BCG
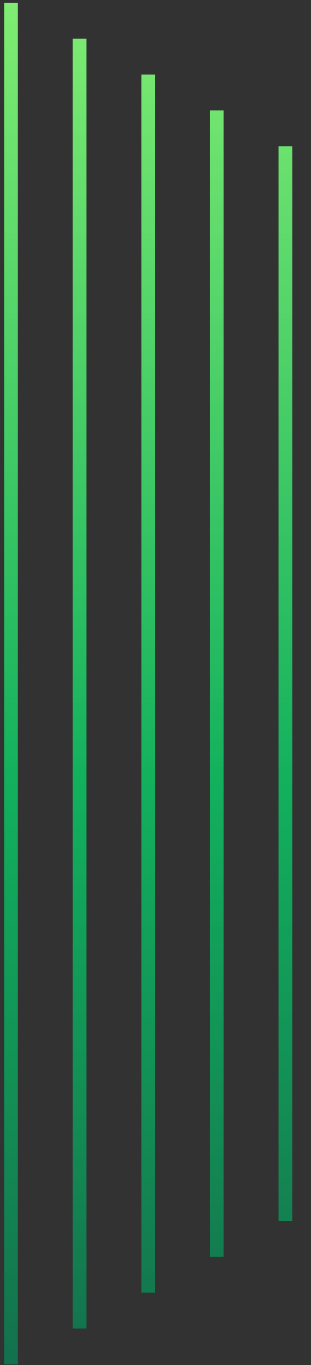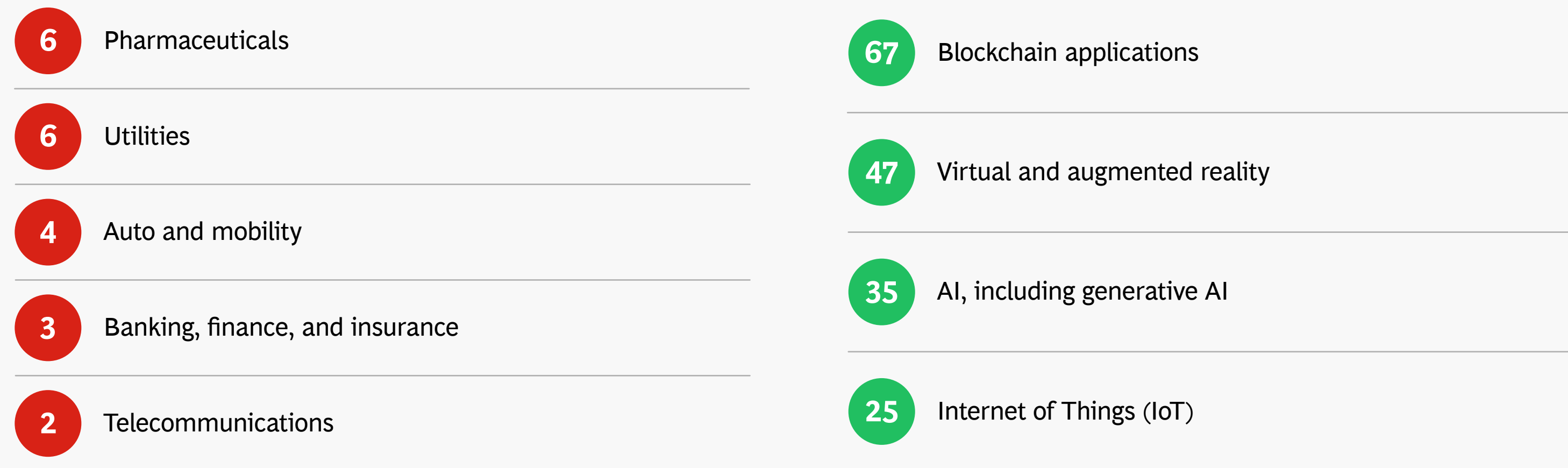
What Innovation Leaders Do Differently

Tech-enabled markets are expected to grow ten times faster than traditional markets over the next five years

Traditional markets have plateaued…

ANTICIPATED COMPOUND ANNUAL GROWTH RATE BY GLOBAL SECTOR, 2017–2026 (%)

- **6** Pharmaceuticals
- **6** Utilities
- **4** Auto and mobility
- **3** Banking, finance, and insurance
- **2** Telecommunications

…while tech-enabled markets are taking off

- **67** Blockchain applications
- **47** Virtual and augmented reality
- **35** AI, including generative AI
- **25** Internet of Things (IoT)

Generative AI is gaining traction quickly, disrupting how organizations innovate

AI market growth and investments are exploding…

$120B
Expected global market in 2030, increasing from ~$15 billion

5 days
Time it took ChatGPT to hit 1 million users

35%
Compound annual growth rate

$6B
Venture capital funds committed during the past three years

…leading companies across industries to use AI to innovate operations and functions

Telecommunications
· Capacity planning optimization
· Cross-selling opportunity identification

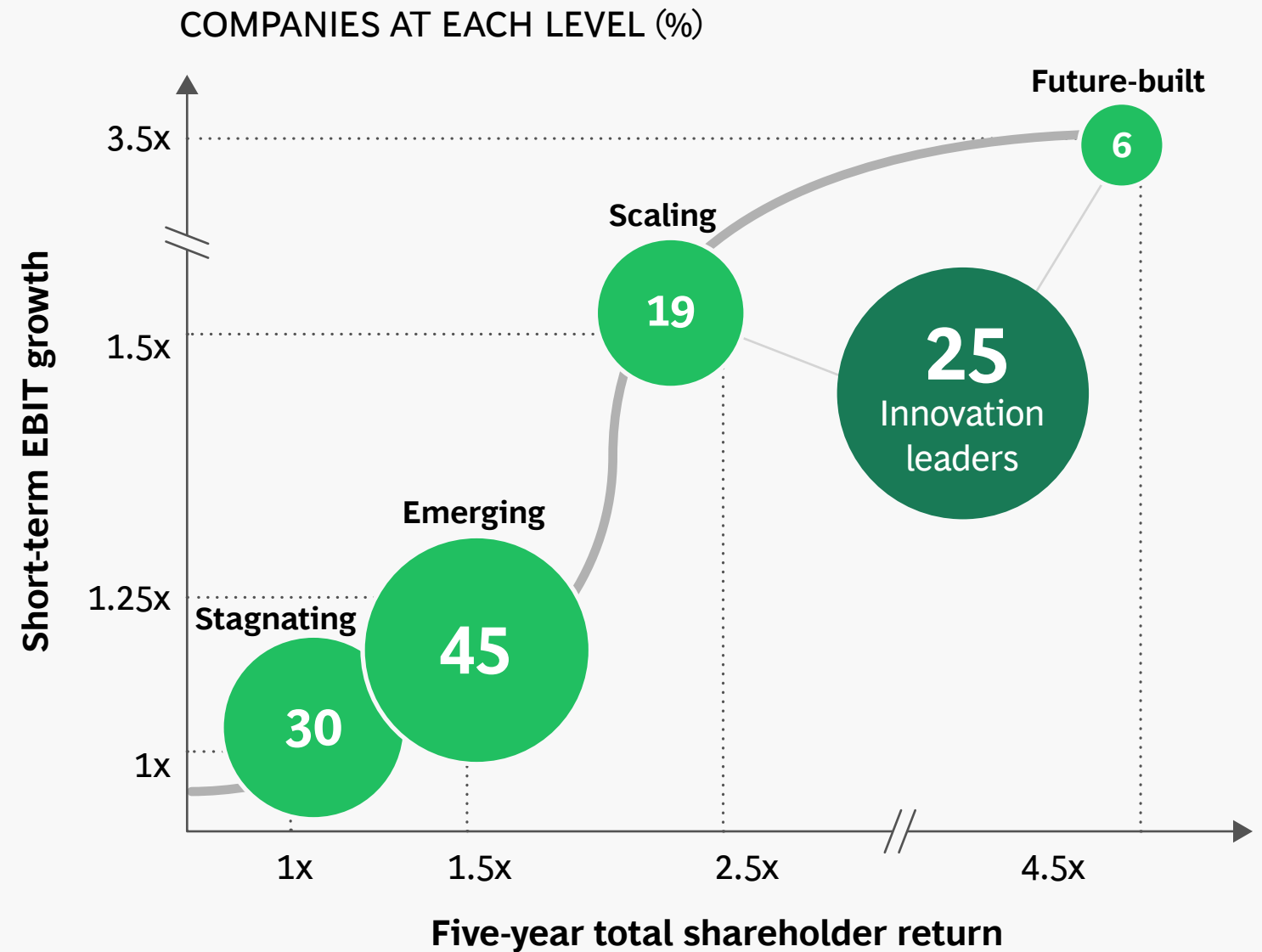**Health care**
· Medical imaging recognition
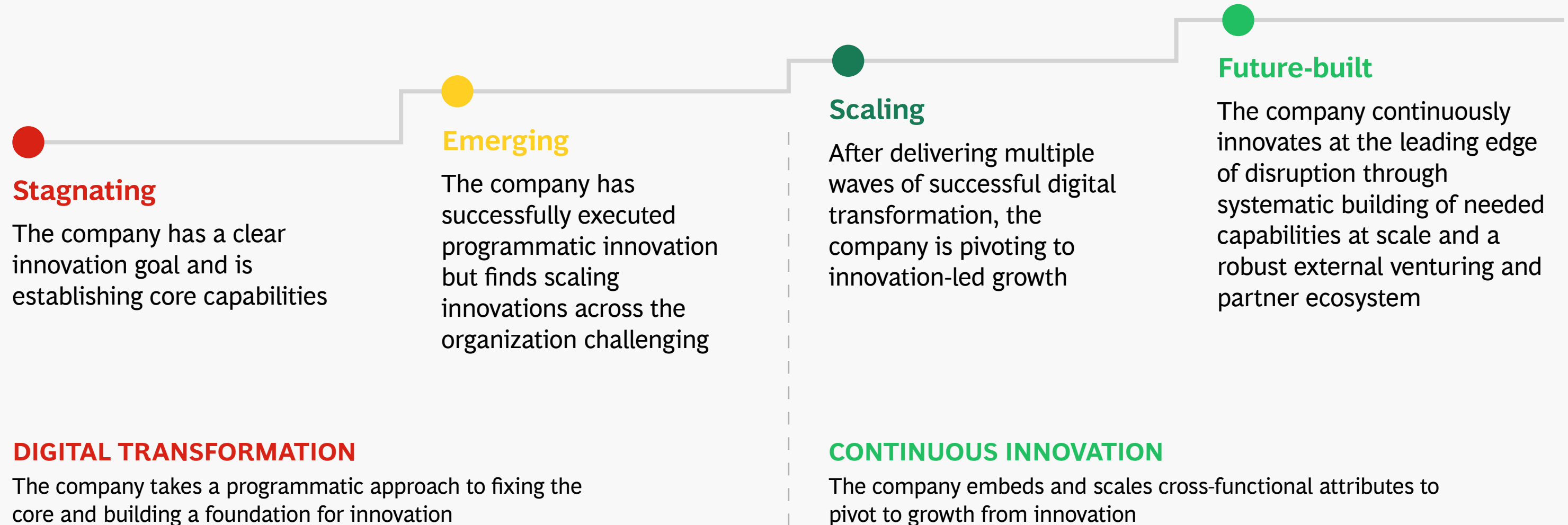· Patient triage with appropriate levels of care

Human resources
· Workforce training and job simulation
· Virtual recruiting

A quarter of companies deploy AI and other innovations in a way that helps them build for the future

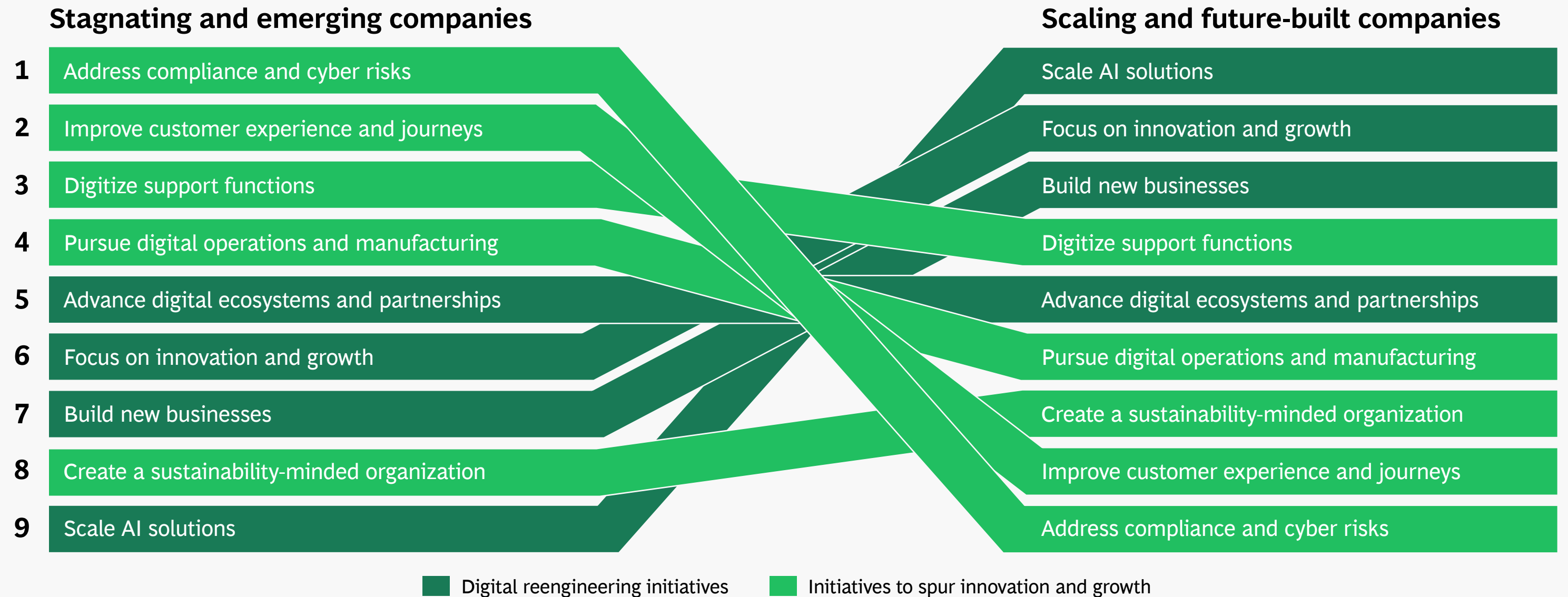## COMPANIES AT EACH LEVEL (%)

Short-term EBIT growth (y-axis): 1x, 1.25x, 1.5x, 3.5x

Five-year total shareholder return (x-axis): 1x, 1.5x, 2.5x, 4.5x

- Stagnating: 30
- Emerging: 45
- Scaling: 19
- Innovation leaders: 25
- Future-built: 6

Using innovation to evolve from stagnating to future-built is a multistage process

Stagnating
The company has a clear innovation goal and is establishing core capabilities

Emerging
The company has successfully executed programmatic innovation but finds scaling innovations across the organization challenging

Scaling
After delivering multiple waves of successful digital transformation, the company is pivoting to innovation-led growth

Future-built
The company continuously innovates at the leading edge of disruption through systematic building of needed capabilities at scale and a robust external venturing and partner ecosystem

DIGITAL TRANSFORMATION
The company takes a programmatic approach to fixing the core and building a foundation for innovation

CONTINUOUS INNOVATION
The company embeds and scales cross-functional attributes to pivot to growth from innovation

Prioritizing growth from innovation elevates scaling and future-built companies above stagnating and emerging ones

Stagnating and emerging companies

1. Address compliance and cyber risks
2. Improve customer experience and journeys
3. Digitize support functions
4. Pursue digital operations and manufacturing
5. Advance digital ecosystems and partnerships
6. Focus on innovation and growth
7. Build new businesses
8. Create a sustainability-minded organization
9. Scale AI solutions

Scaling and future-built companies

Scale AI solutions
Focus on innovation and growth
Build new businesses
Digitize support functions
Advance digital ecosystems and partnerships
Pursue digital operations and manufacturing
Create a sustainability-minded organization
Improve customer experience and journeys
Address compliance and cyber risks

■ Digital reengineering initiatives   ■ Initiatives to spur innovation and growth

Innovation is key to the 70% of value creation that future-built companies get from revenue growth

Future-built companies outperform others...

FIVE-YEAR RELATIVE TSR INDEXED TO S&P GLOBAL 1200 INDEX

S&P Global 1200 = 1.0

Stagnating	Emerging	Scaling	Future-built
0.63	0.92	1.62	2.82
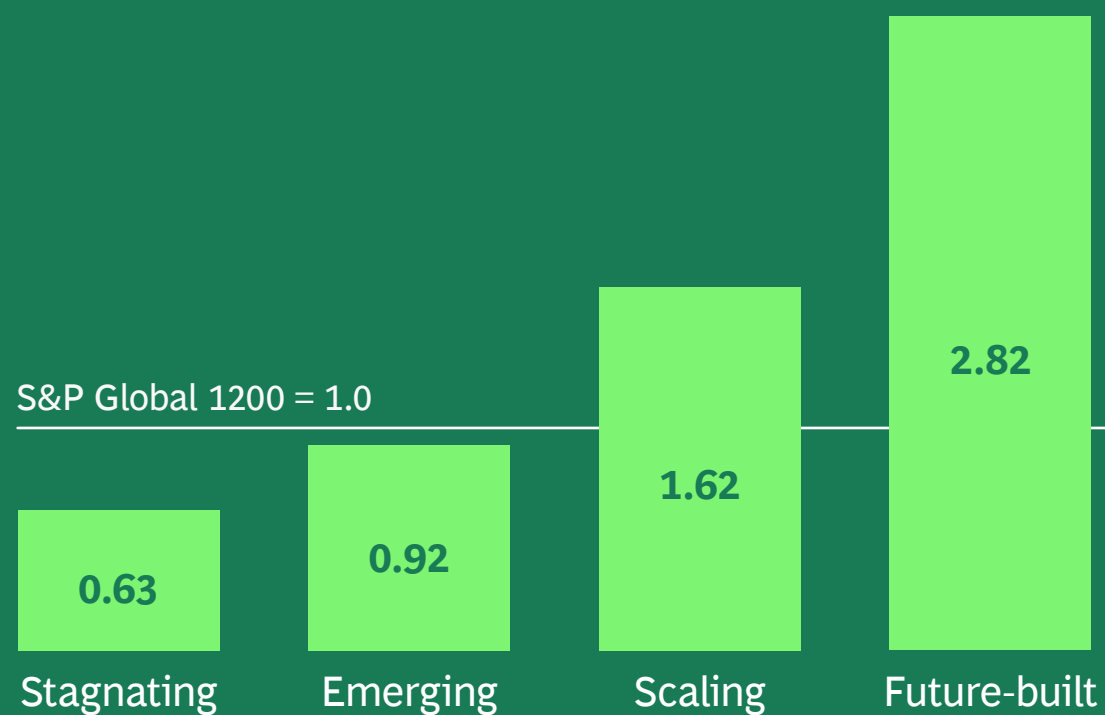
... and demonstrate stronger potential for future growth from innovation

CONTRIBUTION OF GROWTH TO FIVE-YEAR TSR (%)

	Stagnating	Emerging	Scaling	Future-built
Contribution of other sources to revenue (e.g., improved margins or P/E)	66	60	39	33
Contribution of growth to revenue	34	40	61	67
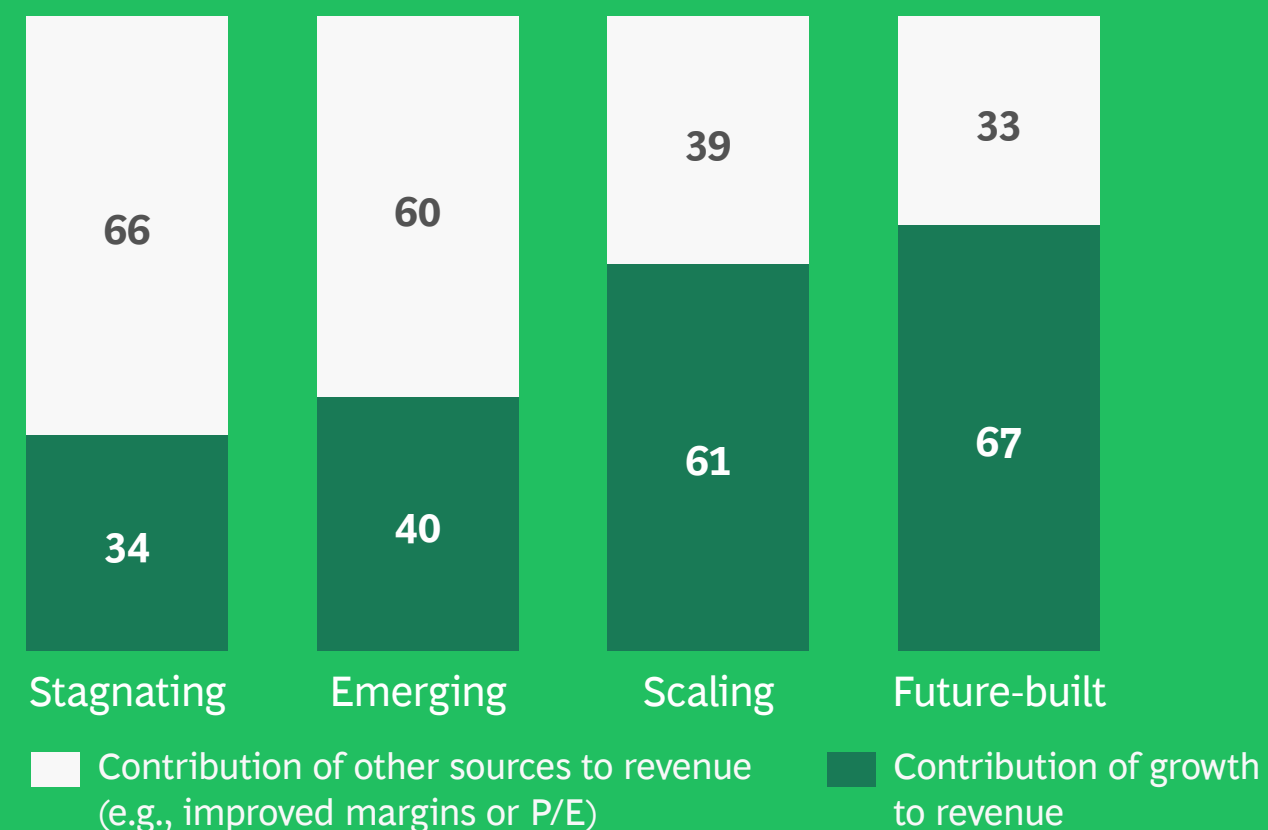
Source: BCG analysis.
Note: P/E = private equity; TSR = total shareholder return.

Innovation leaders develop capabilities that create value in the core and beyond

Capabilities and outcomes of scaling and future-built companies relative to stagnating and emerging companies

IN THE CORE

5x More focus on scaling AI solutions

3x Stronger operational value chain

2.5x Faster sales and accelerated marketing

2x More customer experience capabilities

2x More capabilities in shared services and other support functions

BEYOND THE CORE

2x More capabilities for innovation processes such as lighthouse prototyping

2x More digital ecosystems

70% More startup incubation efforts

1.6x More new ventures, including more vehicles for early-stage innovation

Leaders deploy innovation in a range of customer use cases, partnerships, and new business ventures

USE CASE

INNOVATION IN SELECT INDUSTRIES (%)
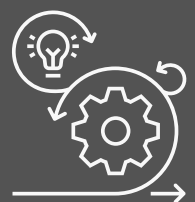
	Retail	Software	Insurance
Growth and innovation	**67** — Collaboration platforms for sharing information across internal and external teams	**42** — Next-generation integrated design and product engineering services	**50** — Product optimization through pruning AI predictions
Digital ecosystems and partnerships	**33** — Partnerships that enhance value propositions (e.g., teaming up with car-sharing services to offer deliveries)	**57** — Growing and managing platform-based ecosystems	**100** — Sharing data with third parties to enhance decision making
New businesses	**33** — Advanced recommendation engines	**14** — New digital capabilities and revenue streams through startup incubators, new ventures, strategic partnerships, M&As	**100** — Creating and monetizing proprietary data sets

Leaders also launch more innovation-based outside ventures compared to other companies

AVERAGE VENTURES PER COMPANY (2015–2022)

1.6x

Leaders

Laggards
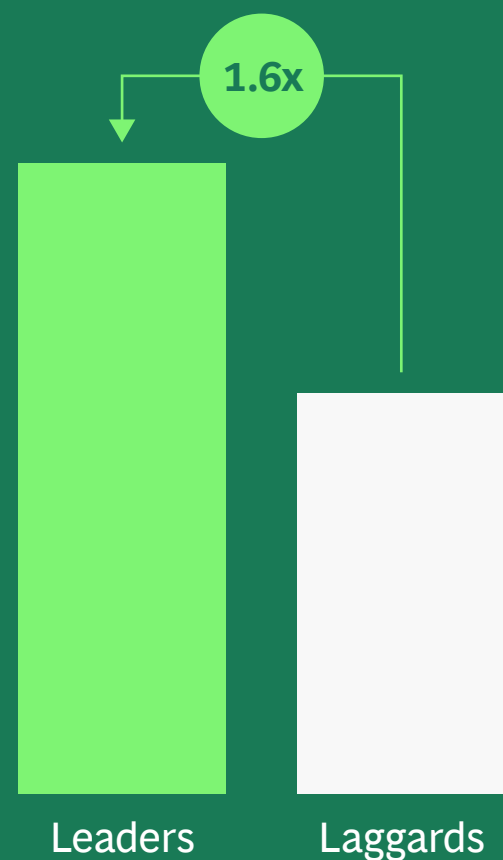
DISTRIBUTION OF VENTURE TYPES BY INNOVATION CATEGORY, 2015–2022 (%)

	Stagnating	Emerging	Scaling	Future-built
Accelerator	7	22	10	28
Launch program	11	23	31	22
New fund	8	8	11	10
Startup hub	5	6	3	N/A
Partnership	40	23	30	30
Joint venture	14	10	3	1
Other	8	8	12	9

Early-stage investment vehicles

Late-stage investment vehicles

Innovation leaders file more patents for AI than other companies, and they do it faster

GROWTH OF PATENTS FOR AI VS. DIGITAL TRANSFORMATION (%)

Future-built
- 2021: AI 72 | Digital transformation 28
- 2017: AI 31 | Digital transformation 69
- +41pp

Scaling
- 2021: AI 47 | Digital transformation 53
- 2017: AI 25 | Digital transformation 75
- +22pp

Emerging
- 2021: AI 33 | Digital transformation 67
- 2017: AI 20 | Digital transformation 80
- +13pp

Stagnating
- 2021: AI 33 | Digital transformation 67
- 2017: AI 20 | Digital transformation 80
- +14pp

Legend: ■ AI ■ Digital transformation

AVERAGE NUMBER OF AI PATENTS PER COMPANY
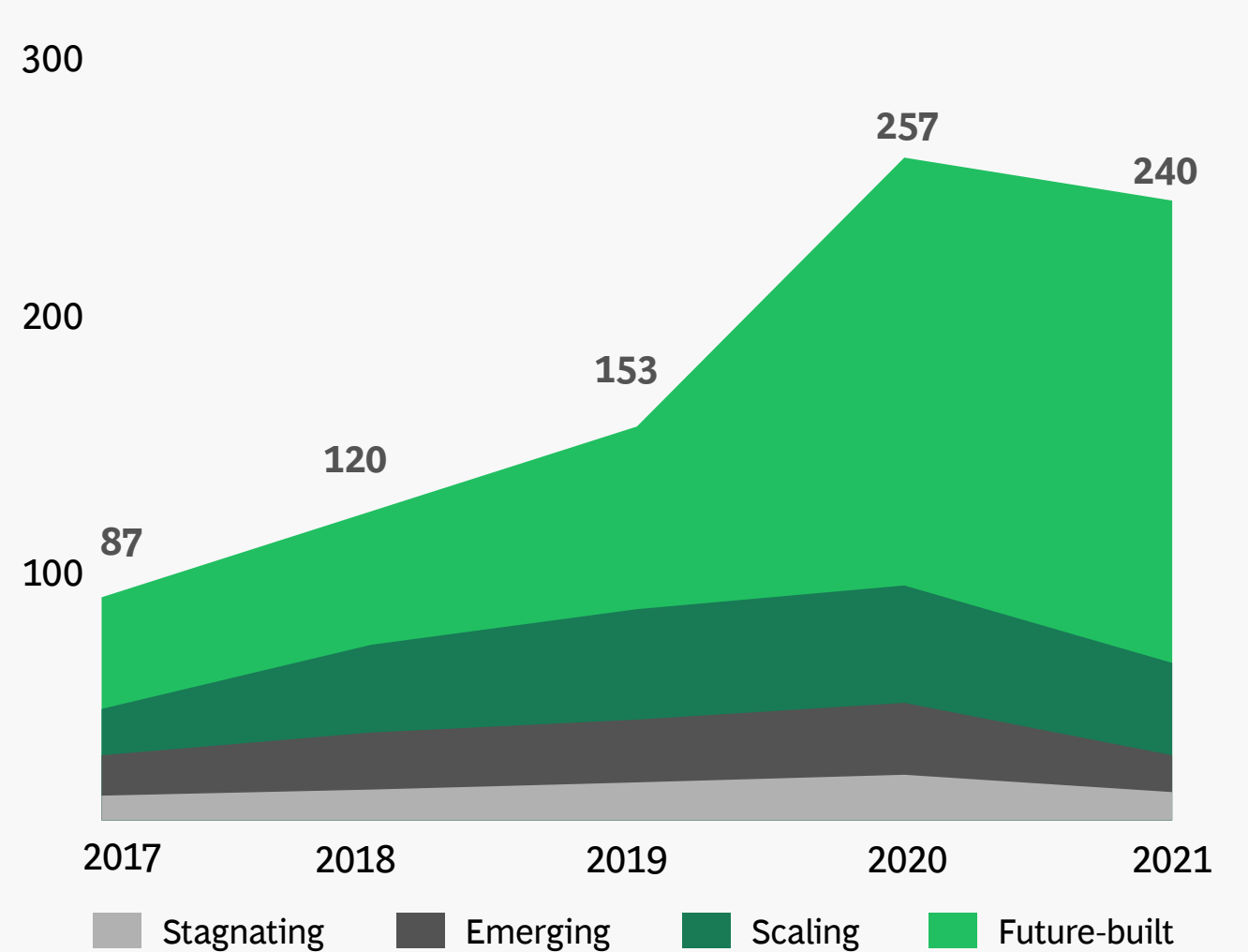
- 2017: 87
- 2018: 120
- 2019: 153
- 2020: 257
- 2021: 240

Legend: ■ Stagnating ■ Emerging ■ Scaling ■ Future-built

Leaders are likelier than others to use enablers to power innovation capabilities

INNOVATION ENABLERS
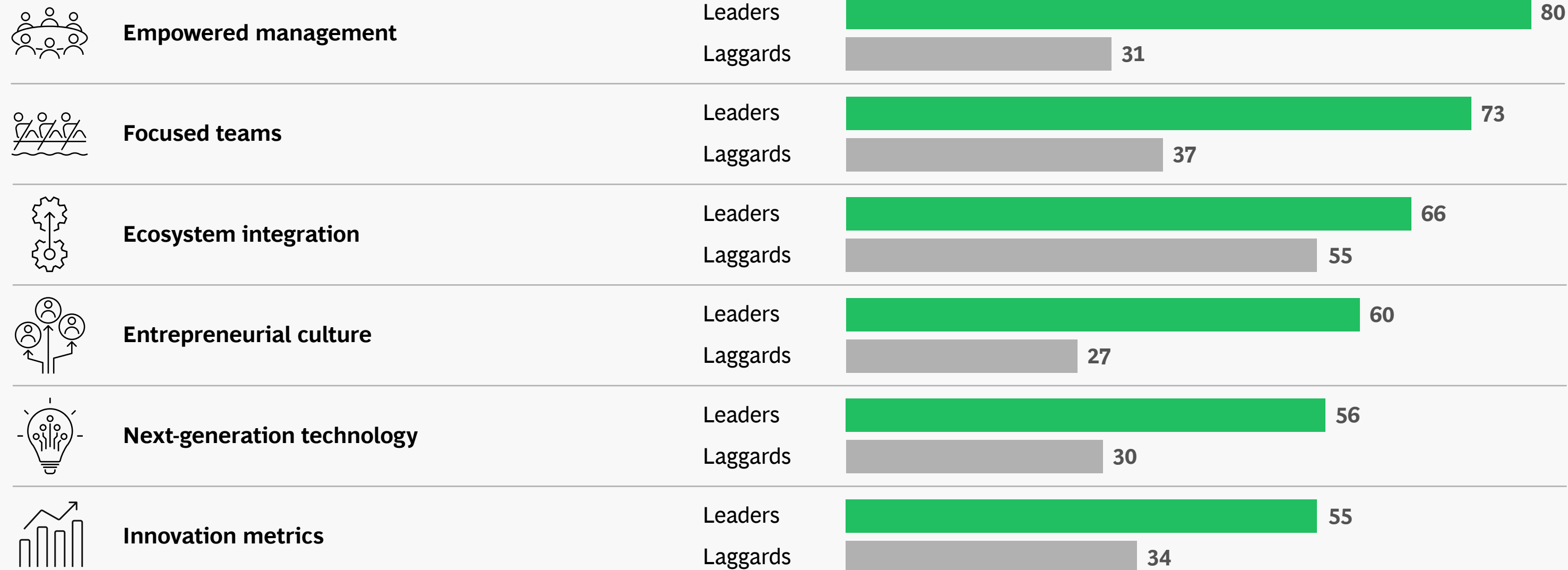
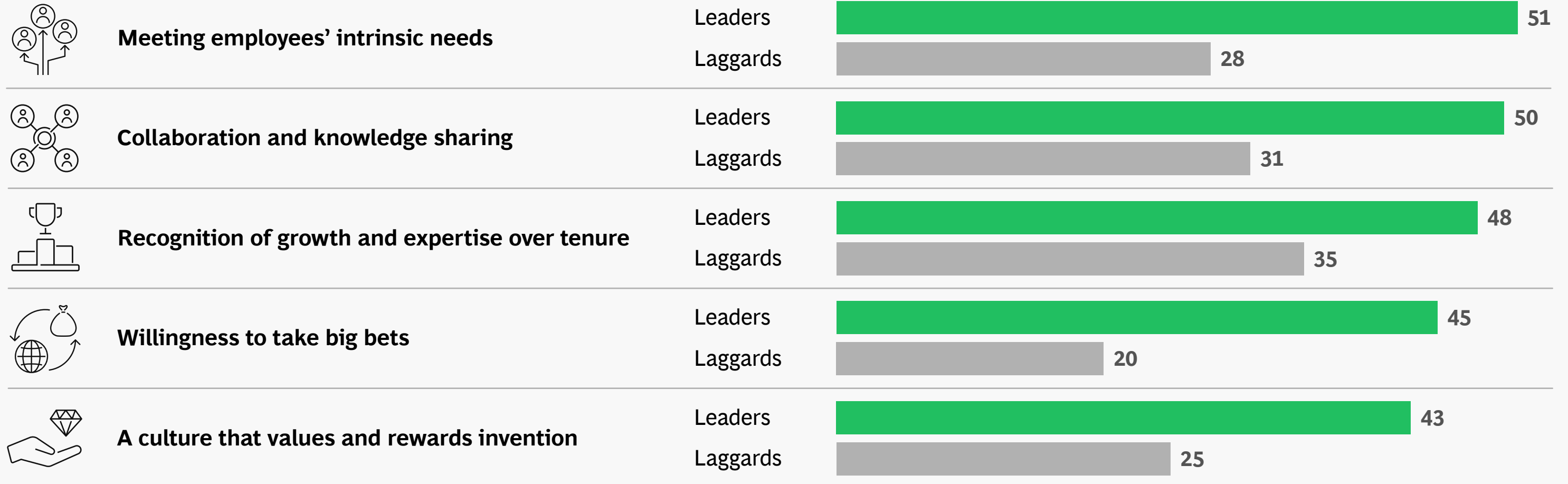**COMPANIES WITH A HIGH INNOVATION CAPABILITY SCORE (%)**

Empowered management
- Leaders: 80
- Laggards: 31

Focused teams
- Leaders: 73
- Laggards: 37

Ecosystem integration
- Leaders: 66
- Laggards: 55

Entrepreneurial culture
- Leaders: 60
- Laggards: 27

Next-generation technology
- Leaders: 56
- Laggards: 30

Innovation metrics
- Leaders: 55
- Laggards: 34

Innovation enablers extend to people, collaboration, risk taking, and invention

INNOVATION ENABLERS

COMPANIES WITH A HIGH INNOVATION CAPABILITY SCORE (%)

Meeting employees' intrinsic needs

Leaders	51
Laggards	28

Collaboration and knowledge sharing

Leaders	50
Laggards	31

Recognition of growth and expertise over tenure

Leaders	48
Laggards	35

Willingness to take big bets

Leaders	45
Laggards	20

A culture that values and rewards invention

Leaders	43
Laggards	25

To innovate successfully, companies must strategize, create and scale, and accelerate
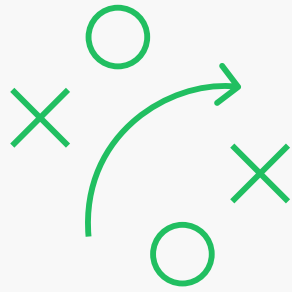
Strategize

Set out a bold vision of success

· Link measurable innovation goals to corporate strategy
· Prioritize opportunities on the basis of expertise, market advantage, and business climate
· Take a portfolio investment approach and allocate resources by risk
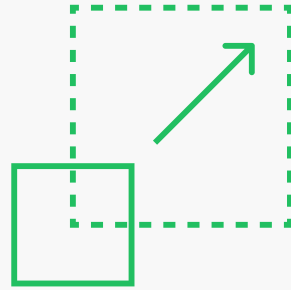
Create and scale

Build an ecosystem to scale ideas into businesses

· Tailor R&D processes to requirements for innovating within or beyond current products and markets
· Launch businesses from minimum viable products, and scale them to their full potential
· Create an innovation ecosystem with options for building, partnering, or making acquisitions

Accelerate

Implement capabilities and ways of working that maximize ROI

· Use AI and next-generation tools to make smarter decisions faster
· Empower expert teams to work collaboratively
· Establish clear roles, responsibilities, and metrics to reinforce desired behaviors

Strategize: Set out a bold vision for success

Ambition

Develop a clear ambition with measurable growth targets from innovation:

· Determine whether the expected innovation pipeline value is substantial enough to deliver on the quantified ambition

Domains

Focus and prioritize innovation efforts in areas relevant to commercial and customer success, taking multiple variables into consideration:

· Market size
· Commercial relevance
· Real business use cases
· Ability to deliver on previously identified innovation growth ambitions

Portfolio

Define and continuously manage resource allocation across the core and beyond:

· Consider core, adjacent, and new frontiers
· Calibrate the target portfolio accordingly
· Align with Innovation ambition and domains

Create and scale: Build an ecosystem to scale ideas into businesses

Research

· Develop a portfolio of ideas that deliver business value and align with domains, on the basis of an analysis of customer or product data and human-led research
· Validate ideas by rapidly testing new concepts in the market
· Gather direct feedback and data

Incubation

· Design, build, and test new products to rule out technical, customer, and market risk
· Develop proofs of concept, and test minimum viable products
· Pivot and iterate to improve user experience, functionality, and product-market fit

Scale

· Use purpose-led top talent to launch, operate, and expand products
· Prove and test the scalability of winning ideas
· Launch new innovative experiences, products, and features to increase end-user engagement

Accelerate: Implement capabilities and ways of working that maximize ROI

Technology
Use AI and next-generation tools to make smarter decisions faster

For example:
· Group similar search queries—"semantic clustering"—to improve strategic decision making, intellectual property development, and customer preferences
· Apply machine learning to accelerate data-driven prototypes and feedback loops during product development

People
Empower expert teams to work collaboratively

For example:
· Adopt cross-functional perspectives to set strategy and make portfolio decisions
· Encourage teams to adopt a shared ethos and growth mindset

Governance
Establish clear roles, responsibilities and metrics to reinforce desired behaviors

For example:
· Translate ambitions and decisions about resources into measurable KPIs
· Use well-defined ownership, roles, and responsibilities to avoid bureaucracy and distractions across the organization