



# Pearson & TIL Ventures: Tomorrow's Market Incubator

## Making Business Mutual Case

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# Pearson & TIL Ventures: Tomorrow's Market Incubator

Morten Hansen – Saïd Business School

With contributions by:

Teodora Berkova – Pearson

Milan Samani – TIL Ventures

Edited by Justine Ellis

## ***About the Making Business Mutual Case Studies***

This series of case studies explores how mutual approaches to business can help companies and their partners tackle some of the most pressing global challenges. The businesses featured in this series share a commitment to objectives beyond purely financial performance, as well as a serious intent to implement mutual practices through new forms of ownership, governance, leadership, measurement and management.

In particular, these cases address the measurement of multiple forms of capital, ecosystem shaping approaches, leadership development, business education, and policy formulation through laws and regulation that promote mutual conduct. The authors appreciate the collaboration of participating companies in creating these cases.

These cases were first developed for the annual *Responsible Business Forum*, the convening event of the Mutuality in Business Project, a joint research programme between Saïd Business School, University of Oxford, and the Catalyst think tank at Mars, Incorporated. The *Responsible Business Forum* brings together global companies, MBA candidates, scholars and activists to share their experience in confronting key challenges in their ecosystems to generate financial, social and environmental value.

Saïd Business School  
Egrove Park  
Oxford OX1 1HP  
[www.sbs.edu/mutuality-business](http://www.sbs.edu/mutuality-business)

Author's Note: This is a descriptive case study, based on publicly available materials as well as on the information shared by the company described. This case study is not meant to provide critical analysis of the literature or information used to develop it. All errors and omissions are the authors' own.

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**Case Name** Pearson & TIL Ventures: Tomorrow's Markets Incubator

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Pearson

Established in 1844, Pearson is the world's largest learning company, with 35,000 employees in 70 countries.<sup>1</sup>



Established in London, England, in 2013, TIL Ventures helps large organisations create new markets. Clients include Fortune 100 companies and the World Bank.

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**Ecosystem  
Pain Points**

Education and learning are powerful tools that improve people's lives. The reality today, however, is that four billion low-income and emerging middle-class consumers are often underserved by education systems and private providers.

Pearson aims to open up significant new growth opportunities that simultaneously enhance the lives and learning outcomes of under-served consumers by innovating new learning solutions and business models built on Pearson's educational technologies.

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**Business  
Strategy**

Pearson's quality educational content and assessments set industry standards. The firm's strategy is to combine these strengths with new digital capabilities in order to create new products and services. Pearson's Tomorrow's Markets Incubator (TMI) is an innovation platform designed to support the development of long-term business opportunities that require extensive innovation. The TMI programme supports employee-driven ideas and is divided into three competitive phases: Explore, Validate, and Grow. Pearson contracted TIL Ventures to help develop the TMI, which was launched in 2016.

More than 150 teams across Pearson's global operations submitted ideas to TMI. The Social Innovation team invited 90 teams to submit a longer, more in-depth application. Of those, 17 teams were admitted into TMI's Explore phase and awarded GBP 30,000 to GBP 40,000 of funding. Employees took part in a three-day boot camp, developed with support from TIL Ventures, and received guidance over a six-month period to develop a rigorous business case.

The Explore phase culminated in each team pitching their business opportunity to a select panel of C-suite Executives and the Social Innovation team. The panel has selected four teams to receive up to GBP 250,000 with which to rigorously demonstrate proof of concept of their ideas during the second phase. The teams that succeed in demonstrating proof of concept will pass into the third phase, Grow, where the venture will be launched and re-absorbed by the appropriate business unit.

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**Performance**

It remains too early to assess the social and business impacts of the programme because the second and third phases, Explore and Grow, are still pending. Key learnings are clustered around the methods, metrics and mind-sets required to both effectively pursue these types of business opportunities and to integrate them into Pearson's existing organisation.

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**Prognosis**

As competition across mainstream educational product markets intensifies, traditional educational companies may have to look for growth in unfamiliar places and use different business models. The Pearson Tomorrow's Markets Incubator aims to prove that it is uniquely equipped to tackle such challenges and, therefore, constitutes a critical addition to Pearson's innovation portfolio.

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<sup>1</sup> "About Us," Pearson, <https://www.pearson.com/corporate/about-pearson.html>

## **Making Business Mutual Case Study: Pearson & TIL Ventures**

### ***Tomorrow's Markets Incubator***

#### **About the Companies**

##### ***Pearson***

Pearson is the world's largest learning company, with world-class educational content and assessments.<sup>2</sup> The company's 2017 Q1 update outlines the ways in which Pearson aims to leverage its existing strengths:

Our strategy is to combine these strengths with new digital capabilities, to create products and services that are scalable and replicable with recurring earnings streams, enabling more personalised learning, more effective teaching and improved learning outcomes.<sup>3</sup>

Pearson's sales, as of FY 2016, are GBP 4.5 billion. Two thirds of Pearson's business operations are in North America; in addition, key international growth markets including China, Brazil, India, and South Africa comprised 17% of total sales in 2016.<sup>4</sup>

Pearson's biggest and most profitable business is its United States higher education courseware division. The sale of textbooks and, increasingly, digital courseware to college students and institutions across the United States has helped maintain Pearson's status as the world's largest learning company. The higher education market, however, is undergoing structural shifts that create both opportunities and challenges.<sup>5</sup> In 2016, these trends culminated in an unexpected 14% drop in the United States higher education courseware market.<sup>6</sup> As described in the Q1 update, Pearson aims to respond in the following manner:

[Pearson will] remain focused on the significant long-term opportunity in education, which is fundamentally based around digital products and services through the strategic acceleration of our digital transition – creating a significantly more robust digital business. We are investing [GBP] 700-750m per annum, more than ever before, in building better digitally powered businesses, which offer improved learner outcomes and stronger financial performance.<sup>7</sup>

This response shows that Pearson is looking ahead and endeavouring to place a greater emphasis on growing its digital business. As the update outlines, Pearson aims to build its business by implementing a long-term strategy that responds to structural shifts within the higher education market.

##### ***TIL Ventures***

Headquartered in London, TIL Ventures is a consultancy that specialises in helping large corporations and multi-lateral organisations create new markets. High profile clients include Disney, Barclays, Phillips, Procter & Gamble, the World Bank and the International Finance Corporation. The firm is headed by the two founding partners Milan Samani and Erik Simanis. The partners' work has been published in various business-journals and news-

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<sup>2</sup> "Pearson 2017 Q1 Trading Update" (unaudited), *Pearson*, <https://www.pearson.com/corporate/news/media/news-announcements/2017/05/pearson-2017-q1-trading-update--unaudited-.html>

<sup>3</sup> Ibid.

<sup>4</sup> "Pearson Annual Report 2016," *Pearson*, <https://www.pearson.com/corporate/ar2016.html>

<sup>5</sup> "Open Educational Resources: A Catalyst for Innovation," *OECD*, 2015, <http://www.oecd.org/innovation/open-educational-resources-9789264247543-en.htm>

<sup>6</sup> "Pearson 2017 Q1 Trading Update" (unaudited), *Pearson*, <https://www.pearson.com/corporate/news/media/news-announcements/2017/05/pearson-2017-q1-trading-update--unaudited-.html>

<sup>7</sup> "Pearson Annual Report 2016," *Pearson*, <https://www.pearson.com/corporate/ar2016.html>

medias such as the Harvard Business Review, the MIT Sloan Management Review and the Wall Street Journal.

Among its services, TIL designs and builds internal, company-specific incubators that target underserved and unimagined market spaces. TIL also operates The Intrapreneur Lab, an external accelerator that admits teams composed of full-time employees of their corporations. These corporate teams develop ventures alongside their day-to-day responsibilities. Milan Samani explains:

Twenty-two corporations have used The Intrapreneur Lab to develop over 75 ventures, with Barclays and Disney incorporating it as key element of their innovation and people development strategy. While still several years from being fully realised, new offerings incubated through the Lab show projected revenue in excess of [USD] 100 million.<sup>8</sup>

As Samani's comments indicate, these initiatives have the potential to cultivate existing human capital. At the same time, such programmes have also demonstrated the capacity to generate profits for corporations.

### **Ecosystem Pain Points**

The need for learning is relevant to everyone, no matter where they live or how much they earn. Today, however, Pearson's products and services do not reach many of the four billion low-income and emerging middle-class consumers across the globe. To bridge this gap, Pearson aims to innovate new business models that profitably deliver affordable, high-quality education products and services built on Pearson's world-class educational technologies.

At present, Pearson is in a period of transition. In 2015, it sold the Financial Times and its stake in The Economist Group. Pearson is also exploring options to relinquish in 2017-2018 its stake in the book publishing company Penguin Random House, the world's largest book publisher by revenue.<sup>9</sup> Taken together, these decisions reflect a consolidated effort to focus on the firm's core capabilities of educational content, assessment and services.<sup>10</sup>

This shift coincides with a larger movement in the education sector from print-based industry to digital industry. The application of digital technologies to education is blurring industry boundaries, disrupting previously stable product markets, and changing fundamentally how consumers think about and engage with educational content.<sup>11</sup> This rapidly changing competitive landscape has forced Pearson to re-evaluate how best to leverage its capabilities, content and brand to ensure the long term, sustainable growth of the company.

The Tomorrow's Markets Incubator (TMI) grew out of Pearson's Sustainability & Social Innovation team, which sits in the company's Corporate Affairs and Marketing Function. In 2013, the team took a step back to re-examine the ways in which the company could increase its social impact. The team first concluded that social impact was best accomplished by harnessing the company's core business to innovate profitable new

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<sup>8</sup> For recent discussion, see: "Your Leadership Development Program Needs an Overhaul," *Harvard Business Review*, December 2016,

<https://hbr.org/2016/12/your-leadership-development-program-needs-an-overhaul>

<sup>9</sup> "Pearson set to close book on Penguin Random House," *Financial Times*, 18 January 2017,

<https://www.ft.com/content/7f0b7c14-dd56-11e6-86ac-f253db7791c6>

<sup>10</sup> "Pearson Annual Report 2016," *Pearson*, <https://www.pearson.com/corporate/ar2016.html>

<sup>11</sup> For education scholars and practitioners engaging in similar types of analysis of the higher education market, see: Barber et al. "An avalanche is coming: Higher education and the revolution ahead," March 2013, *Institute for Public Policy Research*,

<http://www.ippr.org/publications/an-avalanche-is-coming-higher-education-and-the-revolution-ahead>

products and services that could reach underserved learners, many of whom are in both emerging economies and also in mature economies like the United States and Europe.

The team also recognised that innovating successfully for these new customer segments often requires new business models that would push the company to move beyond their traditional base of large, institutional customers. This move would require developing new channels, new revenue models and different product configurations based on new digital technology platforms. This type of innovation, they believed, could not always be conducted effectively within the existing business units, given their shorter-term investment expectations. As Teodora H. Berkova, Director of Social Innovation, explains:

We wanted to create a mechanism through which to crowd-source innovation, where we not only have the ability to invest in early ventures, but are also able to provide the necessary technical support, as well as a 'white space' to experiment with new, untried models.<sup>12</sup>

This challenge required a different innovation approach from Pearson's existing product innovation protocol. Founding partner of TIL Ventures Erik Simanis summarises:

Traditional innovation methods work well only when the core business architecture and business model are set. When companies look to reach under-served markets, they quickly learn that it requires a very different business model—not just optimizing at a couple of points on the value chain. Innovating a new business model and architecture require different innovation methods, metrics, and mind-sets.<sup>13</sup>

### **Project Set-Up**

In May 2014, two members of Pearson's Social Innovation team participated in the second cohort of The Intrapreneur Lab supported by Cornell University in New York. The Lab provided Pearson with likeminded peers and mentors to think through the ambition of delivering educational services to low-income customers. It also tackled the challenge of internally driving the product and business innovation needed to reach low-income customers. Pearson then contracted TIL Ventures to help design the Tomorrow's Markets Incubator based on their experience working with other multinational companies on similar types of projects.

The Incubator sits in, and is funded out of, Pearson's Corporate Affairs and Marketing Function. The Social Innovation team leads the Incubator in partnership with the Global Product Function and with support from Pearson's C-suite and other executives. Embedding the Incubator into Pearson's core structure and partnering with the Global Product Function is important for several reasons:

1. The Incubator strategy and portfolio of ventures need to align to Pearson's broader business strategy.
2. Support from senior leadership increases the likelihood of intrapreneurs succeeding with their ventures.
3. Close cooperation between Pearson's leadership and the Incubator team ensures that new insights are more easily transferred to Pearson's overarching strategy, ways of working and new markets.

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<sup>12</sup> Teodora H. Berkova (Director of Social Innovation, Pearson), personal communication with the author, 10 April 2017.

<sup>13</sup> Erik Simanis (Founding Partner, TIL Ventures), personal communication with the author, 24 April 2017.

In addition, the Incubator provides substantial support to the teams because activities are largely above and beyond employees' day-to-day jobs during the Explore phase of the programme. Berkova elaborates:

This structure requires employees to be fully committed and motivated; but it also forces the Incubator to demonstrate clear value to them and how this is relevant to their own professional development and work outside of the Incubator.<sup>14</sup>

This concurrent process of shifting culture, product development and innovation processes simultaneously is intentional. The Incubator aims not only to produce long-term profits for the corporation, but also to contribute to participants' professional development. Samani adds:

The Incubator is a place where intrinsic motivation is cultivated and 'stretch' and 'growth' mind-set is demonstrated to be both effective and beneficial for the individual's personal and career development.<sup>15</sup>

In this way, the Incubator aims to help cultivate both human and financial capital for Pearson. Since employees, as both Berkova and Samani emphasise, must take on responsibilities that extend beyond their "day jobs," it remains important that they also benefit professionally from the experience.

In addition to its organisational design, key milestones for the Incubator's development included securing the budget, and receiving 15 pitches for Validate phase funding.

The Social Innovation team kicked off the Incubator with an initial investment of GBP 1.2 million. The Incubator launched in April 2016 via an internal webinar open to all interested employees. The Webinar explained the purpose of the Incubator and the one-page idea application. The criteria for investment were as follows:

1. Mid- to long-term profitable revenue potential.
2. Focus on low-income learners and consumers.
3. Alignment with Market and Business Unit strategy.
4. Potential for scale and feasibility within Pearson.

One hundred sixty-seven teams submitted applications during the three-month application period. An initial screening was done, and 90 of the teams were invited to submit a long-form application that asked for greater detail about their business ideas and demonstration of senior-level support for their potential participation in the Incubator. Of these 90, 17 teams were admitted into the Incubator's first phase, the Explore phase. The first phase launched in August 2016.

### ***Phase One: Exploring Business Idea***

A three-day boot camp in New York City with the 17 teams kicked off the Explore phase. The boot camp mapped out a "venture innovation" framework and a set of related tools for systematically building a new business architecture and business model. Key distinctions between a venture innovation approach and traditional product innovation approaches (that dominate in most corporations) include:

- Estimating steady-state revenue targets and target earnings for the venture in order to *isolate which broad customer segments and product markets hold credible opportunities* and are the most feasible place to initially target for research (versus

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<sup>14</sup> Teodora H. Berkova (Director of Social Innovation, Pearson), personal communication with the author, 17 April 2017.

<sup>15</sup> Milan Samani (Founding Partner, TIL Ventures), personal communication with the author, 20 April 2017.

starting with broad needs analyses of various stakeholders across an entire ecosystem).

- Focusing initial customer research on *where Pearson's products/services could be monetised* at the greatest level by solving the greatest pain point within a product routine for the greatest number of people (versus focusing on broad, holistic solutions addressing a range of needs and wants of stakeholders).
- Simultaneously mapping operational models, running financial models, and doing product solution brainstorming to *ensure that the business offering can be credibly operationalised* and has a credible path to profitability (versus starting with product co-creation with end-user and detailing out of the product design, before considering operational and financial constraints).
- Building operational and financial models up from the level of a single operating unit to *ensure that all incremental costs of start-up and ongoing operations are rigorously considered* and accurately reflected (versus assuming the company's traditional gross and operating margin structure apply).

The boot camp also focused on the mind-set and skills-sets required to become an intrapreneur. These tools include the ability to deal with high uncertainty and unfamiliarity, isolating strategic drivers, building and leveraging internal social networks and strategic alliances, building internal coalitions of support and selling a vision.

The 17 teams were provided between GBP 30,000 and GBP 40,000 each to support research needed to build out their ideas. Each intrapreneurial team worked closely with the Tomorrow's Markets Incubator team, TIL Ventures, and other coaches.

At the end of the seven-month Explore phase, teams submitted detailed "venture blueprints" that explained their idea and outlined the business case. As part of the venture blueprint, teams needed to demonstrate endorsement by their own senior leadership for the idea. Teams then submitted an investor deck to the Incubator, and gave a live pitch to a select panel of C-suite Executives and the Social Innovation team. Criteria for investment were:

1. Is there a compelling commercial opportunity?
2. Is there a compelling solution?
3. Does the venture demonstrate a significant level of innovation that requires TMI support?
4. Is there clear potential to improve learning outcomes and to have a measurable social impact for under-served, low-income learners?
5. Does the venture appear feasible to implement?

Four teams have been selected for entry into the second phase, Validate, and will receive funding of up to GBP 250,000.

### **Phase Two & Phase Three: Validate & Grow**

The validate phase is projected to last 12-18 months and involves piloting the venture and demonstrating proof of concept. The venture must demonstrate that the operating unit can satisfy key operational and financial assumptions needed to be profitable at steady-state. Ventures that demonstrate proof of concept will be green-lighted to launch. During the Grow phase, the ventures get absorbed operationally by the business unit and become a part of Pearson's revenue generating activities.



## Performance

The first cohort of Tomorrow's Markets Incubator ideas entered phase two in May 2017. It is therefore too early to assess the full social impact of the programme in market.

In order to deliver on the social and commercial impact potential, the Incubator has had to shift some of the company's methods, metrics, and mind-sets in ways that support intrapreneurial innovation. Below are the key challenges and learning that accompanied each method change:

**1. Changing methods** means changing the traditional product innovation framework, that is, the core set of questions to be answered when developing new products or business models, as well as matching the framework with the appropriate the tools. TMI has addressed this by training the teams in a venture innovation framework and providing them with coaches skilled in using the required tools.

A key learning from the boot camp is that teams will gravitate towards a traditional product innovation framework and focus on questions around product design. While these are very relevant, the venture innovation process begins with a much broader set of questions focused on the business model and architecture, with product design becoming the focus at a later stage. This is where the coaches' intervention, in particular, plays a critical role.

**2. Changing metrics** means changing the key measures to communicate about and assess a new business idea. New and unfamiliar metrics used in TMI include: lever customer and routine; operating unit reach; steady-state customer base; and whole cost structure. A key learning is that senior leadership needs to be engaged proactively. This step ensures that leadership understands how to assess the rigor of the Incubator process and the resulting ideas, as the basis for evaluating both is more aligned with a venture-capital approach than a new product approach.

In addition to the metrics and specific investment criteria outlined above and used during the Explore phase, the Social Innovation team also developed pre-Explore stage KPIs. These measures include the response rate from the initial call for employees to submit their business ideas, views on the Incubator website and number of unique users on the Incubator website. Goals and results are outlined in the table below:

Description of KPI	Goal	Result
Response rate from initial call to received applications	3%	7%
Number of Incubator website page views	5,000	6,800
Number of unique Incubator website users	2,000	2,050

**3. Changing mind-sets** means shifting the attitudes of Incubator participants. This process is linked closely to talent development. TMI provided more than 1,630 hours of face-to-face and in-market coaching. This training provided opportunities to learn business model development, consumer research, sales, marketing, product development, financial modeling, social impact measurement, and leadership and management skills.

Employee feedback and anecdotal evidence also suggest that this is a fun, engaging and inspiring way of working and learning. One employee expressed this sentiment as follows: "The incubator has been like a thunderbolt in our department, and all of our colleagues are energised and excited to submit ideas to the next round." Another employee added, "The incubator gave us the space to try something completely different that really has a huge

opportunity for our market." As these comments suggest, a key learning is that changing mind-sets requires space, time and resources.

### **Prognosis**

Traditional education companies will have to re-invent themselves in the face of a growing ed-tech revolution, strained government educational budgets and shifting demographics. The Tomorrow's Markets Incubator will have to prove it can be a valuable and complementary addition to Pearson's innovation portfolio and re-positioning strategy. The Tomorrow Market's Incubator aims to do so by demonstrating its unique ability to rigorously innovate new business models capable of opening up significant new growth opportunities presented by low-income, underserved markets.

### Saïd Business School

Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, yet deeply embedded in an 800-year-old university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge education programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class university, tackling world-scale problems.

### Mars Incorporated

Mars' approach to business has long since been guided by five principles – quality, responsibility, efficiency, freedom and mutuality. Together they inform and guide the actions of all Mars associates every day as they do their jobs and interface with the outside world. The Mars' leadership has tasked its economic research unit, Catalyst, to start new work into unexplored territory for business; to identify critical drivers of mutuality and, using business pilots, to develop and test new metrics and management practices that can help boost mutuality in business situations. This work is called the Economics of Mutuality.

### The Oxford-Mars Mutuality in Business Partnership

On the back of these promising findings, a multiyear partnership with Oxford University's Saïd Business School was established in 2014 to focus on the development of a business management theory for the Economics of Mutuality with corresponding teaching curriculum, new management practices, and case study research. The research programme has combined the pursuit of normative questions – what is mutuality and how should it be enacted? – with grounded, ethnographic research on current thinking and practices. This has led to the development of field experiments and case studies examining how large corporate actors conceive of and pursue responsible business practices, and how these relate to their financial and social performance.

Saïd Business School  
Park End Street  
Oxford OX1 1HP

Mutuality in Business  
T: +44(0)1865 422875  
E: [responsiblebusiness@sbs.ox.ac.uk](mailto:responsiblebusiness@sbs.ox.ac.uk)  
W: [Mars Catalyst Labs](#)  
W: [www.sbs.edu/mutuality-business](http://www.sbs.edu/mutuality-business)