INCUBATION
EXPERIMENTING YOUR WAY TO NEW BUSINESS SUCCESS
A company that is good at incubating new businesses is one that will thrive in the world we are living in where every industry, market and technology is transforming before our eyes.
Strategic innovations require a different creation process

For strategic innovations with high levels of uncertainty, it’s practically impossible to get it ‘right’ at the beginning. Iterative experimentation is necessary. New Product Development (NPD) processes aren’t up to the task.

"You don’t learn to walk by following the rules. You learn by doing and falling over.”

Richard Branson – founder of Virgin Group

- Transformational opportunities are rare and without them, we cannot meet our growth objectives.
- There are many opportunities that are overlooked or passed over that others then often exploit.
- New product development processes are not delivering breakthrough opportunities. We are stuck close to our core.

*Strategic innovations* are those that stretch the company’s existing boundaries to provide transformational or breakthrough opportunities. They are often characterized by high levels of uncertainty and organizational barriers that jeopardize their success.
THE VALUE OF INCUBATION

The incubation of strategic opportunities is a journey that requires the enterprise to learn and to push its boundaries.

This journey is one that requires both an external and an internal focus to cross the ‘valley of disagreement and uncertainty’:

- The valley where uncertainty and risk can derail even the most promising boundary pushing opportunities.

Incubation is a mindset, an approach, a process and methods and tools to help an opportunity cross the valley:

- It provides the necessary impedance match for boundary pushing opportunities.

A commitment to act and invest in a way that promotes learning & boundary pushing.

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TWO PATHS FOR OPPORTUNITY CREATION

If all you have is a stage-gate process for New Product Development (NPD), you will struggle with strategic innovation

Sometimes it’s straight-forward - Sustaining

- Close to the core
- Have the required competencies
- Low levels of uncertainty (though perhaps high risk)

Sometimes it’s really hard - Strategic

- Never done before
- Requires new competencies and behaviors
- High levels of uncertainty in all dimensions

We’re interested in doing this well
To design and conduct experiments, and use the results, to get as close to the true, valuable manifestation of a new artifact as possible.
INCUBATION ARCHITECTURE – FOUR DIMENSIONS

Path & Plan

Early ORL* 4
Mid ORL 5
Late ORL 6

Test

Mindset & Behavior

Bird-in-hand
Affordable loss
Lemonade
Patchwork Quilt
Pilot-in-the-plane

Learn

Methods & Tools

Mind-of-the-Community
Jobs-to-be-done, Personas
Artifact Design (MVP etc.)
Use Cases
Requirements
Adoption Modeling
Map-to-market

Adapt

Experiment

Process & Mechanism

* = Opportunity Readiness Level
PATH AND PLAN

The path is guided by the Opportunity Readiness Level (ORL) scale

Organization
Demand
Design
System

Uncertainties to address
Information to gather
Rendering to use

The customized plans guide the experimental objectives and activities to learn what’s needed

Learning Objective
Hypothesis
Assumptions & Questions
Setup & Execution
Resources & Schedule

Results
What was learned
Surprises
Insights
Recommendations
MINDSET AND BEHAVIOR*

Bird-in-hand {start with your means}
When expert entrepreneurs set out to build a new venture, they start with their means: who I am, what I know, and whom I know. Then, the entrepreneurs imagine possibilities that originate from their means.

Affordable Loss {focus on the downside risk}
Expert entrepreneurs limit risk by understanding what they can afford to lose at each step, instead of seeking large all-or-nothing opportunities. They choose goals and actions where there is upside even if the downside ends up happening.

Lemonade {leverage contingencies}
Expert entrepreneurs invite the surprise factor. Instead of making “what-if” scenarios to deal with worst-case scenarios, experts interpret “bad” news and surprises as potential clues to create new markets.

Patchwork Quilt {form partnerships}
Expert entrepreneurs build partnerships with self-selecting stakeholders. By obtaining pre-commitments from these key partners early on in the venture, experts reduce uncertainty and co-create the new market with its interested participants.

Pilot-in-the-plane {control v. predict}
By focusing on activities within their control, expert entrepreneurs know their actions will result in the desired outcomes. An effectual worldview is rooted in the belief that the future is neither found nor predicted, but rather made.

Contrasts with: Pre-set goals or opportunities
Causal reasoning works inversely by assembling means after a goal is set.

Contrasts with: Expected return
Causal reasoning first targets a return, then works to minimize associated risk.

Contrasts with: Avoiding surprises
Causal reasoning works to minimize the probability of unexpected outcomes.

Contrasts with: Competitive analysis
Causal reasoning presumes that competitors are rivals to contend with.

Contrasts with: Inevitable trends
Causal reasoning accepts that established market forces will cause the future unfold.

* From Effectuation.org
Experimental approach is informed by the scientific method

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Learn:
Identify key responses and compare with hypotheses and assumptions to reveal new insights.

Test:
Expose people to developing versions in controlled contexts and see how they respond.

Adapt:
Identify key functional and experiential changes and create new artifacts to test and the means to test them.
# METHODS AND TOOLS

1. **Mind of the Community**
   - Building an adopter and partner community
   - Gathering opportunity insights
   - Identifying first adopters and partners

2. **JTBD, Personas & Effects**
   - Identifying adopter motivations
   - Prioritizing the jobs an offering does
   - Uncovering and validating value claims
   - Design thinking for user experience

3. **Offering and B-Model Design**
   - Alternative business model concepts
   - Minimally viable offerings
   - Protocepts, Prototypes, Pilots
   - Technology adoption and engineering

4. **Use Cases & Requirements**
   - Future paths and platform potential
   - Learning plans for market fit
   - First application test – point-of-the-spear
   - Customer adoption and adaptation

5. **Network, Market & Adoption**
   - Understanding future value network
   - Insight into market potential
   - Market fit and market entry

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Choose what to incubate wisely. This is a commitment to try and turn an opportunity into a business.

**Act like a VC**
- Choose among many
- Take an outside perspective
- Evaluate the team
- This is a seed-stage commitment
- Choosing nothing is OK
- Choosing several is OK
- Set milestones
- Take a portfolio perspective

**Opportunity Readiness Level**

**Incubate**

**Experiment**
THE PITCH

The Elevator Pitch (1 minute)
1. What need or desire (of whom) is addressed?
2. What’s the potential size of the prize (value)?
3. How can the company approach and participate?

The Pitch Deck
1. What is it?
2. Who is it for? Why will they want it?
3. Why is it special? How significant is it?
4. How different is it from what exists today?
5. How big could it be?
6. What is your first application (step)?
7. Where are you in the journey?
8. How fast can you go?
9. Who is involved and why?

The Ask – Seed money for the first experiment
INNOVATION PORTFOLIO GOVERNANCE

A well-defined methodology and tools to support making decisions about what to invest in.

Does the current portfolio reflect the company’s innovation strategy?

Exception status of each opportunity in the portfolio?

What is ready for transition to acceleration?

What should be abandoned?

What is recommended to add?

Past, current and expected spend

Estimated value of the portfolio over time (post launch).
INCUBATION ASSUMPTIONS (PRE-REQUISITES)

- Opportunity will not be put into stage-gate
- A venture lead will be put in charge
  - They will have transactional authority – hiring, deal making, etc.
- An advisory board will be formed to help the venture lead
- The new ‘business’ will be funded like a startup
  - Increasing rounds of funding based on milestones
- The new business will be removed from the normal business planning cycles and financial metrics
  - It will have its own metrics and milestones determined by the Venture Advisory Board and Innovation Portfolio Board
THE INCUBATION TEAM IS CRITICAL

• **Team Composition**
  - Intrapreneur/New Venture Leader
    • The startup exec. – visionary champion
    • Has transactional authority – legal, HR, etc.
  - Domain Experts and Connectors
  - Experienced Operators and startup Enthusiasts

• **Team formation & lifespan**
  - Permanent & persistent
    • Team built to establish the business
    • Many continue on into acceleration
  - Secondment
    • From internal resources within BUs
    • From external partners

People Attributes
- Ambidextrous mindset
- Effective networking
- Internal legitimacy
- Motivated and fast
- Operational rigor
- Partnering proclivity
INCUBATION PRINCIPLES

**Decision velocity**
Make decisions quickly and move on

**Take action before all the information you want is available**
Make decisions with only 70% of the information you would like to have

**Distinguish reversible and non-reversible decisions**
Know when something is existential and act accordingly

**Disagree and commit**
It’s okay to disagree, but commit to support the decisions that are made

**Executive oversight instead of management**
Let those responsible make the decisions – be informed but don’t micro-manage

**Freedom to operate – deal-making authority**
Let intra/entrepreneurs do what they need to do to build a business

**Differentiated support and incentive systems (compensation, legal, HR)**
Create new systems to support moving fast

**Provide support to the Intrapreneur**
Put together a startup board that helps the business with advice, connections and
Incubation to Acceleration Transition

Experimentation is done. The offering and business model is set. Time to focus on operational excellence efficiencies and scale.

Decisions

- Where does this happen? In an existing business unit? In a new business unit? Outside?
- Who does this happen with? What partners are needed? Where do internal resources come from?
- What metrics will be applied to the business? When? How is success determined?
- Who leads it? The intrapreneur, an executive, an outsider?
- How is credit apportioned? What is the story that will be told? How are incentives aligned?

Uncertainties have been reduced and there is a path to growth and profitability that, while not without risk, is highly probable.
To be good at incubation one needs to be comfortable with uncertainty, to commit to experimentation and to nurture an entrepreneurial mindset.
With Inovo as collaboration partner and guide, organizations transform their innovation offerings, cultures & capabilities.

For more information, check out our website at www.theinovogroup.com or drop us a line at +1 (888) 464-6686.