INNOVATION RESEARCH INTERCHANGE

Accelerating Value Creation

The Innovation Challenge to Advantage Series

How Axalta Built an Incubator to Extend Innovation Beyond Core R&D

Summary

A central question confronting many innovation leaders today is how R&D systems that are optimized for today's demands could also explore tomorrow's opportunities. These opportunities offer significant potential but carry higher risk and must compete with the immediate demands of the day-to-day. Mature organizations face the complex challenge of systematically pursuing adjacent opportunities and evaluating emerging trends before they become immediate business priorities.

Axalta applied a different strategy to expand the scope of their R&D activities. Rather than forcing exploratory innovation into an already optimized operating model, the organization created a small, internal incubator designed to scout new opportunities, test adjacency ideas, and rapidly evaluate concepts linked to evolving market shifts. The incubator was not conceived as a traditional long-range research function, but as a discovery engine closely connected to corporate strategy, informed by technical expertise, and measured by the speed and quality of learning.

The result is an innovation model that complements the strength of the core R&D function rather than competing with it.

Lessons Learned

- Exploratory innovation requires structural support, not just cultural encouragement. Informal “creative time” becomes difficult to sustain in competition with day-to-day business demands.
- Exploratory innovation is most effective when connected at high enough level to the broader enterprise.
- Adjacency exploration demands different timelines, structures, decision processes, and success metrics compared to incremental customer-driven development.
- Early-stage innovation should be managed as a learning process rather than a forecasting exercise. Technical viability, strategic relevance, and speed of learning matter more than detailed financial projections in the earliest phases.
- Exploratory teams should be built around curiosity, adaptability, and cross-functional thinking—not only on deep subject-matter expertise or organizational hierarchy.
- Internal exploratory teams should incorporate external perspectives, as the unit is intentionally working outside the organization’s standard approach.

The Challenge

For Axalta, the challenge was not fixing a broken innovation system—it was creating a space for exploration that goes beyond addressing complex customer problems. The organization had become highly effective at translating these problems into commercially successful technical solutions and solving clearly defined issues within established markets, following reliable pathways from technical development to commercialization.

Leadership often encouraged teams to devote time to explore ideas beyond immediate commercial priorities, but that was often crowded out by the urgency and volume of day-to-day execution. Axalta believed that new market opportunities existed but pursuing them required a level of protected attention that the existing system was not designed to provide consistently, making it increasingly difficult to pursue adjacency opportunities, emerging technologies, or longer-horizon concepts.

The result was a structural imbalance that became increasingly visible at the portfolio level. The organization remained highly effective within known domains, but its capacity to systematically explore beyond them became more constrained as innovation resources were increasingly absorbed into the rhythm of core business execution.

Turning Point

The turning point emerged from a growing recognition that the organization's greatest strength had also become its primary constraint. The way leadership interpreted success was changing: "We were close to 100% success in our innovations, which was a source of pride. Then, we started thinking, maybe that's a bad thing. Maybe it is an indication that we were not taking enough risk," said Robert Roop, Senior Vice President and Chief Technology Officer at Axalta.

At the same time, broader market trends were beginning to reshape the future of coatings and materials science. Trends such as electrification, thermal management, sustainability pressures, and post-pandemic antimicrobial technologies signaled that future growth opportunities would not emerge solely through the traditional flow of customer requests. These spaces require scanning, experimentation, external engagement, and technical exploration before they can mature into commercially defined opportunities.

Internal and external shifts converged to reframe the challenge. Leadership concluded that exploratory innovation requires a fundamentally different operating environment than the core business. It needs protected time, focused resources, organizational legitimacy, and a cadence built around learning rather than immediate delivery.

That insight became the foundation for Axalta's incubator model: a small, focused team intentionally designed to operate outside the pressures of day-to-day execution while remaining closely connected to the company's technical strengths and strategic direction. Rather than redesigning the broader R&D organization, Axalta introduced a complementary structure built specifically for adjacency exploration and emerging opportunity development.

The Process

Purpose

The incubator emerged gradually through exploratory discussions before becoming more formally established within the organization. Rather than building a separate innovation unit, Axalta assembled a small technical team from within the existing organization. This approach preserves institutional knowledge, ensuring the group understands the company's technologies, customers, and commercial realities.

The incubator has a narrow mandate with great implications. It was created to identify and evaluate opportunities that might otherwise go unexplored within the normal rhythm of day-to-day execution. "It is more of a scouting activity and not a long-term research project," Robert noted. "It's more about scouting to see if there's anything interesting here that might be an opportunity for Axalta." With this mindset, the incubator focuses on identifying promising signals, testing assumptions, and rapidly assessing technical and commercial viability.

The incubator's structure reflects a deliberate balance: independent enough to think differently, but connected enough to leverage Axalta's technical depth, market knowledge, and broader enterprise capabilities. The incubator operates on compressed learning cycles measured in months rather than years. Its objective is not to fully develop businesses, but to test viability quickly and determine whether opportunities justify deeper investment. Questions are intentionally framed before formal product development begins:

- Is a market shift truly emerging?
- Does Axalta possess capabilities that could create an advantage?
- Is there a credible technical pathway?
- Could the opportunity become commercially meaningful?

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People

One of the most intentional aspects of the incubator model is how the team is constructed. Leadership focuses on selecting people who will learn quickly, challenge assumptions, connect disparate ideas, and remain productive when answers are incomplete. The incubator team combines technical credibility with curiosity and adaptability. “We are looking at team members who have an entrepreneurial attitude and also seem very interested in learning new things,” highlighted Florangel Perez, Vice President, Technology Strategy and Raw Materials Technology at Axalta. Some bring deep coatings expertise, while others contribute broader systems thinking or cross-functional versatility. Experience levels vary intentionally, helping create a dynamic mix of perspectives and working styles. Because exploratory work naturally involves uncertainty, Axalta recognized early that the incubator could not be managed using traditional performance expectations alone.

> ***“Success is defined less by individual wins and more by the team’s ability to explore effectively and learn as a collective.”***

Leadership understands that if team members are evaluated only on successful launches, the model would discourage experimentation and increase reluctance to pursue riskier opportunities. Instead, the incubator emphasizes learning quality, speed of evaluation, technical insight, and the ability to identify weak opportunities before substantial resources are committed. Projects move through the team collectively, with short learning cycles and shared accountability across technical disciplines. “Everybody is working together and every project is owned by the whole team, so everybody has input and contributes a piece,” explained Christiaan Engels, Vice President of R&D at Axalta. “That is very important because the entire team is striving toward the same goal, making sure that everybody is part of every project and has the support they need.” This team-based approach helps maintain cohesion and morale even when projects are discontinued, because success is defined less by individual wins and more by the team’s ability to explore effectively and learn as a collective.

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Partnerships

The incubator functions as a catalytic node within a broader innovation network, drawing on additional specialized expertise across the organization and externally. Senior fellows and subject matter experts can be engaged when deep technical judgment is required, allowing the team to move quickly without sacrificing scientific rigor. The corporate strategy team provides the incubator with information on adjacent markets, competitive movements, and emerging macro trends, while the incubator translates those signals into technical questions and exploratory experiments. In this sense, Axalta avoids a common incubator trap: separation without integration. The incubator remains independent in focus but deeply connected in capability.

“Our corporate strategy team gives us a perspective of what else is around us that might be interesting, while the incubator team does technical scouting and chemistry lab work.” Robert added, “It’s that marriage of those two that gives the incubator insight into mega trends, so we are not just wandering in the dark.” This partnership ensures that projects remain strategically grounded rather than becoming disconnected exercises in technical curiosity.

External engagement also plays an important role. Universities, research institutions, and outside experts provide additional perspective and exposure to emerging developments beyond the company’s traditional operating boundaries. By engaging external networks alongside internal expertise, Axalta broadens its ability to detect and evaluate change early.

Project Management and Metrics

Traditional project management systems are typically designed around known objectives, defined requirements, and execution against established plans. The incubator operates differently.

Projects often begin with broad hypotheses tied to opportunities identified by leadership, market analysis, or technical experts, followed by a staged but lightweight evaluation model designed to test viability quickly. Technical feasibility serves as an initial filter. If no viable pathway emerges, projects can be stopped early with limited resource exposure.

When technical potential appears promising, attention shifts toward commercial considerations, such as market attractiveness, competitive differentiation, customer adoption potential, and overall strategic fit.

This approach also shapes how opportunities are measured. Leadership recognizes that applying traditional late-stage financial metrics too early could create false precision, discourage experimentation, and bias decisions toward familiar opportunities with more predictable outcomes. Instead, the incubator emphasizes measures appropriate to the maturity of the idea. In the earliest phases, success is evaluated through indicators such as speed of learning, evidence of technical viability, clarity of market need, and strategic relevance. As ambiguity narrows and opportunities mature, more traditional commercial measures, including return potential, margin profile, investment requirements, and business fit are progressively introduced.

Because evaluation cycles operate on compressed timelines, the incubator is able to examine multiple opportunities without committing significant resources over extended periods. This creates strategic optionality, allowing Axalta to learn across multiple domains while concentrating deeper investment only where evidence justifies further development.

As opportunities mature, they can transition into existing business units and more formal stage-gate development systems. This handoff is an important part of the model as the incubator is not designed to scale businesses independently, but to validate opportunity spaces, reduce ambiguity, and generate qualified concepts that the broader organization can then commercialize through its established operating structure.

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The Result

Outcome

The incubator creates a complementary innovation mechanism that expands Axalta's ability to pursue opportunities beyond the immediate demands of the core business.

One of the clearest demonstrations of this capability is the development of Alesta® e-PRO FG Black, a flame-resistant powder coating designed to improve electric vehicle battery safety by helping inhibit thermal runaway events. As electrification accelerated across the automotive sector, the incubator identified a new class of technical challenges emerging around battery architecture, thermal management, and passenger safety—challenges that were not yet fully defined through traditional customer requirements but were rapidly becoming critical.

Rather than treating this as a conventional product extension, the team approached it as an open technical question: how might Axalta's coatings expertise be applied to a fundamentally new safety requirement in EV systems?

The resulting solution required close collaboration with battery manufacturers and automotive OEMs, as well as significant technical adaptation. Axalta developed a non-expanding, flame-stable powder coating engineered for advanced battery environments and compact enclosure designs. Given the diversity of EV architecture, the solution also had to meet a broad set of performance requirements, including adhesion across metal and composite substrates, corrosion resistance, high-heat stability, and low-smoke behavior under thermal stress. Customer collaboration on evolving fire-protection testing protocols further supported early adoption in a still-emerging regulatory and performance landscape.

The innovation was later recognized with an Edison Award, underscoring both its technical differentiation and its broader impact on advancing safety and sustainability in electric vehicle systems.

More than product innovation, Alesta® e-PRO FG Black demonstrates how the incubator model can translate broad market shifts into differentiated technical solutions with clear commercial and safety impact.

Culture

Perhaps the incubator's more lasting impact has been cultural. Initially operating with limited visibility, the function has gradually gained credibility as projects have matured and engagement from business units has increased. Senior fellows and technical leaders increasingly participate as advisors and collaborators, helping connect broader organizational expertise into the exploratory work.

Over time, the incubator has helped normalize a broader innovation mindset within Axalta which recognizes the value of rapid learning and protects exploratory capacity, adjacency scouting, and disciplined fast-fail decision-making alongside the company's established strengths in technical rigor and customer execution.

By design, not all initiatives progress to be viable in the incubator. Within the incubator model, however, stopping early is treated as a deliberate and valuable outcome. "It is about failing fast. We have a long list of things that didn't work out well," Robert said. "That's unusual. You might say even uncomfortable." For example, antimicrobial technologies explored during the post-pandemic period were ultimately discontinued as market conditions became saturated, and strategic attractiveness declined.

Importantly, technical learnings, market signals, and decision rationale are retained to strengthen future opportunity assessment. "We document our experiments and our approaches well," added Christiaan. "We capture this learning and revisit some of those opportunities which didn't work today but might work in two or three years."

In doing so, the incubator reinforces a critical organizational insight: exploratory innovation does not require reducing operational discipline but rather designing structures that allow different forms of innovation to coexist and thrive.

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Future Direction

Axalta's incubator is increasingly becoming a permanent component of the company's innovation architecture rather than a standalone experiment. As market dynamics continue to accelerate, the need for structured exploration is expected to grow. Electrification, sustainability pressures, advanced materials innovation, and evolving regulatory requirements will continue to surface opportunities that fall outside the boundaries of established business categories.

The company now has a dedicated mechanism to engage in these shifts earlier in their development, complementing its mature R&D system with a parallel capability focused on opportunity discovery and adjacency exploration. This dual structure enables Axalta to maintain the speed and discipline of its core business while systematically expanding its view of what is technically and commercially possible.

In many ways, this process reflects a broader evolution in how the company views innovation itself. Incremental innovation within established businesses thrives through speed, discipline, and customer proximity. Exploratory innovation requires different conditions: flexibility, protected attention, and tolerance for uncertainty. By recognizing that distinction, Axalta has built a more balanced innovation system capable of supporting both near-term execution and longer-term opportunity discovery simultaneously.

Over time, this balance may become one of the company's most important innovation capabilities: not replacing what made Axalta successful, but extending the company's capabilities through a deliberately designed structure for continuous exploration.

Additional IRI Resources for Innovation Leaders

For members interested in exploring these themes further, IRI offers research, tools, and peer-driven insights on strengthening portfolio decision-making and innovation execution, including:

- Engaging with New Innovation Ecosystems
- What Skills Do We Need to Expand Our Innovation Teams?
- The Top 5 Innovating Value Trends that Shaped 2025
- Business Model Innovation from Venture Capital Firms & Incubators