.

For more on innovation metrics, see "Overcoming Innovation's Measurement Problem."

Case Study

For examples of innovation, digital business, IT and customer experience centers that may be appropriate role models for organizations creating their own innovation center, see Table 1:
Table 1. Examples of Innovation Centers

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<th>Company</th>
<th>Industry</th>
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Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"Create a Research Engagement Plan to Advance Your Innovation Culture and Processes"

"What a World-Class IT Innovation Charter Should Contain and Why You Need One"

"Overcoming Innovation's Measurement Problem"

"A Maturity Model for Innovation Management"

"13 IT Innovation Habits of Endurably Successful Alpha Organizations"

"Driving the STREET Process for Emerging Technology and Innovation Adoption"

"Six Styles of Technology Innovation Groups"

"Best Practices in Staffing for Technology Innovation"

"Strengthen the Three Pillars of Innovation in Your Organization: Purpose, People and Process"

"Fuel Innovation by Funding Ideas Using Venture-Capital-Like Practices"

Evidence

The research has been created based on publicly available information about innovation centers, and on analyst conversations with innovation centers of varying sizes, goals and practices.

More on This Topic

This is part of an in-depth collection of research. See the collection:

- Leading Into the Learning Curve as Your Digital Business Matures
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