Tutorial

Contemporary Management Issues

L1 Management Sciences

Session 5
Innovation management

Objectives:

Innovation is an activity that is difficult to program. Deciding to innovate does not always mean achieving it, and it is this need for a connection between the intention and the result that is the whole point of innovation management. However, the logic of management, because it aims to define rules to reduce the uncertainty surrounding the functioning of the organization and to control their proper application, is in total paradox with the logic of innovation, which consists, on the contrary, in breaking out of the established ways of thinking and imagining what is not feasible today.

If rule (management) and creativity (innovation) can thus enter into contradiction during innovation processes, the problem becomes even more complex as soon as economic performance imperatives are included in the equation, in other words the need to make an innovation profitable. This session will explore the way in which companies can set frameworks for innovation by articulating the logic of creativity, management and economic performance.

Through the case of Ubisoft, we will review the concept of innovation and we will see the contradictions that can cause the management of innovation**.**

Required work:

Presentation topics:
Two groups of students will address **one of the** following **two topics in the** form of **an oral presentation**:

Topic 1: What is the difference between "managing creation" and managing innovation?

Topic 2: To what extent should a company like Ubisoft make creativity its primary goal?

Preparatory work :
Students **who do not participate** in the oral presentations will deal **individually** with the questions at the end of the booklet.

Ubisoft achieved a solid performance in 2011-12, thanks to the success of Just Dance®, Assassin's Creed® and our online titles. The year 2012-13 should mark a turning point for Ubisoft with a stronger offering of games for avid gamers, titles that are popular with casual gamers and the excellent momentum of our online games. We therefore anticipate sustained growth and increased profitability for the year. In the longer term, we believe that the arrival of the next generation of consoles, the integration of the benefits of social gaming and micro-payment-based models represent a significant opportunity for our industry, and for Ubisoft in particular.

Our 2011-12 full-year revenues amounted to €1.061 billion. These revenues were driven by our franchises for avid gamers - Assassin's Creed, The Settlers® Online, Rayman® and Driver® - and by our mainstream titles with the performance of Just Dance and Howrse® and the successful launch of Rocksmith™ in North America. Our current operating income increased by 90% to €56 million, while our online and digital revenues grew by 111%. Finally, our net cash position reached €84.6M at March 31, 2012. We therefore ended the year with a solid financial position while having continued to invest in our future.

The efforts and investments made over the past few years to further improve the quality of our titles for passionate gamers and to develop our online segment should result in a strong increase in our revenues and profitability, starting in 2012-13:

- The HD console market has grown steadily over the past few years, up 40% in 2011 compared to the peak of the previous cycle in 2005. This growth underscores the quality of the experience offered by the Xbox 360® and PLAYSTATION® 3 to avid gamers. We have great opportunities ahead of us, as we are coming up with an extraordinary line-up that, thanks to its diversity and originality, was admired by everyone at the E3 (Electronic Entertainment Expo). Assassin's Creed 3 is well on its way to becoming the most important launch in our history, thanks to a new hero, a new engine, new gameplays, fabulous landscapes and an impressive crowd simulation. After three years of well-planned and well-executed development, this title is shaping up to be stunning. We're also making a strong return to the shooter segment - the industry's largest genre with 35% of total industry sales - with the release of two major console brands: Tom Clancy's Ghost Recon Future Soldier™ and Far Cry® 3. We are also excited about the return of our Splinter Cell® franchise in spring 2013 with Tom Clancy's Splinter® Cell Blacklist™.

- In the online and digital segments, we intend to stand out for the quality of our games and the awareness of our brands. Our performance will be focused on exclusively online titles, as well as titles for XBLA, iOS and Android. To continue our expansion in the growing free-to-play market, we will launch new titles for PC gamers with Ghost Recon® Online, Silent Hunter® and Shootmania® targeting the growing eSports segment. We will also continue to build on our early successes Howrse

and The Settlers Online. On XBLA, Trials Evolution, released in May, reached a score of 91% on Metacritic and achieved the best sales for a game on this platform on its launch day. Finally, on mobile, a free-to-play social game based on the Assassin's Creed franchise will launch in late 2012.

- We also believe there are many opportunities in the casual segment. Our goal is to strengthen our Just Dance franchise by optimizing its potential in continental Europe and Asia and by taking advantage of the launch of the Wii U™, Nintendo's new console, on which we will be present with five casual titles this year. We also plan to expand the success of our new Rocksmith franchise in EMEA territories.

In the longer term, we plan to capitalize on two major trends. First, we believe that the next generation of consoles will revitalize the market. These new machines will incorporate all the benefits of social gaming and micro-payment models, enhanced by the impressive graphics that are still so popular with avid gamers. Secondly, the continued strong growth of the free-to-play market will allow us to bring our brands to more devices - such as PCs, smartphones and tablets - and significantly increase their awareness and geographic reach. All of this should lead to an increase in the average revenue per user (ARPU) of all our games, and therefore to an increase in their profitability.

As a full-fledged creator of brands for both casual and hardcore gamers, Ubisoft is ideally positioned to take advantage of the tremendous growth potential offered by these two dynamics. I know we have the talent and energy to seize the many opportunities that lie ahead and increase our profitability in 2013 and beyond. Our ambition is to bring ever stronger experiences to all our players, regardless of their profile or preferred platform.

Finally, I would like to thank the talented teams at Ubisoft who enable us to achieve our company's vision through their creativity and motivation, as well as our shareholders and customers for their support.

Portrait of the entrepreneur Yves Guillemot elaborated by Ernest et Young for the 20th *anniversary of the Entrepreneur Award:* **Innovate, you can do it- Ubisoft**

Innovation, which is generally the result of a diversity of skills and disciplines, based on a model of sharing, also takes many forms: whether it is innovation in terms of products, processes or services, innovation can never rest. Finally, while the innovation paradigm is based on a capacity to take risks and accept the unpredictable, innovation cannot flourish in an environment devoid of rules. For to unleash innovation, a clear framework and demanding rules are needed.

Open innovation appears to be the new recipe for innovation, since it manages to bring together all the ingredients.

For the Guillemots, entrepreneurship is above all a family affair: the success - and the taste for working together - of the five brothers from the Morbihan region have their roots in their parents' company, where, as teenagers, they worked every summer.

In 1986, after graduating from business school and deciding to start his career in San Francisco, Yves Guillemot received a call from his brother, who suggested that he return to France to work in the company he had just founded, which specialized in mail-order video games. The five brothers then went on to create Ubisoft, a company that publishes and distributes video games and has become the world's third largest independent publisher. From its first game, "Zombi", which ushered in the era of action-adventure games, to the various editions of the "Assassin's Creed" franchise, which has sold more than 30 million units worldwide, Ubisoft's success has been punctuated by groundbreaking innovations.

"Innovation is dictating the rules of the game"

The art of Ubisoft, which recently celebrated its 25th anniversary, is to have integrated the two natures of innovation, namely editorial innovation and technological innovation, and to have skilfully orchestrated them to offer innovative games, both in terms of their content and the technology used. Ubisoft has built its empire by maintaining this delicate balance between the creative dimension, which produces the editorial content of the games (scenarios, graphics, game rules, music, etc.) and the technological dimension, which is more influenced by the disruptions that can be introduced by new generations of consoles or the emergence of new game platforms, such as mobile phones or online games.

To innovate is to play the game of the unpredictable

Ubisoft operates in a high-risk environment, subject to regular and profound disruptions that can weaken the industry: the high level of investment in any new production exposes its players and can sometimes even call their existence into question. Thus, Yves Guillemot underlines the fact that, in order to last, a company must integrate change as being intrinsic to its DNA and then take the risk of constantly questioning itself in order to renew itself. He raises the paradox according to which too much protection can slow down the company's collaborators, by locking them up in an immobility and a fear of insecurity harmful to any spirit of initiative and creativity. According to him, innovation can only emerge in an environment that encourages risk-taking and allows for error, so that failure does not mean *game over,* but *try again. It* is to preserve this capacity to innovate that Ubisoft has maintained a flexible and open management style, which allows it to remain reactive and offensive in the face of the disruptions that mark the video game industry. Yves Guillemot remembers the early days of the company, when the first creators and developers were grouped together in a rented castle in Brittany, where they lived and worked at their own pace. Although today, with nearly 7,000 employees worldwide, this way of working is no longer possible, the group has taken the gamble of preserving, in a sector where technological innovations reshuffle the deck every five years, an agility and flexibility that are uncommon in a large structure: both at the level of management, which must remain permeable to what surrounds it, and at the level of employees, who benefit from decentralized experimentation processes.

Yves Guillemot sees in the new information and communication technologies the acceleration of a new societal phenomenon, to which companies must adapt by changing their management methods: each employee is no longer an isolated individual, he or she is part of a structure accompanied by his or her network, which must now be developed. The company's borders with the outside world are increasingly permeable, and this change must be the opportunity to implement new ways of working. This is the case, for example, with collaborative research, of which Yves Guillemot declares himself to be a *"big fan". With* this in mind, Ubisoft has launched an initiative called *"Talent On Demand",* through which each studio can submit an idea or project on the network in order to collaborate with other talents available in the group's numerous studios around the world. Eventually, Ubisoft intends to open up this intrapreneurship initiative to outside creative talent and developers.

Innovation also means changing the rules of the game

Ubisoft has the second largest internal creative force in the video game industry. With 24 production sites around the world, the group's goal is to attract the best talent in the industry. The group is at the forefront of innovation, whether it be editorial or technological, by bringing together and interacting with technical and artistic professions, engineers and creatives throughout the creation process, which currently represent more than 50 different professions. Ubisoft has also developed a policy of research and development and targeted acquisitions that encourage autonomy at all levels of the company.

Investment in R&D, coupled with its ability to project itself into the next cycle and position itself early on in new markets, is the basis of Ubisoft's success. As a result, the group is always one of the first publishers to anticipate the arrival of new consoles. Even in times of

crisis, Ubisoft pursues this strategy and maintains its investment efforts in order to be able to quickly seize all opportunities by integrating these upheavals into its business and its offering: the transition phase between two generations of consoles, the emergence of new social uses of video games in living rooms, giving rise to *casual gamers, and the* emergence of new gaming media with mobile phones. The group is thus consolidating its *leadership* in its ability to compensate for these exogenous changes by adopting an R&D policy focused on constant anticipation and encouraging risk-taking.

For Yves Guillemot, innovation and disruption go hand in hand, in the sense that both shake up the established rules. He refers to companies such as Apple, Google or Facebook, which have built their success by benefiting from a location where they have been able to dictate their own rules of the game to the world, by creating precedents in areas that had not been explored before. It is in its ability to exploit the advantages or weaknesses of a regulation, in order to better free itself from it, that a company can therefore be a pioneer in the field of innovation. The President of Ubisoft sees countries like the United States and China as fertile ground for the emergence of these disruptive innovations. By anticipating these disruptions, in order to reduce its exposure to a sector that is constantly changing, and by moving quickly, in order to position itself as close as possible to these pioneers of innovation, Ubisoft is staying on course as a *first mover.* The group has already integrated the revolution in the cultural industry that is currently taking place, and which, for the first time, does not originate from the technological sphere, but rather from society: an *entertainment* industry where cinema, animated games, the Internet and telephony converge is emerging, involving technical impacts but also in terms of monetization, driven by the phenomenon of dematerialization of content generated directly by users.

Document 3:
Mélanie Haab, "Ubisoft closes Zurich office" - 24 October 2013, ICT *journal*
< http://www.ictjournal.ch/News/2013/10/24/Unisoft-ferme-son-bureau-zurichois.aspx>.

The video game publisher Ubisoft is closing its Thalwil subsidiary, two years after moving there. The office was working on a project that did not see the light of day. 16 people will be relocated to other parts of the group. Two years ago, Ubisoft announced that it was moving its development studio to the Zurich community of Thalwil to develop "innovative and unprecedented games". At the time, the region was dreaming of becoming a centre of excellence for video games. A "game design" course of study even exists at the Zurich University of Applied Sciences. The news that the office, which employs 16 people, will be closing at the end of the month is now cold news, as 20 Minuten reveals. The French publisher confirmed the information: "The Zurich team was working exclusively on a small project that is still confidential. Since this project has been interrupted, we have decided to close this subsidiary," explains Gil Grandjean, head of marketing. According to Ubisoft, the employees will be relocated to other parts of the group. The Lausanne office, which handles marketing and distribution, is not affected by this decision. "Ubisoft's total workforce has grown significantly

this year, and we continue to try to attract the best talent in the industry in order to offer original game experiences," Gil Grandjean told our editors. Despite the closure of Zurich, additional hires are planned throughout the group.

Document 4:
Marc Cherki "Ubisoft cuts forecasts and expects losses",15 October 2013, <
http://www.lefigaro.fr/medias/2013/10/15/20004-20131015ARTFIG00570-ubisoft-reduit-sesprevisions-et-table-sur-des-pertes.php>.

The French video game champion amps up its annual forecasts due to the delay of two games, "Watch Dogs" and "The Crew". The stock collapses on the stock market. A harsh penalty is expected in the short term for Ubisoft1, the French video game champion. The world's third largest independent publisher has just postponed the release of two flagship titles. The game Watch Dogs was supposed to be released in November, but is now scheduled for release in spring 2014. And The Crew, a so-called open-world car racing title that was scheduled for release next March, will be offered at least a month late. The decision was made last Friday by Yves Guillemot, the CEO of Ubisoft. Because the quality of the games, for the moment, was not up to the hopes of the French publisher. As a result, Ubisoft has sharply reduced its sales forecasts and is now expecting an operating loss for the 2013-2014 fiscal year, which ends in March. Ubisoft expects sales of between €995 million and €1045 million for the current fiscal year, well below the expected record of €1.42 billion to €1.45 billion. And the publisher expects an operating loss of between 70 and 40 million euros, whereas previously the company was targeting an operating profit of 110 to 125 million euros. However, for the first time, the publisher is giving longer-term earnings forecasts. Ubisoft is counting on at least 150 million euros in operating income for the next fiscal year and 200 million for the 2015-2016 fiscal year. These announcements were immediately punished on the Paris stock exchange on Wednesday. Ubisoft shares collapsed 27% to 8.09 euros, shortly after the opening. "The difficult decisions we are making today to fully realize the major potential of our new creations are having an impact on our short-term performance. In the longer term, we are convinced that these decisions will be positive, both in terms of satisfying our fans and creating value for our shareholders," explained Yves Guillemot in a statement. The group is betting heavily on these new licenses and wanted to take full advantage of the launch of Microsoft's Xbox One3 and Sony's PS4, which will be released next month. Billed as one of the French publisher's most important titles, Watch Dogs depicts "a world that has become fragile, where all data is interconnected with each other," said its executive producer, Stephane Decroix. He started working on the idea four years ago. And no less than six studios of the French group in five countries (Canada, Romania, France, Great Britain and China) have cooperated on this creation whose budget will exceed 50 million euros, like the biggest current creation of Ubisoft, Assassin's Creed 4.

Rayman, the emblematic character of Ubisoft, the third largest independent video game publisher, has feet and hands, but no arms or legs, which does not prevent him from having fluid movements, being agile and lively. Ubisoft's organization reflects this: it is based on a network of studios (currently 24 around the world, representing 5,000 developers) that are autonomous, adaptable and creative. In a constantly changing technological and market environment, this responsiveness and creativity are vital. To preserve them, Ubisoft has implemented a few principles that seem to be working: small, autonomous and empowered teams working in project mode and in a network, trust in the creative potential of each individual and, more generally, an organization that puts itself at the service of creation.

Do not manage creation!

Caroline JEANTEUR: I joined Ubisoft fifteen years ago, at a time when this French video game publisher was growing rapidly. From 120 employees at the time, we grew to 600 in a few years, and today we have 6,000 employees worldwide. After holding positions in marketing and international sales, I became the Group's General Secretary. My mission was to support the development of the business by setting up very lean cross-functional structures (human resources, information systems, etc.). This reflects a strong orientation at Ubisoft: to have an "agile" organization that does not restrict individuals or their creativity. In 2004, the General Secretariat became the Strategic Innovation Lab. This unit, which reports to the Chairman and CEO, Yves Guillemot, explores new ideas in terms of creation and production - for example, introducing more emotion into games or developing techniques that are based on the player's feelings - and then tests their consequences for the organization via pilot projects. The aim is to encourage new ways of thinking and working. This is also a constant at Ubisoft, the need to always innovate.

It is increasingly risky to launch a title: a traditional game achieves 70% of its sales in the three months following its release. While 300 to 400 games are released each year, the three best sellers represent 20% of the market and the ten best between 40% and 50%. So you have to aim for excellence, otherwise the game, even if it has required considerable investment, will quickly be forgotten. It must be better than those released at the same time, which requires anticipating the developments on which the competitors have worked. Every ingredient of the game (scenario, animation, music...) must be perfect. What's more, the game must contain a surprise element that makes it unique, generally a technological or *gameplay* innovation*, a* term by which we designate the rules of play and interaction Innovation, adaptability, creativity, excellence, etc. To meet these challenges, Ubisoft relies on people and talent.

Every employee must be able to unleash his or her creative potential and deliver new ideas, regardless of whether they have an artistic, technical or support function. How can the organization encourage this creativity, without restricting it but by giving it direction? It must be lively, flexible, and in no way mechanistic. The main concern of Ubisoft's managers is not to manage creation, but to put the organization at the service of creation. We have to avoid setting too many rules, which would create invisible barriers and prevent employees from spontaneously exploring new paths and going beyond what is asked of them. In fact, the company promotes a culture of "prototyping": rather than starting from established principles or precise specifications, everyone is encouraged to test ideas, to multiply trials, to form an opinion on the value of an artistic or technical solution. It's not essential to get it right the first time; as a corollary, everyone has the right to make mistakes and get a second chance. In fact, Ubisoft is perceived as a company where people have the time and opportunity to express their creativity, without being solely focused on the bottom line. This is a particularity that allows us to attract talent from the competition. What makes us different is the ability of our teams to take initiative and be creative. This translates into a few principles in the management of people.

First of all, accountability and trust. Power is given to those who do, who create, who produce, and not to managers or marketing. Managers have a very wide margin of responsibility. When the boss of the Spanish subsidiary saw its sales fall due to piracy and decided to launch the production of figurines sold in newspaper kiosks, he was allowed to test his idea. It proved successful and was even rolled out to other branches. Another means of empowerment is that our job descriptions leave a lot of room for interpretation: it's up to each individual to invent the content. Empowerment is also achieved through employee participation in results, with large stock option plans and, for production teams, a "profitability bonus" which is awarded when a game achieves real commercial success.

To encourage everyone to give their best, we create a stimulating work environment with high-quality teams. In our satisfaction surveys, 83% of employees say they are surrounded by experts who excel in their field. This creates a sense of competition and a desire to always aim higher. Exchanges of knowledge and experience are also encouraged. If a Montreal team needs expertise in the field of special sound effects, for example, a specialist in this technique based in Paris will go there on a mission for a few weeks. Every year, a meeting of the best engineers from all the studios is organized in Montreal, so that they can discuss their achievements, share their computer codes and talk. This is a source of stimulation and creativity. There is also dialogue with the *top management*, who are keen, for example, to gather feedback from testers, which is very useful for the iterations or games that follow. The circulation of information is therefore essential so that employees can create and innovate while knowing where the company is going. Various mechanisms contribute to this: UbiTube, an internal network where any employee can post a video presenting an innovative solution he or she has developed; UbiTalks, a program in which we invite outside experts to give lectures or to speak to a team on a given subject (Italian Renaissance costumes, for example); the Campus, which

trains young people in the video game industry; and the Design Academy, a two-week session that all of the Group's designers attend.

As innovations are permanent in the video game market, the organization must be able to seize new opportunities quickly. It can't afford to stand still. When Nintendo decided to launch the Wii, targeting an audience that was previously unknown to us - women and little girls - we had to react immediately to be among the first publishers to offer games on this medium. Some of the production teams put aside their current projects to focus on it. We also had to feminize some of the teams and develop a knowledge of this market, as we were used to male gamers between the ages of fifteen and thirty-five. So if the market demands it, the teams are ready to take turns in a very flexible way.

The three stages of creation

Pierre ESCAICH: The development of a game takes place in three stages, each of which aims to foster creation: design (or *breakthrough)*, pre-production and production. The first stage is undeniably the most important. The *core team has* **to** imagine new ways of playing, most often linked to a technological innovation. It must define intentions, a vision, content and the degree of innovation that the game must include. It proceeds by iterations and is allowed an unlimited number of prototypes. This stage lasts between one and three months and takes up 10% of the project budget. Once the vision of the game is defined, the pre-production phase can begin. It lasts four to eight months and represents about 30% of the budget. It consists of defining the specifications and setting up the business lines, the engine and the tools. At the end of pre-production, we usually have a piece of the game produced at the final quality level. In financial terms, these first two phases are the ones with the lowest investment. The decision to invest in the third phase, production (nine to eighteen months), depends on the outcome. At this point, we enter into a more industrial logic, from which the creative dimension is nevertheless not absent: we must also show inventiveness to solve production problems, test functionalities and make them evolve. This development process is punctuated by key meetings during which the *core team*, the studio team and Ubisoft's management decide what to do next. The end of the design phase, in particular, is a crucial moment: the relevance of the creative vision is assessed and investments for pre-production are released or not. If the *core team'*s proposal is judged unsatisfactory, it must revise its copy, iterate, and multiply the prototypes. It is rare that a project is abandoned along the way. When this happens, it is often because the right team was not assembled and the right chemistry was not found. It also happens that a project does not succeed but that the work done on this occasion is reused by other teams and introduced later in new games**.**

To support this creative process, the organization must find a clever mix of autonomy and coordination. Autonomy, because we do everything to empower the project teams. They are the ones who create the games, and no one else - certainly not the managers or marketing. If we told the project teams what to do, we would have little chance of success; creativity would

be stifled. The *Assassin's Creed* game, for example, is the result of a desire by some of the *core team members* of a previous game, *Prince of Persia*, to go even further, to move from a linear game to an open world. The technical constraints were considerable. Despite this, the team worked hard on it for over four years, resulting in the success that we know. This was possible because we let them do it. It's essential that the team believes in what they're doing to push themselves, be creative and innovative. Another success, *Just Dance, was* brought to life by a team of three or four people who, during a previous project, *Raving Rabbids*, tested the concept of a dance game and had the intuition that there was something interesting there. His proposal was accepted because it had sales potential. Without this team, this game would not exist.

However, this autonomy is not without limits. It is counterbalanced by the intervention of *top management* in the validation of development stages. The *core team* must regularly prove itself, by demonstrating the accuracy of its creative intuitions in the design phase, then by proving that it has the means to achieve its vision in the pre-production phase. Finally, coordination is ensured by the cross-functional teams at headquarters and in the studios, but always at the service of the projects and creativity. There is no question, for example, of them imposing schedules. All in all, it's a balance that we have to strike all the time: seizing short-term opportunities but formalising a long-term vision for each studio; operating in small, autonomous teams but deploying projects involving several hundred people; granting autonomy to projects and studios but encouraging them to collaborate. Will we be able to maintain this agility if the Group continues to grow and if the teams dedicated to a game are increasingly numerous? To answer this question, we are deploying our organizational principles at new scales. The notion of a small, autonomous and empowered team, which until now has mainly concerned creation, is being extended to production. Rather than segmenting it by profession, we entrust teams with the major elements of the game in their entirety. We are therefore reproducing a way of working in small entities within large teams. This is a key element of remote collaboration between studios: each team must be given a clear mandate and responsibility. This is how they can take ownership of the project and contribute to a collective result.

For each question, you must first answer with a sentence using the appropriate concepts and then quote the relevant text passages - *use quotation marks and indicate the number of the document quoted.*

1. What kind of innovations does Ubisoft bring to the market?

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2. Considering their impact, how would you describe Ubisoft's innovations?

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3. What are the drivers behind the innovations brought to market by Ubisoft?

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4. Mobilizing the technology tree to analyze innovation at Ubisoft?

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5. How do the logics of creativity, management and economic performance fit together?

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