Innovation is at the heart of real business transformation and requires an appetite for risk-taking beyond making incremental improvements in a product or service or just injecting new technologies to automate existing business practices. Many organizations struggle with both how to be innovative and how to transform their organizations, and thus seek assistance from third parties. Professional services firms that support and enable innovation for clients blend art (in the form of human inspiration or creativity) and science (in the form of technical know-how, including software tools/platforms for both innovation and transformation) to help organizations with that challenge.

Historically, professional services firms have developed software tools to accelerate their professional service offerings related to implementing functional solutions (like finance or human resources). Now, new software tools are emerging to accelerate how firms deliver innovation services, including managing the innovation process and related industry ecosystems. There have been innovation management software platforms available for years, although few of these offerings yet tie the fundamental process of innovation to the entire business, from strategy and goals, through execution and ongoing collaboration with industry ecosystem partners.

**Innovation as a Catalyst for Digital Transformation**

Innovation management done well is an ongoing challenge for organizations. By its very nature, innovation is a dynamic, free-form, often disorganized process, but recent advances in software platforms, coupled with highly skilled innovation management professionals, can help make innovation more systemic in every part of your business. Often the mistake is not to consider innovation as a strategic initiative that helps drive how you use data, what applications are created and used, and how the organization's operations can function optimally. Another mistake is to exclude representatives from every function — R&D/engineering/product management of course, but also executive management, sales and marketing, supply chain, production, and service. Finally, not including your industry ecosystem as an extended part of your innovation team is simply an opportunity missed: external partners can add insights, expertise, speed to market, and new ways of thinking about addressing a problem that your internal team alone cannot solve.
Innovation management coupled properly with a focus on people (e.g., customer experience, employee experience) is the difference between a good strategy and a real business transformation. Lack of innovation flexibility, controlled by a few people in an organization, is a risk facing some clients. Implementing software and professional services in this area has the potential to increase innovation flexibility and enable an open, extended innovation approach. This will be achieved by engaging the whole organization with a set of tools that facilitates ideation, multi-dimensional innovation management, ecosystem engagement, as well as product & service success management. IDC's discussions with end users reveals that leaders in innovation management create a cross-functional, global team to run their innovation management teams, resulting in a rich set knowledge that drives product and service success.

**CEOs Drive Digital Transformation and Innovation for Customer Engagement**

Innovation management manages the dynamic, "fuzzy" front end of innovation, and when done well, is tied in a closed loop across the product, service, and customer life cycle. Innovation management and customer experience complement one another, working iteratively in a closed loop. But it's also important that organizations approach "innovation" as a set of processes that accelerate digital transformation across an organization, starting with the establishment and cascading of strategic goals and corporate strategy — not only the creation of new or improved products and services. This evolved approach to innovation management — as a digital transformation enabler — includes the following key synergies:

- Connection with the product portfolio, with the addition of road mapping
- Design thinking workshops to fuel the innovation process
- Closed loop digital thread with the product and service life cycle, including the customer experience

The CEO is now the top sponsor for digital transformation projects (it has been trending this way for five years, but in 2020 CEOs finally bested the CIO/CTO as the top sponsor), reinforcing the need for business-focused rather than technology-focused innovation. They care about having digital technologies in place to enable innovation within their organization and with the external team of innovation partners. They are also prioritizing expansion of work with their industry ecosystems (source: Future Enterprise and Resiliency Survey, February 2021), evolving linear, instruction-driven enablement and value chain enhancements, to closed loop, iterative innovation around data, products, applications, and operations.

IDC has also seen an increased appetite for customers to contract with service firms based on achieving business or IT outcomes, rather than just measuring project inputs like time and materials (vendors indicate 20% of deals had an outcome component five years ago, while 33% do now). This is a key approach for innovation and digital transformation projects, which organizations improve iteratively over time based on outcome success. Innovation management software and platforms enable the value proposition for professional service providers to change. For example, providers delivering innovation management services can combine traditional project-based services (i.e., plan/design/build activities) with managed services (i.e., run activities) into a new service mix that has more a programmatic flavor (i.e., a long-term or strategic arrangement of individual yet interlinked projects that aim to achieve and manage large-scale innovation impacts). This same dynamic applies to digital transformation management platforms and tools.

Starting in the middle of 2020, as organizations strived to maintain business continuity and move toward new growth despite the COVID pandemic, our research showed that strengthening software development capabilities to achieve
digital innovation at scale is now the number 3 top priority, right behind investing in cybersecurity and reducing costs. This innovation is not only about developing great custom software (like a mobile app to improve a customer's experience) but also about the business change required to source software components from outside the organization, and to release newly developed code directly to clients and indirectly back into other software ecosystems. IDC believes more organizations realize the imperative to digitally transform given the shock of COVID. According to IDC's recent COVID IT impact research, the creation of new digital products and services is the top focus initiative for 2021. IDC believes this is because organizations now realize without digital products or services their relevance to customers and growth prospects are diminished. This is also because organizations, according to our research, want to "engender trust with customers" and build long-term, dynamic relationships. To properly understand and meet customer needs, not only initially but through the life of a product or service, organizations need to be in perpetual innovation mode, thinking about what new digital products and services are next.

**Innovation Is Accelerated Through Industry Ecosystems**

Industry ecosystems as part of the innovation team and ongoing initiatives is an important consideration, giving organizations the flexibility to approach problems in new, interesting, and profitable ways by combining knowledge and expertise. When we asked CEOs recently in our Future Enterprise Resiliency Survey about the importance of industry ecosystems, over 60% said this is important or very important; only 6% said they are not investing in industry ecosystems at all. There is a realization that these industry ecosystems play an important adjunct role to innovation teams and the ongoing digital transformation within organizations, across three areas:

- **Shared data and insights**: Focuses on the types of shared data, information, knowledge, and insights that industry ecosystem partners can mutually benefit from, that is a complement to the traditional value chain approach of moving money, goods, and services.

- **Shared applications**: The key applications, sometimes jointly developed, that address common challenges and opportunities among industry ecosystem participants and provide cross-ecosystem decision support.

- **Shared operations and expertise**: The standard operational initiatives that enable industry ecosystems to mutually function, and the complementary expertise and knowledge that enhances industry ecosystem performance and innovation.

These innovation and digital transformation segments for industry ecosystem partners are depicted in Figure 1.
What differentiates an industry ecosystem from a traditional value chain? If we look back through history and see the growth of industry 4.0 initiatives where industries have progressed from mechanization to digital and automated, we can see that this has primarily focused on the internal operations. With regard to the future of industry ecosystems, we can see the evolution where we have moved from fully owned and vertically integrated to industry ecosystems of partners, data, and experiences. Examples exist across healthcare, finance, manufacturing, retail, professional services, and other industries. Key to success for the ecosystem are speed, transparency, and flexibility across a complex portfolio of physical and digital (software) products and services so enablement, collaboration, and innovation with ecosystem participants happens seamlessly.

Organizations must continually morph with shifts in trends that will disrupt their industry value chains. As organizations understand these shifts, they form new, additional partnerships in industry ecosystems — within their industry or across others — that deliver value, create resilience, foster innovation, and anticipate threats and opportunities. The future of industry ecosystems, powered by the platform economy that emerged over the past five years, is flexible, service oriented, and on demand, empowered by shared data and insights, applications, and operations and expertise, transforming business models from linear-based value chains into integrated ecosystems. Industry definitions will become blurred as companies, large and small, from different traditional sectors come together to satisfy the end customer, consumer, citizen, or patient needs through ongoing innovation.
Vendor Profile

EY, a global provider of assurance, consulting, strategy and transactions, and tax services, aims to create long-term value for its clients. Its purpose is to help clients realize their potential based on the belief that when businesses work better, the world works better. It does this, in its own words, by "driving client centricity, attracting and engaging exceptional and diverse people, transforming its business through greater investment in and implementation of data and technology, as well as accelerating global integration and teaming."

EY's global Business Transformation & Innovation teams and centers focus on creating new ideas for organizations. Its 50+ innovation centers, called wavespaces, are located in some of the most vibrant cities around the world. Given the increasing importance of innovation to companies looking to thrive, EY has created a range of bundled solutions and digital tools to help clients scale up their ability to innovate. Below is more information on what some of these solutions can bring to clients:

» **Trend Innovation Management** helps companies to identify new technology and innovation trends faster and provides validated use cases for the business. It provides a more actionable and interconnected content experience tailored to clients' specific needs across functions.

» **Partnership Innovation Management** helps companies to scan, qualify, and manage new partners and ecosystems to create new growth opportunities and run proofs of concept (POCs) to support partner/buy/invest decision making to improve the ecosystem’s speed and value creation.

» **Digital Innovation Management** helps companies to accelerate time to market of new digital offerings by applying customer and market insights to the design of new digital products, services, and business concepts, developing minimal viable products (MVPs) faster and providing a prioritized portfolio of MVPs to the client on a regular basis.

» **Experience Transformation Management** helps companies to become more customer and employee focused by continuously measuring experiences and designing and managing transformation opportunities to improve or maintain customer and employee centricity across the entire organization.

» **Performance Transformation Management** helps companies to sustain the capabilities required for a state of dynamic transformation by continuously designing and managing transformation opportunities to improve performance across all functions.

These solutions are supported by a range of digital tools not only for innovation but also for digital transformation:

**Innovation suite (technologies that enable companies to innovate across the entire enterprise and business ecosystem)**

» **EY CogniStreamer**: innovate smarter, collaboratively, and securely with this innovation management solution

» **EY TechWatch**: discover insights into the latest tech and innovation trends with this future-facing content platform

» **EY Embryonic**: gain insights by mapping the flow of funds and M&A transactions across market ecosystems

» **EY VentureBuilder**: take the most innovative ideas from concept to execution with this road mapping platform
» **EY Finance Navigator**: model financials and scale business with this gamified experience for those without finance backgrounds

» **EY Plus**: complement an innovation strategy with AI-enabled insights across time horizons from multiple Big Data sources

*Transformation suite (technologies that put humans at the center as companies transform their organization and their customer and employee experiences)*

» **EY Transformation Hub**: help maximize and realize value from all types of portfolios with this platform that connects strategy and execution

» **EY Smart Experience**: help manage, measure, personalize, and improve the customer experience across the whole journey

» **EY Storybook**: create richer and more dynamic content with this qualitative user research and journey mapping platform

» **EY Organization and Talent Hub**: complement digital transformation efforts with this forecasting, scenario, and workforce planning tool

» **EY Change Insights**: use behavioral analytics to personalize and enhance the value of strategic initiatives

*Challenges*

Innovation is a key digital transformation initiative that organizations are focusing on to drive growth in 2021 and beyond. The challenge for any provider serving this segment will be to provide a unified set of tools that enable ideation, development, and collaboration internally and externally with ecosystem partners. Inevitably integration and consulting services that complement this set of tools will be required to stitch together systems and strategy. Additional challenges facing providers are as follows:

- Customer perception of innovation as inherently unruly and not appropriate for systematization will need to be countered through examples and education to show how, and where, innovation can be more systemic without a loss of dynamism.

- There is customer perception that “innovation” is best left for R&D, product management, and marketing teams — not encompassing other teams and domains from within the business, and certainly not external industry ecosystems of partners.

- Certain areas such as management of innovation ecosystems are relatively new so customer needs may not yet be fully developed; likewise, vendor best practices for managing innovation ecosystems on behalf of their clients are still not fully formed. This presents an opportunity for EY, as existing innovation management software vendors have not delved deeply into innovation ecosystem but are pushing this way.

History shows it is difficult, but not impossible, for a professional services firm to develop a software product development business. There are quite a number of innovation management software vendors across industry to contend with, so the differentiator will come with front-end services consulting, combined with innovation analytics,
ecosystem management, and integration to the entire product and service life cycle. EY will have to continue to evolve its innovation and transformation tools where there are gaps in the market not otherwise covered by more traditional software vendors, and partner with those same vendors in areas where adequate innovation and transformation tools already exist.

Conclusion

IDC believes the market for innovation, ecosystem, and other digital transformation related software and professional services will continue to grow (IDC forecasts that digital transformation professional services spending will reach over $186 billion by 2024). To the extent that EY can address the challenges described in this paper, the company has a significant opportunity for success. Professional service providers will continue to push the boundaries of what end to end means in the context of innovation and transformation tools, and will continue to build their own tools or partner with other software providers to fill the gaps needed to implement innovative business transformation for their clients.

Innovation management and digital transformation are now CEO-level focus areas that require a cross-domain and cross-ecosystem team working together. This is what moving to digital helps organizations achieve — an open, flexible, extended way of working that is a perpetual catalyst for innovation.

Our primary guidance for organizations focused on innovation management as a digital transformation initiative is to:

- Consider that innovation is always enhanced through knowledge across your organization, as well as your industry ecosystem. Innovation needs are unique across industry, so a cross section of expertise and knowledge is required inside and outside the company.

- Design your innovation management ecosystem from a technology, processes, and people perspective (i.e., which of my partners best fits this current innovation project?). This could be for new products/services, to address changes/quality issues, or massive market disruption.

- Incorporate a services and consulting component that develops and organizes innovation processes and teams. This is critical and typically innovation management software vendors do not have large, global services arms. This innovation architecture planning and development is where innovation gets tied to business strategy, market need, and digital transformation.

- Complement your most valuable asset — people (internal employees and ecosystem participants) — with a services team as needed to ensure that your innovation and digital transformation initiatives thrive.

- Include, as part of the "design" offering from service providers, analytics on innovation ecosystem participant performance that would inform the best fit for projects or ongoing innovation for a particular business unit or product line. Analytics could also be applied to determine product success/failure (and mitigate the latter). As up to 80% of new product launches still fail, being able to predict success would be very helpful to any organization.
About the Analysts

Gard Little, *Vice President, Global Services, Markets & Trends*

Gard Little’s core research spans both business consulting and digital transformation, which includes analyzing customer demand and vendor offerings to build new business processes, organizations, and systems using cloud, business analytics, enterprise mobility, and social business technologies.

Jeffery Hojlo, *Vice President, Future of Industry Ecosystems & Product Innovation Strategies*

Jeffery Hojlo leads IDC research and analysis of the PLM and collaborative innovation market, including topics such as the development of an innovation platform and the intersection of product design, development, supply chain, digital manufacturing, and service. He is also research lead for the Future of Industry Ecosystems, a research area that focuses on the open, shared, platform way that ecosystem partners work together for innovation, collaboration, and digital transformation.

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