Innovation

Master Guide Book

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Galaxy

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



by Tom Kelley with Jonathan Littman

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Strategies for Beating the Devil's Advocate and Driving Creativity Throughout Your Organization

THE TEN FACES OF INNOVATION

THE SUMMARY IN BRIEF

The role of the devil's advocate is nearly universal in business today. It allows individuals to step outside of themselves and raise questions and concerns that effectively kill new projects and ideas, while claiming no personal responsibility. Nothing is more potent in stifling innovation, Tom Kelley points out.

Over the years, IDEO, a design consultancy, has developed 10 roles people can play in an organization to foster innovation and new ideas, while offering an effective counter to naysayers. Among these approaches are the Anthropologist *– the person who goes into the field to see how customers use and respond to products, to come up with new innovations; the* Cross-Pollinator, *who mixes and matches ideas, people and technology to create new ideas that can drive growth; and the* Hurdler, *who instantly looks for ways to overcome the limits and challenges to any situation.*

Filled with engaging stories of how Kraft, Procter & Gamble and Samsung have incorporated IDEO's thinking to transform the customer experience, The Ten Faces of Innovation *is an extraordinary guide to nurturing and sustaining a culture of continuous innovation and renewal.*

What you'll learn in this summary:

- ✓ ***IDEO's strategies for beating the devil's advocate and driving creativity throughout your organization.***
- ✓ ***The roles that people can play in an organization to foster innovation and new ideas – and fend off creativity-stifling naysayers.***
- ✓ ***How businesses have used design thinking to innovate routinely and transform company culture.***
- ✓ ***How to create, experiment, inspire and build new ideas.***
- ✓ ***How to use innovation and brainstorming processes to create new products and designs.***
- ✓ ***How to reshape and recast your business's strategic thinking and direction.***

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Introduction: Beyond the Devil's Advocate

We've all been there. The pivotal meeting where you push forward a new idea or proposal you're passionate about. And then, in one disastrous moment, your hopes are dashed when someone weighs in with those fateful words: *"Let me just play Devil's Advocate for a minute…"*

The speaker now feels entirely free to take potshots at your idea, and does so with complete impunity. He is essentially saying, "The Devil made me do it," removing himself from the equation and sidestepping individual responsibility. But before he's done, he has torched your fledgling concept.

This problem is so important because innovation is the lifeblood of all organizations, and the Devil's Advocate is toxic to your cause. Innovation is a tool for transforming the entire culture of organizations. There is growing recognition that fostering a culture of innovation is critical to success, as important as mapping out competitive strategies or maintaining good margins.

The Human Touch

The Ten Faces of Innovation is a book about innovation with a human face. It's about the individuals and teams that fuel innovation inside great organizations. The 10 core chapters highlight 10 people-centric tools developed at IDEO that you might call personas for innovation. By developing some of these innovation personas, you'll have a chance to put the Devil's Advocate in his place.

The Learning Personas:

- **The Anthropologist** brings new learning and insights into the organization by observing human behavior and developing a deep understanding of how people interact physically and emotionally with products, services and spaces.
- **The Experimenter** prototypes new ideas continuously, learning by a process of enlightened trial and error.
- **The Cross-Pollinator** explores other industries and cultures, then translates these findings and revelations to fit the unique needs of your enterprise.

The Organizing Personas:

- **The Hurdler** knows the path to innovation is strewn with obstacles and develops a knack for overcoming or outsmarting those roadblocks.
- **The Collaborator** helps bring eclectic groups together, and often leads from the middle of the pack to create new combinations and multidisciplinary solutions.
- **The Director** not only gathers together a talented cast and crew but also helps to spark their creative talents.

The Building Personas:

- **The Experience Architect** designs compelling experiences beyond mere functionality to connect at a deeper level with customers' latent or expressed needs.
- **The Set Designer** creates a stage on which innovation team members can do their best work.
- **The Caregiver** builds on the metaphor of a health care professional to deliver customer care in a manner that goes beyond mere service.
- **The Storyteller** builds both internal morale and external awareness through compelling narratives. ■

The Anthropologist

What makes Anthropologists so valuable? A sense of informed intuition, akin to "Deep Smarts."

- They practice the Zen principle of "beginner's

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The authors: Tom Kelley is the general manager of IDEO and the author of the bestselling business classic *The Art of Innovation*. As a leading speaker, he addresses scores of business audiences on how to use innovation to transform a business's culture and strategic thinking. Jonathan Littman is a contributing editor at *Playboy* and author of several books on business, crime and sport.

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The Anthropologist

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mind."

- They embrace human behavior with all its surprises.
- They draw inferences by listening to their intuition.
- They seek out epiphanies through a sense of "Vuja De."
- They keep "bug lists" or "idea wallets."
- They are willing to search for clues in the trash bin.

A good Anthropologist has an uncanny knack for getting people to talk about themselves, enjoys meeting and talking to people, asks probing questions that encourage people to reveal themselves, projects a nonthreatening image that says it's safe to talk and has an intuitive sense of how to mine stories.

Start Young

For a look at *tomorrow's* mainstream markets, look at teenagers today. Teens try stuff constantly, check it out, and love it or chuck it. Think of blogging, gaming, instant messaging and MP3 file sharing. Teens helped drive all these trends, and they're driving more as we speak. We all know children make us younger in spirit. They can also help you see what's next.

Fixed Opportunities

If you take a close look at your world, you'll notice clever people playing the modern-day role of fix-it man. We've all seen the Post-it® note with a helpful little instruction on top of the photocopier or the handwritten sign taped to the front of the reception desk. To see how many exist in your world, write down every fix you see at work, at home or out on the town. You'll learn to recognize when a product—or even a whole category—is crying out for improvement.

First Look

Executives love to say that their company *listens* to its customers, but that's better for assessing the present than foreseeing the future. Instead, spend a day with your customers and watch what happens. *If you're interested in making something new and better, you've got to watch people struggle and stumble.* ■

The Experimenter

The Experimenter may be the most classic role an innovator plays. What Experimenters share is a passion for hard work, a curious mind and openness to serendipity. Who exactly is an Experimenter? It's someone who makes ideas tangible — dashing off sketches, cobbling together creations of duct tape and foam core, shooting quick videos to give personality and shape to a new service concept.

Implementing by Experimenting

Try making ongoing experimentation a part of your approach to creating services. Embrace experimentation and prototypes and say good-bye to the "rollout." If experimenting is part of your culture, you can respond in hours or days. Quick reflexes and fast turnaround can be part of what sets you apart from the pack.

Flushing Away Mistakes

"Fail often, to succeed sooner" is rooted in IDEO's philosophy of rapid experimentation. When your culture embraces the notions of lots of quick prototypes, you'll make lots of little mistakes that are really critical steps on the road to success. Could you come up with a symbolic way of letting go of mistakes at your company, or within your division or team?

Paper-Thin Prototyping

Many of us think of prototypes and innovations as massive, coordinated efforts, but it's amazing and encouraging at how little it takes for a good prototype to work. Sometimes the secret lies in figuring out how to address a single question — for instance, how to make room for your product or service in a customer's already crowded life.

Breaking the Rules

There comes a day when Experimenters need to break new ground by challenging some key assumptions. In coming years, companies will need to be increasingly innovative about how they seed and sell their products and services. There's no assurance that what worked yesterday will work tomorrow.

Life as an Experiment

Treat life as one big experiment and you'll start building a framework for continuous learning. Just get moving and start trying things out. ■

The Cross-Pollinator

Cross-pollinators can create something new and better through the unexpected juxtaposition of seemingly unrelated ideas or concepts. It was a Cross-Pollinator who transplanted the idea of a piano keyboard from the musical world to create early manual typewriters in the business world, which of course evolved step by step into the electronic keyboards we all use today. In the corporate world, Cross-Pollinators are the project members who translate arcane technical jargon from the research lab into vivid insights everyone can understand.

Seeds of Cross-Pollination

Here are seven of the "secret ingredients" in the

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The Cross-Pollinator

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recipe for cross-pollination:

1. Show-and-tell. Show-and-tell is always about something either new to the world or newly reinvented, and is a source of continual renewal built into the work practices of the organization.

2. Hire lots of people with diverse backgrounds. IDEO has never looked at hiring as merely a process of addition or bringing in "more of the same."

3. Stir the pot with space. IDEO creates lots of multi-disciplinary project rooms and leaves ample space for "accidental" or impromptu meetings among people from disparate groups.

4. Cross cultures and geographies. Importing new insights is always valuable.

5. Host a weekly "Know How" speakers series. The shared buzz sets off a wave of discussions throughout the firm.

6. Learn from visitors. After each visit, one feels a little more up-to-date and attuned to current trends — just a little bit wiser for the experience.

7. Seek out diverse projects. The broad range of client work — spanning dozens of industries — means that IDEO can cross-pollinate from one world to another.

Crossing Ideas

Cross-Pollinators are good teachers as well, helping to spread knowledge and ideas. They enjoy a breadth of knowledge in many fields, but they also have depth in at least one area of expertise.

Try your own version of scarcity:

- Spend a day generating and communicating ideas without the use of technology.
- Pass an afternoon prototyping without conventional tools.
- Challenge a team to come up with something on the cheap.

The Gift of Giving

Giving may be the most counterintuitive and extreme form of cross-pollination. But generosity can help you get there and be good for your company's karma. The Cross-Pollinator is in many ways a collection of personas — part Anthropologist, part Experimenter, part personas you have yet to meet. ■

The Hurdler

Hurdlers do more with less. They get a charge out of trying to do something that's never been done before. We all know a Hurdler when we see one, the kind of tireless problem-solver who overcomes obstacles so naturally that sometimes it seems as if they weren't even there. Hurdlers can be savvy risk-takers, and are often the most street-smart members of your team.

Budget Opportunities

Hurdlers love to turn lemons into lemonade. Give them a constraint, a tight deadline, a small budget, and they're likely to excel. How might you turn an obstacle into an opportunity at your organization?

Real Hurdlers

A real Hurdler is someone with extraordinary resilience, someone who doesn't take no for an answer.

- Part of the Hurdler's role is trying to find the silver lining in every cloud.
- Setbacks aren't problems, they're opportunities.
- Perseverance pays.
- Ignore the experts and sometimes the walls in front of you will turn out to have doors. Then you can find your own path. ■

The Collaborator

Thomas Edison went down in history as America's greatest inventor, partly because he was a master Collaborator, championing and cheerleading a talented and coordinated team that churned out a tremendously wide-ranging series of inventions and innovations.

- **Collaborators stir up the pot.** They bring people together to get things done.
- **They dream up multilateral task forces and make them work.**
- **The Collaborator is that rare person who truly values the team over the individual, the project accomplishments beyond individual achievements.**
- **Collaborators can be a company's best defense against internal skeptics.**
- **Collaborators know that the race is won in the baton pass.** They excel in the handoffs between departments and team members.

Unlikely Partners

By putting their heads together, two companies — Kraft Foods and Safeway essentially created a ready-to-go display system while reducing the need for handling. The super sales led to good vibes. Suddenly, both companies were enthusiastic about collaborating. It demonstrates how radical collaboration can dissolve traditional barriers between vendors and their business customers.

"Unfocus" Groups — Focus groups don't help if you're looking to inspire breakthrough innovation. You don't learn much from the "usual suspects" when you're

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The Collaborator

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trying to create something new-to-the-world. Instead, you need "unfocus" groups. They offer inspiration on innovative design themes and concepts.

Cross-Training — Combating the traditional "silo view" when collaborating can be done by creating a cross-functional team. Cross-functional teams can orchestrate "jam sessions" between departments that often don't talk to one another, let alone play music together.

Collaboration Through Cohabitation — More than 10 years ago, Samsung, then considered a second-tier consumer electronics company, came to IDEO with a bold plan. They sent a rotating group of designers from Korea to work and essentially live with IDEO's designers in California for almost three years. Together, they designed 27 new products — from computers to televisions.

Whole Teams

Whole Foods Supermarkets is an upscale food store. Each store has eight in-house teams, and each team does its own hiring. Active, broad participation is the company's continuing mantra.

Here's how to build better teams:

- Coach more, direct less.
- Break teams into smaller groups of three to six to increase the number of triangles where team members can pass ideas and responsibilities.
- Everybody touches the ball. Find one or more key responsibilities for every player.
- Teach overlapping skills. Create opportunities for team members to assume nontraditional roles and push forward initiatives.
- Less dribbling, more goals. Encourage the sharing of ideas and initiatives.
- Co-opt your opposition. The conviction of a convert can boost team momentum. ■

Outmaneuvering Bureaucrats

One of the myths of innovation is that groundbreaking companies have always been open to new ideas and always give individuals wide latitude to pursue unusual ideas or projects. Consider the following story of 3M, the maker of Post-it® notes, masking and Scotch® tape, and the organizational stumbling blocks overcome in order to create something new.

Hurdle #1: Overcoming the pressure to "just do your job"

In 1921, Richard Drew, a college dropout, got an entry-level job as a lab technician for 3M. One of his tasks was to take trial batches of the company's Wetordry sandpaper to a nearby St. Paul body shop. An auto painter began swearing after ruining a two-tone paint job with the sandpaper. Drew vowed he'd invent a tape to do the job. He recognized that 3M already boasted the beginning of tape, by leaving out the abrasive grit when making sandpaper.

Hurdle #2: Circumventing the company bureaucracy

Drew began experimenting, but when the president finally caught on to what Drew was up to, he ordered him to get back to making better sandpaper. He listened for a day, but returned to his passion. Drew asked for company funds to make his tape and was turned down. As a researcher, Drew could approve purchases of up to $100, so he paid for a machine with a series of $99 purchase orders that slipped under the radar. The result? In 1925, Richard Drew successfully produced the world's first masking tape. Far from getting him fired, his insubordination in expensing the prototype equipment he needed to develop new products came to be seen as a hallmark of the 3M can-do mentality.

Hurdle #3: Seeing beyond your initial failures

A few years later, an insulation firm asked 3M to develop a waterproof seal for refrigerated railroad cars. By chance, DuPont invented cellophane at the same time. Drew immediately wondered whether he could coat the revolutionary material with adhesive. The original insulation firm lost interest in waterproof tape, but Drew stubbornly continued to tinker with his dream. His persistence led to the 1930 invention of Scotch® tape.

For additional information on getting beyond adversity to opportunity, go to: http://my.summary.com

The Director

The Director is the person mapping out the production, crafting the scenes, bringing out the best among actors and actresses, honing the project or company theme, building the chemistry, getting it done.

Five Traits of Successful Directors:

- **They give center stage to others.**
- **They love finding new projects.**
- **They rise to tough challenges.**
- **They shoot for the moon.**
- **They wield a large toolbox.**

Getting Started With a Brainstorm

One of the easiest ways to get a quick return on innovation as a Director is to set off a chain reaction of

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The Director

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brainstorming throughout your organization.

Why brainstorming? It can boost morale and generate results faster than any other technique. Launch a series of brainstorms on different topics, anything from how to reduce your customers' waiting time to how to make more effective use of an empty office space.

You could sponsor lunchtime brainstorms once a week, or every payday when people are in an upbeat mood. Attend the first couple of minutes, then get out of the way.

Set Expectations

- How will your company define a successful innovation program?
- How will your organization fund the innovation process?
- What corporate resources (staff, space, technology etc.) will be available to support your effort?
- How much logistical support will be given to your innovation staff?
- What rewards or recognition can people expect for participating in this program?

Secrets to Brainstorming

Sharpen your focus. Begin with a clear statement of the problem, a question that's open-ended, but not too broad.

Mind the playground rules. Go for Quantity, Encourage Wild Ideas, Be Visual, Defer Judgment, One Conversation at a Time.

Number your ideas. It motivates participants, sets a pace, and adds a little structure. A hundred ideas an hour is usually the sign of a good, fluid brainstorm.

Jump and build. Even the best brainstorms hit plateaus.

Remember to use the space. Write and draw concepts with markers on giant Post-its® stuck to every vertical service.

Stretch first. Start with some form of warmup, like free association, toss out a word or idea and another person quickly builds on it and tosses it to someone else.

Get physical. Some of our best brainstormers have quickly leaped to roughing out an idea with a crude prototype.

Start with some "zip." The "hookless fastener" became the "zipper." Consumers can tell you that a car named Viper is faster than a Lumina, before any other part of the car is designed.

The Deep Dive for Total Immersion

The idea is to get a running start on a project, to immerse in observations, brainstorms and prototyping – to accelerate the innovation process. Perhaps our most famous Deep Dive was the challenge laid out to IDEO by Ted Koppel's crew at ABC News and watched by some 10 million viewers: design a better shopping cart in four days. In Deep Dives, team members help drive good ideas within an organization — and get them adopted, diminishing the need to persuade. ■

The Experience Architect

A good Experience Architect sets the stage for positive encounters with your organization through products, services, digital interactions, spaces or events. Experience Architects design not only for customers but also for employees. They keep you from being relegated to the commodity world, where price is the only point of comparison. They engage your senses, incorporating tactile sensations, orchestrating the clever use of sound, searching for opportunities to add smell or taste, and fend off the ordinary.

Trigger Points

Start by asking what's truly important to your customer. Products or services may pass decades in the doldrums before a burst of innovation sweeps in. Sometimes there are multiple "experience points" that respond to innovation. Example: In the world of wine, lots of vintners and wine-supply firms have been replacing corks with elegantly embossed screw-off caps for midmarket wines, and we are near the tipping point of widespread consumer acceptance. Meanwhile, wine in a box, once solely reserved for the unenlightened, has started to emerge as a compelling "new" wine container.

Authenticity

Experience Architects have a nose for what's real. They strive for the authentic, individual impressions over the "official" expert. Through a deep sense of authenticity, the Zagat restaurant reviews have built revenues and a broadening reputation in the world of restaurant reviewing, compared to single make-or-break restaurant reviews in local newspapers.

The same is true of the best companies. They summon a mood or spirit. Virgin is irreverent and fun. BMW takes driving seriously. Apple is about iconic design. Ritz-Carlton emphasizes over-the-top service. You know them when you see them.

Merit Badging

What experiences can you offer your customers? An Experience Architect is the right person to remind your

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The Experience Architect

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organization that the first step in becoming extraordinary is simply to stop being ordinary. ■

The Set Designer

A creative office is like a well-designed stage or movie set that contributes to the overall performance. And the unofficial Set Designers who constantly tweak the design and layout of our offices know that they're supporting not only our work but also the culture itself.

Inner Space and Sensory Underload

Set Designers are dedicated to exploring a different frontier you might call "inner space" — the work and commercial environments where most of us spend the bulk of our waking hours. Far too many companies don't grasp its importance. Business guru Tom Peters says, "Dreariness, from the reception area to the resource lab … destroys the spirit."

Every organization worth its salt needs to recruit great people, and space can be a big draw. If a more compelling set design for your office can raise the quality of people willing to work for you — or make even a small dent in unwanted office turnover — that's a result even an accountant could love.

Innovation on Wheels

Is your workplace too static? Do you need to move people around? Most kindergarten classes are high-energy, perpetual-motion environments. Everything in the space moves to accommodate or support a desired activity. Maybe, like the kindergartners, you need to bounce around a bit.

Creating a Innovation Lab

Innovation needs a place to flourish and grow. Here are some basics:

- Make room for 15 to 20 people, even if the core project teams will be small. You'll want to share results with lots of your colleagues.
- Dedicate the space to innovation. Your creative efforts need to live on without scheduling or moving.
- Leave ample wall space for sketch boards, maps, pictures and other engaging visuals.
- Locate your lab in a space convenient to most team members, near enough for even part-time team members to drop in on a moment's notice, but far enough away so they can't hear their desk phone ringing.
- Foster an abundance mentality. Stock the lab with an oversupply of innovation staples.

The Power of Place

If you want to make something important, put it where you can't avoid it. Give useful things a place of prominence. To Frank Boyden, headmaster of Deerfield Academy in Massachusetts, the "important" place for himself was not the corner office on the top floor. It was right in the midst of the people he cared about most. Don't let space be the weakest link in your business. ■

For additional information on how smart Set Designers could help your business, go to: http://my.summary.com

The Caregiver

The Caregiver is the foundation of human-powered innovation. It's a model that translates well into all kinds of businesses. The best Caregivers exude competence and confidence — evoking that classic phrase "great bedside manner." We all crave a good Caregiver. Why else would personal trainers be so popular? Caregivers have empathy. They work to extend the relationship. Caregivers customize their approach and style to each individual. They offer people an experience so exciting and seamless that clients momentarily forget they're being served. They're more like a mentor — with a small *m*.

A Great Fit

Caregivers understand that service innovations come in all shapes and sizes. Peter Van Camerik, co-founder of Archrival, a shoe store in Mill Valley, Calif., learned that while the featured product may be athletic shoes, what he really sells is caregiving – a seamless blend of service and expertise. Peter is a natural Caregiver; he doesn't try to push the most prestigious brands. A former competitive tennis player who suffered foot and back injuries more than two decades ago, he called on

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The Caregiver's Guide to Great Service

1. Curate the Collection. Customers need your expertise and knowledge to sort through all the possibilities.

2. Build Extra Expertise. If your company becomes a trusted source of information or advice, you'll build a base of loyal customers.

3. Small Can Be Beautiful. Think café, bistro or barbershop when creating a service or sales outlet.

4. Build Relationships With Sustainability. Invite customers to recycle your products and you'll create a virtuous cycle of giving and receiving.

5. Invite Customers to "Join the Club." Sign your best customers up, take good care of them, and let them be your brand ambassadors.

The Caregiver

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the major podiatrists, orthopedists and physical therapists of Marin and San Francisco and impressed them with his expertise. Today he gets upwards of 20 referrals a day from doctors and clinics.

Archrival spends practically nothing on advertising yet has an expanding business. Margins are excellent, since Archrival's expertise and extra service make discounting largely unnecessary. Most important, Archrival's accent on customer service begets repeat buyers.

The Doorbell Effect

Ever get that uncomfortable feeling waiting for someone to answer (or not answer) the doorbell after you've rung it? It's similar to what happens in many service businesses. They leave the customer hanging, uncomfortable and uninformed. Some companies, on the other hand, let customers know where they stand, reassuring them along the way. ■

For additional information on how to remove barriers between you and your customers, go to: http://my.summary.com

The Storyteller

The power of a good story has a few thousand years of history behind it. Brand-savvy modern business organizations also know how to tell a good story. Stories persuade in a way that facts, reports and market trends seldom do, because stories make an emotional connection. Storytellers become part of the lore of the organization over many years. Going beyond their oral tradition, modern Storytellers now work in whatever medium best fits their skills and their message. Most important, Storytellers make heroes out of real people.

The lore of a company is a potent way to communicate values and objectives across a widely dispersed and multicultural organization. Hewlett-Packard's tale of starting in the garage is not only cherished by HP's hundred thousand staff members around the world, but is also inspiration for entrepreneurs everywhere who are starting on a shoestring, but who aspire to future greatness.

Tell Me a Story

Ask where Storytellers find their inspiration. Many of us make the mistake of trying to take shortcuts on the way to capturing other people's stories. Don't ask for instant insights and don't jump to conclusions. Don't ask yes-or-no questions. Instead of asking questions like "What do you like or dislike about your mobile service?" start with "Tell me a story about a time your mobile phone let you down." In the ensuing conversation, you'll probably cover plenty of likes and dislikes, but you'll build a better personal connection and gain deeper insights by basing the discussion around stories.

Seven Reasons to Tell Stories

1. Storytelling builds credibility.

2. Storytelling unleashes powerful emotions and helps teams bond.

3. Stories give "permission" to explore controversial or uncomfortable topics, enabling us to have an open discussion about a relevant idea.

4. Storytelling sways a group's point of view.

5. Storytelling creates heroes – customers or would-be customers with needs that aren't met by today's products or services.

6. Storytelling gives you a vocabulary of change.

7. Good stories help make order out of chaos. ■

Winning at Innovation

Teaming up for innovation is a lot like an athletic event, and many of the same principles apply:

- **Stretch for strength.** Flexibility is the new strength.
- **Go for distance.** Innovation is not just a program, it's a way of life.
- **Never surrender.**
- **Embrace the mental game.** Innovators have the uncommon sense to pursue promising ideas long after their colleagues would have given up or given in.
- **Celebrate coaches.** Seek out someone you trust.

Innovation doesn't happen on its own, but with the right team, you're up to the challenge. Innovation doesn't just turn companies around. It becomes a way of life. With all 10 personas on your side, you can drive creativity through the whole organization and build your own unique culture of innovation. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *The Ten Faces of Innovation*, you'll also like:

1. ***The Art of Innovation*** **by Tom Kelley, Jonathan Littman and Tom Peters.** Readers are taken behind the scenes of IDEO, a wildly imaginative company, to reveal the strategies and secrets it uses to turn out hit after hit.
2. ***The Ten Rules for Strategic Innovators*** **by Vijay Govindarajan and Chris Trimble.** Even world-class companies, with powerful and proven business models, eventually discover limits to growth.
3. ***Medici Effect*** **by Frans Johansson.** This book shows how breakthrough ideas most often occur when we bring concepts from one field into a new, unfamiliar territory.
4. ***Get Back in the Box*** **by Douglas Rushkoff.** Endless worrying, hand-wriggling and trend watching only alienates companies from whatever it is they really do best.
5. ***Harvard Business Review on Innovation*** **by Clayton M. Christensen, Ian C. MacMillan, Stefan Thomke, Michael Overdorf and Rita McGrath.** In today's economic landscape, innovation has become even more of a key factor influencing strategic planning. This comprehensive volume will help readers recognize and seize innovation opportunities.

· Book 2 of 61 ·

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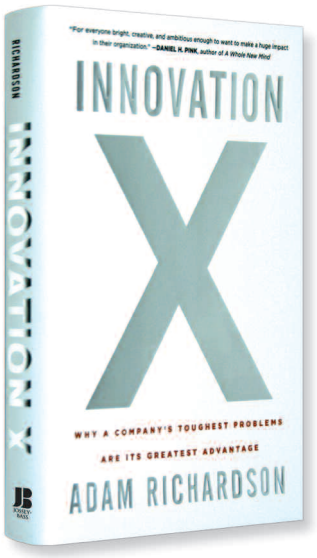
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Leadership: Strategies

Innovation X

Why a Company's Toughest Problems Are Its Greatest Advantage



by Adam Richardson

THE SUMMARY IN BRIEF

The word *innovation* is one of the most widely used — and misunderstood — terms in business. What used to be a means to create a successful enterprise, improve the lives of customers and make the world a better place has been distorted to become an end in itself — usually nebulous in definition and almost always immeasurable.

Clearly, innovation is broken. But innovation is not the problem. The problem is the problem — and the solution.

In *Innovation X,* Adam Richardson, creative director at frog design inc., defines a new class of business problems — X-problems — tough new challenges that thwart conventional planning but present massive innovation opportunities.

Grounded in insights about rapidly changing customers, competitors and technologies, *Innovation X* outlines a proven process for translating customer insights into relevant innovations.

Challenging conventional wisdom, this summary shows why companies must start crafting solutions before they fully understand the problem, how standard customer-focused approaches hinder innovation leadership and that "wasteful" innovation provides greater efficiency. Featuring case studies from leading companies, *Innovation X* offers business leaders and managers the information and tools they need to accomplish truly effective innovation in today's disruptive climate.

IN THIS SUMMARY, YOU WILL LEARN:

- How to create innovation strategies that will work in dynamic markets.
- How to use a simple but powerful framework to harness customer insights and open new advantages.
- How to integrate systems of products, online experiences and services to stay nimble in a fast-moving environment.
- How new tactical methods can help organizations face emerging business challenges.

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THE COMPLETE SUMMARY: **INNOVATION X**

by Adam Richardson

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Introduction

A mysterious entity called *dark matter* takes up over half the universe. Though it has been theorized about for decades, until recently no one knew whether it existed at all. Scientists believe it is the glue that holds galaxies together, but we do not know what it is made of, where it comes from or why it exists. Current astrophysical instruments cannot detect dark matter. The only way to identify its shadowy presence is by observing the influence it exerts on visible matter, such as how it alters the orbits of planets.

In the business world, something equally enigmatic is interfering with our ability to be consistently successful at innovation. Though hard to define, its effects are clear enough: newly released products that fail to achieve the desired goals, competitive advantage, new customers, and revitalized brands and organizations that struggle to find a focus and identity amid turbulence and ambiguity.

The Problem Is the Problem

Attempts so far to systematize innovation have failed, and innovation processes are often haphazard in structure and frustratingly unpredictable in their success rates. The word innovation itself is so widely overused that it has lost its meaning. Innovation has become an end in itself rather than the means to create a successful business, improve the lives of our customers and make the world a better place.

Clearly, innovation is broken. But innovation is not the problem.

The *problem* is the problem.

This means that the scope and complexity of problems that businesses must solve have changed, and we lack the tools not only to diagnose them but also to focus our innovation efforts to be more consistently successful. This new breed of innovation challenges can be called *X-problems*, and they arise from the collision of several factors:

- *Disruptive competition and blurring of industry boundaries* as companies leap into each other's spaces, diversifying beyond their core strategies into realms previously reserved for partners or adjacent companies
- *More demanding customers who place a higher premium on the experiential qualities* of using a product — ease of use, how it makes them feel, how it fits into their lives, what it communicates to others — that go above and beyond familiar objective criteria like performance and price
- *The need to create integrated systems of physical products, software, online experiences and services* that work as a single whole; often these integrated systems are the keys to expansion beyond core areas, as well as to meeting customer needs in ways impossible from a more isolated offering

Remarkably, companies in all industries and geographies are dealing with this same combination of simultaneous challenges. It seems that everyone was caught off guard. These multifaceted problems are the dark matter of the business world — pervasive, yet hard to see except by their effects: organizational confusion and frustration, and innovation efforts that fail to meet expectations (if they make it to market at all).

While considerable attention has been given to the *internal* reasons why organizations fail at innovation, *external* factors — the dramatically increased complexity of the problems themselves — are at least as much to blame. If an organization has an optimized innovation process but a poor understanding of the problem, all it is

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

doing is getting the wrong answer to market faster. Up to a point this is actually OK — it turns out that you have to put "wrong" stuff out into the world to understand what "right" is — but obviously no one wants to be doing this on a prolonged basis.

This calls for tools that clarify the problem and help focus innovation efforts more productively.

Prologue

Hewlett-Packard (HP), the storied Silicon Valley firm founded by William Hewlett and David Packard, started life as a manufacturer of oscilloscopes — lab instruments for measuring electrical signals.

From these humble beginnings in 1939, HP has become a $100 billion computing and consumer electronics giant. It has massively diversified its products, particularly with the turn of the millennium, expanding from its core business of PCs, printers and "big iron" computers for large companies into such areas as online photo storage, IT integration services, logo design services and calculators.

The company has a long legacy of technology innovation — its slogan after all is "Invent." Any of these innovations could be fodder for growth. But given the uncertainties of HP's new direction, which innovations were the right ones to fund and bring to market? That question used to be simple, but it became complicated.

Even as the company expanded, it needed to improve how different groups worked together.

Managing Massive Opportunities

HP's situation is emblematic of the complex challenges that many companies face today as they struggle to get returns on their innovation investments. It illustrates a variety of factors that commonly cluster together, collectively causing great risk and uncertainty but (when managed correctly) opening up massive opportunities for growth and giving a company control of the rules of competition in its industry.

These are the key factors:

1. The boundaries of the business are no longer clear. HP has consistently sought out new areas to push a core set of technologies and capabilities, giving it a very diverse portfolio.

2. Understanding customer needs is more vital than ever, both to revitalize the low-margin businesses and to understand what new innovations and products will be compelling for customers in the expansion areas. As it enters new markets, HP must understand the competitive landscape and what customers expect from everyone, and which customer needs are going unmet that HP can uniquely address.

3. Multiple products and services must be integrated: Customer demand is shifting from individual products to integrated systems of hardware, software and services.

4. There is no clear right or wrong answer, and the optimal answer will only emerge over time. Indeed there is little agreement on what the problem is, let alone how to tackle it. At the same time, competitors are in a similar situation, and the pressure grows to find an answer before they do. Whoever finds it first will reap the rewards (at least, that's the assumption), so slowing down is not an option. HP has been a significant player in the PC category for many years, but as prices have worn down over time it has sought ways to increase margins by tapping unmet needs. Its line of Touchsmart PCs, which feature large, flat-panel touchscreens that house all the components of a traditional PC (doing away with the standard box), is one example. HP's persistence paid off with a product that sells in smaller numbers but delivers margins many times those of traditional PCs.

These tough problems are becoming the norm, and HP is far from unique in facing them. Together, the four factors create massive complexity that stands in the way of effective innovation and obscures paths for new opportunities. We need a new approach to innovation that tackles this complexity head-on, and that's what the Innovation X framework was developed to do.

Why Call Them X-Problems?

The letter X is evocative of many things that apply to these types of problems:

X is extreme: X-problems are extreme in risk and complexity.

X is mysterious: Every X-problem revolves around questions that have never been asked before, or challenges that are unprecedented.

X is a crossroads: A crossroads is a place where things converge — and diverge outward. At a crossroads one must make a choice among paths, each of which could entail risk or opportunity.

X means opportunity: X marks the spot for treasure — the winnings that come from finding the problem and capitalizing on it before others can.

Living in an X-Problem World

Innovation effectiveness should be your goal, not just *innovation quantity*. Effectiveness comes from selecting specific innovations to develop based on a clear understanding of what you want to achieve in your business and which opportunities you wish to pursue. Turning out lots of innovative ideas and products without a vision just saps precious resources.

Opportunities for companies come from recognizing and solving problems that no one else has identified. But opportunities themselves are getting harder to spot and more complex to understand and exploit.

Companies must increasingly look for niches, emergent trends, latent customer needs and narrowing competitive gaps. Profiting from any of these requires expensive and difficult efforts to understand and develop products for them; create the marketing, sales and support channels; and establish a brand presence.

As HP's experience illustrates, companies are increasingly expanding into each other's spaces in unexpected ways, customers are becoming more fickle and demanding, and integrated systems of products and services are superseding stand-alone offerings.

These complex problems cannot be solved by simply improving the products you already have and selling them to existing customers. You need to make a significant — even drastic — shift in what you make, whom you sell it to, the value proposition of the product or how you help customers with their unmet needs.

Wicked Problems

Wicked problems are a class of problems involving high levels of ambiguity, complexity, risk and social discord. This concept was first identified in the 1970s by two professors of urban planning, Horst Rittel and Melvin Webber. The challenge with wicked problems is that neither the problem nor the solution is known. How can you define a good solution when you cannot even state what the problem is? That is the conundrum of wicked problems.

Rittel and Webber identified a variety of characteristics that define a wicked problem:

- *There is no definitive statement of the problem, and each solution reveals new aspects of the problem.*
- *Since there is no definitive problem, there is no definitive solution.*
- *Each wicked problem is risky because it is unique, and it's hard to test or simulate solutions ahead of time.*
- *There are many stakeholders with different perspectives on the problem and how to resolve it.*

X-Problems

X-problems incorporate all the characteristics of wicked problems but shade them differently, sharpen the focus from the generic wicked problem definition and add some new elements.

Several factors differentiate X-problems from wicked problems:

- The presence of competition, and competitors that are getting more and more diverse
- The need to satisfy more demanding customers and provide superior customer experiences
- The need to integrate products of diverse types and origins into comprehensive, coherent systems for customers
- Clarity about the problem emerges slowly, as with wicked problems, but iterative approaches to solving them are necessary, in contrast to the one-shot deal of wicked problems.

The Innovation X Framework

The *Innovation X framework* is specifically about how to explore the landscape of an X-problem and then create valuable innovation based on it. Four methods make up the framework: immersion, convergence, divergence and adaption.

The four methods can be thought of as bundles of specific research and analytical tools, coupled with principles for how to use them. The Innovation X methods work together to help you understand the X-problem, identify and prioritize innovations, and guide development of marketable solutions based on the innovations. They do this in several ways:

- By creating clarity about the X-problem by dimensionalizing it and giving it as much structure as possible at any given time
- By enabling deep insight into the surrounding context — customers, competitors, brand, retail, organization and so on — that gives a thorough understanding of possible innovation options
- By showing how your products and their surrounding experiences are meeting — or not meeting — customer needs, and where there are opportunities to meet new needs, expand the ways you can engage customers and reach new customers who you have never addressed before
- By describing the boundaries of your business domain and where it can be strengthened and stretched in new directions
- By creating adaptability as solutions are put out into

the world, the X-problem becomes further understood and new solutions are created and modified

• By providing ongoing tracking of emerging opportunities and threats

It is useful to start with a quick look at how the whole framework fits together.

Immersion. Immersion brings together a multitude of factors: competitors; comparative companies and products; your company's own business, capabilities, brand and values; broad cultural and economic trends; and technology enablers internally and externally.

Immersion provides the knowledge foundation from which the other methods draw.

Convergence. Convergence is crucial to addressing the challenge of customers seeking integrated solutions and systems rather than isolated products.

Convergence means the integration of multiple components (hardware, software and services), customer interaction points and enabling technologies to deliver functionality, benefits and experiences that would be impossible from stand-alone products.

Divergence. If convergence is about bringing different parts of a business together around a common focus, divergence pulls in the opposite direction and seeks to create a wider view for new opportunities.

Successful divergence means ensuring that innovations that shift the boundaries of your business still align with opportunities and goals. Because customers are getting more demanding, products pioneering new territory for a company still must deliver high-quality customer experiences, which makes entering new markets harder.

Adaption. *Adaption* is a term from biology that refers to the process by which organisms gradually adjust as their environment changes. Here, the changing environment is the emerging X-problem. Adaption is vital for ensuring that innovations match up to opportunities and to business goals.

While the other three Innovation X methods help you build your understanding of your environment and identify opportunities and threats, the adaption method focuses on flexible development of new innovations and feedback loops to course-correct over successive iterations of prototypes and launches.

All for One, One for All

To sum up, you can think of the four methods like this: Immersion develops an understanding of how the world *is*; convergence and divergence conceptualize how the world *could be*; and adaption looks at what the world *is becoming* (that is to say, the ever-changing gap between *is* and our desired *could be*).

The Innovation X framework is designed so that all four methods happen largely in parallel. Each method tackles a different aspect of an X-problem and is interdependent with the others. The framework is most effective when the methods can influence each other.

Immersion

How can you improve your peripheral vision as a business and gain a fuller understanding of an X-problem? You need to immerse yourself in as wide an array of information as you can, and then you need to detect the patterns within it that point to the shape of the X-problem, new opportunities and possible threats.

You might assume immersion means delving into the lives of end customers so that you can better understand how they use your products, and gain insight into their unmet needs. That is true, but if that is all you consider, you are missing out on some important information.

Multi-Vector Research

A fuller 360-degree view will allow you to reap the most rewards. This is called multi-vector research because it involves researching the X-problem from several directions and then synthesizing those vectors to uncover insights. A typical set of vectors includes customers, competitors, complementers, comparatives, brand, organizational toolbox, technology, retail and trends.

On the surface there is nothing particularly unusual about any of these vectors. Multi-vector research becomes powerful when you pursue all the vectors at the same time, with the same team, and with a mixture of qualitative and quantitative tools.

Use a Multi-Vector Team to Do the Research

Assemble a multidisciplinary team to do the multi-vector research and the subsequent analysis: engineering, marketing, design, sales, business and the rest. This means that all the relevant perspectives are included and can be aligned. All the participants should be as familiar as possible with the research from every vector, and they should participate in analysis of vectors that are outside their specialty. This provides as many fresh perspectives as possible.

Looking at all the vectors at the same time greatly increases the speed at which the complexities and interconnected factors of the X-problems can be understood, and affords the team members maximum flexibility for adjusting as their understanding of the problem changes.

The best core insights come from connecting the dots across vectors, not from looking within a vector (that is, within a single data type). By looking across all the relevant vectors at the same time, you maximize the chance of making those unexpected connections. ●

Convergence

Convergence here means the integration of multiple products (hardware, software and services) and customer touchpoints to provide functionality, benefits and a customer experience that would be impossible in a standalone product.

Convergence can be very difficult to pull off well due to the level of complexity involved, the tight coordination across multiple organizations that is required and the difficulty of creating a shared understanding of what you are trying to accomplish with the converged system, today and in the future. If done well, however, convergence provides a bulwark against competitors, simply because the difficulty of doing it successfully deters others. Convergence also provides the systemic underpinning that facilitates expansion of your business domain into new areas.

Touchpoints and Ecosystems

Companies often struggle to understand how to approach convergence in ways that will create value for them as well as their customers. A first step to successful convergence is understanding and controlling two related things:

• *The ecosystem:* The collection of products, technologies and other components that together create the functionality of the offering. For example, the Kindle's ecosystem consists of the e-reader device, the Whispernet communication network and the online store.

• *The touchpoints:* All the points where customer and company intersect over time, from a customer's becoming aware of the company's products to buying and using them. Collectively the touchpoints define the *quality of the experience* of the offering.

The goal with convergence is to make all the elements of an ecosystem and related touchpoints work smoothly together in order to provide a compelling experience that meets customers' needs and creates a distinctive and defensible offering in the market.

Convergence helps deal with several aspects of X-problems: having to deliver integrated systems rather than stand-alone products; increasingly demanding customers who want higher-quality, more seamless experiences; creating differentiation in competitive markets; and making innovation efforts more effective by setting boundaries and defining focus areas.

The point of convergence is making existing ecosystems and touchpoints work better. ●

Divergence

X-problems occur most frequently at times of volatility and transition. It is at such times that the divergence method of the Innovation X framework becomes important. Several paths may present themselves, but each has upsides and risks that are hard to quantify ahead of time. Divergence is about seeking out new customers within your existing market and appealing to them in new ways, finding new markets to expand into or expanding your footprint in the ecosystem to deliver products in new ways.

During these periods, it becomes harder to say what the domain of your business is. Long-held truths about who your customers are and what their needs are get called into doubt. Understanding adjacent domains is also harder because, although they may be tempting areas for expansion, their very adjacency means they are often suffering the same shock waves of volatility.

Mapping the Domain

A first step in divergence is to understand what you are diverging from. For that you need to have a clear understanding of your business domain.

A domain can be thought of as the playing field available to you. By defining the domain more concretely, you can see the true dimensions of the playing field and new areas to expand into.

A company's domain consists of three things:

• **Organizational Toolbox.** This term describes the collection of capabilities and knowledge at your disposal in multiple ways. This includes your core competencies and capabilities, core insights, intellectual property and proprietary technologies, driving values, brand equity, past experiences, and past products or product concepts.

• **Products, Ecosystem and Complementers.** Collectively this area covers the products and product lines you make; how they are integrated with other products (yours and others'); and complementary physical, service and software products.

• **Customer Needs.** Enabled by your toolbox capabilities, your products and ecosystem address the various kinds of customer needs (functional and experiential, met and unmet, stated and unstated). For divergence it is vital to take a needs-based view of your customers rather

than a more traditional demographic segmentation approach.

Divergence often goes hand-in-hand with convergence: Diverging into new areas of capabilities can open up new ways of competing and new markets but can also entail greater integration of touchpoints or ecosystem elements.

Adaption

The emergent nature of X-problems is what makes them so difficult. The problem you are trying to solve is not fully or even partially defined at the outset, and the very act of solving it uncovers new dimensions that were previously unknown. In some cases, the problem itself can change *because* of the solutions you have created.

Like evolution, adaption is about continually evolving to thrive in a dynamic environment. This requires several capabilities:

- An ability to perceive the environment as it is today, predict how it is changing and spot opportunities, threats and areas where you are not ideally suited (missing on customer needs, wrong system model, gaps in domain capabilities and the like)
- An ability to be flexible at responding to changes in the environment with new products, adjusting your mix of capabilities and partners as needed
- A feedback loop to see whether the changes have made you better or worse adapted than before

Earlier parts of the Innovation X framework have looked at how to be successful in the first area: building a thorough understanding of the emerging context, finding opportunities within it that can be used to focus innovation efforts and spotting unexpected threats. All are critical capabilities for planning strategy and developing a product. But they are equally important once a product launches.

Two other factors are also part of adaption: flexibility during development and establishing feedback loops between the changing environment and your development organization.

Flexibility

It is common practice to do rapid prototyping of individual hardware or software products, but in a convergent system context it's necessary to think in terms of iterating the whole system in a coordinated and integrated way so as to understand its behavior and the total experience it will deliver for customers. This approach is called *rapid systeming*.

All elements of the system should be treated in an iterative and flexible manner. All can be adjusted over time as the X-problem becomes better understood, with careful attention to cascade effects between them.

Feedback Loops

It took many years for electric windows to change from being luxury items to standard features on even the least expensive cars. But today's demanding customers expect that shift to happen much more quickly. Tracking the ever-changing gap between expectations and actual offerings on the market is crucial in dynamic categories. Companies must establish robust feedback loops to monitor the gap, or else risk becoming detached from customer needs.

Here are some tools that work well for filling a feedback loop with input after product launch:

- *Ethnography, journals, usability testing:* Meet with people using the product and see how well it is working for them, what new needs arise and how their behaviors have changed as a result of having it.
- *Surveys and focus groups:* Continue to conduct these periodically to get updates on perceptions and trends.
- *Customer collaboration:* Find the most vocal customers and talk to them.
- *Brand perceptions:* How are customers seeing your brand differently since the launch?
- *Retail:* Spend time with customers shopping for your product and with sales staff who sell it.

Strategy

X-problems present companies and their leadership with some challenging strategic questions related to how to define what the company is about and where to focus; how to understand needs of demanding customers and stay ahead of sophisticated and unexpected competitors; how to prioritize innovation efforts; and, ultimately, how to decide what to make that will create revenue by answering these questions.

There is no single right answer. What worked well yesterday may not work well today and in the future. The preceding sections laid out some approaches, tools, frameworks and examples that provide a sense of a way forward and that allow the dissection of an X-problem into more manageable subproblems.

Running through all the methods are challenges that will affect how you approach immersion, convergence and divergence:

- *Managing an innovation portfolio* and assessing relative

risks and investment levels of innovation ideas. Too many companies still treat small experimental initiatives at the periphery of the business as riskier than big, expensive initiatives focused on the core business. Remember: Failed concepts can become food for future efforts.

• *Working with ecosystem partners* to solve the X-problem and deploy solutions. When tackling an X-problem's many unknowns, having partners who can build up experience and perspective through several iterations is a big benefit.

• *Identifying high-priority ecosystem investments* that will provide long-term advantage and open up market opportunities. Over the long term, ecosystems work best if all the participants gain from them, and not just the originator reaps all the rewards. Authors Marco Iansiti and Roy Levien argue that ensuring partner success was part of what helped eBay thrive, and ignoring it contributed to the downfall of Enron. EBay's auctions helped make others successful, while Enron's electricity trading schemes scraped off most of the profits and left little for the partners.

• *Dealing with commoditization of categories* as products improve to meet customer expectations. Geoffrey Moore, a longtime watcher of Silicon Valley, believes that companies that thrive on complexity are better off seeking out the next level of complexity once their category has shifted to commoditized components. ●

Organization

Because of their dark matter aspect, X-problems can lurk in an organization without being seen directly while causing many indirect side effects. Indeed, X-problems are sometimes first recognized only by their symptoms, such as confusion over where the business is going (or even what business you are in), or over who to consider competitors, or multiple perspectives on product and market planning with no agreed-upon criteria for decisions and numerous innovation pet projects lacking a unifying logic. Tracing these symptoms back to their root will uncover the X-problem.

Gaining insight into the X-problem requires the collaborative efforts of many people coming from different disciplines with different backgrounds and expertise.

The tighter integration needed for the more comprehensive experiences customers are demanding means that business units and departments must work together in ways they never have before. The need for a rapid systeming approach means that iterative development must be coordinated across multiple groups, in contrast to rapid prototyping, which happens largely in isolation.

It should be everyone's role to facilitate the feedback loops that are vital to adaption in a complex world. Remove the separation between planners and doers, for with X-problems the complexity is too high for any one person (or discipline) to understand or bring the necessary knowledge to the table. ●

Truths

Here are four basic truths about what it takes to succeed with X-problems and to carry out the Innovation X methods effectively:

Truth 1: Customer experience is everyone's business. The nuances of end-user experiences reflect larger decisions about strategy, business model, outsourcing, development process, empathy for customers' needs, brand and organizational values. The customer experience mentality must be top-of-mind for everyone.

Truth 2: Not everything that counts can be counted, and not everything that can be counted counts. This basic truth comes from a sign in Einstein's office. Unfortunately there are important factors that stubbornly resist, for now, easy measurement.

Truth 3: Talent matters. When solving difficult problems, you need a combination of visionaries and ditch-diggers, stubborn idealists and open-minded pragmatists, people who seek ambiguity and broadening options, and people who strive for clarity and option reduction.

Truth 4: It starts at the top. Leading an organization living through an X-problem is stressful and difficult. You as a leader set the tone for how the changes are handled. Difficulty, complexity, interdependence, ambiguity, risk — these are not things to be avoided in an X-problem world; they must be embraced. It is only by taking them on that you will outwit the competition with valuable but unexpected products that charm their way into customers' hearts. ●

RECOMMENDED READING LIST

If you liked *Innovation X,* you'll also like:

1. ***The Ten Faces of Innovation*** **by Tom Kelley with Jonathan Littman.** Kelley and Littman demonstrate how a culture of continuous innovation and renewal can be nurtured and sustained.
2. ***Leading the Revolution*** **by Gary Hamel.** Forge a path of innovation in your company. Hamel shows how to innovate in product, service and more.
3. ***The New Age of Innovation*** **by C.K. Prahalad and M.S. Krishnan.** The authors offer a strategic plan to transform business processes to be able to smoothly connect consumers and resources and at the same time manage the necessities that ensure efficiency and flexibility.

· Book 3 of 61 ·

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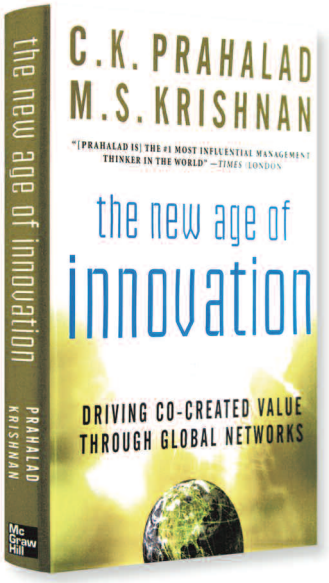
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Management: Strategies

The New Age of Innovation

Driving Co-Created Value Through Global Networks



by C.K. Prahalad and M.S. Krishnan

THE SUMMARY IN BRIEF

Sometimes it seems that technology is now the master and we are the slaves. After all, these days many of us find ourselves wondering why everybody in the office has to enter the same data into three different computer systems; we worry about how to appease fickle, computer-savvy customers who want control over how and when they do business with us; and we question how we're going to keep up in a world that increasingly requires everyone to "go global."

The New Age of Innovation describes how this state of affairs reflects the convergence of two new rules of business: Customers want personalized "experiences" rather than just goods or services, and companies can only provide those experiences by assembling — and disassembling — talent quickly and cheaply.

In this summary, two top management gurus demonstrate how business processes make or break a company's attempts to turn this "resources of many to satisfy the needs of one" concept into reality.

IN THIS SUMMARY, YOU WILL LEARN:

- Why business processes are the lifeblood of your company and the facilitators of success.
- How your company's patchwork of data systems got that way, and how you can turn it into a value-creating platform that truly identifies trends and opportunities.
- Why engaging talent from around the world is more than just a way for companies to save a buck.
- How to redesign systems to co-create value with customers and connect all parts of a firm for this process.

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THE COMPLETE SUMMARY: **THE NEW AGE OF INNOVATION**

by C.K. Prahalad and M.S. Krishnan

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The Transformation of Business

There is a fundamental transformation of business underway. This transformation is built on two basic pillars:

1. Value is based on unique, personalized experiences of consumers. Firms have to learn to focus on one consumer and her experience at a time, even if they serve 100 million consumers. *The focus is on the centrality of the individual.* We will designate this pillar as $N = 1$ (one consumer experience at a time).

2. No firm is big enough in scope and size to satisfy the experiences of one consumer at a time. All firms will access resources from a wide variety of other big and small firms — a global ecosystem. *The focus is on access to resources, not ownership of resources.* We will designate this pillar as $R = G$ (resources from multiple vendors and often from around the globe).

Not a Choice

From cement to jet engines, education and health care, from children's toys to delivery of parcels to your home or office by UPS, all industries are going through this transformation. *This transformation is not a choice.*

What are the key elements of this transformation that we can identify? There are five:

1. Value is shifting from products to solutions to experiences.

2. No company has all the resources it needs to create unique personalized experiences. All companies will therefore have to access talent, components, products and services from the best source.

3. Internal management systems can become an impediment. Flexible systems are a prerequisite and must be developed.

4. Resources in the ecosystem must be continually configured.

5. Specific models must be developed to enable organizations to focus on one consumer from the millions.

Developing New Principles for Innovation

There are new principles of value creation as well as capabilities that we need to build in order to compete.

Principle 1. ($N = 1$.) The individual is at the heart of experience. Value creation must focus on the individual consumer. In the $N = 1$ world, the traditional firm confronts several critical new demands:

- **Flexibility.** The focus is not just on traditional load balancing but on *continuously balancing the load and the nature of the task with appropriate resources* to maximize the experience of consumers.
- **Quality, Cost and Experience.** Six Sigma and low cost must be integral building blocks of the system. Affordability becomes a major criterion for success.
- **Collaborative Networks.** This is a shift from models based on ownership and control to models based on privileged access and influence.
- **Complexity.** This new level of complexity can be managed only through a sophisticated system of technology architecture and its attendant business processes.
- **Customer Interfaces.** While managers have to cope with a complex system, the consumer's experience must be simple and intuitive.
- **Scalability.** As organizations expand across the globe, the diversity of languages, customs and norms must be matched with the sheer scale of operations.

Principle 2. ($R = G$.) This principle refers to the approach to understanding the nature of the resource

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Chris Lauer**, Senior Editor; **Chris Bienick**, Graphic Designer; **Christina Orem**, Contributing Editor

base of large firms and learning how to access high-quality resources at low cost. The challenges facing business in adopting the $R = G$ perspective are the following:

• **Access to Resources.** Today firms have moved away from a model of vertical integration and have initiated programs to access specialized, global suppliers.

• **Speed.** The opportunity cost of managerial procrastination continues to climb.

• **Scalability.** The selective outsourcing of work to others is a necessity for building scale in a short time period.

• **Innovation Arbitrage.** Through selective licensing, collaboration or acquisition, the quality and speed of innovation can be dramatically altered.

Forgetting and Learning

Just as we have to learn the rationale and the implications of managing in an $N = 1$ and $R = G$ world, we have to forget the approaches to managing using traditional ways of categorizing businesses such as manufacturing or services. It is not that the discrete categories are disappearing but that a new set of requirements is emerging.

For example, all businesses are becoming more *knowledge intensive.* Simultaneously, the source of value is shifting from physical products (for example, tires) to solutions (for example, specific applications for managers of large fleets) to personalized experiences. Similarly, not all of the elements of the knowledge intensity needed can be fully developed within a single firm. A multivendor strategy is required, which forces the firm to accept $R = G$.

This is the key to innovation and value creation in the future. If we move toward $R = G$, we find that we can gravitate to $N = 1$. If we want to move to $N = 1$, we also will have to move toward $R = G$.

$N = 1$ and $R = G$: A Social Movement

The movement toward $N = 1$ and $R = G$ is not a choice. The focus of the young on Web sites like MySpace, YouTube, Orkut, Facebook and others suggests that *a whole generation of consumers will grow up expecting to be treated as unique individuals, and they will have the skills and the propensity to engage in a marketplace defined by* N = 1.

Within the corporation, engaging employees emotionally and intellectually in the mission of the firm will require that each employee is treated as unique ($N = 1$). Mobilizing global teams based on the unique skills of individuals to address unique tasks is no different from $R = G$. ●

Business Processes: The Enablers of Innovation

Startups do not need well-developed processes. However, any firm of reasonable scale needs business processes to make its values, concepts, ideas and business models operational. But if left unattended and not consciously adapted to the changing business environment, business processes can become *impediments* to innovation and change.

Building a Framework

The *business process* is the link between the business strategy, business models and day-to-day operations. Business processes define the logical relationships among activities within the firm (and its network collaborators, $R = G$) and its relationships with consumers ($N = 1$). Business processes impact and are impacted by both the *technical architecture* (such as information and communication technology systems — ICT) and the *social architecture* (such as organization structure, decision rights and performance management systems of the firm).

It is useful to think of the ICT architecture in multiple layers.

The lowest layer is Layer 4, which comprises the physical telecom connectivity and hosting architecture, wired and wireless cables and connections, and the server farms and routers that enable connectivity to the public telecom and data networks.

On top of this public architecture is Layer 3, the firm's private IT architecture that includes the hardware boxes — that is, the computers and servers (database and application servers) and the systems software, such as the operating systems, databases and any middleware platforms that the firm may use.

On top of Layer 3 is Layer 2. This layer of ICT applications focuses on business-specific applications and attendant business processes. The pressure for quarterly business results focuses senior management's attention on change levers such as performance measurements, compensation and organization structure.

Above Layer 2 is Layer 1. Comprised of proprietary and standard analytics, this layer represents the primary interfaces of a business with its customers, suppliers, partners or investors. It is Layers 1 and 2 that can provide the source of competitive advantage.

Business Processes as a Source of Competitive Advantage

While few grasp the importance of business processes as a source of competitive advantage, several major firms recognize and leverage it to their advantage. Wal-Mart

uses them to be the most efficient retailer. FedEx allows the consumer to be a part of the operations experience by sharing its databases and applications so that individual customers can track their packages. In eBay, the consumers co-create the business processes as well. None of them uses a standard software package of business processes to run its operations.

Most typical firms, under pressures of cost reduction, are moving toward outsourcing their IT operations. While outsourcing of some aspects of the ICT stack may by justified, indiscriminate outsourcing may compromise these firms' ability to get to $R = G$, much less $N = 1$. ●

Analytics: Insights for Innovation

Competitiveness favors those who spot new trends and act on them expeditiously. Therefore, managers must develop insights about new opportunities by amplifying weak signals. These weak signals emerge from insights derived through a deep understanding and interpretation of a wide variety of information. For example, recognizing that SMS (text) messaging using a cell phone will be an important method for settling small payments is critical for the long-term success of Visa and MasterCard.

The new competitive landscape requires *continuous analysis* of data for insight. Hence, delays in recognizing, interpreting and acting on the trends are emerging as critical impediments to competitiveness. Gut feel and intuition are important, but in a fast-changing competitive environment, experience of the past is less and less valuable. *Foresight, not hindsight, is of value.*

Global Resource Access ($R = G$)

The capability to leverage global resources will demand new levels of visibility and agility in managing logistics of physical goods and resources (globally) to meet unique demands of customers.

Visibility in the global supply chain is almost a prerequisite for managing the complex web of product and information flows. The capacity to reconfigure resources globally can start with a simple trend analysis of the key metrics across different markets and product categories. But this beginning should be expanded to a capacity for rapid response to changes in either external market demand or internal process capabilities available at a given point in time.

Granularity

Granularity is as important as visibility. Granularity allows managers to examine in depth the process steps, as well as the appropriate skills needed to perform them. These systems are measurement intensive, and they prosper with the capacity for real-time feedback and corrective actions.

What is often less obvious is that for a global firm, getting real-time data from multiple sources — point-of-sale systems, RFID tags, consumers, suppliers and other stakeholders — requires an investment in telecommunications and network capabilities as well.

Co-Creation of Value: $N = 1$

The capacity to serve individual customers — that is, personalization and co-creation of value — will demand capabilities to work with customers to anticipate and predict their preferences on a continuous basis.

The transformation to a customer-centric co-creation view of value pushes firms to new frontiers of the price-performance envelope. This transformation in combination with global resource leverage through visible business processes and integrated analytics provides an opportunity for new customer insights and unique value creation opportunities. ●

IT Matters: Technical Architecture for Innovation

We have to start with two assumptions. First, no firm today has the systems in place for being fully compatible with the innovation demands leveraging global resources to serve individual customers uniquely. Second, unless senior managers start with a clear point of view on the specifications of such a system, this migration from where they are to where they need to be will be costly and time-consuming.

Confronting Reality

The ICT architecture familiar to most firms is the result of (a) the freedom that was given to individual business units in different geographies, (b) the legacy of mergers and acquisitions, and (c) a continuous stream of "patch-ups" to systems. In an $N = 1$ world, managers must have the ability to access multiple databases, both within the firm and outside — public databases as well as databases of collaborators. Many of them are often incompatible.

Acting in real time to solve the problems of a consumer requires that we have the tools and methods to access databases to gain insights and provide a service in a specific consumer context. For example, OnStar must be able to access multiple databases to send help in case of an accident — the local police, the ambulance, family, insurance and the like. Access is not just a problem imposed by the size of databases but, more importantly, by the multitude of databases that must be coordinated for a real-time response.

Proprietary Systems and Transparency

Managers migrating to an $N = 1$ and $R = G$ world realize that they rely on a large number of suppliers and their consumer communities to help improve their service offerings. This implies that their systems must be simultaneously proprietary and transparent such that other consumers can participate effectively. The tension between "openness" and "proprietary intellectual property" is not easy to deal with.

Collaboration to create value is commingled with competition to extract value. This tension is a reflection of the inherent nature of the emerging value creation process. This tension manifests itself in other forms such as in balancing efficiency and flexibility of business processes. The new ICT architecture should be capable of providing the required transparency as well as being capable of controlling access where needed.

Compliance and Change

The demand for change in business processes will stem from a wide variety of sources — the regulatory environment, changes in the competitive landscape, technological disruptions and the need for a unique approach to personalized value creation. This implies that managers must focus on the system's capability to adapt rapidly at low cost and without sacrificing quality.

New levels of transparency demanded here pose unique challenges for managing security and privacy in the ICT architecture. Systems should be flexible, anticipatory and responsive. Anticipation of new trends such as patterns of customer preferences in an $N = 1$ world demands management of both explicit and tacit knowledge. Demands stem from these business specifications:

- **Security and Privacy of Data.** Protection of customer privacy will be a critical requirement of the new ICT architecture.
- **Complexity and User-Friendliness.** As firms move toward $N = 1$ and $R = G$, their ICT architecture will be complex irrespective of what dimensions we use to measure complexity. However, the complexity should not make the system unusable to all but the very savvy and skilled.
- **Knowledge Management and Knowledge Creation.** Firms need to focus more attention on leveraging the implicit knowledge continually generated in their ongoing interactions with consumers, global suppliers and partners. Creating *new knowledge* is critical. Blogs, wikis, real simple syndication (RSS) and podcasts allow for new kinds of transparency and capacity to leverage tacit knowledge contextually.

Enabling Foundations

Almost all of the existing business systems were built as a way of archiving and managing the large volume of transactions that capture the activities of a firm — from sales to purchasing to employee benefits to manufacturing. However, in an $N = 1$ world, the mandate to create unique personalized experiences requires that systems capture the essence of interactions, not just transactions. Analytics provide the insights.

We need to focus on "global standards" of quality, transparency, interoperability, compliance, speed and cost. But we must also provide space for the local operations to be flexible. A common exercise undertaken in many large firms is to match their business processes and practices across their global units and arrive at a common template for some of the standard processes and allow for unique local flexibility in other required processes. Some evolving standards in ICT, such as Web services and the use of extensible markup language (XML), allow for such integration, and the new ICT architecture should include a common fabric to integrate new processes and legacy systems at both the logic and data levels.

Specifications for ICT Architecture

The following are the minimum requirements of an ICT platform capable of delivering capacities for innovation in an $N = 1$ and $R = G$ world of competition:

Requirement 1: A Component-Based Design of Business Processes. A business component-based approach to ICT architecture disaggregates business processes into their logical building blocks and standardizes each of the building blocks with respect to its internal logic and its access to data and hooks to other related components. This approach reduces the skill level necessary and the cost of change, and it improves the quality of the finished business process.

Requirement 2: Ubiquitous Access Through a Corporate Intranet and the Internet. Ubiquitous access enables transparency, faster delivery and efficient changes in business processing. The platform should enable integration with emerging Web 2.0 technologies such as wikis and blogs, leading to a capability to leverage tacit knowledge and to shift from mere transactions to interactions.

Requirement 3: Open Interfaces to Data and External Systems. The new ICT platform should support open interfaces such as XML and Web services for data and process access. It should also allow for open standards in the emerging service-oriented architecture to connect with external systems and devices. The new platform should have a capability to wrap the whole or

parts of existing software packages and legacy systems and the corresponding data as a business component into the platform.

Requirement 4: Integrated Capability for Analytics. The new platform should present a dashboard for managers to conduct rapid experiments with analytics to detect new trends and changes in business process performance metrics. This interface should provide an ability for the firm or its external partners (through ubiquitous access) to drill their large databases for insights through appropriate analytics.

Organizational Legacies: Impediments to Value Creation

It is a truism in organizational life that "what you see depends on where you have been." Similarly, the technological architecture — the applications, databases and systems — is often a patchwork representing the pattern of evolution of the firm. Organizational legacies can erode the capacity of an organization to innovate and create value.

Social Architecture and the Dominant Logic

Social architecture is the sum of the systems, processes, beliefs and values that determine an individual's behaviors, perspectives and skills in an organization. It includes managerial behavior determinants such as organization structure, performance metrics, reward systems, career management, training, beliefs and values. Reinforced over time and embedded in the organization in standard operating procedures and rules, the determinants lead to a predictable way of thinking about opportunities, competitiveness, consumers and performance. We call this the dominant logic of the firm.

The reasons why business process transformation initiatives do not bear fruit in many organizations are largely managerial and social. There are technical failures as well. The reasons are:

1. Lack of senior management evangelism. Few CEOs have the stamina to stay the course.

2. Weak accountability. While the scale of these initiatives can be vast, managers often fail to address ownership of the initiatives and decision rights.

3. Misalignment of goals. All stakeholders should grasp the fluidity and transparency of customer value offered by the $N = 1$ and $R = G$ model.

4. Lack of discipline and underestimation of the connection to ICT. Process inconsistencies stem from a lack of standards for how business entities are defined.

An Approach to Organizational Evolution

One approach to organizational evolution (migration) to seek $N = 1$ and $R = G$ opportunities includes small calculated steps, learning from those and consolidating by scaling. The whole process of change must focus on "de-risking big changes."

The transformation process must start with a shared and consistent point of view. Once there is agreement on the point of arrival, as it were, we can develop specifications for the new world of value creation and competition. We can then begin to develop small, contained organizational experiments to learn about how to build new capabilities. There is enough organizational evidence that shows that continuous experimentation and learning followed by consolidation can lead to major new capabilities in a short period of three to five years without major organizational trauma.

Efficiency and Flexibility: Managing the Tension

Success in innovating new business models for the $N = 1$ and $R = G$ environment, whether the business is in tires, shoes or insurance, is all about finding the right mix of capacities for flexibility and efficiency. The dominant logic and current business models shape the capacity for efficiency and flexibility in business processes.

The reality is that most companies are unable to cope with the simultaneous needs of flexibility and efficiency. However, the technical architecture is not the only culprit. The capacity for agility in decision making through flexible business processes in large firms also rests on appropriate social architectures involving decision rights, skills and the capacity to accept change among managers.

In most cases, the business managers maintain a distance from IT decisions for two reasons. First, it is not their zone of comfort. Second, senior managers in many large firms believe that ICT services are utilities and can be delivered by any outside vendor once they have clarity to business problems.

Business Process Governance Council

Managing disconnects among the line managers, CTOs and CIOs, the vendors and the firm and coping with emerging demands for flexibility and efficiency requires that firms create a framework for managing the quality of their business processes. *No firm today can ignore business process governance.*

Experts suggest that firms should create a business process governance council that will include the senior line managers, human resources officers, the CIO and the CTO. The council will be charged with managing the evolution of business capabilities embedded in business processes and in the skill of managers.

It is important to note that the role of this council can rapidly turn into an exercise in prioritizing and allocating new IT investments. Rather, the council must focus on the evolving needs of the business. This should be followed by prioritizing and mapping the respective IT and HR investments to make these business process changes. ●

Dynamic Reconfiguration of Talent

We have to change the way we manage — how we continually match opportunities with resources. The focus must be on the skills of individuals and their attitudes to learning, as well as on the competence of teams and the ability to continually configure task-based teams with the best talent from around the world.

Mobilizing Talent, Not Outsourcing

The initial impetus for outsourcing was primarily cost arbitrage — meaning that firms can access comparable skills in India for a fraction of the costs of those skills in the United States or Europe. But firms have moved along. A research study from Stanford reports that multinational corporation R&D centers in China are not just providing technical product support, product localization and product development for the local market. They are also developing products for the global market.

It is increasingly clear to global managers that outsourcing is not about "exporting jobs"; it is about "importing competitiveness." The focus is not just on cost. Cost is a consideration, but equally important are the quality, the innovativeness of the solution, and speed.

We are moving to a system of project management in which projects are *temporary organizational systems.*

Know Where the Talent Is

Examples of the emerging nature of managerial work — managing a series of micro- and macro-projects within the firm — suggest that a dynamic configuration of talent cannot take place unless we pay specific attention to the following:

• Managers need to know where the talent is within the organization and where it can be accessed easily from the outside.

• Managers need to help project team members cope with stresses caused by time pressures, ambiguous power and authority relationships, and cross-cultural and interpersonal interactions.

• Managers need to create the capacity to reduce "frictional losses" in the dynamic configuration of resources — the difficulties in getting teams to work together effectively without delays and loss of creativity.

Managers must be able to, in real time, access the human resources database and assemble the names, locations and availability of people with specific skills.

The Rush for Talent

Building and accessing a talent pool requires four distinct tasks:

1. Increase the number of skilled people.

2. Challenge the industry norms about the way work is done, so that people with lower levels of skills can be trained to do the work effectively.

3. Create an excitement around your firm and your skill needs.

4. Disaggregate work and deskill it so that people with little formal education can do it.

Building a Velcro Organization

Real-time dynamic reconfiguration of people resources presents a problem: All of us are socialized to think of organizational life in a certain way — the role of the hierarchy, power and authority for resource allocation and decision making; relationships within organizational silos (for example, a business unit or a function or geography); and role clarity.

A transparent system of performance evaluation — skills, attitudes, behaviors and performance — is a prerequisite. Training for specific opportunities, as well as training of a person, is critical. *Furthermore, individual employees must know what new challenges they can expect over a period of five years. Making this transparent to the employees makes it easier to reduce tensions.*

A New View of Managerial Work

The $N = 1$ and $R = G$ world demands that the work of the firm be divided into a large number of micro- and macro-projects. *Micro-projects* involve specific, simple tasks that can be accomplished in a short period of time and often remotely. *Macro-projects* are broader, more complex, and more open-ended, and they involve talent from multiple locations.

The new approach to value creation focuses on demands based on what consumers need at any given time. The execution of strategy, in this model, is accomplished through a series of micro- and macro-projects.

The Journey to $N = 1$ and $R = G$

Managers need to develop a vision of their future: the nature of their interpretation of the $N=1$ and $R=G$ world in their industry. Each firm will have to define the steps that it has to take to move the organization in that direction. It is obvious that each firm, even within an industry, will have a different migration path.

The approach to migration suggested by experts depends on the following premises of large-scale transformation:

1. All transformation starts with a distinct and clear point of view about the future.
2. There must be a clear articulation of the current capabilities of the organization and clarity about the point of departure.
3. It must be recognized that the managerial processes and capabilities that got us to where we are cannot get us to where we want to go.
4. Migration must be broken down into smaller milestones and critical doable steps.
5. It must be recognized that we cannot know all the details of the total journey.
6. We have to have the sense of urgency (the speed of a 400-meter runner) and the stamina to stay the course (the persistence of a marathoner).
7. We can develop detailed metrics to measure the progress for each one of the steps or milestones.
8. A long-term focus with short-term actions is the essence of organizational transformation.
9. This process recognizes that managers have to "perform" during the transformation.
10. Capability building is an arduous process in a large firm.
11. Capability building must focus on both the technical and the social infrastructures at the same time.
12. Finally, there are bound to be time lags between efforts and results.

We have to start with the assumption that we are moving away from clear and fully defined organizational homes for people — represented at any given time by the hierarchical organization (the organizational chart) — to a *Velcro organization* in which individuals come together temporarily to perform a task in a role related to that task and that particular task can change next week. Young men and women are accustomed to this "role of the moment" in their lives. We have to make it a part of their reality in the large organization. ●

An Agenda for Managers: Focus on the Essence of Innovation

For most firms, transforming their organizations toward an $N = 1$ and $R = G$ world of innovation and value creation will not be trivial or easy.

In a very short period of seven to 12 years, this transformation will not be big news. Consider the following:

- More than 5 billion people will be connected through cell phone networks and the Internet.
- The rapid progress of social networks and the access people have to information will create the ability for all of us to exercise our individuality.
- Everyone will get access to infrastructure.
- Powerful analytics and large database management capabilities will add to the propensity to co-create.
- Most important, the generation of active consumers in 2015 is 12 to 15 years old today.

Three Key Trends

We can crystallize these changes into three key trends that will determine how consumers will relate to institutions such as firms as well as to each other:

1. Convergence in ubiquitous connectivity in voice, data and video through cell phones, PCs and the Internet.
2. Ubiquitous access to computing at continually decreasing costs through advances in new technologies and innovations in delivery models.
3. Rapid and vibrant experimentation in new platforms for collaboration that span both personal (social) and professional lives.

Consumer activism, ubiquitous connectivity, convergence of technologies and industries, globalization of markets, and global search for and access to resources — these are trends that are not within control of any one firm.

Embrace the inevitable. Make the trends work for you. The role of leadership in organizations will be crucial in this transformation. You have the opportunity to shape the next round of globalization and build a more empowered society. ●

RECOMMENDED READING LIST

If you liked *The New Age of Innovation*, you'll also like:

1. ***The Future of Competition* by C.K. Prahalad and Venkat Ramaswamy.** The authors set the agenda for top management for co-creating the future by revealing opportunities for value-creation and innovation.
2. ***Competing for the Future* by Gary Hamel and C.K. Prahalad.** Learn how to become a driver on the road to the future and not just a bystander.
3. ***The Fortune at the Bottom of the Pyramid* by C.K. Prahalad.** This best-seller offers a blueprint for driving the radical innovation you'll need to profit in emerging markets — and using that innovation to become more competitive everywhere.

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Tim Brown

June 2011

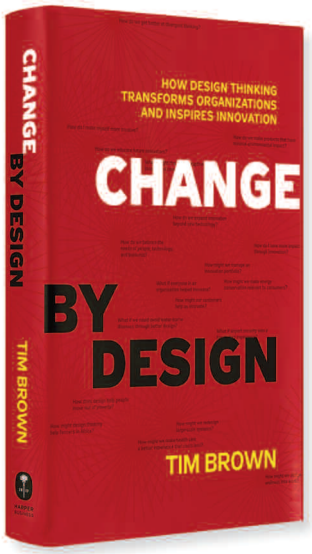
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Change by Design

How Design Thinking Transforms Organizations and Inspires Innovation



by Tim Brown

THE SUMMARY IN BRIEF

The myth of innovation is that brilliant ideas leap fully formed from the minds of geniuses. In reality, most innovations are born from rigor and discipline. Breakthrough ideas — whether for a new bicycle, an advertising campaign, a treatment plan for diabetes or a program aimed at tackling the national obesity epidemic — emerge not by chance, but by studying and embracing the immediate challenges we encounter every day in our offices and homes, laboratories and hospitals, classrooms and conference rooms, and in all the spaces in between. We don't simply realize solutions; we *design* them.

Change by Design introduces readers to *design thinking*. Design is not just about creating elegant objects or beautifying the world around us. The best designers match necessity to utility, constraint to possibility, and need to demand. These design thinkers rely on rigorous observations of how we use spaces and the objects and services that occupy them; they discover patterns where others see complexity and confusion; they synthesize new ideas from seemingly disparate fragments; and they convert problems into opportunities. Design thinking is a method in which genius, in the end, is not required.

IN THIS SUMMARY, YOU WILL LEARN:

- How to apply design thinking to abstract, multifaceted problems.
- How design thinking can be applied to address a wide range of issues and concerns.
- How to confront the challenges of today in order to create the opportunities of tomorrow.
- How design thinking has the potential to create meaningful change.

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THE COMPLETE SUMMARY: **CHANGE BY DESIGN**

by Tim Brown

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For additional information on the author, go to http://www.summary.com and www.ideo.com/changebydesign.

Introduction: The Power of Design Thinking

Today, rather than enlist designers to make an already developed idea more attractive, the most progressive companies are challenging them to create ideas at the outset of the development process. The former role is tactical; it builds on what exists and usually moves it one step further. The latter is strategic; it pulls "design" out of the studio and unleashes its disruptive, game-changing potential. It's no accident that designers can now be found in the boardrooms of some of the world's most progressive companies. As a thought process, design has begun to move upstream.

Moreover, the principles of design thinking turn out to be applicable to a wide range of organizations, not just to companies in search of new product offerings. A competent designer can always improve upon last year's new widget, but an interdisciplinary team of skilled design thinkers is in a position to tackle more complex problems. From pediatric obesity to crime prevention to climate change, design thinking is now being applied to a range of challenges that bear little resemblance to the covetable objects that fill the pages of today's coffee-table publications.

The causes underlying the growing interest in design are clear. As the center of economic activity in the developing world shifts inexorably from industrial manufacturing to knowledge creation and service delivery, innovation has become nothing less than a survival strategy. It is, moreover, no longer limited to the introduction of new physical products but includes new sorts of processes, services, interactions, entertainment forms and ways of communicating and collaborating. These are exactly the kinds of human-centered tasks that designers work on every day. The natural evolution from *design doing* to *design thinking* reflects the growing recognition on the part of today's business leaders that design has become too important to be left to designers. ●

What Is Design Thinking?

The nature of design thinking makes it impossible to create a simple, easy-to-follow recipe that would ensure that every project ends successfully. Design thinkers know that there is no "one best way" to move through the process. There are useful starting points and helpful landmarks along the way, but the continuum of innovation is best thought of as a system of overlapping spaces rather than a sequence of orderly steps. We can think of them as *inspiration*, the problem or opportunity that motivates the search for solutions; *ideation*, the process of generating, developing and testing ideas; and *implementation*, the path that leads from the project room to the market. Projects may loop back through these spaces more than once as the team refines its ideas and explores new directions.

The reason for the iterative, nonlinear nature of the journey is not that design thinkers are disorganized or undisciplined but that design thinking is fundamentally an exploratory process; done right, it will invariably make unexpected discoveries along the way, and it would be foolish not to find out where they lead. Often these discoveries can be integrated into the ongoing process without disruption. At other times the discovery will motivate the team to revisit some of its most basic

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

assumptions. While testing a prototype, for instance, consumers may provide insights that point to a more interesting, more promising and potentially more profitable market opening up. Insights of this sort should inspire us to refine or rethink our assumptions rather than press onward in adherence to an original plan. This approach should be seen not as a system reset but as a meaningful upgrade.

Open-Ended, Open-Minded and Iterative

Insofar as it is open-ended, open-minded and iterative, a process fed by design thinking will feel chaotic to those experiencing it for the first time. But over the life of a project, it invariably comes to make sense and achieves results that differ markedly from the linear, milestone-based processes that define traditional business practices. In any case, predictability leads to boredom and boredom leads to the loss of talented people. It also leads to results that rivals find easy to copy. It is better to take an experimental approach: Share processes, encourage the collective ownership of ideas and enable teams to learn from one another.

A second way to think about the overlapping spaces of innovation is in terms of boundaries. To an artist in pursuit of beauty or a scientist in search of truth, the bounds of a project may appear as unwelcome constraints. But the mark of a designer, as the legendary Charles Eames often said, is a willing embrace of constraints.

The willing and even enthusiastic acceptance of competing constraints is the foundation of design thinking. The first stage of the design process is often about discovering which constraints are important and establishing a framework for evaluating them. Constraints can best be visualized in terms of three overlapping criteria for successful ideas: feasibility (what is functionally possible within the foreseeable future), viability (what is likely to become part of a sustainable business model) and desirability (what makes sense to people and for people).

A competent designer will resolve each of these three constraints, but a *design thinker* will bring them into a harmonious balance. ●

Converting Need Into Demand

The job of the designer, to borrow a marvelous phrase from Peter Drucker, is "converting need into demand." On the face of it, this sounds simple: Just figure out what people want and then give it to them. But if it's so easy, why don't we see more success stories like the iPod? The Prius? MTV and eBay? The answer is that we need to return human beings to the center of the story. We need to learn to put people first.

Much has been written about "human-centered design" and its importance to innovation. Since there are so few truly compelling stories, however, it's time to ask why it is so difficult to spot a need and design a response.

Traditional techniques such as focus groups and surveys, which in most cases simply ask people what they want, rarely yield important insights. The tools of conventional market research can be useful in pointing toward incremental improvements, but they will never lead to those rule-breaking, game-changing, paradigm-shifting breakthroughs that leave us scratching our heads and wondering why nobody ever thought of them before.

Our real goal, then, is not so much fulfilling manifest needs by creating a speedier printer or a more ergonomic keyboard; that's the job of designers. It is helping people to articulate the latent needs they may not even know they have, and this is the challenge of *design thinkers*.

Elements of a Successful Design Program

There are three mutually reinforcing elements of any successful design program: *insight*, *observation* and *empathy*.

• **Insight: learning from the lives of others.** Insight is one of the key sources of design thinking, and it does not usually come from the reams of quantitative data that measure exactly what we already have and tell us what we already know. A better starting point is to go out into the world and observe the actual experiences

Inspiration and Chance

Inspiration always involves an element of chance, but, as Louis Pasteur observed in a famous lecture of 1854, "Chance favors only the prepared mind." Certain themes and variations — techniques of observation, principles of empathy and efforts to move beyond the individual — can all be thought of as ways of preparing the mind of the design thinker to find insight: from the seemingly commonplace as well as the bizarre, from the rituals of everyday life but also the exceptional interruptions to those rituals and from the average to the extreme. The fact that insight cannot yet be codified, quantified or even defined — not yet, at any rate — makes it the most difficult but also the most exciting part of the design process.

of commuters, skateboarders and registered nurses as they improvise their way through their daily lives.

• **Observation: watching what people don't do, listening to what they don't say.** Almost every project undertaken by the best design thinkers involves an intense period of observation. They watch what people do (and do not do) and listen to what they say (and do not say). This takes some practice. Observation relies on quality, not quantity.

• **Empathy: standing in the shoes of others.** It's possible to spend days, weeks or months conducting research, but at the end of it all we will have little more than stacks of field notes, videotapes and photographs unless we can connect with the people we are observing at a fundamental level. We call this "empathy," and it is perhaps the most important distinction between academic thinking and design thinking. The mission of design thinking is to translate observations into insights and insights into products and services that will improve lives.

The movement from insight to observation to empathy leads us finally, to the most intriguing question of them all: If cultures are so diverse and if the 20th-century image of "the unruly mob" has given way to the 21st-century discovery of "the wisdom of crowds," how can we tap that collective intelligence to unleash the full power of design thinking? We need to invent a new and radical form of collaboration that blurs the boundaries between creators and consumers. It's not about "us versus them" or even "us on behalf of them." For the design thinker, it has to be "us *with* them." ●

A Mental Matrix

Today companies like Google and 3M are renowned for encouraging scientists and engineers to spend up to 20 percent of their time on personal experiments.

A tolerance for risk taking has as much to do with the culture of an organization as with its business strategy. Some would argue that a climate of open-ended exploration encourages a profligate waste of resources. In an organization that encourages experimentation, there will be projects destined to go nowhere and still others that the keepers of institutional memory prefer not to talk about. But to view such initiatives as "wasteful," "inefficient" or "redundant" may be a symptom of a culture focused on efficiency over innovation and a company at risk of collapsing into a downward spiral of incrementalism.

It's no accident that designers in recent years have been following the emerging science of bio-mimicry — the idea that nature, with its 4.5-billion-year learning curve, may have something to teach us about things such as nontoxic adhesives, minimal structures, efficient thermal insulation or aerodynamic streamlining. The bewildering variety at work in a healthy ecosystem is nothing but an exercise in sustained experimentation — try something new, and see what sticks. It may well be that we need to begin mimicking nature not just at the molecular level but at the systemic level of companies and organizations. An excess of experimental zeal would be risky — companies do not enjoy the luxurious time frame of biological systems, and their leaders would be remiss if they chose not to exercise what might be called (with apologies to Darwin) "intelligent design." What is called for is a judicious blend of bottom-up experimentation and guidance from above.

The Rules of Experimentation

The rules for this approach are as simple to state as they are challenging to apply:

1. The best ideas emerge when the whole organizational ecosystem — not just its designers and engineers and certainly not just management — has room to experiment.
2. Those most exposed to changing externalities (new technology, shifting consumer base, strategic threats or opportunities) are the ones best placed to respond and most motivated to do so.
3. Ideas should not be favored based on who creates them.
4. Ideas that create a buzz should be favored. Indeed, ideas should gain a vocal following, however small, before being given organizational support.
5. The "gardening" skills of senior leadership should be used to tend, prune and harvest ideas. MBAs call this "risk tolerance." We call it the top-down bit.
6. An overarching purpose should be articulated so that the organization has a sense of direction and innovators don't feel the need for constant supervision.

These rules apply to almost every field of innovation. Together they ensure that the seeds of individual creativity take root. ●

Building to Think

Since openness to experimentation is the lifeblood of any creative organization, prototyping — the willingness to go ahead and try something by building it — is the best evidence of experimentation. We may think of a prototype as a finished model of a product about to be

manufactured, but that definition should be carried much further back in the process. It needs to include studies that may appear rough and simple and encompass more than just physical objects. Furthermore, it's not necessary to be an industrial designer to adopt the habit of prototyping: Financial services executives, retail merchants, hospital administrators, city planners and transportation engineers can and should participate in this essential component of design thinking.

David Kelley, a Stanford professor and the founder of IDEO, calls prototyping "thinking with your hands," and he contrasts it with specification-led, planning-driven abstract thinking. Both have value and each has its place, but one is much more effective at creating new ideas and driving them forward.

Quick and Dirty

Design thinkers, whether or not they happen to have been trained in any of the recognized disciplines, inhabit three "spaces of innovation." Prototyping is one of the practices that enable design thinkers to occupy all three realms simultaneously.

Prototyping is always *inspirational* — not in the sense of a perfected artwork but just the opposite: because it inspires new ideas. Prototyping should start early in the life of a project, and we expect prototypes to be numerous, quickly executed and pretty ugly. Each one is intended to develop an idea "just enough" to allow the team to learn something and move on.

In the *ideation* space we build prototypes to develop our ideas to ensure that they incorporate the functional and emotional elements necessary to meet the demands of the market. As the project moves forward, the number of prototypes will go down while the resolution of each one goes up, but the purpose remains the same: to help refine an idea and improve it. If the precision required at this stage exceeds the capabilities of the team, it may be necessary to turn to outside experts — model makers, videographers, writers or actors, as the case may be — for help.

In the third space of innovation we are concerned with *implementation*: communicating an idea with sufficient clarity to gain acceptance across the organization, proving it and showing that it will work in its intended market. Here, too, the habit of prototyping plays an essential role. At different stages the prototype may serve to validate a subassembly of a subassembly: the graphics on a screen, the armrest of a chair, or a detail in the interaction between a blood donor and a Red Cross volunteer. As the project nears completion, prototypes will likely be more complete. They will probably be expensive and complex and may be indistinguishable from the real thing. ●

Returning to the Surface

There are three themes that make experiences meaningful and memorable: First, we now live in what Joseph Pine and James Gilmore christened an "experience economy" in which people shift from passive consumption to active participation. Second, the best experiences are not scripted at corporate headquarters but delivered on the spot by service providers. And third, implementation is everything. An experience must be as finely crafted and precision-engineered as any other product.

A Good Idea Is No Longer Enough

Innovation has been defined as "a good idea executed well." This is a good start. Unfortunately, too much emphasis falls on the first half of that proposition. There are countless examples of good ideas that never gained traction for the simple reason of poor execution. Most of them never reach the market, and those that do end up littering the stockrooms of electronics stores and supermarkets.

Increasingly, ideas fail because people demand more of them than reliable performance in an acceptable package. The components of a product need to come together to create a great experience. This is a much more complicated proposition.

There have been many explanations for this new level of heightened expectation. In *A Whole New Mind,* author Daniel Pink argues that once our basic needs are met — as they already have been for most people in the affluent societies of the West — we tend to look for meaningful and emotionally satisfying experiences. We need only note the disproportionate growth of the service economies (entertainment, banking, health care) relative to manufacturing. Moreover, these services themselves have gone far beyond the support of basic needs: Hollywood movies, video games, gourmet restaurants, continuing education, ecotourism and destination shopping have grown dramatically in recent years. Their value lies in the emotional resonance they create.

The Experience Blueprint

Just as a product begins with an engineering blueprint, an *experience blueprint* provides the framework for working out the details of a human interaction. Unlike the plans for an office building, an experience blueprint also describes the *emotive* elements. It captures how people travel through an experience in time. Unlike a prepared

script or an operations manual, it connects the customer experience and the business opportunity.

From airlines and hospitals to supermarkets, banks and hotels, it's clear that experiences are much more complex than inert objects. They vary from place to place, they change over time and they are hard to get right. Although the design of an experience may involve products, services, spaces and technology, an experience carries us beyond the comfortable world of measurable utility and into the hazy zone of emotional value.

The best and most successful experience brands have a number of things in common that may provide us with some secure guidelines. First, a successful experience requires active consumer participation. Second, a customer experience that feels authentic, genuine and compelling is likely to be delivered by employees operating within an experience culture themselves. Third, every touch point must be executed with thoughtfulness and precision — experiences should be designed and engineered with the same attention to detail as a German car or a Swiss watch. ●

Spreading the Message

Many notions have been proposed to explain what differentiates human beings from other species: bipedal locomotion, tool use, language, symbolic systems. Our ability to tell stories also sets us apart. In his provocative book *Nonzero,* the journalist Robert Wright makes the case that consciousness, language and society have developed an intimate relationship with technologies of storytelling throughout the 40,000-year history of human society. As we learned to spread our ideas, our social structures expanded from nomadic groups to tribes to settled villages and then to cities and states, followed by supranational organizations and movements. Before long the Japanese were cooling their buildings in the summer and heating them in the winter to make it bearable to go to work wearing Western-style clothes — and telling themselves stories about it.

Mostly we rely on stories to put our ideas into context and give them meaning. It should be no surprise, then, that the human capacity for storytelling plays an important role in the intrinsically human-centered approach to problem solving, *design thinking*.

Designing in the Fourth Dimension

We have already seen hints of storytelling at work: in ethnographic fieldwork; in the synthesis phase, in which we begin to make sense of large accumulations of data; and in the design of experiences. In each case, we are talking about adding not just a new widget but a whole new dimension to the designer's tool kit: the "fourth dimension," designing with time. When we create multiple touch points along a customer journey, we are structuring a sequence of events that build upon one another, in sequential order, across time. Storyboards, improvisation and scenarios are among the many narrative techniques that help us visualize an idea as it unfolds over time.

Designing with time is a little different from designing in space. The design thinker has to be comfortable moving along both of these axes.

An experience that unfolds over time, engages participants and allows them to tell their own stories will have resolved two of the biggest obstacles in the path of every new idea: gaining acceptance in one's own organization and getting it out into the world. An idea may be a product, service or strategy. ●

Where Do We Go From Here?

Since the early 1990s, Nokia has been the most consistently successful cell phone manufacturer in the world. Nokia began as a paper mill in 1865 and through a sequence of investments moved from paper to rubber, cables, electronics and ultimately mobile phones. A combination of technological prowess, organizational innovation and top-notch industrial design kept Nokia ahead of the pack. In the last few years, however, the emergence of the mobile Internet has changed the rules of the game. In a growing number of markets it is no longer enough to have a snappy device with which to make a phone call or send a text. People want mobile information services, whether for searching maps or for networking with friends. It is no longer the hardware that matters but the services and applications it delivers.

Nokia saw this coming and in 2006 began to explore alternatives to its existing hardware-driven approach. Technologists, anthropologists and designers were sent out into the world to understand how consumers were communicating, sharing information and entertaining themselves and to look for what was missing. They found that people no longer simply wanted to make telephone calls. They wanted to express their creativity, to discover new things and to share what they found with others. They also found that people were often forced to cobble together a variety of devices to make this happen. Nokia had all the components, but they were not integrated with services that could connect people in richer, more powerful ways.

On the basis of these observations Nokia's design

teams brainstormed, prototyped and explored a variety of new ideas that would enable the company to meet this need and seize this opportunity: mobile blogging, online gaming, photo sharing, location services and time management. The teams presented these concepts to management in the form of stories from the field and future-oriented scenarios intended to show how these new services might be pulled together into a seamless experience that involved not just the phone but the Web and desktop.

Under the new model, Nokia would continue to design and sell mobile handsets, but the design teams were proposing a radical new future in which hardware ceased to be the company's offering and became the platform for a richly interactive, service-based business. Barely a year later, Nokia announced Ovi, a new service offering that could be accessed through any of its multimedia devices. Design thinking had enabled Nokia not only to explore new possibilities but also to convince itself that these possibilities were sufficiently compelling to move away from its strongly entrenched and previously successful approach. The timing was right. Today Ovi is one of the operating business divisions of the company, and Nokia — a technology leader — has reinvented itself as a service provider.

The New Social Contract

An organization that commits itself to the human-centered tenets of design thinking is practicing enlightened self-interest. If it does a better job of understanding its customers, it will do a better job of satisfying their needs. That is simply the most reliable source of long-term profitability and sustainable growth. In the world of business, every idea — however noble — must survive the test of the bottom line.

But this is not a one-sided proposition. Businesses are taking a more human-centered approach because people's expectations are evolving. Whether we find ourselves in the role of customer or client, patient or passenger, we are no longer content to be passive consumers at the far end of the industrial economy.

As consumers we are making new and different sorts of demands; we relate differently to brands; we expect to participate in determining what will be offered to us; and we expect our relationship with manufacturers and sellers to continue beyond the point of purchase. To meet these heightened expectations, companies have to yield some of their sovereign authority over the market and enter into a two-way conversation with their customers. This shift is happening at three levels.

First, there is a seemingly inexorable blurring of the line between "products" and "services," as consumers shift from the expectation of functional performance to a more broadly satisfying experience. Second, design thinking is being applied at new scales in the move from discrete products and services to complex systems. Third, there is a dawning recognition among manufacturers, consumers and everyone in between that we are entering an era of limits; the cycle of mass production and mindless consumption that defined the industrial age is no longer sustainable.

These trends converge around a single, inescapable point: Design thinking needs to be turned toward the formulation of a new participatory social contract. It is no longer possible to think in adversarial terms of a "buyer's market" or a "seller's market." We're all in this together.

As the circle of design thinkers grows, we will see solutions evolving that will improve the character of the products and services we buy. Even on a large scale and even at the level of the most challenging problems we face in our society today, design thinking can provide guidance.

Design Activism

The rise of design thinking corresponds to a culture change, and what excites the best thinkers today is the challenge of applying their skills to problems that matter. Improving the lives of people in extreme need is near the top of that list.

The greatest design thinkers have always been drawn to the greatest challenges, whether delivering fresh water to imperial Rome, vaulting the dome of the Florence Cathedral, running a rail line through the British Midlands or designing the first laptop computer. They have searched out the problems that allowed them to work at the edge because this was where they were most likely to achieve something that has not been done before. For the last generation of designers, those problems were driven by new technologies. For the next generation, the most pressing — and the most exciting — challenges may lie in the highlands of southeast Asia, the malarial wetlands of East Africa, the rain forests of Brazil and the melting glaciers of Greenland.

Martin Fisher, a Stanford Ph.D., reluctantly agreed to a 10-month assignment in Kenya, where he ended up staying for 17 years. In Nairobi he observed that people in poor countries who have been thrust into the global economy do not need money so much as the means to earn money. Together with his development partner

Nick Moon, Fisher founded KickStart, a provider of low-cost "microtechnologies" including a treadle-operated deepwater pump — significantly called the "Super MoneyMaker" — that have helped more than 80,000 local farmers launch small businesses in East Africa. Fisher understood that the ingenious pumps, brick presses and palm-oil extractors were not enough. His customers needed a local infrastructure including marketing, distribution and maintenance. Educated in the high-technology world of Silicon Valley and schooled in the slums of Nairobi, Fisher shows how design thinking extends the perimeter around a problem.

Finding ways to apply the principles of design thinking to the problems of society — on the outskirts of Kampala, in the offices of a social venture fund in New York or in the classrooms of an elementary school in California — is the sort of problem that is attracting the most ambitious designers, entrepreneurs and students today. They are motivated not by an altruistic desire to "give something back" for a few months after graduation or upon retirement but by the fact that the greatest challenges are always the source of the greatest opportunities. ●

Designing Tomorrow — Today

One of the most satisfying things about thinking like a designer is that the results are tangible. Something new exists at the end of a project that didn't exist before. Remember to document the process as it unfolds (we don't wait for our kids to become finished adults before taking their pictures!). Shoot videos, preserve drawings and sketches, hold on to presentation documents and find somewhere to store physical prototypes. Assembled as a portfolio, this material will document a process of growth and record the impact of many minds. It is hard not to feel proud of your contribution when you have a record of it.

Design a Life

Design thinking has its origins in the training and professional practice of designers, but these are principles that can be practiced by everyone and extended to every field of activity. There is a big difference, though, between planning a life, drifting through life and *designing* a life.

We all know of people who go through life with every step preplanned. They knew which university they would attend, which internship would lead to a successful career and at what age they will retire. If they falter, they have parents, agents and life coaches to take up the slack. Unfortunately, this never works. And anyway, if you know the winner before the start, there's not much point in playing the game.

Like any good design team, we can have a sense of purpose without deluding ourselves that we can predict every outcome in advance, for this is the space of creativity. We can blur the distinction between the final product and the creative process that got us there. Designers work within the constraints of nature and are learning to mimic its elegance, economy and efficiency, and as citizens and consumers we, too, can learn to respect the fragile environment that surrounds and sustains us.

Above all, think of life as a prototype. We can conduct experiments, make discoveries and change our perspectives. We can look for opportunities to turn processes into projects that have tangible outcomes. We can learn how to take joy in the things we create whether they take the form of a fleeting experience or an heirloom that will last for generations. We can learn that reward comes in creation and re-creation, not just in the consumption of the world around us. Active participation in the process of creation is our right and our privilege. We can learn to measure the success of our ideas not by our bank accounts but by their impact on the world. ●

A Good Story

At the heart of any good story is a central narrative about the way an idea satisfies a need in some powerful way. As it unfolds, the story will give every character represented in it a sense of purpose and will unfold in a way that involves every participant in the action. It will be convincing but will not overwhelm us with unnecessary detail. It will include plenty of detail to ground it in some plausible reality. It will leave the audience with no doubt that the organization "narrating" it has what it takes to make it real. All this takes skill and imagination.

RECOMMENDED READING LIST

If you liked *Change by Design*, you'll also like:

1. ***Buyology* by Martin Lindstrom.** What truly influences our decisions to buy in today's message-cluttered world? Martin Lindstrom presents astonishing findings from his groundbreaking neuromarketing study.
2. ***From Concept to Consumer* by Phil Baker.** Renowned product developer Phil Baker explains how a great idea accounts for only 5 percent of all the factors of success. He shows how to take an idea and turn it into a successful product.
3. ***The Shift* by Scott M. Davis.** *The Shift* shows how a new breed of *Visionary Marketers* has become a successful catalyst for growth and transformation within an organization.

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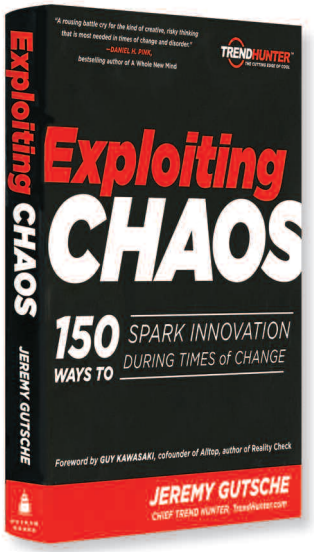
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Exploiting Chaos

Bonus Summary

150 Ways to Spark Innovation During Times of Change



by Jeremy Gutsche

THE SUMMARY IN BRIEF

Chaos is the uncertainty sparked by uncharted territory, economic recession and bubbles of opportunity. Chaos causes organizations to retreat, but not always.

Did you know that Hewlett-Packard, Disney, Hyatt, MTV, CNN, Microsoft, Burger King and GE all started during periods of economic recession? Periods of uncertainty fuel tremendous opportunity, but they also reshuffle the deck and change the rules of the game.

Dramatic change and simple evolution give birth to a new set of market needs. In *Exploiting Chaos*, innovation expert Jeremy Gutsche shares powerful ideas and vivid stories that will help you stimulate creativity, identify opportunity and, ultimately, exploit chaos.

This summary offers a business survival guide for all those looking to change the world. Topics include sparking a revolution, trend hunting, adaptive innovation and infectious messaging.

Gutsche, one of the world's top trend spotters, reveals powerful strategies for thriving in any economic climate. He offers the quintessential road map for all those who seek opportunity in times of change. Gutsche explores how remarkable companies have risen from chaos, and he provides a toolkit that managers can use to foster a culture of innovation, create great products and services, and change the world.

IN THIS SUMMARY, YOU WILL LEARN:

- How to contemplate what's next for brands, commerce and consumerism.
- How to break boundaries, ignite customer passion and start a revolution.
- How to find simplicity in the clutter.
- Where to find opportunity in the middle of difficulty.
- How to identify new market needs and enjoy remarkable success.

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THE COMPLETE SUMMARY: **EXPLOITING CHAOS**

by Jeremy Gutsche

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From *Exploiting Chaos: 150 Ways to Spark Innovation During Times of Change* by Jeremy Gutsche. Copyright © 2009 by Jeremy Gutsche. Summarized by arrangement with Gotham Books, a member of Penguin Group (USA) Inc. 271 pages, $20.00, ISBN 978-1-592-40507-7. To purchase this book, go to www.amazon.com or www.bn.com.

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Part 1: A Bit of History

Prior to the Great Depression, the only cereal brand that mattered was Post. After your great-grandfather silenced the piercing bells of his wind-up alarm clock, he savored the delicious taste of Post Grape-Nuts. Launched in 1897, the cereal dominated the marketplace leading up to the 1930s.

As the Great Depression tightened its angry claws on America, Post found itself hungry for cash. The prominent cereal maker assumed they "owned" the market. Accordingly, advertising budgets were cut to weather the storm.

As the managers of Post reclined in their rawhide chairs, bracing for a slow economy, a hungry tiger lurked in the shadows. That tiger was the Kellogg Company. Their mascot, Tony the Tiger, had not yet appeared, but his insatiable spirit was already born.

While Post retreated, Kellogg doubled their ad spend. In 1933, their campaigns introduced slogans like "Snap! Crackle! Pop!" and "You'll feel better"— motivational mantras during a gloomy era. The investment paid off. Americans loved the message and sales began to grow. Kellogg's brand became the go-to pick for breakfast cereal and your great-grandfather abandoned his beloved Post Grape-Nuts.

The upbeat impact of crisis is that competitors become mediocre and the ambitious find ways to grow.

You Can Thrive in Times of Loss

During the Great Depression, unemployment soared to 25 percent, 15,000 banks failed and Wall Street was no longer a place of glamour. Four dreadful months into this depression, Henry R. Luce launched a pricey magazine titled *Fortune*. At $1 an issue, the cover price surpassed the cost of a functional wool sweater. Seemingly bad timing.

Eight years later, *Fortune* had grown its subscriber base to 460,000 people. By 1937 the magazine reported an annual profit of $500,000. Scaled for inflation, that amounts to more than $7 million today.

Kellogg Professor Andrew J. Razeghi suggests, "*Fortune* worked for the very same reason that all great new products work: It made a uniquely relevant contribution to its customers' lives (period)." *Fortune* was more than just a publication. It was a glimpse into the boardrooms of those that survived; *Fortune* was an answer.

Innovation is not about market timing. It is about creating something that fulfills an unmet need.

Don't Become a Boiled Frog

Viral videos, e-commerce, the blogosphere, e-mail, social media, crowd sourcing and a lack of self-censorship — these are the shifts toppling major corporations today. The sneaky thing is that these shifts are not happening overnight; rather, they are slowly creeping up on us.

It's kind of like boiling a frog.

If you place a frog into a pot of boiling water, he'll immediately hop out. If you place a frog into a pot of lukewarm water and slowly dial up the heat, he will keep swimming until he's boiled alive. Like us, the frog is more sensitive to shocking change. If change is moderate, urgency becomes less apparent. Before we know it

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— hey, what's that smell? — we're cooked.

Peter Drucker, regarded as the father of modern management, noted the following at age 94, "We now accept the fact that learning is a lifelong process of keeping abreast of change. And the most pressing task is to teach people how to learn."

The key to adaptation is recognizing the ongoing need for moderate change.

Stay Focused on Opportunity

At the turn of the century, the Internet bubble was collapsing. The tech market was a land of popped aspirations and broken dreams.

Three years later, Apple CEO Steve Jobs was under fire for *still* maintaining his Research and Development budget. *Didn't he get it?* Shareholders wanted Apple to reduce costs. The clairvoyant CEO defended his vision: "What has happened in technology over the last few years has been about the downturn, not the future of technology. A lot of companies have chosen to downsize, and maybe that was right for them. We chose a different path. Our belief was that if we kept putting great products in front of [customers], they would continue to open their wallets. And that's what we've done. We've been turning out more new products than ever before."

What Jobs didn't mention was that post-bubble economics enabled him to hire an army of affordable talent.

That same year, Apple launched iTunes. By 2008, 4 billion songs had been downloaded, and iTunes now rocks the market, selling more music than Wal-Mart.

It's good to be bigger than Wal-Mart.

An undying focus on the future can lead to invention.

Accept That the World Never Returns to Normal

There is a commonality between Kellogg, *Fortune* and Apple. Successful innovators do not get caught up in the *turmoil* of change. They don't wait for the world to return to normal. Impervious to the clutter that surrounds them, these vanguards adapt to opportunity. Sometimes they take a buckshot approach, firing off new ideas in multiple directions, hoping that one idea will "hit." Sometimes, like snipers, they zero in on a specific opportunity.

What they do *not* do is stand still.

The time to act is always now.

You don't need to have everything figured out.

Colloquially, chaos is synonymous with stress and disorder, but this doesn't have to be true. By knowing that you *can* adapt, and by seizing the opportunity presented by chaos, you can avoid being trampled and step away from the herd.

There is comfort in chaos. Even in a chaotic world, some sense of stability can exist. While chaos does require you to act, it does not require precision.

Once you accept the inevitability of perpetual change, you can abandon your quest to gain control and, instead, go with the flow. ●

Part 2: Culture of Revolution

The key to navigating chaos lies not in your strategy, but rather in your organizational culture. If you want to change the course of your organization's future, you need to spark a revolution.

There are four tools that can be used to enhance the culture of your organization: *Perspective, Experimental Failure, Customer Obsession* and *Intentional Destruction.*

To navigate through chaos, your organization needs to be revolutionary in these areas.

Perspective

Your perspective is the way you look at the future and the problems that you are trying to solve. Your perspective determines your destiny.

In a *Harvard Business Review* article titled "Disruption Is a Moving Target," Scott Anthony reports that disruption is a three-step process:

1. *"Disruptors enter a market incumbents don't care about."* By servicing unwanted customers, they build maverick brands.

2. *"Entrants grow as incumbents flee."* Growing in popularity and success, entrants begin to creep up the value chain. The "old school" incumbents respond by shifting focus away from their full customer base and instead toward "high-value customers."

3. *"The incumbent hits a ceiling."* Once new entrants reach a critical mass, they create partnerships that enable them to "go for the kill." The incumbents get pushed past their ability to compete and crisis ensues.

To a big company, this pattern of disruption can be used to create strategies for survival. To a small company, it can influence the plan of attack.

Experimental Failure

Navigating through chaos requires your organization to adapt and change. This requires a culture that encourages testing and experimental failure.

A decent proportion of your creations must fail.

Navigating through chaos requires a deep understanding of what you can and cannot do. Failure is a part of this learning process. To accept failure you need to find positive ways to interpret unexpected results. Here's how Edison looked at it: "I have not failed 1,000 times. I have successfully discovered 1,000 ways to *not* make a light bulb."

Successful ideas first require excessive testing and experimental failure.

Customer Obsession

Breakthrough ideas and disruptive innovation stem from a deep understanding of the customer.

If you want to engage, invoke a cultural connection. Regardless of what you are trying to communicate there is a range of impact based on *how* you convey your message, from functional, to incentive, to emotional, to cultural.

Create an emotional connection, and you could be remembered. To *really* create an impact, you'd need to make a cultural connection.

When a cultural connection is made, your product or service becomes a reflection of your customer's lifestyle.

A cultural connection is empowering. It aligns with the soul of one's identity and beliefs. It's the reason people tattoo Harley-Davidson's corporate logo onto their arms.

When you make a cultural connection, people don't think of your creation as a product; they think of your creation as a part of their identity. To create this type of connection, you need to understand your customer.

When your world changes unexpectedly, or when your customer is very different from you, customer obsession can be the fastest way to gain perspective.

Intentional Destruction

In order to adapt, we must intentionally destroy. We need to break down the structure and hierarchy that prevents us from seeing the realities of market change.

Most animals behave instinctively. But for primates, including humans, behavior is learned within a social structure. We follow organizational patterns and rules unless those rules are dramatically changed.

Stanford neuroscientist Robert Sapolsky studies the social structure of baboons. More than 20 years ago, Sapolsky observed a baboon troop with multiple layers of structural rank. Socially senior baboons would beat on middle-ranking baboons who would in turn beat on lower-ranking baboons.

But then something happened. The senior ranked males started fighting a neighboring troop over tourist garbage. Eating trash exposed the aggressive males to tuberculosis-tainted meat.

Over the next three years, the elders died off, leaving the troop absent of structure. Instead of recreating multiple levels of aggressive hierarchy, the young baboons created a culture of pacifism. Acts of friendship replaced aggression.

Instead of struggling, the community flourished. Hormone samples indicated lower stress and the same culture remains 20 years later.

Organizational structure guides the way we grow and the way we think. To spark a revolution, structure needs to be broken down.

Become Leaderless

In *The Starfish and the Spider*, Rod Beckstrom and his co-author Ori Brafman explore what they call the *"unstoppable power of leaderless organizations"* using the metaphor of the starfish.

When you pull off the arms of a spider, it dies. In contrast, if you rip off the five arms of a starfish, you'll get five new starfish. This happens because starfish have decentralized nervous systems.

Like a starfish, a terrorist network is decentralized, united only by ideology. If you attack one arm, it grows back even stronger.

In 1934, Bill Wilson was a talented individual who drowned his Wall Street career by being perpetually intoxicated. In the years that followed, he created a support group that would later be known as Alcoholics Anonymous (AA). In their most recent Fact File, AA reported more than 100,000 support groups totaling nearly 2 million members.

Despite its success, AA describes its structure as follows, *"Alcoholics Anonymous is not organized in the formal or political sense. There are no governing officers, no rules or regulations, no fees or dues."* Instead, the organization thrives based on a universal ideology.

Inspired by this, Beckstrom and Brafman created Global Peace Networks, an underground ring of CEOs united by a common ideology for peace (and business). In 2003, these CEOs initiated Track II diplomacy between India and Pakistan. Specifically, the actions opened the borders, enabled trade and contributed to the end of the latest Indo-Pak war.

The authors summarized their view toward innovation

using a rule they call *The Power of Chaos*: "Starfish systems are wonderful incubators for creative, destructive, innovative or crazy ideas. Anything goes. Good ideas will attract more people, and in a circle, they'll execute the plan. Institute order and rigid structure, and while you may achieve standardization, you'll also squelch creativity. Where creativity is valuable, learning to accept chaos is a must."

Chaos should not be tempered with structure, it should be harnessed with ideology. ●

Part 3: Trend Hunting

Innovation and strategic advantage hinge on the ability to anticipate trends and identify the next big thing. By casting a wide net and clustering ideas, you can filter through chaos to identify patterns of opportunity.

Trend Hunting can be broken down into four steps:

1. Reset: Erase your expectations and start with a blank slate.

2. Hunt: Study customer needs, market dynamics and random sources of inspiration.

3. Cluster: Identify meaningful patterns, not macro trends.

4. Re-Cluster: Force yourself to look beyond your initial bias.

Reset

There's no point innovating if you think you already know the answer.

Brainstorming meetings are supposed to generate killer strategies and smoking-hot ideas. The problem is that we enter those meetings with a few ideas that we already want to incorporate. We then work those ideas into the mix and let everything else convince us that our original ideas were really good. *Tragic.*

When Marco Morrossini, a designer for Ferrari, was asked how he spots trends, he said he spends half his time designing handbags, scarecrow fashion and temples for dogs (yes, dog architecture). He explained, "You need to be more open to the complete possibility of what could be."

In his mind, there is no way that he could keep his work at Ferrari on the cutting edge of macho automotive design if he wasn't also on the cutting edge of experimental female fashion.

It doesn't matter if you are a bureaucrat or a bartender, the concept of Trend Hunting applies to your role. But it requires an open mind and a willingness to explore seemingly random innovation.

Before trend spotting, reset your expectations.

Awaken Your Inner Trend Hunter

Hunting for new ideas can be exciting, but the constant need to focus can also become tedious. It's not challenging to find a random idea, but it's tremendously difficult to narrow in on something spectacular. To get inspired, actively hunt in three places:

Customers: Above all, innovation starts with the customer. In times of chaos, your customer will be looking for dramatic change. So obsess about your customers! Who are they? What do they need?

Competitors: Closely observing your competitors can be a helpful way to understand the market. The trick is to have the right definition of who your competitors are. Looking more broadly for competitors can trigger more stellar ideas.

Adjacent Markets and Pop Culture: Breakthrough innovation blends an intimate knowledge of the customer with culture and emerging technology.

If you want to spark inspiration, you need to hunt ideas that seem "cool." But what exactly is cool?

Popular is not cool. Cool is unique and cutting edge. Most importantly cool is viral … which is why marketers and product designers seek to attain it.

Ugg boots, Von Dutch hats, Hush Puppies, iPods, 7 For All Mankind jeans, Crocs and MINI Coopers — breakthrough products become viral because they are unique.

Truly unique ideas can drive viral behavior.

Cluster

Group ideas into meaningful clusters.

Why use a word like "cluster" instead of "trend"? Quite simply, the word "trend" is too broad. It can refer to next fall's fashionable color, or to macro-trends like the green movement, female buyers, consolidation, outsourcing, Web 2.0 and aging boomers. These trends are somewhat useful, but too generic to enable breakthrough thinking.

Clustering is the art of identifying insights that are meaningful to your customer. To create clusters, you'll need to collect your observations from Trend Hunting and filter through the noise.

The clusters you identify will become the focus of your innovation.

Re-Cluster

The human mind is great at identifying patterns by creating shortcuts!

We create stereotypes, heuristics and schemas to make our thought processes more efficient. In the innovation process, this means our natural tendency is to identify trends we were already aware of, and reinforce those trends with examples. This is bad.

Forcing yourself to re-cluster will enable you to escape your bias and unlock truly unique patterns. ●

Part 4: Adaptive Innovation

Informed by your Trend Hunting, you'll be inspired to develop new ideas. But chaotic markets and untamed creativity have the potential to take you dangerously off-course.

To increase the consistency of winning, you need to manage your innovation like a stock portfolio and approach innovation in a methodical, adaptive way.

Be Methodical, But Circular

Adaptive innovation follows a series of methodical steps. Definitive steps create scientific rigor and consistency:

Step 1. *Define* a clear customer need. A well-defined problem will dictate the outcome of your entire project, so you want to ensure that your insight is specific. When screening for opportunity, look deeper than the broadest idea. Look for underserved niches of opportunity.

Step 2: *Ideate* like it matters. "Ideate" is a better word for brainstorming. When someone is able to build upon the idea of someone else, it proves that your exercise is actually inspiring new ways of thinking. At the Stanford Institute of Design, the goal for an hour of brainstorming was around 100 ideas. Make ideation the best part of your job and passion will translate into breakthrough ideas.

Step 3: *Synthesize* in a smaller team. Collect (100 ideas): Start with your results from Step 2. Filter (20 ideas): Find the best nuggets! In a smaller team, create clusters or simply pick the best ideas. Refine (10 ideas): Prepare "headlines" for your best 10 ideas as if you were selling them to a customer. Rank Order (10 ideas, ranked): Quantitatively rank your 10 refined ideas. Ideally, perform an online survey with a sample of your actual customers. Focus (3 ideas): Select your three best ideas to move on to Step 4.

Step 4: Create rapid *prototypes*. "Rapid prototyping" involves creating pretend versions of your product or service. It's different than planning in that you are building something to simulate the experience. This could mean creating a skit to preview a new experience, or spending a couple hours building a model of a sample store. *The act of creating a physical prototype allows you to visualize the concept and obtain useful feedback. When you move at a speed that makes you uncomfortable, you eliminate wasteful steps.*

Step 5: *Test* and optimize. Find ways to quantify the uncertainty and each successive design will inch closer to breakthrough innovation. When companies are good at something they make slight tweaks to improve — they climb to the peak of the hill they are already on. When finding a new hill, you cannot get caught up in testing small details. You need to explore broadly. *By exploring and measuring ambiguity, chaos becomes order.*

Repeat. What is the problem that you are really trying to solve? Don't be complacent; push yourself to redefine what you are trying to do.

Innovation is circular. Like a dog chasing its own tail, you always need to be adapting, redefining the customer need you are trying to solve. Unlike a dog, you will become more intelligent with each spin.

Adaptive innovation is methodical and circular.

Manage Innovation Like a Stock Portfolio

To navigate chaos, these six portfolio tactics increase certainty and help to manage risk:

- **Diversify.** For innovators, diversification means working on multiple projects at once, setting aside exploration time and trying both high- and low-risk projects. *Diversification increases your consistency while reducing risk.*

- **Control the size of your bet.** Part of portfolio management means budgeting the size of each experiment and forcing yourself to be creative within that box. *Even artificial constraints can lead you to success.*

- **Don't overreact.** When gamblers suffer a big loss, the natural reaction is to become more conservative on the next bet. This is referred to as the *snakebite effect*. It stems from the concept that a real snakebite makes you want to curl up in fear afterward. In organizations, we receive "snakebites" when we fail, which basically happens everywhere that we explore dramatic change. Snakebites lead teams to become too conservative with their innovation. The danger in today's chaotic environment is that giant losses in the market will cause companies to be excessively cautious. Innovation budgets become the first places to scale back after a snakebite, but calculated risks still need to be taken.

- **Bigger risk = bigger reward.** You don't have to be fully invested in risky projects, but even the most

conservative portfolio needs exposure to emerging opportunities. As the 13th-century German theologian Meister Eckhart noted, "The price of inaction is far greater than the cost of making a mistake." Take advantage of uncertainty. *Uncertainty makes innovation less expensive.*

• **Pursue alpha.** In portfolio management, *alpha* is the term for the excess profit, the amount beyond what you should have made, given the level of risk you took. The concept suggests that you should only pursue projects that create disproportionate value. Michael Dell relates this concept to Research and Development (R&D), where he believes companies become too fixated on the glamour associated with large innovation budgets. He believes this causes managers to lose focus on the purpose of innovation itself. *Innovation needs to deliver real value.* Instead of adding projects to your list, consider how you could divide opportunity by creating R&D partnerships with suppliers, customers and even competitors. *Think differently about how you achieve your innovation goals.*

• **Ignore sunk costs.** We have a natural tendency to hang on. Psychologically, we experience "post-decision justification," which means we cling to our decision regardless of the outcome. We think about how much we've invested *so far* and we become emotionally committed. When investing, you have the luxury of anonymity. Nobody can see your mistake and you can pull out at any time. But it's still difficult. In organizations, there is no anonymity. People know which projects are failing, pride becomes involved and jobs may be on the line. This makes the power of sunk costs paralyzing. *Know when to give up. Nothing is precious.* ●

Part 5: Infectious Messaging

The Internet has created a world cluttered with chaos, but it has also created the world's first viral platform for ideas. Well-packaged stories travel faster than ever.

Unfortunately, most marketers are stuck in a world dominated by traditional marketing and cliché.

By cultivating infection, your ideas will resonate, helping you leapfrog ahead of the competition. To do this, we'll break the chemistry of infection into four categories: *The Product, The Medium, Context* and *The Actual Infection.*

The Product

Do you ever work from home? If so, you know the joys of working in your boxer shorts (or pajamas), but sometimes you need to videoconference with your team. If so, you need a suit, but you don't need any suit, you need a *half-suit.*

An actual product, known as the Business Bib, this little half-suit is all business up top, and all party down below.

When Trend Hunter wrote about the half-suit in 2006, there were 180 sites that linked to the article. Thousands linked to those sites and, by their calculation, that little half-suit was exposed to millions of free views.

Today, the article no longer sits in Trend Hunter's Top 100 list, but they love the half-suit because it was their first experience at the epicenter of the viral blogosphere.

Your product won't be a half-suit, but the lesson is that, for the first time in history, we have a viral platform.

Create something that is interesting to your customers and your product will have the potential to become viral.

The Medium

Joshua Bell plays a $3.5 million Stradivarius violin. He played the music in the 1999 film *The Red Violin.* When he is on stage, he makes $1,000 per minute.

Bell is quite simply one of the best violinists in the world. Accordingly, the *Washington Post* wanted to throw an unannounced concert. They wanted to do this in the busiest public walkway they could find, the D.C. Metro corridor, which more than 1,000 people pass through every hour. The planners wanted to know how many people would stop, even for a moment, to watch him. Half? That would be roughly 500 people. Perhaps that's too many. 200? 100? Probably at least 50, right?

As it turns out, only seven people stopped.

In his category, Josh Bell is the best product in the world, but when he is packaged in the wrong way, he does not make $1,000 a minute. He makes just $35 in a whole hour (most of which was from one lady who actually recognized him).

The medium can ruin your message.

Context

Pampers, Cheer and Oil of Olay. These are just a few of the products that make Procter & Gamble (P&G) a legendary marketer. Historically, however, P&G struggled to apply their formula for success to the Japanese market. By 1985, P&G Japan accumulated losses of $200 million. The venture was a spectacular failure.

In 1991, P&G Japan cranked up their game with the purchase of Max Factor, a growing company with $300

million in cosmetics revenue. Over the next three years, P&G Japan's magical touch caused Max Factor to shrink, losing another $50 million.

Then, in 1997, P&G became radically more attuned to Japanese culture, both in business strategy and in their marketing approach. The most significant example was the marketing for SK-II, a premium skin cream. Instead of advertising features, they began advertising mythology: "*The fascinating story behind SK-II began at a sake brewery in Japan, where scientists noticed the elderly workers had wrinkled faces, but extraordinarily soft and youthful hands. These hands were in constant contact with the sake fermentation process. It took years of research for scientists to isolate the miracle ingredient Pitera®, a naturally occurring liquid from the yeast fermentation process.*" The best part is that the miracle "ingredient" is a registered trademark. Is it an ingredient or a brand? Either way, SK-II became the star product, rocketing up to $150 million in revenue by 1999.

Mythology creates a vivid emotion that surrounds your brand.

Know Why I Should Choose You

Southwest Airlines is the most successful and most studied airline ever. One key factor was Herb Kelleher's relentless focus on the mantra, "low-fare airline."

In *Made to Stick*, authors Chip and Dan Heath suggest that this sort of mantra works because it creates a forced prioritization; it teaches people what to think and how to react.

In times of chaos and dramatic change, a mantra enables adaptation. A powerful mantra leads to alignment and success.

Humans have a powerful short-term working memory. The peculiarity is that the short-term memory appears to have a finite capacity. In 1956, cognitive psychologist George A. Miller suggested that this capacity was 7 +/ -2 items. Decades later it was determined to be roughly 2.5 seconds of information. In English, that equates to 7 +/ -2 words. In Chinese, it can accommodate 10 words.

The implication is that people are remarkably better at remembering messages with seven words or less. The concept of "seven words or less" is so powerful that some marketing boutiques, like BluePrint, do nothing but help companies arrive at seven words or less to answer the question, "Why should I choose you?"

Companies like Southwest become successful because of their consistent answer, but most organizations lack a concise articulation of their value proposition, their purpose.

Know your seven words.

Chaos Permits You to Think Differently

Raphael, da Vinci, Michelangelo, Machiavelli, Copernicus and Galileo. From the 14th to the 17th century, the human race would be forever changed by the breakthroughs of the Renaissance.

In philosophy, the humanist movement encouraged scholars to build upon knowledge, rather than to break it down. In art, traditional styles were eclipsed by the realism and perspective introduced by "the greats." Artists like da Vinci blurred the lines between art, science and invention.The Scientific Revolution began, marking the beginning of the modern age.

In short, a new way of thinking emerged from the 14th-century eruption of the Black Death, the deadliest pandemic in human history. Nearly half of the European population died, causing a state of chaos. But this chaos caused archaic social structures to collapse. It forced a period of remarkable adaptation.

In our lives, we are unlikely to experience an atmosphere of chaos that compares to the intensity of the Black Death. However, parallels of opportunity will be created as our history evolves.

Fast forward to 2009 and the world has entered a period of economic crisis. The global markets lost a decade of value, collapsing to levels that hadn't been seen since the 1990s. General Motors, Lehman Brothers, Washington Mutual, *Chicago Sun-Times*, Linens 'n Things, Circuit City, Trump Entertainment, Tropicana Casinos and Nortel Networks all declared bankruptcy. Major retailers and corporate icons have fallen apart.

Collapse of any kind sends ripples through the economy, but it also gives birth to new opportunity. When outdated structures break down, the world becomes open to new ways of thinking.

Chaos creates opportunity

By leveraging viral trends and methodical innovation, you can identify opportunity, stimulate creativity and, ultimately, exploit chaos. ●

RECOMMENDED READING LIST

If you liked *Exploiting Chaos*, you'll also like:

1. ***Chaotics* by John Caslione and Philip Kotler.** The authors demonstrate how to succeed in the new normality of a constant cycle of turbulence in the economy.
2. ***Predictable Results in Unpredictable Times* by Stephen R. Covey and Bob Whitman.** Management legend Covey teams with author Whitman to deliver advice on how to navigate a turbulent economy.
3. ***Proactive Risk Management* by Preston G. Smith and Guy M. Merritt.** Dramatically improve the way you handle project risks using a practical, easy-to-use, fact-based approach.

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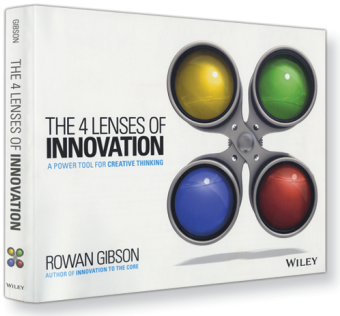
37-27 The Four Lenses of Innovation

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The Four Lenses of Innovation

A Power Tool for Creative Thinking



by Rowan Gibson

THE SUMMARY IN BRIEF

Ever wonder where big, breakthrough ideas come from? How do innovators manage to spot the opportunities for industry revolution that everyone else seems to miss?

Contrary to popular belief, innovation is not some mystical art that's forbidden to mere mortals. *The Four Lenses of Innovation* thoroughly debunks this pervasive myth by delivering what we've long been hoping for: the news that innovation is systematic, it's methodical and we can all achieve it.

By asking how the world's top innovators came up with their game-changing ideas, best-selling author Rowan Gibson identifies four key business perspectives that will enable you to discover groundbreaking opportunities for innovation and growth: Challenging Orthodoxies, Harnessing Trends, Leveraging Resources and Understanding Needs.

Other books promise the keys to innovation — this one delivers them. With thought-provoking examples and features like the Eight-Step Model for Building a Breakthrough, *The Four Lenses of Innovation* will teach you how to reverse-engineer creative genius and make radical business innovation an everyday reality inside your organization.

IN THIS SUMMARY, YOU WILL LEARN:

- How innovators from the Renaissance through the present have used the Four Lenses of Innovation.
- Why patterns are fundamental to innovation.
- The skills required for seeing the future in the present.
- The difference between insights and ideas.
- To apply the Four Lenses systematically to your organization.

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THE COMPLETE SUMMARY: **THE FOUR LENSES OF INNOVATION**

by Rowan Gibson

The author: Rowan Gibson is widely recognized as one of the world's foremost thought leaders on business innovation. Over the last two decades, Gibson's international clients have included some of the world's largest and most successful companies. He teaches them how to seize new growth opportunities, create new markets and even transform entire industries by recalibrating their management systems around the paradigm of innovation.

The Four Lenses of Innovation: A Power Tool for Creative Thinking by Rowan Gibson. Copyright © 2015 by Rowan Gibson. Summarized by permission of the publisher, John Wiley & Sons, Inc. 304 pages, $35.00, ISBN: 978-1-11874-024-8.

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PART I: THE MIND OF THE INNOVATOR

We all seem to know what an innovator is. But what's been harder to define for thousands of years is how innovators actually come up with their ideas.

In ancient times, it was believed that creativity was not a human attribute at all but solely a divine one. The Sumerians, who are credited with a large number of technological and social innovations at the very beginning of human history, believed that the many creative achievements of their civilization were not due to their own efforts but rather were gifts from the gods.

In the Judeo-Christian tradition, human beings were likewise not considered to be "creative." They were makers and users of things that God had created in the first place.

Everything started to change with the European Renaissance of the 14th to the 17th centuries, and in particular with the birth of humanism. That's when the belief began to spread that great creative or scientific accomplishments were the direct result of a person's own education and abilities rather than the work of some external divine entity. Suddenly, it was the human being that was the genius. And in this exciting new age, as rationalism slowly eroded the power of mysticism, people were encouraged to tap into their own intellectual and creative capacities in unprecedented ways. Thus, the Renaissance ushered in an era of unleashed human potential, producing a slew of technological, artistic and cultural achievements.

What we primarily want to understand is the innovative *thinking patterns and dispositions* that became so prevalent in the Renaissance period.

Challenging Orthodoxies

Perhaps the first thing that comes to mind when we think about Renaissance innovators is their contrarian spirit. It was a time when people began to ask skeptical questions that had never been asked before and to challenge deeply entrenched beliefs that had long been taken for granted. For example: Copernicus, Galileo and Kepler asked, "What if the Earth is not the center of the Universe? What if it revolves around the Sun along with the other planets?"

Machiavelli asked, "What if politics has nothing to do with theology or morality? What if it's simply about using all means — fair and foul — to retain power?"

Filippo Brunelleschi and Leon Battista Alberti asked, "Why can't a painting be less like wall decoration and more like a window into the natural world? What if we used mathematical and optical principles to imitate objects so accurately that they look entirely real?"

Amerigo Vespucci asked, "What if the Earth has a much larger circumference than we learned from Ptolemy's cartography? What if these lands Columbus has newly discovered are not the Indies at all but in fact another whole continent — a New World?"

Almost by definition, these Renaissance revolutionaries were nonconformists who were willing to contest previously held truths — beliefs and assumptions that had been accepted as absolute gospel for perhaps a thousand years or more — and to reinvent their worldview completely from scratch. Many of them were branded as heretics or lunatics. Yet their propensity to break the chains of precedent and to challenge conventional thinking became the basis for a whole string of breakthrough discoveries and new philosophies that literally changed our world.

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This capacity to challenge orthodoxies and to propose perhaps wildly antithetical alternatives is one of the fundamental driving forces for innovation.

Harnessing Trends

If preceding centuries were a period of stagnation, the Renaissance period was an age of the new. There were new philosophies and ideals; new styles and techniques of art, literature, music and architecture; new scientific breakthroughs; new industrial methods; new economic models; new forms of commerce; new trading patterns; new influences from the East; new and bigger towns; new kinds of government; new secular education systems; new ways of dressing; new kinds of food; and even new countries and colonies on the map.

Much of the quantum leap in creativity and innovation during this period came from the ability to understand and harness these new trends. Revolutionary breakthroughs are often built on some deep discontinuity — a convergence or systemic cluster of trends — that has the potential to create dramatic change or disruption.

Leveraging Resources

The third thinking pattern we want to examine in our study of the Renaissance mindset is the ability of innovators to see themselves, and the world around them, as a collection of skills and assets that can be recombined or stretched into new opportunities.

Filippo Brunelleschi, for example, who is regarded as one of the seminal figures of the entire period, started out as a master goldsmith. But he also studied literature and mathematics and had a strong artistic leaning. Brunelleschi was able to masterfully leverage his portfolio of skills beyond metalworking into sculpture, clock-making, architecture, archeology, engineering and even ship design — in many cases achieving what had literally never been done before.

In 1410 Brunelleschi succeeded in inventing the world's first portable clock. By borrowing and repurposing technologies from different fields, Brunelleschi was able to make a clock that was not only much smaller and lighter but, more importantly, portable for the very first time.

However, Brunelleschi is best remembered not for his contribution to clock-making but for his achievements in architecture. His major work was the huge dome of Florence Cathedral (known as the Duomo), which is considered one of the greatest engineering accomplishments since antiquity. Nobody had ever built a self-supporting dome before, and none of his contemporary architects had any idea how to do it. Brunelleschi had to rewrite all the architectural rules, inventing his own mathematical, structural and building solutions at every step of the project.

He was constantly trying to expand his portfolio of skills and assets and to redeploy them in new ways or new contexts. He proved himself a genius at leveraging his own resources — and those he discovered around him — to transition into different kinds of opportunities.

This attitude, the awareness of our limitless capacity for developing, stretching and synthesizing resources, is one of the recurrent thinking patterns we find when we study the mind of the innovator.

Understanding Needs

The fourth pattern of thinking that was characteristic of Renaissance innovators was their seemingly insatiable curiosity for the world around them and their unshakeable belief that they could make the world an increasingly better place.

No figure from the period epitomizes this more than Leonardo da Vinci. Helen Gardner, in her book *Art through the Ages*, writes of da Vinci's "unquenchable curiosity," and we see this reflected in the 13,000 pages of his famous journals, in which he made a daily record — in notes, drawings and scientific diagrams — of his observations and studies. These notebooks cover a wide range of interests and phenomena, from human anatomy and facial expressions to animals, birds, plants, rocks, water, chemistry, optics, painting, astronomy, architecture and engineering.

Da Vinci's acute observations led him to think about and try to solve problems that hadn't been seriously considered before. Nobody, for example, was asking for a parachute, a car, a submarine, a hang glider, a diving suit, a helicopter, a calculator, or floating shoes and stocks for walking on water, but Leonardo da Vinci invented, or at least conceptualized, these things.

Da Vinci was able to spot unmet needs and innovation opportunities because he was vastly more observant and more engaged with his environment than others. He was focusing his attention on issues and frustrations that most people simply ignored.

Renaissance innovators figured out how to connect what was possible with what was needed.

This, then, is the fourth perspective or thinking pattern of the innovator — the desire to develop deep insights

into all kinds of phenomena and to use new knowledge to solve problems, address needs and improve quality of life in completely novel ways.

The Four Lenses of Innovation

If we could distill from our study of the Renaissance a key principle of creativity and innovation, it would be this: The breakthrough discoveries of that period were made not because people were simply connecting and conversing with a rich network of contemporaries from different fields but because they were looking at the world from some refreshingly new and very particular angles of view.

Fundamental to building an "all-the-time, everywhere" capability for innovation is the belief that creativity is not some rare mystical power possessed by only a few specially gifted people who were simply born different from the rest of us. We need to understand that creativity is a skill that is innate in all human beings. All of us have the mental capacity for idea generation and imaginative problem-solving, and all of us can improve our creative abilities.

How then do we increase everyone's inherent capacity to come up with innovative ideas? One thing we need to do as leaders is work hard to build the kind of organizational environment that nurtures a person's ability to be creative. The other half of the equation has to do with the patterns of thinking inside our minds that unlock our ability to innovate.

Now that we are closer to understanding the mind of the innovator, the great excitement is that we can actually try to reverse-engineer it by deliberately emulating and employing the same thinking patterns or perspectives that others have used to spot unexploited opportunities and build big, breakthrough ideas.

PART II: THE POWER OF PATTERNS

At its very essence, all human thought is based on patterns. We use this innate ability of pattern recognition all the time, without even being aware of it, to identify faces, forms, voices, language, words, musical melodies, images, stories, concepts and so on.

As we grow up, get an education and gain experience in a particular line of work, the brain organizes whole bundles of information into fixed patterns known as scripts, frames or schemata, which we store in our memories for rapid access and use. It is these cognitive maps that enable us to make sense of our world every day without too much mental effort, because they allow us to automatically recognize and even predict familiar patterns — in objects or situations — while we concentrate most of our brain's processing capacity on tasks that seem more important. In effect, this is how the mind saves energy.

The downside for innovation is that we rarely go back and re-examine the patterns we have already learned, understood and filed away for future use. Our minds are extremely good at recognizing and applying existing patterns, but we are nowhere near as good at critically questioning or creatively rethinking these patterns on a continuous basis. The more fixed our patterns become, the more difficult it is for us to mentally move beyond them — to look at something conventional and reimagine it in unconventional ways. This is why we become blind to new opportunities.

Patterns and Innovation

An idea is a pattern of thought elements arranged in a particular configuration. So when we come up with a new idea, what we are actually doing is generating a new pattern or combination of thoughts — one that suggests to us an original, exciting or better course of action.

To become successful as innovators, we need to be able to step back from the many existing patterns that surround us every day — in our businesses and our personal lives — and start looking at them from completely fresh perspectives.

In turn, this requires that we alter the patterns of thinking in our minds. We need to literally change the way we think about all kinds of objects and situations in order to discover opportunities for their evolution or revolution. We need to rethink or reframe these things by looking at them from new angles of view.

What we really need is a simple tool or systematic methodology that we can use every single day to dramatically enhance our brain's natural capacity for creativity and innovation. The Four Lenses of Innovation provide us with precisely this tool.

PART III: LOOKING THROUGH THE FOUR LENSES

Here's to the Crazy Ones

Orthodoxies are the beliefs or opinions that are commonly held to be true. They are broadly shared

patterns of thinking (usually representing the viewpoint of the majority) that determine the way most people perceive certain things. Orthodoxies are the accepted norms or general standards to which a group of people adhere with a sense of certainty and which they expect new members of the group to embrace without question.

They condition us with a shared mindset that automatically determines what we believe, what we value and how we respond. These habitual patterns or collectively wired norms embed themselves so deeply in our lives and our organizations that they usually become invisible to us, which is why we rarely contest, discuss or even consider them anymore.

In themselves, orthodoxies are not necessarily bad. Actually, they are an essential part of building a large-scale enterprise. They enable companies to create, capture and mobilize a shared body of knowledge and experience that can guide their future activities and be passed on to successive generations of managers. The problem is that, if left unchallenged, orthodoxies can blind organizations to new ways of doing things. Rather than taking time out to think about alternative business models or to consider other possible solutions to familiar challenges, employees are incentivized to simply press forward toward their agreed targets, squarely focused on the way things are "supposed to be done."

This is why disruptive industry newcomers often have a big advantage. They come into an existing industry without any of the preconceptions that blind incumbents to revolutionary opportunities. Instead, they feel free to break those molds and set up their own unique approach to things. They typically leverage an innovative technology, a fresh product idea, a truly novel service concept or a game-changing business model to reinvent a stagnant industry and often seize the dominant position away from some sleepy incumbent.

That's why it's so important to regularly shake ourselves loose from this mental inertia and recalibrate our perspectives with the first lens of innovation.

Think about the way Southwest Airlines overturned common assumptions in the airline industry. They questioned the need for a "hub and spokes" route system, two segregated seating classes and a fleet of different types of aircraft. They also asked why the flight crew couldn't have some fun with their passengers, which is why Southwest's pilots and flight attendants are now known for their humorous announcements on board or for making hilarious preflight safety speeches.

Likewise, IKEA, the world's largest furniture retailer, asked why home furnishings had to be fully assembled before being sold and delivered. Instead, why not design modular units that customers could simply pick up at the store and assemble themselves?

Remember, it's the "crazy" ones who change the world. Whenever you hear "that's just the way it is," take it as an invitation to imagine how it could be or should be — then go out and make it happen!

Seeing the Future in the Present

Innovators understand change. They seem to have a knack for recognizing and harnessing the potential of things that are already changing, where others do not. They are sensitive and alert to the kinds of trends that — if scaled up — could profoundly impact the future or that could enable them to drive significant industry change.

Innovators are not just better at picking up the signals. They are better at reading them. Their accurate powers of observation are matched by exceptional powers of reflection. They have a deep curiosity that makes them wonder where some nascent development might eventually lead, how it could potentially alter the current rules of competition, what kind of new value it might create for customers or what would possibly happen if this trend intersected with others.

Most importantly, they act on this vision before others do, usually because their rivals are still denying or discounting the importance of these change factors.

Learning to Ride the Wave

If we are going to learn to ride the waves of change, we first need to develop the ability to spot and recognize emerging patterns that can reveal where the world — and our business — might be or should be going in the future. We need to immerse ourselves in what is happening right now by making sure we stay closely connected with our customers, society and the rest of the world, and by keeping our eyes and ears open at all times.

That means regularly engaging in activities that awaken your curiosity by exposing yourself to new trends, impressions and perspectives. For example, conversing with people from different industries, demographic groups, geographies and levels of the organization. Or visiting new and out of-the-ordinary places; eating in new restaurants; following new fashions in clothing, music, sport, movies and theater; getting a close-up view of new technologies; and spending more time hanging out with teenagers and other people who seem to have their finger on the pulse of change.

Repurpose, Redeploy and Recombine

Every company utilizes a specific set of resources (e.g., competencies and assets) to turn some form of input (e.g., raw materials, semifinished goods, information, ideas) into some form of output (e.g., a product or service) of value to others. Many of those resources are embedded in an organization's own business model. Others are possessed by external companies that work with the firm at various points in the value chain as part of a larger business ecosystem.

For most of the industrial era, companies have predominantly asked themselves how to use the resources available to them more *efficiently* — in other words, how do we produce basically the same kinds of goods and services only faster, better and cheaper? But in today's value-based economy, companies increasingly need to ask themselves how to use the resources available to them more *innovatively* — "How do we leverage existing skills and assets in different ways, different contexts or different combinations, in order to create new opportunities for value creation and growth?"

Nobody on earth knows how to produce and distribute carbonated soft drinks more efficiently than Coke. But the fact of the matter is that soda sales in the United States have been declining for the past 10 years (and are now falling globally), as people in general become more concerned about health, wellness and obesity issues.

So the focus at Coca-Cola is not on how to produce greater quantities of soda at lower cost but on how to use all available resources to offer customers healthier or trendier alternatives, such as fruit juices, water and energy drinks, not to forget Coke's new "healthier" soda, Coca-Cola Life.

If a company is not capable of doing this — of using resources not just efficiently (for optimized production) but also innovatively (for new value creation) — it runs the risk of one day becoming incredibly efficient at producing what customers no longer want. Nokia and Kodak are sad examples of this phenomenon.

Business history teaches us that innovators often come to their breakthroughs by decoupling, remixing and stretching existing resources. They view a company not as a set of business units but as a portfolio of distinct, standalone skills and assets that can potentially be repurposed, redeployed or recombined in different ways to create new opportunities for value creation. In fact, they look at the whole world as a rich reservoir of resources that may be leveraged to make innovation happen.

Over the last few decades, the Walt Disney Company has continued to leverage its formidable skills and assets to open up new avenues of value creation. For example, the blockbuster movie series *Pirates of the Caribbean* had its genesis as a theme-park attraction at Disneyland back in 1967. This asset was repurposed as a feature film in 2003 and went on to become a major franchise, encompassing several more movies as well as novels, video games, media publications and additional theme-park attractions. The films alone have grossed well over $3.7 billion worldwide.

Where would Sir Richard Branson and Virgin be today if he had decided not to diversify but rather to focus his efforts solely on running the world's best record stores? His advice to other companies? "You shouldn't be afraid to diversify if you are in a position to do so, especially because nothing ever stays exactly the same. ... Whenever Virgin has money I always renew my search for new opportunities."

Innovating from the Customer Backward

More and more companies are learning to engage their customers in the innovation process. However, innovating from the customer backward doesn't just mean "listening to the voice of the customer." Why not? In an interview with *BusinessWeek* in May 1998, Steve Jobs remarked, "It's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them."

Nobody, for example, told Apple they wanted a translucent desktop computer, a cool MP3 player, an online music store, a revolutionary smartphone, an App Store or a tablet computer, but once Steve Jobs showed us these amazing things we realized we definitely wanted them — and needed them.

So the challenge is to try to understand the latent needs, wants and frustrations that customers can't always articulate. The way entrepreneurs and companies get to these answers is not simply by asking customers what they want or by reading a market research report, but by trying to look at the world — and at their own brands, products and services — through the customer's eyes (the fourth lens of innovation). They immerse themselves in the customers' environment and observe how they behave and what they experience.

Whether through direct observation of the customer in his or her natural setting (perhaps making photo or video

diaries), or mapping the customer experience at every stage of the demand chain, or trying to viscerally share that experience by using your company's products and services yourself, the goal is to make the customer's needs, problems, frustrations and feelings your own. This is how you generate the kind of deep customer insights that may trigger big new innovation opportunities. Your next step will be to start thinking creatively about how to address these issues before the competition does.

Matching What Is Possible with What Is Needed

For most of the last century, corporate innovation was driven primarily from the technology side rather than the customer side. That is to say, in most large organizations it tended to start with technical R&D and engineering rather than with deep insights into customer needs.

But in today's value-based economy, where global competition and overcapacity have given the consumer more choices and more power than ever before, a large number of companies from all over the world are now competing for the same customer's money. Success has therefore come to depend on an organization's ability to bring exciting and compelling new benefits to customers — or address their unmet needs — before the competition.

In many cases, it's still the technology that comes first and the consumer application second, which can nevertheless work out just fine. But increasingly companies are starting from the other end, by first identifying an important customer need and then working backward to find a technical solution. The key point here is that both sides of the equation are vital, so the real challenge for organizations is how to get better at bringing the two together.

PART IV: HOW BIG IDEAS ARE BUILT

The fact is, creative ideas don't just occur to us spontaneously from one moment to the next. Our minds actually build them from a unique chain of associations and connections, sometimes over a considerable period of time.

There are eight steps typical of the way breakthrough thinking often happens.

1. Frame a specific challenge and focus on solving it.
2. Research the subject. Learn from the work of others.
3. Immerse yourself in the problem. Explore possible solutions.
4. Reach a roadblock. Feel the creative frustration.
5. Relax. Detach from the problem. Let it incubate in the unconscious mind.
6. Come to an illuminating insight that fundamentally shifts your perspective.
7. Build the insight (or insights) into a big idea — a new combination of thoughts.
8. Test and validate the new idea — try to make it work.

If we look at any creative business today — e.g., advertising, design, architecture — or at countless R&D labs around the world, we are likely to find some variation of this basic methodology being employed every day in the deliberate search for original or breakthrough solutions.

Two Constant Elements

If we strip the whole creative process down to its absolute basics, we find that there are in fact only two constants: two elements that can never be skipped and that always occur in exactly the same order. In fact, these two critical elements are indispensable to every single innovation story in the world.

One element is the big idea. Obviously, at the heart of every significant innovation there is a compelling and value-creating idea of some kind — a new combination of thoughts. The other element is the illuminating insight (or insights). Without fail, every big idea was preceded by at least one insight — a new and penetrating understanding into a situation or problem.

These two elements of the creative thinking process — the insight and the idea — are invariably present in each case and are always inextricably connected. Why? Because if there was one universal law of innovation, it would be this: Powerful new ideas are never simply snatched out of the air. They are always inspired by insights.

What Exactly Is an Insight?

Talk to cognitive scientists and they will tell you an insight is the moment you spontaneously come to an understanding of a previously incomprehensible concept, or you suddenly grasp the solution to a seemingly unsolvable problem. But what if the insight, the formation of a new idea and the "aha!" experience are not necessarily the same thing at all?

In the eight-step model of the creative process, the insight is not the grand finale, the culmination point, the flash of genius when all the pieces "click" together and we suddenly become aware of a breakthrough solution.

Rather, it is the point immediately preceding all of that — the step that catalyzes the "leaps of association" that act as precursors for a new idea. The insight, in other words, is not the end in itself but the means to an end. It is the trigger that sets things in motion. Here's the distinction: An insight is not a new idea — or even the recognition of a new idea — it is a fresh thought or an illuminating understanding that inspires a new idea.

An insight is a striking realization that fundamentally changes our thinking. Simply put, an insight is something you previously didn't know, or yet think about, that has the power to surprise and inspire you.

And what role do such insights play in the creative thinking process? As Scott Gray, head of planning at digital marketing agency Quirk, puts it, "Insights are to an idea what firelighters are to a fire. They represent the best way of generating great ideas that inspire success."

Understanding Ideation

You can't produce big, breakthrough ideas unless you first generate the right kinds of insights. We need to understand that the output is dependent on the input. Investing time, money and effort in innovation without first building a rich portfolio of insights is mostly a fruitless exercise. People are being asked to make giant leaps in creative thinking but without the intellectual stepping stones they need to get them from here to there.

Ask yourself, how fresh and inspiring are the insights you are generating? How deep and meaningful are they? How differentiated are they from the insights your competitors are using in their own innovation efforts? Would they surprise your competitors? Are they novel and unique? Are they powerful enough to open up significant new opportunities for innovation?

Working With the Four Lenses

The best way to apply the Four Lenses methodology is systematically. It's time to create some innovative new growth opportunities for your company's future.

First, create a core group from across the organization that can devote some time to this critical challenge. Divide the group into four teams — one for each lens.

The goal is for each team to try to generate some important new strategic insights using one of the lenses. So some people will be challenging deep-seated orthodoxies about who your customers are, what you offer them, how you deliver value, how you make money and how you differentiate from the competition. Others will be identifying and analyzing trends that have the potential to bring exciting new benefits to customers or even to upend your industry, with a particular focus on developments that competitors have so far overlooked or ignored.

The third group will be looking for ways to leverage your company's resources into adjacent or perhaps radically different kinds of opportunities, or to make combinations between your own resources and those of external organizations in order to create new value for customers.

The fourth set of people will be searching for deep, unarticulated customer needs that could form the basis for compelling new offerings or quantum-leap improvements to your existing products and services.

Next is when the sparks begin to fly. Having compiled a portfolio of strategic insights from all the teams, it's time for the ideas to start flowing. What you want the teams to do now is switch their attention from gathering insights to building the insights they have already generated into radical new ideas. The teams then begin to "crash" or combine insights from the various lenses to produce a slew of unexpected ideas and business opportunities.

Later, of course, there is a lot of work to do in clustering ideas that reinforce each other, grouping them into domains, further improving the creative output and, finally, sifting through this pool of potential opportunities to select the ideas your company wants to seriously consider for experimentation and development.

With some expert guidance, the proper tools and a little practice, literally anyone can improve their creative thinking skills. Once we accept that creativity is not a birthright of exceptional people but a skill that can be taught and acquired, we can begin to seriously tap into the latent innovation potential inside all of us and across our organizations.

RECOMMENDED READING LIST

If you liked *The Four Lenses of Innovation*, you'll also like:

1. ***Best Practices Are Stupid* by Stephen Shapiro.** Shapiro offers proven strategies for boosting innovation and making it a repeatable, sustainable and profitable process at the heart of a company's culture.

2. ***Creative Intelligence* by Bruce Nussbaum.** Nussbaum identifies creative intelligence as a new form of cultural literacy and as a powerful method for problem-solving, driving innovation, and sparking start-up capitalism.

3. ***The Wide Lens* by Ron Adner.** Adner offers a powerful new set of frameworks and tools that will multiply your odds of innovation success. It will change the way you see, the way you think — and the way you win.

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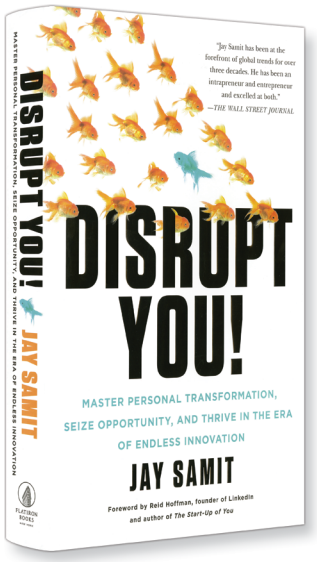
38-04 Disrupt You!

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Disrupt You!

Master Personal Transformation, Seize Opportunity and Thrive in the Era of Endless Innovation



by Jay Samit

THE SUMMARY IN BRIEF

In today's volatile business landscape, adaptability and creativity are more crucial than ever. It is no longer possible — or even desirable — to learn one set of job skills and to work your way up the ladder. At the same time, entrepreneurs with great ideas for new products or technologies that could change the world often struggle to capture the attention of venture capital firms and incubators. The business leaders of our future must anticipate change to create their own opportunities for personal satisfaction and professional success.

In *Disrupt You!*, Jay Samit, a digital-media expert who has launched, grown and sold startups and Fortune 500 companies alike, describes the unique method he has used to invent new markets and expand established businesses. He reveals how specific strategies that help companies flourish can be applied at an individual level to help anyone achieve success and lasting prosperity — without needing to raise funds from outside investors. Incorporating stories and anecdotes from innovators and disruptive businesses, Samit shows how personal transformation can reap entrepreneurial and professional rewards.

Disrupt You! offers clear and empowering advice for anyone looking to break through; for anyone with a big idea but with no idea how to apply it; and for anyone worried about being made irrelevant in an era of technological transformation.

IN THIS SUMMARY, YOU WILL LEARN:

- The links between personal and business disruption
- The five links in the value chain and strategies for disrupting each one.
- To build your brand and find an idea that can't be killed.
- How to disrupt the funding process to get the best kind of money for your venture.

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THE COMPLETE SUMMARY: **DISRUPT YOU!**

by Jay Samit

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In Defense of Disruption

A technology or product is disruptive when it creates an entirely new market, consumer base or user and destroys or displaces the market for the technology it replaced. Email disrupted postal mail, for example, and Wikipedia disrupted the traditional multivolume bound encyclopedia. True disruption alters a market or system forever.

Disruption brings with it a sense of doom and gloom. We think of businesses contracting and jobs being lost. But the truth is, wherever a business has been disrupted, value is released. Massive opportunity is created, and major shifts in economic wealth follow. The railroads created railroad barons. The automobile created oil tycoons. Silicon Valley has created thousands of dot-com millionaires. Identify the right trend or create the right startup, and billions of dollars could be yours. Anyone has the power to disrupt, and everyone has the opportunity to benefit from disruption.

There has never been a time in history when upward mobility has been so equitably disbursed. To financially benefit from technology changes, you don't need an engineering degree or an M.B.A. To survive and thrive in the era of endless innovation, you merely need to think like a disruptor.

The Disruptor's Path to Success

A business or product can be understood as the sum of its value-adding links. Traditionally, these links are thought of as research and development; design; production; marketing and sales; and distribution. Each of these disparate links contributes different value to the business as a whole. A business is at risk for disruption when one or more of these links can be replaced by a technology or product that delivers improved services or additional value to a new market in a more efficient way.

But to thrive in the era of disruption, you don't have to invent anything new. Rather, there are riches to be found simply by capturing the value released through others' disruptive breakthroughs. While email disrupted the distribution link in the value chain of postal mail, countless businesses have seen tremendous growth and profitability by using email to market, sell, design and even produce other products. In other words, a disruption in one link in the value chain creates opportunity in other links. Success as a disruptor is about capturing the value that is released through disruption.

Anyone can adopt a disruptor's mindset and set themselves on a disruptor's path to success — whether that means starting your own business, proving your value at the company where you're already employed, or rebranding yourself for career transformation.

Become a Disruptor

Being a disruptor is simply a state of mind. It is the ability to look for opportunity in every obstacle, to respond to every setback as a new beginning. Every successful person who has skillfully transformed a business or social organization started with a personal problem and then noticed how many other people shared the same problem. What sets disruptors apart from other people who merely experience problems is that disruptors see themselves and their worlds differently. That unique viewpoint enables them to become agents of change — and to reap the rewards.

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Disruption isn't about what happens to you; it's about how you respond to what happens to you. To adopt the mindset of a disruptor, you must first disrupt yourself.

The Art of Self-Disruption

We can think of our identities as being formed by our internal value chains. Our internal value chains make us who we are; they guide the way we function in the world.

Our research and development center takes input from our environment and perceives it as either an obstacle or an opportunity. The brain, our design-and-production center, dictates actions in response to our perceptions. We market and sell ourselves in the ways we present ourselves to the world, which are based on what we see as our personal strengths or limitations. We distribute ourselves in the ways we choose to spend our time and where we focus our energies.

When viewed from this framework, the process of self-transformation becomes approachable: You need only analyze each link in your internal value chain and find the single link that's holding you back. Then make changes to that link to disrupt yourself.

So much of the research and development we do on ourselves begins very early in life. We design our persona based on the feedback we get at home and at school. Students who are told they are smart actually do better in school. Kids who are told they are gifted at sports actually grow up to become better athletes. This phenomenon has been proved over and over again in clinical studies. You get what you believe you deserve.

The way our brains process and respond to information can be thought of as the design and production links in our internal value chains. Just as a business can transform itself by changing the way it designs and produces its products, you can remap your neural networks to actually think differently. How you choose to think changes how the brain processes information. For example, recent studies have shown that positive thinking is more than a motivational tool; it actually adapts our physiology.

The way we market and sell ourselves should not be determined by what others perceive of us. Our lives and careers are determined by our acceptance or rejection of our perceived limitations.

The last link in the internal value chain is distribution, which can be thought of as how we choose to spend our time and where we direct our focus. Are you devoting the time and energy necessary to achieve your dreams? Think about where you can find additional time. What daily indulgences might you be willing to give up in pursuit of your dreams? Your energy is a valuable resource: Distribute it wisely.

The Disruptor's Map

Once you've decided to pursue your dreams, you'll need some guiding directions. Whether you want to think of it as creating a disruptor's map, writing a mission statement, or putting together a personal business plan, create a document by responding — in writing — to the prompts below.

We can visualize our futures. What do you really want to accomplish? What steps will it take to complete your journey? Each morning, find a quiet place and retreat to it. Close your eyes, and imagine the world you want. What do you aspire to do? Visualize living that life. Visualize every detail, and engage all your senses. Hear the waves crashing outside the beach house you want to own. Smell the salty sea air. The more you focus on being in the world you want to create for yourself, the more powerful the results. Starting each day with a positive mindset is the most important step in your journey to discovering opportunity.

As you spend more time consistently visualizing your future, a pattern will develop. You will begin to focus on those things most important to you. Let these aspirations inspire you, and write them down. What are you passionate about? What is missing from your life? Start writing down your dreams, and begin turning them into goals. That is the essence of a personal road map or life path.

Now think about what else you want to find along the way. Do you want a family? Are you willing to delay one part of your life to pursue another aspect with more focus? What matters most to you? How you embody and achieve these core values will determine how you measure your success. Try writing these values down. Be as detailed as you can. Include your personal and professional goals.

Next, list your priorities in terms of relationships and time commitments. How much personal, spiritual and family time do you require? All work and no play is unsustainable as a life plan. You can truly have it all, just not all at the same time.

As with a business plan that assumes the need for additional team members and skill sets to build a company, your disruptor's journey will require external help. What training, mentors and capital will you need? Research other individuals in your industry, and find out how they got the resources they needed to succeed. In most cases, you will discover a world full of people waiting to help you achieve your goals.

Building a Brand of One

To succeed in business, one must see oneself as a brand: a brand of one. The links in your personal value chain constitute your unique brand. The research and development links are defined by your education, your previous work experience and the sources you pursue to find a job in the first place. The work you do — its quality and content — makes up the design and production links. The way you present yourself professionally constitutes the marketing and sales links in your personal value chain. And where you work, with whom you work, and where you devote your professional energies determine your distribution link. Think about your professional value as the combination of these links in the chain. If you are struggling to get a job, or if you are ready to make a career transition, all you need to do is target the link ripest for disruption.

In addition to thinking about your true skill set, it's critical to continually refresh the research and development link in your internal value chain. In the 21st century, lifelong learning is no longer a luxury but a necessity for employment. Distance learning and online courses have made staying current easier than ever.

Crafting the right language to describe your accomplishments is also crucial. Most applications are scanned by recruiters for only a matter of seconds. With your entire career at stake, every word needs to be carefully chosen to "sell" your unique story. The most important tool you have on a résumé is language.

Personal Promotion

Personal branding is especially challenging. One of the best ways to leverage and promote your brand of one is through public speaking. Every industry has conferences in need of speakers. You don't have to be famous; you just have to be persistent. Send emails out to event planners, outlining in a paragraph what you plan on presenting and why it will be of value to that particular audience.

Blogging, tweeting and posting give you a controlled environment in which to "speak" with your audience. With a laptop and Internet connectivity, you have the ability to reach everyone in your industry anytime and from anywhere. Every field has popular websites that encourage comments and third-party submissions.

While posting or writing a blog is a great start, the key to building a brand of one is having your name endorsed by more established brands. This is where the disruption of print media again works to your advantage. Major publications such as *Forbes* and *The Huffington Post* don't have the writing staffs needed to address all of the topics they cover. These publishers are all eager for free content to publish. More stories generate more readers and more revenue. Having the same story you would have posted on your blog appear instead as an article on *The Huffington Post* makes you a columnist.

In Search of the Zombie Idea

If you can find a problem that will derail your big idea, so will the marketplace. The quicker you can eliminate the business roadkill, the more capital you will have left to focus on the one idea that can't be killed. "Speed to fail" should be every entrepreneur's motto. When you finally find the one idea that can't be killed, go with it.

We think that great disruptive ideas come from "eureka" moments — brilliant, insightful flashes of innovation that come to people fully formed. In reality, most discoveries come from the simple act of identifying life's problems. The truth is, those eureka ideas are actually fairly easy to come across — but they don't come from chance moments of brilliance; they come from careful, methodical observation.

If you want to disrupt the world, take a good, hard look at it. Ask yourself this question: Is my world perfect? Does everything function smoothly at your job or company? Are all your friends enjoying the stress-free lives they imagined for themselves when they were young? Are all the goods and services you use properly priced and easy to find? If the answer to any of these questions is no, then there is room for a disruptive idea.

The trick to creating disruption at scale is to identify the biggest opportunities where the existing value chain is most easily upended. Look for the piece of the business that will shift the most dollars away from their present course.

Step two is then capturing as much of the newly unlocked value as you possibly can in the shortest time. It's that easy. Find a problem, disrupt it and solve it. The bigger the problem, the more people your solution helps, and the more money you make. Disruptors are simply problem solvers.

By carefully studying your environment and analyzing your daily frustrations, you'll find that opportunities for disruption start to jump out at you.

Problems are just businesses waiting for the right entrepreneur to unlock the value. Insight and drive are all the skills you need. Everything else can be hired.

Creating a Zombie Idea

After finally honing all of their observations down to one big idea, most people are afraid to act on it. A disruptive

idea shouldn't be nourished like a seedling with the expectation that it will grow into a mighty oak. Your job is to try everything you can to kill your big idea and discover every way that it can fail. When you discover a crack in your plan, fix it, reshape it and make it stronger. You don't want a big idea; you want a zombie idea: No matter what is thrown at it, a zombie idea can't be stopped or killed.

Keeping the idea to yourself isn't much help, either. If your idea is truly original, you will have to scream about it at the top of your lungs to get anyone to notice. You will take it to dozens of potential investors, friends, family members and experts in the industry, who will all tell you it is the worst idea they've ever heard. Most will list a dozen reasons why it will fail. If your idea is truly disruptive to a market, get used to hearing the word no. You will need to show why your approach is different and timely.

Research and Development: Unlocking the Value of Waste

For the entrepreneur looking to disrupt the research and development link of the value chain, opportunity abounds, precisely because most scientists working in primary research and development are creating new discoveries with little thought about how or why to bring them to market.

This is where financial opportunity lies. Disruptors don't have to discover something new; they just have to discover a practical use for new discoveries.

Joseph McVicker, working at Ohio-based Kutol Chemicals, created a safe, nontoxic wallpaper cleaner that was easy to mold and manipulate. When McVicker heard from a neighborhood schoolteacher that young children had difficulty sculpting clay, he gave her a box of his cleaning composition. It was so popular that orders started pouring in from all the Cincinnati-area schools. Since 1956, over 2 billion cans of Play-Doh have been sold, much to the delight of children everywhere.

The lesson, however, extends to research in medicine, alloys, electronics, materials, detergents, cosmetics and so much more. The disruption is not in the category you create but, rather, in the act of leveraging an investment made by others into a profitable business.

How the Internet Is Transforming R&D

Hundreds of government and university laboratories share their discoveries license-free in an effort to promote universal access to their work. In recent years, dozens of small companies have sprung up and started making millions in the open-source space. Adafruit uses open-source technology to enable over 350,000 of its customers to build cell-phone jammers. Bug Labs open-sourced Lego-like interlocking computers. In 2010, *Wired* magazine's editor in chief, Chris Anderson, launched an open-source company focused on creating military drones and quickly generated over $1 million in sales.

Every entrepreneur has equal access to all of this research. Billions of dollars' worth of research knowledge lies dormant at American universities waiting for the right disruptor to come along and create a business.

Design: Disruption Through Aesthetics

Think you can improve upon something already in existence? You are ready to disrupt the design link in the value chain. Michael Kors, Kate Spade and Tory Burch didn't invent the handbag. Nike and Converse didn't invent the running shoe. Unlike innovators who try to disrupt through research and development and must find a new, previously unseen way to introduce something to the marketplace, design disruption focuses on the art of simply building something better.

In our interconnected mass-market world, even the smallest incremental improvement in design and manufacturing efficiency can yield billion-dollar results. When Nestlé Waters North America, maker of Arrowhead, Poland Springs and Deer Park bottled water, re-engineered its bottles to use 50 percent less resin, it not only saved millions of dollars on the 20 billion bottles it manufactures each year but also reduced its carbon footprint by 55 percent. Oftentimes, the real disruption comes not from changes to the product itself but from innovations in packaging design. As with all disruption, design disruption comes from identifying problems where others failed to see a solution.

Design Disruption Through Branding

Disruption in design can be as simple as taking branding from a product in one market and applying it to another market. Leverage an existing brand to build on the established relationship consumers already have with the existing products that share the brand identity. Often referred to as brand extensions, this is an easy way to disrupt a category through design. When it's done well, you get products such as Reese's Peanut Butter and Chocolate Dessert Bar Mix or Arm & Hammer Advance White toothpaste. These new products seem familiar to the consumer because of the trust and reputation of the

brand affiliation. The new products capitalize on brand goodwill and are quickly noticed on store shelves.

Design Disruption Through Customer Experience

In the digital age, disruption through design can be as easy as simply rethinking the user interface of a website. One of the first value chains shattered by the Internet was travel. The advent of Expedia, Priceline, Orbitz and Travelocity wiped out the independent travel agency business.

Two serial disruptors, Reddit co-founder Steve Huffman and BookTour co-founder Adam Goldstein, founded Hipmunk in 2010 to solve travel agony. The user experience was clean and visual. Travelers could visually see each possible flight as a color-coded bar, and the information could be customized with one click. Hipmunk allows travelers to sort flights by price, schedule and "agony." In Hipmunk-speak, agony is the combination of price, flight duration, number of stops and flight times.

Design determines how users feel about a product. Poor design presents a world of opportunity for disruptors looking to make their mark without having to invent or introduce a new product to the world.

Production: Reuse, Repurpose, Re-create

While we feel as though we live in the postindustrial age, most of the items we purchase, wear and consume are manufactured in factories overseas. Factories haven't stopped making things; it's just that in America we have stopped making factories. Even if the raw materials for our goods come from America (cotton, iron, wood), production has migrated to countries with cheaper labor.

In a free-market economy, there will always be a cheaper labor market to outsource manufacturing to, but the endless shifting of factories around the globe isn't a viable long-term solution. Disruptors need not tackle the systemic problem of labor supply and demand. Value that can be captured from production can be disintermediated from a labor force.

Disruption in the production of physical goods is bringing jobs back to America and other developed economies by reinventing how manufacturing is being interpreted. To disrupt production and capture value, one must look to on-demand manufacturing. This idea isn't new; it is just being newly empowered by changes in technology.

Disruption Through Production and the Rise of 3-D Printing

The biggest revolution in production since the dawn of the industrial age is happening around the world with a new take on the classic Gutenberg printing press. Today's printing press, the 3-D printer, can manufacture anything one can imagine. The 3-D printer is shattering the existing value chain for physical goods the way the Internet destroyed the value chains for intellectual digital goods such as music, movies and books. Camera parts and pharmaceuticals can be downloaded and printed as quickly and easily as a song. Any physical item can be produced anywhere, at any time. Mass production is being disrupted on a massive scale.

Never has so much manufacturing capacity been available to so many people. The McKinsey Global Institute estimates that 3-D printing will impact over 320 million manufacturing jobs globally. The opportunities for disruption abound in countless fields. Everyone has the power to compete on a global scale without having to raise millions of dollars for equipment and tooling.

Marketing and Sales: Finding the Problem to Fit Your Solution

You don't need gimmicks or tricks to disrupt the entire process of sales and marketing. For example, people hate waiting in lines to check out at retail, so Apple Stores reimagined the consumer experience, designing their stores without cash registers or checkout lines. Priceline became a $60 billion company by empowering consumers to "name your own price."

Disrupting the sales link of the value chain is really about deciding what business your company or your product is in. Recognizing the value that can be both created and captured through creative pricing models can disrupt any business sector. The challenge is not in coming up with a new and creative marketing campaign but, rather, in developing completely new sales strategies, channels and business models. Differentiation of the sales model can be as powerful as differentiation of the product itself.

Disrupting the Sales Link Through Pricing

Disrupting the sales link involves rethinking how an item is priced as much as how it is sold. Changing how an item is priced can yield great returns. How much elasticity is there in the pricing of any item? By now most

consumers have accepted the fact that we pay variable pricing for items such as airplane tickets and hotel rooms.

Many startup disruptors are taking this same concept of dynamic pricing to brick-and-mortar retailers, thanks to a range of new disruptive technologies. Radio-frequency identification (RFID) tags are inexpensive stickers that can communicate an object's location or its proximity to customers or other devices. In much the way that bar codes made it easier for retailers to know what products were selling, RFID can communicate with a smartphone to alert a customer of a promotion, track special merchandise or use big data to create variable pricing.

The Value of Customer Service

Another piece of the sales-and-marketing link that is often overlooked is customer service. Customer service should be thought of as marketing, because it influences how customers feel about your company. Great customer service creates brand loyalty and product differentiation. The challenge in the digital age is that etailers never actually get to see their customers walking in the door, but the benefit is that etailers have access to data that tells them when and if those customers come back. The key value captured by great customer service is a reduction in customer acquisition costs. If a business has to market and advertise to get each and every sale, its costs are substantial. On the other hand, if each customer tells five friends, then the business grows virally.

Distribution: Unlocking Unattained Value and the Challenge of Unlimited Shelf Space

Disruption of the distribution link in the value chain is about redefining the customer. Prior to the Internet boom, research, development, design and production accounted for most of the successful value-chain disruptions. Distribution, it turns out, holds the most value in the digital age. In 2012 we saw the greatest number of store closings in U.S. history. Sears Holdings, once the champion of retailing, shuttered nearly 200 Kmart locations and over 100 Sears stores. GameStop and Radio Shack, both traditional fixtures at nearly every major mall in America, each shuttered nearly 500 stores. Add to that the hundreds of closings for Office Depot, Barnes & Noble and Office Max, and the pattern is unmistakable. Disruption of traditional distribution is shifting the fundamental nature of most businesses.

Finding the Right Business Model

If your startup idea involves digital content, selecting the correct business model is as important to the success of your business as building the right technology platform. Disrupting digital distribution is no longer just about competing or replacing physical products but, rather, understanding the economic realities of each potential financial structure.

Amazon, eBay and iTunes have taken different paths to disruption through distribution while offering the consumer the maximum available selection of product. Each was able to cleave off a different slice of the value it had unlocked. Each provides a different road map and lesson for the disruptor focused on distribution.

"There are two kinds of companies: those that work to try to charge more and those that work to charge less," Jeff Bezos declares. "We will be in the second." Bezos correctly identified Amazon's competitive advantage as being able to have the most complete selection of inventory. While traditional brick-and-mortar stores could stock anywhere from 10,000 to 40,000 book titles, Amazon was able to offer consumers a virtually unlimited selection by investing heavily in state-of-the-art automated distribution centers and by partnering with other suppliers that would drop-ship directly to the customer. It took Amazon nearly $1 billion of capital and six years to make its first profit, but by then the mighty retailer was grossing over $1 billion in sales and had trained the consumer to be a cyber shopper.

eBay is the most efficient global marketplace ever created. All of the usual supply-chain constraints of distribution and pricing were removed simply through connecting a willing buyer with an equally willing seller. Billions of dollars of products are sold without eBay owning a single warehouse or delivery truck. In fact, the U.S. Postal Service, which taxpayers subsidize, actually serves as an outbound logistics arm of eBay. With the auction model as a base, eBay has evolved to include flat-pricing "Buy It Now" capabilities and competes directly with Amazon on thousands of new products.

Apple's iTunes took yet a third approach to disruption through distribution by adopting an "agency" business model. In an agency model, the retailer takes a predetermined commission on every sale. When EMI originally negotiated the first iTunes deal with Steve Jobs, Jobs was adamant that all songs retail for 99 cents, regardless of a song's variable costs. So while many consumers benefited from that flat pricing, behind the scenes there were many songs that EMI sold to Apple for substantially more than a dollar. Initially, classical pieces of music that could be up

to 70 minutes in length and used to command the price of an entire album could have a wholesale price of $6 and yet still retailed on iTunes for just 99 cents. If Apple can maintain its margins on all content, games, magazines, movies and so on, iTunes can command the majority of retail profits. The company has extracted the greatest possible value out of its combined bricks-and-mortar and ecommerce strategy.

Capital Revisited: Other People's Money

Every new business or disruptive idea will, sooner or later, require additional funding. Even the most successful of ventures require growth capital to keep pace with consumer demand. Raising money from angels, VCs and private equity is a full-time job for most startup CEOs.

But it is possible to disrupt the funding process to uncover a favorable kind of money. This money isn't borrowed, so it doesn't put you in debt. It isn't invested, so it doesn't take away your hard-earned equity. This money is freely and gladly spent to aid you in building your business or to implement your new idea. This is OPM: other people's money.

OPM is not about taking money and refusing to pay it back; it is about learning how to position your idea so that it is more valuable to suppliers of the OPM than the cash they are spending. It is money that is given with no requirement of paying it back nor ownership of your business involved. It is about solving for someone else's problem in order to cost-effectively solve for your own. It is about creating opportunities for those with more capital than ideas. It is your chance to monetize your own creativity. It is the fuel that propels the disruption rocket, and your startup gets a free ride.

There's No Such Thing as Running Out of Money

Look at your challenges from others' perspectives, and the source of OPM will become obvious. Blake Mycoskie, founder of Toms Shoes, built his company around the principle of doing well by doing good. His "One for One" business model was to give away a pair of shoes to a child in need for every pair his company sold. While Toms had gained some Internet buzz, it wasn't until he put OPM to work that his business skyrocketed.

In 2009, AT&T featured Mycoskie and Toms in a national television commercial. The premise was to showcase how he was able to run his international company thanks to AT&T's "more bars in more places." AT&T got an authentic, emotional spot as viewers witnessed Mycoskie giving poor children their first pairs of shoes, and Toms got millions in marketing for free. The spike in sales from the commercial exposure enabled the company to sell more than 1 million pairs of shoes — and to give away that many as well.

For the entrepreneur looking to utilize such OPM opportunities, the process is very straightforward. First, identify and define your target market. What is the specific audience that your product appeals to, and what are the emotional attributes attached to your value proposition? Once you are armed with that information, your next step is to make a list of the other, noncompetitive products marketed to the same audience. If you are launching a new weight loss supplement, for example, think of health clubs, exercise equipment manufacturers, sports apparel companies and so on. Study the slogans and ad campaigns of the biggest players in each of those categories until you find a fit. Finally, search the Internet to find that company's ad agency, and contact the creative team for the account.

Your future — our world's future — is far more malleable and controllable than most people realize. If we take the time to study how our business and social institutions are constructed, it is possible to determine how they can be disrupted.

History doesn't remember those who maintained the status quo. The glory comes from being a disruptor. Every man and woman would like to leave their mark — some evidence of their existence — on this world. This is the self-disruptor's manifesto: to transform yourself, your business and the world.

RECOMMENDED READING LIST

If you liked *Disrupt You!,* you'll also like:

1. ***The Road to Reinvention*** **by Josh Linkner.** Linkner identifies six elements in any business that are ripe for reinvention and shares step-by-step techniques for creating deliberate, productive disruption.

2. ***The Innovator's Solution*** **by Clayton M. Christensen, Michael E. Raynor.** The authors show how to respond to "disruptive technologies." The key is to learn how to create disruptions rather than be destroyed by them.

3. ***Choosing Change*** **by Susan Goldsworthy, Walter McFarland.** If you want to lead change, you need to be open to change yourself. *Choosing Change* provides a framework to compare key elements to be aware of during both individual and organizational change.

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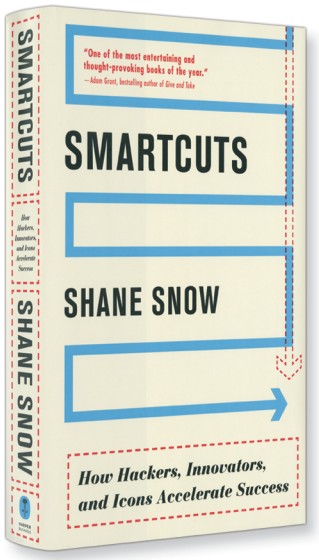
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Smartcuts

How Hackers, Innovators, and Icons Accelerate Success



by Shane Snow

THE SUMMARY IN BRIEF

How do some startups go from zero to billions in mere months? How did Alexander the Great, YouTube tycoon Michelle Phan and Tonight Show host Jimmy Fallon climb to the top in less time than it takes most of us to get a promotion? What do high-growth businesses, world-class heart surgeons and underdog marketers do in common to beat the norm?

In *Smartcuts,* entrepreneur and journalist Shane Snow reveals that, one way or another, they do it like computer hackers. They employ what psychologists call "lateral thinking" to rethink the convention and break "rules" that aren't rules.

Snow shatters common wisdom about success, revealing how conventions like "paying dues" prevent progress, why kids shouldn't learn times tables, and how, paradoxically, it's easier to build a huge business than a small one. From SpaceX to the Cuban Revolution, from Ferrari to Skrillex, *Smartcuts* is a narrative adventure that busts old myths about success and shows how innovators and icons do the incredible by working smarter — and how perhaps the rest of us can, too.

IN THIS SUMMARY, YOU WILL LEARN:

- The importance of lateral thinking for disruptive innovation.
- How to catch waves and capitalize on momentum in business.
- How to find the right mentors and become a superconnector.
- Why it's easier to gain support for big causes than for incremental progress.

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THE COMPLETE SUMMARY: **SMARTCUTS**

by Shane Snow

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Introduction

We're multiplying our capabilities as a civilization, and yet we still accept the notion that important societal progress, like combating inequality and crime — or even innovating in government and medicine — must take generations. Despite leaps in what we can do, most of us still follow comfortable, pre-prescribed paths. We work hard but hardly question whether we're working smart.

On the other hand, some among us manage to build eBay in the time it takes the rest of us to build a house. Pick your era in history, and you'll find a handful of people — across industries and continents — who buck the norm and do incredible things in implausibly short amounts of time. The common pattern is that, like computer hackers, certain innovators break convention to find better routes to stunning accomplishments.

Pretend you are driving a car in the middle of a thunderstorm and you happen upon three people on the side of the road. One of them is a frail old woman, who looks on the verge of collapse. Another is a friend who once saved your life. The other is the romantic interest of your dreams, and this is a once-in-a-lifetime opportunity to meet him or her. You have only one other seat in the car.

Who do you pick up? The old woman, of course. Then, give the car keys to your friend, and stay behind with the romantic interest to wait for the bus!

This dilemma is an exercise in lateral thinking. It's the kind of puzzle in which the most elegant solution is revealed only when you attack it sideways.

Overachievers throughout history have applied lateral thinking to success in a variety of fields and endeavors. The fastest route to success is never traditional, and the conventions we grow up with can be hacked. Most important, anyone — not just billionaire entrepreneurs and professional mavericks — can speed up progress in business or life.

Rapid but short-term gains are shortcuts, but sustainable success achieved quickly through smart work is called smartcuts. Shortcuts can be amoral, but you can think of smartcuts as shortcuts with integrity.

The patterns of lateral thinking (smartcuts) can be harnessed by anyone who seeks an edge — at work, at the gym, in the arts or education, from social enterprise to personal development, from big companies to small startups.

PART I: SHORTEN

Hacking the Ladder

We all know the ladder-climbing story. We're told that the best way to succeed is to start young, work hard and move up through the ranks. The two ingredients are hard work — not quitting when things get tough — and luck — spots opening up on the rungs above you.

But there's something wrong with the great American ladder-climbing advice: presidents of the United States, some of the world's most successful people, don't follow it. The average president spent just seven years as an elected official before reaching the White House. Five were never elected to any office before becoming president. It's like each invented his own ladder.

There is a pattern to the unconventional career tracks of U.S. presidents. We find it among other groups as well.

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Throughout history, fast-rising companies, rock-star executives, "overnight" movie stars and top-selling products have outrun their peers by acting more like ladder hackers than ladder climbers.

Leaping Sideways

The fastest land animal in the world is the cheetah. It can reach speeds in excess of 70 miles per hour. But, according to behavioral biologists, speed is not the cheetah's biggest predatory advantage. As science writer Katie Hiler puts it, "It is their agility — their skill at leaping sideways, changing directions abruptly and slowing down quickly — that gives those antelope such bad odds."

When we look at fast success in business and other fields, we see this cheetah behavior everywhere: One of the fastest-selling and transformative cellular phones in the world — the iPhone — was introduced by a personal computer company at a time when the phone market was dominated by telecommunications firms. Nintendo began its life printing Japanese playing cards; the company brokered in taxis, instant rice and hotels before it saw opportunity in the emerging American arcade scene.

This is often how "overnight success" happens for entertainers and public figures; they work hard in their field, then switch ladders and level up, to observers' surprise. Business research shows that this kind of ladder switching generally tends to accelerate a company's growth. Companies that pivot — that is, switch business models or products — while on the upswing tend to perform much better than those that stay on a single course.

Traditional paths are not just slow; they're no longer viable if we want to compete and innovate. That's great news, because throwing out the dues paradigm leads us toward meritocracy. But to be successful, we need to start thinking more like hackers, acting more like entrepreneurs. We have to work smarter, not just harder. Hacking the ladder is the mindset they use to get places.

Training With Masters

Many entertainers toil for decades to get their break. They pay their Actors Guild dues, hone their craft, and starve like artists until they reach a tipping point. Funnyman Louis C.K., for example, spent 15 years performing stand-up comedy for ungrateful local crowds before finally catching his break and becoming a recognizable name with his own cable TV series.

On the other hand, some people skip the dues and jump straight to the top, like the Canadian singer Justin Bieber, who played a few songs on YouTube and became an international megastar in a year.

Both C.K. and Bieber climbed to the top of their industry, and in fact, both ultimately used the Internet to get big. But somehow Bieber "made it" in one-fifteenth of the time. How did he climb so much faster than the guy Rolling Stone calls the funniest man in America?

Mentorship is the secret of many of the highest-profile achievers throughout history. Business research shows that entrepreneurs who have mentors end up raising seven times as much capital for their businesses and experience 3.5 times faster growth than those without mentors.

But history, it turns out, is full of people who've been lucky enough to have amazing mentors and have stumbled anyway. Indeed, equal amounts of research support both assertions: that mentorship works and that it doesn't. It turns out that there's a big difference between having a mentor guide our practice and having a mentor guide our journey.

Guide the Journey

Our typical paradigm for mentorship is that of a young, enterprising worker sitting across from an elderly executive at an oak desk, engaging in Q&A about how to succeed at specific challenges. On the other hand, a smartcut-savvy mentee approaches things a bit differently. She develops personal relationships with her mentors, asks their advice on other aspects of life, not just the formal challenge at hand. And she cares about her mentors' lives, too.

Mentorship doesn't always yield success. But when we look at superlative success stories throughout history, the presence of an in-person mentor or a world-class, long-distance mentor with whom the mentee has a deep, vulnerable relationship is almost always manifest.

The smartcut is the same: The world's youngest Nobel Prize winner, 25-year-old Lawrence Bragg, won the coveted award for physics in 1915 in conjunction with his father, master physicist William Bragg, who had mentored his son in the lab. The billion-dollar micro-blogging service Tumblr earned its founder, 26-year-old David Karp, $200 million in 2013, after six years of hard work. But it was in the second year that everything changed; that was when Karp brought in his personal mentor and friend, tech executive John Maloney, to guide him and the Tumblr rocket ship to maturity. This story is a repeat of that of countless other fast-growing companies.

Rapid Feedback

In 2008 four Harvard researchers looked at historical data of people who started businesses in America between 1975 and 2003. Their goal was to see how well founders who'd previously failed in business did with subsequent businesses. Had they learned from their past failures? They compared the failures to founders who'd successfully taken a company public, and entrepreneurs who'd never started a business before. It turns out that an entrepreneur who'd failed in a previous venture was not likely to do better than someone who'd never run a business in her life.

According to the study, successful entrepreneurs, on the other hand, are 50 percent more likely to succeed in a second venture. The more you win, the more likely you are to win again. This, of course, poses a chicken-and-egg problem. How do we increase the chance of success if the best way to do so is to . . . already . . . succeed?

Don't Take It Personally

Since the early twentieth century, psychologists have argued about the effects of feedback interventions, or critiques, on behavior and performance. Various studies have shown that such interventions improved learning, while others "prove" that feedback has negative effects on performance. For years, academics debated whether positive feedback was more helpful than negative feedback.

Then in 1996, researchers Avraham N. Kluger and Angelo DeNisi looked at a hundred years of these studies and found something interesting: cumulatively, most feedback interventions were indeed not actually helpful to bettering performance, and much feedback indeed made things worse; however, some feedback was very helpful to boosting performance, and it had nothing to do with bedside manner. The difference was how much the feedback caused a person to focus on himself rather than the task.

Crucially, experts tended to be able to turn off the part of their egos that took legitimate feedback personally when it came to their craft, and they were confident enough to parse helpful feedback from incorrect feedback. Meanwhile, novices psyched themselves out. They needed encouragement and feared failure. The tough part about negative feedback is in separating ourselves from the perceived failure and turning our experiences into objective experiments. But when we do that, feedback becomes much more powerful.

The Second City

This is how The Second City pumps out comedic talent so quickly. Founded in 1959, The Second City has been the training ground for some of the most well-known comedians on the planet, from ghostbuster Dan Aykroyd to Parks and Recreation star Amy Poehler. The school is known for pioneering a style of comedy called improv, a blend of pantomime, character impersonations and impromptu dialogue. It's a zany, difficult art.

Tina Fey, Seth Meyers and other famous comedians to come out of The Second City all bombed — over and over again. *The Office* star Steve Carell once had an audience storm out of the theater on him for a joke gone too far. Political satirist Stephen Colbert was begged off the stage one night when his bit about dial-up Internet nearly put the audience to sleep.

The Second City teaches its students to take such things in stride, to become scientists who see audience reaction as commentary on the joke, not the jokester. The group manages to accomplish three things to accelerate its performers' growth: (1) it gives them rapid feedback; (2) it depersonalizes the feedback; and (3) it lowers the stakes and pressure, so students take risks that force them to improve. And then the school has students continuously parlay up to harder audiences and harsher feedback as they grow more comfortable. This forces them to both toughen up and push creative boundaries.

The Silicon Valley mantra "fail often" actually has a second part to it. More often than not, Valley startups will say, "fail fast and fail often." This gets at the principle of rapid feedback. But failing implies a finality, a funeral, an amen. And according to The Second City, that's not necessary.

PART II: LEVERAGE

Platforms

In the same way that driving on pavement makes a road trip faster and layers of code let you work on a computer faster, hackers like David Heinemeier Hansson, who goes by the moniker DHH, find and build layers of abstraction in business and life that allow them to multiply their effort. I call these layers platforms.

DHH is indirectly responsible for the development of Twitter. And Hulu and Airbnb. And a host of other transformative technologies for which he receives no royalties. His work has contributed to revolutions and lowered the barrier for thousands of tech companies to launch products.

Ruby on Rails

One day, a small American Web design agency called 37signals asked DHH to build a project management tool to help organize its work. Hoping to save some time on this new project, he decided to try a relatively new programming language called Ruby, developed by a guy in Japan who liked simplicity. DHH started coding in earnest.

Despite several layers of abstraction, Ruby (and all other code languages) forces programmers to make countless unimportant decisions. What do you name your databases? How do you want to configure your server? Those little things added up. And many programs required repetitive coding of the same basic components every time. That didn't jibe with DHH's selective slacking habit.

So DHH built a layer on top of Ruby to automate all the repetitive tasks and arbitrary decisions he didn't want taking up his time. His new layer on top of programming's pavement became a set of railroad tracks that made creating a Ruby application faster. He called it Ruby on Rails.

Rails helped DHH build his project — which 37signals named Basecamp — faster than he could have otherwise. But he wasn't prepared for what happened next. When he shared Ruby on Rails on the Internet, programmers fell in love with it. Rails was easier than regular programming but just as powerful, so amateurs downloaded it by the thousands. Veteran coders murmured about "real programming," but many made the switch because Rails allowed them to build their projects faster.

In 2006 a couple of guys at a podcasting startup had an idea for a side project. With Rails, they were able to build it in a few days — as an experiment — while running their business. They launched it to see what would happen. By spring 2007 the app had gotten popular enough that the team sold off the old company to pursue the side project full time. It was called Twitter.

A traditional software company might have built Twitter on a lower layer like C and taken months or years to polish it before even knowing if people would use it. Twitter — and many other successful companies — used the Rails platform to launch and validate a business idea in days. Rails translated what Twitter's programmers wanted to tell all those computer transistors to do — with relatively little effort. And that allowed them to build a company fast. In the world of high tech, a tiny time advantage can mean the difference between winning and getting passed.

The Power of Platforms

Isaac Newton attributed his success as a scientist to "standing on the shoulders of giants"— building off of the work of great thinkers before him. Platforms are tools and environments that let us do just that. Platforms can take the form of tools and technology like games and tires and calculators; they can also take the form of environments like pro racing leagues or superstandard schools. In either case, the platform amplifies the effort and teaches skills in the process of using it.

Platforms are why so many aspiring actors migrate to Los Angeles and why budding fashion bloggers move to New York. Platforms are why Harvard Law graduates have easier times finding jobs than those from other schools. Platforms are how Twitter could build Twitter in mere days while running a separate company.

Effort for the sake of effort is as foolish a tradition as paying dues. How much better is hard work when it's amplified by a lever? Platforms teach us skills and allow us to focus on being great rather than reinventing wheels or repeating ourselves.

Waves

In surfing, the difference between catching a wave and getting crushed or passed by is a matter of centimeters, which means the chance of being in the exact right spot in that water to grab a big wave without any effort is akin to winning at Powerball. Surfers make it look easy. The good ones can recognize the roll of incoming waves, so they can position themselves in the perfect spot to catch them. And at the last minute, a surfer will paddle vigorously to align herself with the wave and match its speed.

Luck is often talked about as "being in the right place at the right time." But like a surfer, some people — and companies — are adept at *placing themselves at the right place at the right time.* They seek out opportunity rather than wait for it.

Recognize Patterns

There are two ways to catch a wave: exhausting hard work — paddling — and pattern recognition — spotting a wave early and casually drifting to the sweet spot. In a given domain — be it surfing or accounting or political fund-raising — the familiarity that leads to pattern recognition seems to come with experience and practice.

But research shows that, while logging hours of practice helps us see patterns subconsciously, we can often do just as well by deliberately looking for them. In many fields, such pattern hunting and deliberate analysis can yield high accuracy on the first try.

Deliberate pattern spotting can compensate for experience. But we often don't even give it a shot. This explains how so many inexperienced companies and entrepreneurs beat the norm and build businesses that disrupt established players. Through deliberate analysis, the little guy can spot waves better than the big company that relies on experience and instinct once it's at the top. And a wave can take an amateur farther faster than an expert can swim. It also explains why the world's best surfers arrive at the beach hours before a competition and stare at the ocean.

The First Mover Myth

Over the years, entrepreneurs and academics have suggested that first movers in business — the first to catch a commercial wave — enjoy an unfair advantage over their competitors. But Peter Golder and Gerard Tellis of the University of Southern California researched what happened to 500 brands in 50 product categories, from toothpaste to video recorders to fax machines to chewing gum. Startlingly, the research showed that 47 percent of first movers failed. Only about half the companies that started selling a product first remained the market leader five years later. By contrast, early leaders — companies that took control of a product's market share after the first movers pioneered them — had only an 8 percent failure rate.

First movers take on the burden of educating customers, setting up infrastructure, getting regulatory approvals and making mistakes — getting feedback and adjusting. Fast followers, on the other hand, benefit from free-rider effects. The pioneers clear the way in terms of market education and infrastructure and learn the hard lessons, so the next guys can steal what works, learn objectively from the first movers' failures and spend more effort elsewhere.

Google, Facebook and Microsoft were each fast followers in their respective spaces in the technology sector, leaping past Overture, Myspace and Apple, respectively (until Apple made a comeback).

A business can work five times harder and longer than its neighbors and still lose to rivals that read the market better. Just like a pro surfer never wins by staying in one spot.

Superconnectors

Which is easier — making friends with a thousand people one by one or making friends with someone who already has a thousand friends? Which is faster — going door to door with a message or broadcasting the message to a million homes at once? This is the idea behind what I call superconnecting, the act of making mass connections by tapping into hubs with many spokes. But tapping networks is not as easy as simply shouting a message.

"The number one problem with networking is people are out for themselves," says Scott Gerber, founder of the Young Entrepreneur Council, who coined the term superconnector. "Superconnecting is about learning what people need, then talking about 'how do we create something of value.'" This is a twist on the classic networking advice, which advocates boldly meeting people and asking them for things. Building relationships through giving is more work than begging for help, but it's also much more powerful.

Mint Software

In 2006 a Silicon Valley engineer named Aaron Patzer quit his job to start a company called Mint Software, Inc., an online service that helped people simplify their personal finances. Mint users could collect all their bank accounts and credit card information in one place and track their spending and savings with nice charts. Mint would then suggest ways to save money, such as by transferring balances to credit cards with lower rates (at which point the company received a commission).

At the time, the convention was for startups like Mint to acquire users by spending heavily on advertising. But instead of interrupting people with ads, Mint decided it was going to become a media company that taught people to better understand finances. It started a blog on which it posted helpful articles about money management and savings. The blog chugged along, slowly winning audience members to its free content, and then it found a way to tap into a large broadcast channel: social bookmarking.

Social bookmarking sites were all the rage in the mid-2000s. Here people shared links to content they liked, while others "voted" on which links they liked best. The highest voted stories every day surfaced to the front pages of bookmarking giants like Digg.com and Reddit.com, where millions of people saw them. So Mint started making blog posts its editors thought were likely to be voted up by the bookmarking crowds. Some of the most influential Digg and Reddit users fell in love with the Mint blog, which gave them content that would make them look good to their own fans.

Thus, Mint built relationships with an enormous number of people — by helping them. Over the next two years, 1.5 million people who discovered Mint through its blog posts ended up actually signing up for Mint's service. In 2009 Patzer sold the business to Intuit for $170 million.

No matter the medium or method, giving is the timeless smartcut for harnessing superconnectors and creating

serendipity. What happens post-serendipity is where things start to get really interesting.

PART III: SOAR

Momentum

The problem with some rapid success, it turns out, is that lucky breaks like cashing out on an Internet wave are like having someone lift you up so you can grab one of the Olympic rings. Even if you get dropped off somewhere far along the chain, you're stuck in one spot. Financial planners say that this is why a surprisingly high percentage of the rapidly wealthy get depressed. This is the same reason that only one-third of Americans are happy at their jobs. When there's no forward momentum in our careers, we get depressed, too.

So how does one avoid billionaire's depression? Or regular person's stuck-in-a-dead-end-job, lack-of-momentum-fueled depression? Harvard Business School professor Teresa Amabile has found that the answer is simply progress. A sense of forward motion. Regardless how small. Amabile found that minor victories at work were nearly as psychologically powerful as major breakthroughs.

And momentum isn't just a powerful ingredient of success. It's also a powerful predictor of success. Investors see momentum and future success as so highly correlated that they will take bigger bets on companies with fast-growing user bases even if the companies are bleeding money.

The Momentum of Michelle Phan

Michelle Phan grew up in California with her Vietnamese parents. The classic American immigrant story of the impoverished but hardworking parents who toil to create a better life for the next generation was marred, in Phan's case, by her father's gambling addiction. Throughout primary and secondary school, Phan escaped from her problems through art. She started drawing and painting herself, often using the notes pages in the back of the telephone book as her canvas.

Imitating painter Bob Ross, she started making tutorials for her friends and posting them on her blog. Drawing, making Halloween costumes, applying cosmetics — the topic didn't matter. For three years, she blogged her problems away, fancying herself an amateur teacher of her peers and gaining a modest teenage following.

With a donated computer powerful enough to edit video, Phan parlayed the blog for a YouTube channel, where she made her tutorials visual. She filmed herself applying artistic makeup while smiling into the camera, then edited the footage and added voiceovers to explain what she was doing. In 2007 she recorded six makeup tutorial videos. Each received modest views — often in the low thousands. In 2008 Phan recorded six more.

In 2009, Lady Gaga released her now-iconic "Bad Romance" music video. It quickly became YouTube's most watched. Phan decided to capitalize on the wave by posting a tutorial of how to re-create Gaga's makeup from the video. She uploaded her Gaga video at the optimal moment and then notified her little group of fans to watch it at once. It was enough to reach the home page. This was the tiny nudge that got the snowball rolling. A writer from BuzzFeed noticed it and wrote a story. Readers swarmed over to YouTube to watch it.

This is the part where most lucky breakers would enjoy the ride until the momentum dissipated. But instead of fading away after the fad was over, something else happened to Phan's momentum: the people who watched the Lady Gaga tutorial started watching Phan's other tutorials — which were excellent. Her unknown older work benefited from the spillover. Scores of the BuzzFeed viewers subscribed to Phan's channel, eager for more videos. Phan upgraded her camera and started recording. Phan's backlog of content allowed her to take the momentum caused by wave and superconnectors and capture it.

The secret to harnessing momentum is to build up potential energy so that unexpected opportunities can be amplified. On the playground, it's like building a tower to stand on, so you can start your Olympic ring with more velocity. Phan's tower was a backlog of quality content.

Simplicity

Let's step back for a moment and talk about innovation. Over the last several years, we've bastardized the word. Today, we equate it with change or general improvement, a buzzword meaning "bigger" or a synonym for creative. But the word used to mean "upheaval" or "transformation." Innovation is about doing something differently, rather than creating something from nothing (invention) or doing the same thing better (improvement).

Harvard management professor Clayton M. Christensen furthered this concept in the mid-'90s when he coined the term "disruptive innovation." Disruptive innovation is when the introduction of a lower-cost product steals market share from existing players, like when email usurped postal mail (how much would you spend a

month if every email cost the price of a postage stamp?) or when Craigslist replaced costly classified newspaper ads with free Internet listings.

The key feature of disruptively innovative products is cost savings (either time or money). But the key ingredient behind the scenes of every disruptive product is simplification. Email is not just cheaper but simpler than postal mail. USB flash drives were not just less expensive than compact discs but simpler to use. And cloud storage became even simpler than flash.

Hackers strip the unnecessary from their lives. They zero in on what matters. Like great writers, innovators have the fortitude to cut the adverbs. Simplification is why Steve Jobs's Magic Mouse doubled Apple's mouse market share overnight. With zero buttons and a touchscreen glass top, the mouse is both pretty and intuitive — a huge departure from the conventional "innovative" mouse arms race, which amounted to adding more bulk and more buttons. Similarly, Apple's iPod won the MP3 player war with breakthrough simplicity, both in physical design and how the company explained it. While other companies touted "4 Gigabytes and a 0.5 Gigahertz processor!" Apple simply said, "1,000 songs in your pocket."

Inventors and entrepreneurs ask, How could we make this product simpler? The answer transforms good to incredible. Perhaps that's why Steve Jobs referred to simplicity as "the ultimate sophistication."

10X Thinking

10x Thinking is the art of the extremely big swing. To use a baseball analogy: instead of trying to get on base — or even aiming for a home run — it's trying to hit the ball into the next town. Such a goal requires you to think radically different.

The apostle of 10x Thinking is a man with perhaps the coolest name ever: Astro Teller. Teller is the goatee-and-ponytailed head of a rather secret Google laboratory in California called Google[x]. Teller's job is to dream big. 10x big. His team has built self-driving cars, augmented reality glasses, and WiFi balloons meant to roam the stratosphere. He's hired some brilliant minds onto his team, but that's not the secret of their success.

Says Teller, "It's often easier to make something 10 times better than it is to make it 10 percent better." Incremental progress, he says, depends on working harder. More resources, more effort. 10x progress is built on bravery and creativity instead. Working smarter. In other words, 10x goals force you to come up with smartcuts.

Academic research actually shows that we're less likely to perform at our peak potential when we're reaching for low-hanging fruit. That's in part because there's more competition at the bottom of the tree than at the top. Perhaps more interesting, however, is the business research on companies that aim high philosophically. Executive Jim Stengel, formerly global marketing head of Procter & Gamble, teamed up with research firm Millward Brown in the 2000s to collect a decade's worth of data on the market performance of major brands that orient themselves around a noble purpose or ideal.

Brands with lofty purposes beyond making profits wildly outperformed the S&P 500. From 2001 to 2011, an investment in the 50 most idealistic brands — the ones opting for the high-hanging purpose and not just low-hanging profits — would have been 400 percent more profitable than shares of an S&P index fund. Why is this? The simple explanation is that human nature makes us surprisingly willing to support big ideals and big swings. That means more customers, more investors and more word-of-mouth for the dreamers.

Says Astro Teller, "If you make something ten times better for a large number of people — you really produce huge amounts of new value — the money's gonna come find you. Because it would be hard not to make money if you're really adding that much value."

Big causes attract big believers, big investors, big capital, big-name advisers and big talent. They force us to rethink convention and hack the ladder of success. To engage with masters and to leverage waves and platforms and superconnectors. To swing and to simplify, to quickly turn failure into feedback. To become not just bigger but truly better. And they remind us, once again, that together we can achieve the implausible.

RECOMMENDED READING LIST

If you liked *Smartcuts* you'll also like:

1. ***The Pumpkin Plan* by Mike Michalowicz.** Michalowicz applied his step-by-step approach to grow his own company into a multimillion-dollar industry leader. He lays out the process for others to use.

2. ***Little Bets* by Peter Sims.** Bestselling author Peter Sims explores the value of taking small, experimental steps in developing breakthrough innovation.

3. ***Best Practices are Stupid* by Stephen M. Shapiro.** Shapiro offers 40 counterintuitive yet proven strategies for boosting innovation and making it a repeatable, sustainable and profitable process at the heart of a company's culture.

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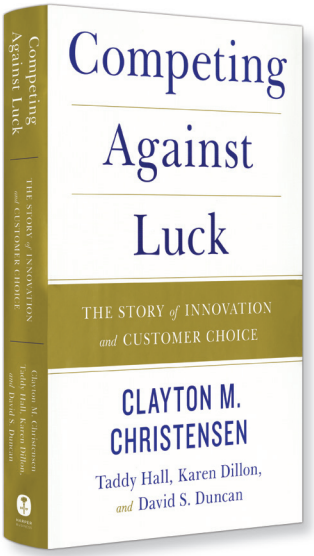
39-01 Competing Against Luck

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Competing Against Luck

The Story of Innovation and Customer Choice



by Clayton M. Christensen, Taddy Hall, Karen Dillon and David S. Duncan

THE SUMMARY IN BRIEF

Can innovation be more than a game of hit and miss? Harvard Business School professor Clayton Christensen has the answer. After years of research, Christensen and his co-authors (Taddy Hall, Karen Dillon and David S. Duncan) of *Competing Against Luck,* have come to one critical conclusion: Our long-held maxim — that understanding the customer is the crux of innovation — is wrong.

Customers don't buy products or services; they "hire" them to do a job. Understanding customers does not drive innovation success, he argues. Understanding customer jobs does. The "Jobs to Be Done" approach can be seen in some of the world's most respected companies and fast-growing startups, but this book is not about celebrating these successes — it's about predicting new ones.

Christensen, Hall, Dillon and Duncan contend that by understanding what causes customers to "hire" a product or service, any business can improve its innovation track record, creating products that customers not only want to hire but that they'll pay premium prices to bring into their lives. Jobs theory offers new hope for growth to companies frustrated by their hit-and-miss efforts.

Competing Against Luck carefully lays out the authors' provocative framework, providing a comprehensive explanation of the theory and why it is predictive, how to use it in the real world and, most importantly, how not to squander the insights it provides.

IN THIS SUMMARY, YOU WILL LEARN:

- An exciting new conceptual framework for products and innovation.
- Why it makes more sense to focus on progress rather than products.
- The pitfalls of relying on traditional consumer data.
- How to understand and apply the Theory of Jobs to your organization.

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THE COMPLETE SUMMARY: **COMPETING AGAINST LUCK**

by Clayton M. Christensen, Taddy Hall, Karen Dillon and David S. Duncan

The authors: Clayton M. Christensen is a Harvard Business School professor and world-renowned innovation strategy and growth expert. Thinkers50 named him 2013's most influential living management thinker in the world. Taddy Hall is a principal at the Cambridge Group and leader of the Nielsen Breakthrough Innovation Project. Karen Dillon is the former editor of *Harvard Business Review,* and she co-authored *How Will You Measure Your Life?* with Christensen. David S. Duncan is a senior partner at Innosight and a leading thinker and advisor on innovation strategy and growth.

Competing Against Luck: The Story of Innovation and Customer Choice by Clayton Christensen, Taddy Hall, Karen Dillon and David S. Duncan. Copyright © 2016 by Clayton Christensen, Ridgway Harken Hall, Karen Dillon and David Duncan. Published by arrangement with HarperBusiness, an imprint of HarperCollins Publishers. 288 pages, $29.99, ISBN: 978-0-06243-561-3. Summary copyright © 2017 by Soundview Executive Books Summaries ® www.summary.com.

Why You Should Hire This Book

Innovation processes in many companies are structured and disciplined, and the talent applying them is highly skilled. There are careful stage-gates, rapid iterations, and checks and balances built into most organizations' innovation processes. Risks are carefully calculated and mitigated. From the outside, it looks like companies have mastered an awfully precise, scientific process.

But for most of them, innovation is still hit or miss. They should be improving, but they are not. And worst of all, all this activity gives the *illusion* of progress without actually causing it. Companies are spending exponentially more to achieve only modest incremental innovations while completely missing the mark on the breakthrough innovations critical to long-term, sustainable growth.

Here is the fundamental problem: The masses and masses of data that companies accumulate are not organized in a way that enables them to reliably predict which ideas will succeed. It's seductive to believe that we can see important patterns and cross-references in our data sets, but that doesn't mean one thing actually caused the other. As Nate Silver, author of *The Signal and the Noise: Why So Many Predictions Fail — But Some Don't,* points out, "ice cream sales and forest fires are correlated because both occur more often in the summer heat. But there is no causation; you don't light a patch of the Montana brush on fire when you buy a pint of Häagen-Dazs."

Correlation does not reveal the one thing that matters most in innovation — the causality behind why you might purchase a particular solution. A better question to ask is "What job did you hire that product to do?"

When we buy a product, we essentially "hire" something to get a job done. If it does the job well, when we are confronted with the same job, we hire that same product again. And if the product does a crummy job, we "fire" it and look around for something else we might hire to solve the problem.

The foundation of this thinking is the Theory of Jobs to Be Done, which focuses on deeply understanding your customers' struggle for progress and then creating the right solution and attendant set of experiences to ensure you solve your customers' jobs well, every time. Jobs Theory can move companies beyond hoping that correlation is enough to understand the causal mechanism of successful innovation.

We have the ability to make innovation a reliable engine for growth, an engine based on a clear understanding of causality, rather than simply casting seeds in the hopes of one day harvesting some fruit.

If you build your foundation on the pursuit of understanding your customers' jobs, your strategy will no longer need to rely on luck. In fact, you'll be *competing against luck* when others are still counting on it.

SECTION I: AN INTRODUCTION TO JOBS THEORY

The Milkshake Dilemma

In the mid-1990s, two consultants from Detroit, Bob Moesta and his partner at the time, Rick Pedi, were working on a project for a fast-food chain: how to sell more milkshakes. The chain had spent months studying

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **A. Imus**, Contributing Editor

the problem in incredible detail. It had brought in customers that fit the profile of the quintessential milkshake consumer and peppered them with questions: "Can you tell us how we can improve our milkshakes so you'd buy more of them? Do you want it cheaper? Chunkier? Chewier? Chocolatier?" The chain tried many things in response to the customer feedback, innovations specifically intended to satisfy the highest number of potential milkshake buyers.

After all the marketers' efforts, there was no change in sales of the chain's milkshake category. So the question was posed in a totally different way: "I wonder what job arises in people's lives that causes them to come to this restaurant to 'hire' a milkshake?"

Armed with that perspective, the team found itself standing in a restaurant for 18 hours one day, watching people: What time did people buy these milkshakes? What were they wearing? Were they alone? Did they buy other food with it? Did they drink it in the restaurant or drive off with it?

It turned out that a surprising number of milkshakes were sold before 9:00 a.m. to people who came into the fast-food restaurant alone. It was almost always the only thing they bought. They didn't stop to drink it there; they got into their cars and drove off with it.

It soon became clear that the early-morning customers all had the same job to do: They had a long and boring ride to work. They needed something to keep the commute interesting. They weren't really hungry yet, but they knew that in a couple of hours, they'd face a midmorning stomach rumbling.

As the team put all these answers together and looked at the diverse profiles of these people, another thing became clear: What these milkshake buyers had in common had nothing to do with their individual demographics. Rather, they all shared a common job they needed to get done in the morning. "Help me stay awake and occupied while I make my morning commute more fun." They had the answer!

Alas, it wasn't that simple. Turns out that plenty of milkshakes are purchased in the afternoon and evening, outside of the context of a commute. In those circumstances, the same customers could hire a milkshake for a completely different job. In that moment, the milkshake isn't competing against a banana or a Snickers bar or a doughnut, like the morning milkshake is. It's competing against parents' stopping at the toy store or finding time for a game of catch later on.

Think about how different that job is from the commuter's job — and how different the competition is for getting those jobs done. Imagine our fast-food restaurant inviting a parent to give feedback in one of its customer surveys, asking the question posed earlier: "How can we improve this milkshake so you buy more of them?" What is that dad going to tell them? Is it the same thing that the morning commuter would say?

The morning job needs a more viscous milkshake, which takes a long time to suck up during the long, boring commute. You might add in chunks of fruit, or even bits of chocolate would offer a little "surprise" in each sip of the straw and help keep the commute interesting. In the afternoon, you're the same person but in very different circumstances. Maybe the afternoon milkshake should come in half sizes so it can be finished more quickly and not induce so much guilt in parents.

You have to understand the job the customer is trying to do in a specific circumstance. If the company simply tried to average all the responses of the parents and the commuters, it would come up with a one-size-fits-none product that doesn't do either of the jobs well.

And therein lies the "aha." People hired milkshakes for two very different jobs during the day, in two very different circumstances. This implies there is likely not just one solution for the fast-food chain seeking to sell more milkshakes. There are two. A one-size-fits-all solution would work for neither.

Progress, Not Products

There is a simple but powerful insight at the core of The Theory of Jobs: Customers don't buy products or services; they pull them into their lives to make progress. This progress is called the "job" they are trying to get done, and in this metaphor the customers "hire" products or services to solve these jobs. We need to take a step back and unpack the elements to develop a complete theory of jobs.

Progress. A "job" is defined as the *progress that a person is trying to make in a particular circumstance.* This definition of a job is not simply a new way of categorizing customers or their problems. It's key to understanding *why* they make the choices they make. The choice of the word "progress" is deliberate. It represents *movement* toward a goal or aspiration. A job is always a process to make progress; it's rarely a discrete event. A job is not necessarily just a "problem" that arises, though one form the progress can take is the resolution of a specific problem and the struggle it entails.

Circumstance. Second, the idea of a "circumstance" is intrinsic to the definition of a job. A job can only be defined — and a successful solution created — relative to the specific context in which it arises. The circumstance

is fundamental to defining the job (and finding a solution for it), because the nature of the progress desired will always be strongly influenced by the circumstance.

Functional, Social and Emotional Complexity. Finally, a job has an inherent complexity to it: It not only has functional dimensions, but it has social and emotional dimensions, too. In many innovations, the focus is often entirely on the functional or practical need. But in reality, consumers' social and emotional needs can far outweigh any functional desires.

A well-defined job offers a kind of innovation blueprint. This is very different from the traditional marketing concept of "needs" because it entails a much higher degree of specificity about what you're solving for. Needs are ever present, and that makes them necessarily more generic. Needs are analogous to trends — directionally useful but totally insufficient for defining exactly what will cause a customer to choose one product or service over another. Jobs take into account a far more complex picture.

Jobs insights are fragile — they're more like stories than statistics. When we deconstruct coherent customer episodes into binary bits, such as "male/female," "large company/small company," "new customer/existing customer," we destroy meaning in the process. Jobs Theory is not primarily focused on "who" did something, or "what" they did — but on "why." Understanding jobs is about clustering insights into a coherent picture, rather than segmenting down to finer and finer slices.

Shifting Competitive Landscape

For innovators, understanding the job is to understand what consumers care most about in that moment of trying to make progress. Jobs Theory enables innovators to make the myriad, detailed tradeoffs in terms of which benefits are essential and which are extraneous to a new offering. Understanding the circumstance-specific hiring criteria triggers a whole series of important insights, perhaps most notably that the competitive field is likely completely different from what you might have imagined.

For example, when a smoker takes a cigarette break, on one level he's simply seeking the nicotine his body craves. That's the functional dimension. But that's not all that's going on. He's hiring cigarettes for the emotional benefit of calming him down, relaxing him. And if he works in a typical office building, he's forced to go outside to a designated smoking area. But that choice is social, too — he can take a break from work and hang around with his buddies.

From this perspective, people hire Facebook for many of the same reasons. They log onto Facebook during the middle of the workday to take a break from work, relax for a few minutes while thinking about other things, and convene around a virtual water cooler with far-flung friends. In some ways, Facebook is actually competing with cigarettes to be hired for the same Job to Be Done. Which the smoker chooses will depend on the circumstances of his struggle in that particular moment. From a Jobs Theory perspective, the competition is seldom limited to products that the market chooses to lump into the same category.

The competitive landscape shifts to something new, maybe uncomfortably new, but one with fresh potential when you see competition through a Jobs to Be Done lens.

Jobs in the Wild

Jobs Theory transforms how you define the business you're in, the size and shape of the market in which you compete and who your competitors are. This enables you to see customers where there were none, ideas for solutions where there were only problems, and opportunity where you least expect it.

Because Jobs Theory uncovers the cause of why consumers make the choices they do, it's useful in a wide range of industries and organizations — from the simplest consumer packaged goods to complex business-to-business solutions. In every case, uncovering why customers make choices allows organizations to better create solutions that get hired.

For example, nothing sounds less innovative than a cheese company rolling out yet another type of cheese. But Sargento cleared $50 million in its first year with its prepackaged ultrathin slices, driving enormous category growth and exceeding $150 million in year two. Why did this product thrive, when the vast majority of the other 3,400 consumer packaged goods launched in the same year didn't even survive their first 12 months in the market? Sargento's ultrathin sliced cheese was solving a job consumers were struggling with: "How can I enjoy all of the delicious cheese experience that I love on my daily sandwich without the calories, fat and guilt that come with it?" Jobs Theory, explains Rod Hogan, vice president of New Business Development at Sargento, "forces you to define the offering in the context of a very specific consumer struggle. And that is neither easy nor natural for most large companies."

With a deep understanding of this theory, organizations have the ability to fundamentally change the way they innovate and grow. A product that has been designed specifically to fulfill a well-understood Job to Be Done

allows you to crawl into the skin of your customer and see the world through her eyes. It says to the customer, "We get you."

But uncovering an unsatisfactorily resolved job is only the first step. Your organization has to build the right set of experiences in how customers find, purchase and use your product or service — and integrate all the corresponding processes to ensure that those experiences are consistently delivered. When you are solving a customer's job, your products essentially become services. What matters is not the bundle of product attributes you rope together, but the experiences you enable to help your customers make the progress they want to make.

SECTION II: THE HARD WORK — AND PAYOFF — OF APPLYING JOBS THEORY

Job Hunting

So where are all these jobs just waiting to be discovered — and how do you find them? The solution lies not in the tools you're using but what you are looking for and how you piece your observations together.

Here are five ways to uncover jobs that might be right in front of you if you know what you're looking for:

1. Finding a job close to home. In the context of a data-obsessed world, it might be a surprise that some of the world's greatest innovators have succeeded with little more than their own intuition about a Job to Be Done to guide their efforts. Sony's breakthrough Walkman cassette player was temporarily put on hold when market research indicated that consumers would never buy a tape player that didn't have the capacity to record and that customers would be irritated by the use of earphones. But founder Akio Morita ignored his marketing department's warning, trusting his own gut instead. The Walkman went on to sell over 330 million units and created a worldwide culture of personal music devices.

2. Competing with nothing. You can learn as much about a Job to Be Done from people who aren't hiring any product or service as you can from those who are. This is called "nonconsumption," when consumers can't find any solution that actually satisfies their job and they opt to do nothing instead.

3. Workarounds and compensating behaviors. Whenever you see a compensating behavior, pay very close attention, because it's likely a clue that there is an innovation opportunity waiting to be seized — one on which customers would place a high value. But you won't even see these anomalies — compensating behavior and cobbled-together workarounds — if you're not *fully immersed in the context of their struggle.*

4. Look for what people don't want to do. Harvard Business School alum Rick Krieger and some partners decided to start QuickMedx, the forerunner of CVS Minute-Clinics, after Krieger spent a frustrating few hours waiting in an emergency room for his son to get a strep-throat test. CVS Minute-Clinic can see walk-in patients instantly, and nurse practitioners can prescribe medicines for routine ailments, such as conjunctivitis, ear infections and strep throat. Because most people don't want to go to the doctor if they don't have to, there are now more than 1,000 MinuteClinic locations inside CVS pharmacy stores in 33 states.

5. Unusual uses. You can learn a lot by observing how your customers use your products, especially when they use them in a way that is different from what your company has envisioned. NyQuil had been on the market for decades as a cold remedy, but it turned out that some consumers were knocking back a couple of spoonfuls to help them sleep, even when they weren't sick. Hence, ZzzQuil was born, offering consumers the good night's rest they wanted without the other active ingredients they didn't need.

Where was the stroke of genius in all these success stories? What they have in common is the search for cause. With a theory to predict what will cause what to happen, breakthrough innovations do not require getting lucky.

How to Hear What Your Customers Don't Say

Consumers can't always articulate what they want. And even when they do, their actions may tell a different story. So if what consumers say is unreliable, can't you just look at the data instead? Well, data is prone to misinterpretation.

The moment a consumer brings a purchase into his or her home or business, that product is still waiting to be hired again — this is called the "Little Hire." If a product really solves the job, there will be many moments of consumption. It will be hired again and again. But too often the data companies gather reflects only the Big Hire, not whether it meets customers' Jobs to Be Done in reality.

No matter how new or revolutionary your product idea may be, the circumstances of struggle already exist. Consequently, in order to hire your new solution, by definition customers must fire some current compensating behavior

or suboptimal solution — including firing the solution of doing nothing at all.

A customer's decision-making process about what to fire and hire has begun long before she enters a store — and it's complicated. There are always two opposing forces battling for dominance in that moment of choice, and they both play a significant role.

The forces compelling change to a new solution: First of all, the push of the situation — the frustration or problem that a customer is trying to solve — has to be substantial enough to cause her to want to take action. Secondly, the pull of an enticing new product or service to solve that problem has to be pretty strong, too.

The forces opposing change: There are two unseen yet incredibly powerful forces at play at the same time that many companies ignore completely: the forces holding a customer back. First, "habits of the present" weigh heavily on consumers. "I'm used to doing it this way." Or living with the problem. "I don't love it, but I'm at least comfortable with how I deal with it now." And potentially even more powerful than the habits of the present is, second, the "anxiety of choosing something new." "What if it's not better?"

Think of it this way: the job has to have sufficient magnitude to cause people to change their behavior —"I'm struggling and I want a better solution than I can currently find"— but the pull of the new has to be much greater than the sum of the inertia of the old and the anxieties about the new.

Building Customer Stories

So how can you begin to map out these competing forces to get to the crux of your customers' jobs? Your customers may not be able to tell you what they want, but they can tell you about their struggles. What are they really trying to accomplish and why isn't what they're doing now working? What is causing their desire for something new?

One simple way to think about these questions is through storyboarding. Talk to consumers as if you're capturing their struggle in order to storyboard it later. Pixar has this down to a science: As you piece together your customers' struggle, you can literally sketch out their story: Once upon a time . . . Every day . . . One day . . . Because of that, we did this . . . Because of this, we did that . . . Finally I did . . .

You're building their story, because through that you can begin to understand how the competing forces and context of the job play out for them. The key to getting hired is to understand the narrative of the customer's life in such rich detail that you are able to design a solution that far exceeds anything the customer themselves could have found words to request. In hindsight, breakthrough insights might seem obvious, but they rarely are. In fact, they're fundamentally contrarian: You see something that others have missed.

Building Your Résumé

Jobs are complex and multifaceted. But a deep understanding of a job provides a sort of decoder to the complexity — a job spec, if you will. Whereas the job itself is the framing of the circumstance from the perspective of the consumer with the Job to Be Done as he or she confronts a struggle to make progress, the job spec is from the innovator's point of view: "What do I need to design, develop and deliver in my new product offering so that it solves the consumer's job well?"

Identifying and understanding the Job to Be Done is only the first step in creating products that you can be sure customers want to hire. Products that they'll actually pay premium prices for. That involves not only understanding the job but also the right set of experiences for purchase and use of that product, and then integrating those experiences into a company's processes. All three layers — Uncovering the Job, Creating the Desired Experiences and Integrating around the Job — are critical. When a company understands and responds to all three layers of the job depicted here, it will have solved a job in a way that competitors can't easily copy.

The value of creating the right set of experiences in a circumstance-specific job is clearly not universally understood. Few people relish the experience of renting a car, for example. One company that clearly understands the stakes is Uber. Uber has been successful because it's perfectly nailed a Job to Be Done. Yes, Uber can often offer a nice car to take you from point A to point B, but that's not where it's built its competitive advantage. The experiences that come with hiring Uber to solve customers' Jobs to Be Done are better than the existing alternatives. That's the secret to its success.

Everything about the experience of being a customer — including the emotional and social dimensions — has been thought through. Who wants to have to outmaneuver other poor schlubs on the same street corner who are trying to hail a cab? You don't want to either pay for a car service to wait outside your meeting or be at its mercy when you're finally ready to call it to come back and get

you. With Uber, you simply push a few buttons on your mobile phone and you know that in three minutes or seven minutes a specific driver will arrive to pick you up. Now you can relax and just wait. You don't have to worry if you have enough cash in your wallet or fear that if you swipe your credit card in that taxi machine, you'll get a call from your bank wondering if you've recently made purchases in some state you've never even been to.

Organizations that focus on making the product itself better and better are missing what may be the most powerful causal mechanism of all — what are the experiences that customers seek in not only purchasing, but also in using this product? If you don't know the answer to that question, you're probably not going to be hired.

SECTION III: THE JOBS TO BE DONE ORGANIZATION

Integrating Around a Job

Organizations typically structure themselves around function or business unit or geography — but successful growth companies optimize around the job. Competitive advantage is conferred through an organization's unique processes: the ways it integrates across functions to perform the customer's job.

When you think of the word "process," you might instantly conjure images of a manufacturing assembly line or a bureaucratic standard. But processes touch everything about the way an organization transforms its resources into value: The patterns of interaction, coordination, communication and decision making through which they accomplish these transformations are processes. Product development, procurement, market research, budgeting, employee development and compensation, and resource allocation are all accomplished through processes.

Helping customers have a delightful experience using your product is made up of processes. What information do we need to have in order to decide what to do next? Who is responsible for each step? What do we prioritize over other things?

Resources, generally speaking, are fungible. They can be bought and sold. Products can, often, be easily copied. But it is through integrating processes to get the job done that companies can create the ideal experiences and confer competitive advantage.

Organizing Around the Job

Through a jobs lens, what matters more than who reports to whom is how different parts of the organization interact to systematically deliver the offering that perfectly performs customers' Jobs to Be Done. When managers are focused on the customer's Job to Be Done, they not only have a very clear compass heading for their innovation efforts, but they also have a vital organizing principle for their internal structure.

This is not a subtle distinction. We have managers in charge of every major function or set of activities. We have executives in charge of product lines. But in most cases, nobody is in charge of understanding — and ensuring that the company is delivering on — the job of a customer. It's only through predictable, repeatable processes that organizations can fully integrate around a customer's Job to Be Done.

Keeping Your Eye on the Job

The day a product becomes real and hits the market, everything changes for managers. There's so much pressure to grow that it's possible to lose sight of why customers hired you in the first place. Even great companies can veer off course in nailing the job for their customers — and focus on nailing a job for themselves. In our research and experience, that happens because companies fall into believing three fallacies about the data they generate about their products:

1. The fallacy of active versus passive data. Much of the information needed to make decisions about solving for a job is found in the context of the struggle. That is called "passive data" because it has no voice or clear structure or champion or agenda. Passive data, by itself, doesn't tell us what is going on in the world because the Job to Be Done doesn't change much. Passive data is just unfiltered context. It's always present, but it isn't loud.

As soon as a Job to Be Done becomes a commercial product, the context-rich view of the job begins to recede as the active data of operations replaces and displaces the passive data of innovation. Product sales generate data about products. Customers' purchases generate data about customers themselves. Investments in people, facilities and technology generate data on their productivity, returns and value. As data about operations broadcasts itself loudly and clearly, it's all too easy for managers to start managing the numbers instead of the job.

2. The fallacy of surface growth. When a company makes big investments in developing relationships with customers, natural incentives arise to find ways to sell more products to existing customers. The marginal cost of selling more products to existing customers is very small

— and the profit is oh so alluring. This is called "surface growth." Companies see products all around them made by other companies and decide to copy or acquire them. But in doing so, companies often end up trying to create many products for many customers — and lose focus on the job that brought them success in the first place.

3. The fallacy of conforming data. Data has an annoying way of conforming itself to support whatever point of view we want it to support. In fact, Nate Silver, a well-known statistician and founder of the *New York Times* political blog FiveThirtyEight (acquired by ESPN in 2013), noted, "The most calamitous failures of prediction usually have a lot in common. We focus on those signals that tell a story about the world as we would like it to be, not how it really is." We don't realize this, we don't mean for it to happen, but it is an unfortunate frailty of the human brain.

The Jobs-Focused Organization

Having a jobs-focused organization, CEOs report, leads to four categories of clear benefit:

- Enable distributed decision making with clarity of purpose — employees throughout the organization are empowered to make good jobs-focused decisions and to be autonomous and innovative.
- Align resources against what matters most — and free resources from what does not.
- Inspire people and unify your culture in service of what they care about most.
- Measure what matters most — customer progress, employee contributions and incentives.

Most companies have a mission statement — and if they're lucky, employees will have memorized it well enough to recite it chapter and verse. There's nothing wrong with having a mission statement. But on their own, they aren't enough to provide guidance in daily decision making.

But a clear job spec does. For example, Unilever has managed to turn the oldest "health" soap brand in the world, Lifebuoy, into one of the company's fastest growing brands in the past few years by nesting a job under the mission of helping children in emerging markets live to the age of five. You can't innovate to the broad goal of helping children live, but you can innovate around the very specific circumstances of that struggle.

Experts tell us that it takes 30 seconds of vigorous washing with soap and hot water to eliminate germs — but in the circumstances that Unilever was innovating into, that was not likely to happen. In India, for example, nearly 400,000 children under the age of five die in a year from diarrheal disease. Yet mothers and children in parts of India, and other emerging market countries, don't routinely wash their hands.

So Unilever created a series of products that helps consumers make the progress they were struggling to make — in their particular circumstances. Color-changing soap was created to ensure that children scrubbed for long enough to kill germs. The soap changes color when they've reached 10 seconds — all that is required to kill germs with Unilever's special formula — (and makes it more fun for kids to stick with it long enough to matter). The mission of saving children's lives was powerful, but it was only with the specificity of what job consumers were trying to do that Unilever was able to energize its oldest soap brand. The more you understand about the job, the better you will connect to it internally.

A clearly defined job spec that everyone understands can serve as a focal point for employees to make the right decisions without being told specifically what to do each time. Jobs Theory provides a language of integration, whereby marketers, engineers, salespeople and customer service employees can communicate with each other rather than talk past one another.

If you know what truly causes innovation to succeed, your efforts don't have to be left to fate. We've allowed ourselves to believe that luck is essential for far too long. There are whole industries, such as venture capital, that are currently organized around the belief that innovation is essentially a game of playing the odds.

But it's time to topple that tired paradigm. You can put your time, energy and resources into creating products and services that you can predict, in advance, customers will be eager to hire. Leave relying on luck to the other guys.

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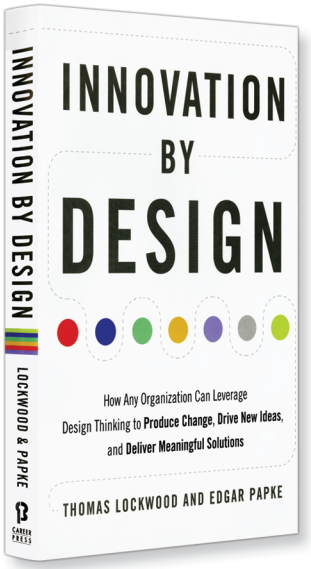
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Leadership

Innovation By Design

How Any Organization Can Leverage Design Thinking to Produce Change, Drive New Ideas and Deliver Meaningful Solutions



by Thomas Lockwood and Edgar Papke

THE SUMMARY IN BRIEF

Now more than ever, companies and institutions of all types and sizes are determined to create more innovative organizations. In study after study, leaders say that fostering innovation and the need for transformational change are among their top priorities. But they also report struggling with how to engage their cultures to implement the changes necessary to maximize their innovative targets.

Why are some organizations more innovative than others? In *Innovation by Design,* authors Thomas Lockwood and Edgar Papke share the results of their study of some of the world's most innovative organizations, including the 10 attributes leaders can use to create and develop effective cultures of innovation; how to use design thinking as a powerful method to drive employee creativity and innovation; and how leaders can create their ideal culture.

Innovation by Design offers a powerful set of insights and practical solutions to the most important challenge for today's businesses — the need for relevant innovation.

IN THIS SUMMARY, YOU WILL LEARN:

- Why design-driven companies outperform the S&P 500 by over 200 percent.
- The meaning of design thinking and its key tenets in business.
- The 10 key attributes that drive design thinking in organizations.
- Why empathy is at the heart of design, innovation and creativity.
- Inspiring stories of companies that use design thinking to win in the market.

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THE COMPLETE SUMMARY: **INNOVATION BY DESIGN**

by Thomas Lockwood and Edgar Papke

The authors: Thomas Lockwood is recognized as a thought leader at integrating design and innovation practice into business. He has produced 22 conferences about design leadership, lectured and led workshops in over 20 countries and is a design adviser to numerous companies. Edgar Papke is a leadership psychologist, author and globally recognized expert in business alignment, leadership and organizational culture. His clients range from Fortune 500 companies, multinational organizations, and governments to small businesses and individuals.

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PART I: THE CONTEXT

Better Innovation

With all the knowledge and technology available to us, and the means of immediate communication and instant access to information at our fingertips, why does our focus constantly return to how we can become even more innovative, to solve bigger and more complex problems? Why is meaningful innovation the most important issue that organizations continue to grapple and struggle with?

Global surveys of CEOs, C-level executives and leaders from 2015 to 2017 reveal that fostering innovation is one of their top strategic priorities, placing among the top six in every survey. Yet, most CEOs are grappling with how to engage their cultures in the change necessary to be more innovative, and the majority of respondents say their organizations are struggling with the speed of technological innovation. Only one out of five CEOs note that innovation is at the top of their organizational agendas.

The data raises the question of how the most successful organizations in the world go about innovating at the level they do, disrupting industries and market segments, quickly turning what were just yesterday stable technologies and ways of life into quickly outdated or obsolete ones. What is the code to cracking their culture, and what do they do that is so different from the also-rans that they outperform?

A 2015 study by the Design Management Institute demonstrates that a set of larger design-driven companies (including Apple, Starbucks, Disney and Nike) outperform the S&P 500 by 211 percent. Design thinking has grown in popularity for most of the past decade, and two significant trends have emerged.

The first trend is that design is more and more becoming a readily adopted strategy by companies for responding to the need for innovation, differentiation and customer experience.

The second trend that emerged was the race to build the competency of design thinking. Between 2004 and 2016, more than 70 notable design and creative consulting firms had been acquired. In 2013, the major consulting firms of Accenture, Deloitte, KPMG, PwC, McKinsey and Boston Consulting Group made acquisitions of top-notch design and creative agencies. Accenture, Deloitte, GE and IBM are all rumored to be hiring 1,000 designers each.

Design thinking is being identified as a missing link through which organizations are increasing their capability to innovate and create meaningful customer experiences. The early adopters were the first out of their starting blocks, and the race is on.

Innovative companies' emphasis on design represents the convergence of three key elements: innovation, culture and design thinking.

Design Thinking Organizations

According to Wikipedia, "Design thinking refers to creative strategies designers utilize during the process of designing ... Design thinking in business uses the designer's sensibility and methods to match people's needs with what is technologically feasible and what a

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **A. Imus**, Contributing Editor

viable business strategy can convert into customer value and market opportunity."

There are several key tenets that appear to be common in design thinking and consistently present in design-thinking organizations. The first is a quest to identify the right problem to solve, coupled with a deep understanding of the user. This is achieved through observation, fieldwork and research, an empathetic approach to discovering stated plus unarticulated user needs, and open inquiry.

The second tenet of design thinking is empathy coupled with collaboration, both with the users and through the forming of multidisciplinary teams. This helps to move an organization past silos and toward radical collaboration, rather than incremental improvement, thereby moving faster toward the creation and delivery of the right solution, a valued solution.

The third is to accelerate learning through hands-on experimenting, visualization and creating quick rough prototypes, which are made as simple as possible in order to get usable feedback. Often the goal is to fail quickly and frequently so that learning can occur.

Last is integrating business-model innovation during the process of design thinking, rather than adding later or using it to limit creative ideations. Design-thinking organizations are able to integrate thinking by combining the creative ideas with business aspects, in order to learn from a more complex and diverse point of view.

Here is a set of 10 attributes that give remarkable power to the human-centered aspects of design thinking in organizations. They are the qualities that separate the truly innovative from those that strive to be like them. The attributes that follow can become parts of the context of how organizations use and integrate design thinking:

1. **Design Thinking at Scale**
2. **The Pull Factor**
3. **The Right Problems**
4. **Cultural Awareness**
5. **Curious Confrontation**
6. **Co-Creation**
7. **Open Spaces**
8. **Whole Communication**
9. **Aligned Leadership**
10. **Purpose**

PART II: 10 ATTRIBUTES

Design Thinking at Scale

Innovative design-thinking organizations all share the attribute of scaling, an expansion in the use of design thinking throughout their organizations. Regardless of the size of their organization, they see design thinking as a key strategic element of innovation and a means through which to influence their cultures.

The big lesson is that any organization, of any size, can use design thinking as a means to influence culture and achieve greater levels of innovation. Regardless of size, the more people know about how to engage in design thinking, the greater the level of innovation.

At Marriott and Kaiser Permanente, design thinking started out as function and found its way to becoming a means through which to engage employees in small groups and eventually on a much larger scale. In others, like GE, Philips, Visa and IBM, organizations invested in the acquisition of talent and strategically developed design thinking as a competency.

Intuit, SAP, Deutsche Telekom and P&G approached it from the top down. A CEO or leader experienced the power of design thinking and found it to deliver a means through which to solve the most difficult of problems. In other organizations it started as means to solve a particular business problem in one part of the organization, and people were naturally drawn to its qualities and wanted in on the game.

Consider these conclusions that are important to the success of design-thinking organizations:

- Scaling matters. Leadership knows how important it is to provide design-thinking skills and give access to design thinking to its workforce, and understands the significance of being able to apply design thinking to all parts of the organization, or as many as possible.
- It's not always about spending money on big training programs. What is important is to identify and hire people with the right mindset and get them out in the organization coaching and training people by engaging them in doing.
- Naming or branding a design-thinking program helps uniquely to align the effort to the company and elevate the importance of its application and use, and provides a common language and framework.

- Leadership involvement is powerful. The best leaders of design thinking are those who are curious and practice it themselves.
- There is no one roadmap that every organization has to follow to get to the promised land of creating an innovative design-thinking culture. The path will be unique.
- The passion and creativity of design thinkers are something to embrace. They embed design thinking into the culture with the goal of shifting mindset and making it part of the organization's DNA. They commit to the idea of creating human-centered cultures and leveraging design thinking to inspire cultures of innovation.

Design thinking at scale isn't much of an option. To leaders and organizations creating an innovative culture, it's more of a necessity.

The Pull Factor

One of the essential traits of innovative cultures is the "pull factor." It is the emotional momentum that results from the natural consequence of people wanting to engage and be part of innovation and the design-thinking experience. Research indicates that design-thinking companies embrace the pull factor as a means to innovation. It differs significantly from the more traditional ways in which organizations have viewed engaging members and driving innovation.

Many companies have invested boatloads of money in innovation over the years, but smart companies — the design-thinking companies — are rethinking how, when and where they spend money. The reality: Scaling employee creativity by providing design-thinking training is both extremely inexpensive and extremely effective.

Kevin Lee, the leader in design thinking at Visa, so aptly described the pull factor's impact, "Once they experience design thinking, people get evangelized and converted. They become believers in design thinking and its delivery of an experience. They want to get involved." This is consistent across companies that use design thinking and the experience of how it influences cultures. It's in the pull, not the push.

A Paradigm Shift

In every effort to solve a problem or create a change, there is a tipping point. In older paradigms of change management, the tipping point is reached through the efforts of leaders to chart a course and implement a strategy.

Design-thinking research informs us to shift our thinking to a new paradigm in which, given the right opportunity and empowerment, people naturally endeavor to solve problems and create change. By pulling and not pushing from the top, the tipping point is much less difficult and, in most cases, less time-consuming to reach. It is leveraged through engagement in different parts and groups within an organization.

Furthermore, given the slightest level of empowerment and encouragement, people will engage in the collaboration that is an expression of our collective imagination and the natural consequence of our shared human desire to participate and create together.

In design-thinking cultures, people naturally generate the pull factor required to respond to solving the problem.

The Right Problems

In design thinking, a key to success is in first finding the right problem. Delivering a good solution requires one to first focus on finding out what is most important to creating the best solution for the customer.

For this reason, great design thinking always begins with a focus on the customer and understanding the human experience. This includes getting as much information and finding out as much as possible about what is motivating the customer, as well as the contextual aspects of the situation.

One of the key aspects of design thinking is taking the approach to a problem as human-centered. It cannot be solved through just scientific approaches.

Design-thinking cultures also aim to identify and solve the root causes of problems. They are not tempted by the short-term success of low-hanging fruit. The organizations are not driven to just creating new ideas. Rather, they have a need for better ideas and finding the right innovation. Design-thinking cultures are not about just brainstorming or ideation; they are about developing a competency to identify and then focus on what is important, and to solve that.

Ghost Town Turnaround

A great example of finding the right problem is Kaiser Permanente's seminal work several years ago creating solutions to close the hole in patient care created by shift changes in its hospital nursing staffs.

At first glance, it would make sense that the nurses could solve the problem by immediately paying attention to patients as soon as they came on shift. Yet, when they did, they still found themselves being pulled away to communicate with the nurses ending their shifts or to find patient information.

Using design thinking, the first step was to engage all the stakeholders, including nurses, patients and the array of hospital staff. The discovery process led to the understanding that the problem that needed to be solved was how nurses exchanged patient information between shifts — a process that typically took 45 minutes or more and delayed the arriving nurses' first contact with their patients. In fact, many patients described hospitals as a "ghost town" during shift changes.

What came to be called Nurse Knowledge Exchange (NKE) created a process for passing on higher-quality information more quickly and reliably. Now the exchange occurs at the patient's bedside rather than at the nurses' station. Patients are encouraged to participate, making it less likely that anything important relating to their care will fall through the cracks.

New software helps nurses compile information in a standard format throughout their shifts. And they are less likely hours later to experience a jolt of panic that they've forgotten to communicate something important.

Nurse Knowledge Exchange has since been rolled out to all Kaiser Permanente hospitals. According to Christi Zuber, a member of the Innovation Consultancy team, the most significant result of the group's work is bringing human-centered design to the organization.

Culture Awareness

Design thinking, like other ideas and strategic solutions, if introduced and implemented without considering how it will fit an organization's culture, can fail. In the majority of cases this is not the result of the strategies or processes being bad ideas. Rather, they fail to stick because they do not fit the culture of the organization or are not implemented in a manner that aligns to how the organization creates success.

This can easily lead us back to the question of why it always has to be about culture. Because it is!

Organizations are forms of complex social systems that are shaped and formed by human interaction. Therefore, it becomes important to understand how an organization's culture can respond to and support the variety of human needs that manifest themselves in behaviors and interactions.

The better an organization is able to respond to human emotion, the more aligned it is. Furthermore, the more aligned the use of design thinking is to the culture, the greater the likelihood for success.

Organizational Empathy

Empathy is at the heart of design and is the core of innovation and creativity.

Empathy is putting yourself in someone else's shoes and understanding how they feel, thereby having the ability to relate to and experience the emotion of another person. Based on this meaning of empathy, organizational empathy is defined as an attribute of culture demonstrated by the ability of its people to relate to and experience the emotion of others.

Through the use of empathy in design thinking, people are able to collaborate and cooperate with one another across the typical boundaries that exist between functions and groups, as well as experience one another more intentionally when in service to each other as internal customers. This can scale across an organization and goes well beyond the focus on having empathy for customers.

It is further reinforced by leaders who, when at their best, also demonstrate empathy for their employees. This role-modeling and reinforcement of empathy are key to the model of seek first to understand, then begin to solve.

The story about Kaiser Permanente's creation of the Nurse Knowledge Exchange is a good example of shifting the definition of success from merely providing an isolated solution to shortening the time that patients are left without care, to one that also responds to the internal challenges faced by the nurses and related staff.

The broader involvement not only demonstrates a willingness to empathize and understand the internal issues that confront employees; the desire to understand their emotional response invited them to participate and feel more engaged.

Curious Confrontation

Curious confrontation can be defined as "facing differing ideas and mindsets with the desire to investigate and learn."

More than at any other moment in time, people learn about the culture they're in when they experience conflict. Design thinking provides an effective tool for confronting and managing disagreement and conflict. Organizations using design thinking have a belief in and positive mindset about curiosity. People who use design thinking

demonstrate better inquiry and listening skills, which is key in managing disagreement and conflict effectively.

Because design-thinking skills can be applied to dealing with disagreement and conflict, confrontation happens in a more timely and healthier manner, thereby avoiding much of the dysfunction and consequences associated with it. Design thinking is a valued process for confronting disagreements and misalignments among functions, and their leaders, and effectively breaking down unhealthy silos.

Developing Conflict-Management Skills

The skills of listening and seeking understanding are key to empathy, the first step in the design-thinking process. Genuine inquiry and open listening are paramount for users of design thinking to be successful and, as the result of lessened levels of fear, leads to increased levels of emotional maturity and safety that directly impact how conflict is constructively managed.

The result of lesser levels of fear translates into the free expression that leads to the ability of people to engage in the idea generation that feeds the process of co-creation. When applied to conflicts, design thinking results in greater openness and faster generation of ideas, better feedback loops and less competition over whose idea is better.

Here are some of the ways in which organizations can better leverage curious confrontation to manage disagreement and conflict more effectively and, by doing so, move toward greater levels of innovation:

- Keep the customer first.
- Always critique the work.
- Trust in the process.
- Ask simple yet critical questions (e.g., "What's missing?").
- Emphasize your purpose and intention.
- Come from a place of inquiry.
- Act aligned.
- Measure results.

Co-Creation

Design-thinking organizations are not bound by the limitations of their structure or the defined roles people find themselves in. Rather, they invite inclusion and bring together diverse groups and parties to collaboratively produce mutually benefitting and jointly valued outcomes.

Innovative organizations display an ability to manifest the belief that the more open they are internally, within their own organizations, the more they are able to be open and engage externally. This results in the capability to involve a much broader group of players and contributors to the innovation process.

It also allows the leveraging of co-creation, which results in greater levels of information-sharing, more timely and productive problem-solving and better-informed employees, customers and leadership — not to mention higher levels of engagement and loyalty among those involved.

In support of co-creation, there is also the sharing of knowledge with and training of groups and individuals that are typically ignored or excluded. In design-thinking cultures, these oft-hidden assets are the powerful source of the creative influence that results in great innovations.

Process Alignments

Visa has a program called Design Hack Practice. Every month they put their learning into practice and how to apply it to solve fundamental claims problems both at Visa and within client teams. Recently they ran a design hack program in Vietnam, Indonesia and the Philippines to create solutions for a bank. The chairman of the bank took part in the hack, which resulted in finding ways to solve end-user problems by using Visa services and thinking through methods in their product-innovation portfolio with their customers.

According to Kevin Lee, Visa's global head of design, more profound is the impact on the ground level. The company is delivering organizational strategies by helping everybody understand the importance of empathy, listening skills, synthesizing, conceptualizing ideas and involving the user experience. What's so impactful is that they are solving local problems on a global basis. In support of leveraging co-creation, they ran a two-day design hack with more than 70 people co-located in Singapore and Berlin.

Open Spaces

A common attribute of highly innovative cultures is the attention paid to creating an environment that promotes expansive and creative thinking. This includes what physical space looks and feels like, how virtual communities and teams use visual tools and technologies, and their effect and reinforcement of creative and collaborative behavior and open communication.

When workspaces and virtual communities are more engaging and creatively stimulating, with more capability and opportunity for employees and team members to gather, collaborate and create together, it invokes the natural processes of the collective imagination, visual reasoning and mind mapping. The attribute of open spaces is a means of emotional expression that invites creative expression and more open and energized dialogue.

Often, the creation of open space is the change that produces change. What is vitally important to understand is that any time an organization brings together people, whether in a physical or virtual space, creating it in an intentional manner — one that lends itself to the use of design thinking — will almost always result in greater levels of new ideas and innovative solutions.

Creative Spaces

LEGO's new office in Billund, Denmark, will likely become a model for other organizations to follow. Why? For starters, it is created to provide the sense of community that aligns to LEGO's approach to market and one of their core business strategies to nurture the worldwide community loyal to their product and brand.

Secondly, in alignment to culture, the design has a list of features that creates open space for collaboration and a sense of freedom to work in a manner that breaks down structure, bureaucracy and creative limitations.

Here is a short list of some of the work environment elements consistent with the company's emphasis on creative play: a green roof garden, play areas, lounge areas, a mini golf course, informal meeting areas, hot desks, green courtyards and temporary workstations — all of which are wrapped in a structure that has the appearance of, and is designed in the manner of the product itself: LEGO bricks.

To bring nature and well-being into the environment, the design of the building allows for a generous flow of daylight, giving it a sense of openness. This is all consistent with the design that speaks to the creative design capability embedded in its culture.

Whole Communication

Whole communication can be defined as the broader means in which human beings verbally and nonverbally communicate a message. Whole communication engages various forms of logical and emotional expression. From the use of data and basic visuals to the use of painting and improv acting, whole communication allows for the spectrum of possibilities and tools to be used in telling or creating a story.

Design-thinking companies demonstrate an increased competency to communicate in a variety of creative ways. These organizations are great storytellers, creators and users of visual information, and have a willingness to experiment with new ways to communicate, interact and brainstorm.

They appear to understand that innovation happens by contextual inquiry, discovering unarticulated needs, synthesizing, creating with empathy and communicating solutions in methods that embrace the emotions underlining the concepts.

The Power of Storytelling

Stories are a form of whole communication that connect people and allow them to experience common ground, including at the emotional level. They can be useful as a creative reminder of an organization's or group's purpose and how individuals connect and contribute to it. They can also be helpful in changing perspective and thereby producing meaningful change.

Historically, organizations have relied more on the use of data and logic and have struggled with the emotional content of how their people work together. As a result, organizations were designed to work in the world of logic, and the workforce that fed into it was prepared accordingly. This makes design thinking even that much more attractive as a means to overcome the consequences of the over reliance on data-driven approaches.

Emotion-based, informative and interactive forms of communication have the power to multiply engagement, to tell a story with emotion in order to get multiple stakeholders to engage, embrace and contribute to the development of solving the right problems. Design thinking connects the left side of the brain (the source of the analytic and logical reasoning functions) with the right side (the source of creativity, imagination and intuitive thinking). There is recognition that within all forms of data, there is a story. The result is a more holistic approach to exploring and solving problems, and innovating.

Aligned Leadership

The level of commitment and support shown by leaders for the use and integration of design thinking, including the development of leaders in their organizations and involving and empowering other design-thinking experts,

is *the* key factor to success. While committing to the idea that design thinking is important to culture and that scaling it requires alignment to that intention, how leaders role-model is a critical factor.

The alignment and role-modeling by leaders in design-thinking cultures are key to how well an organization's employees feel empowered to engage in the behaviors that support the successful use of design thinking. This requires leaders to learn the value of design thinking and its powerful influence in the development of a culture of innovation. Leaders need to embody the values and beliefs of that culture and to commit to the development of aligned leaders throughout the organization.

The attributes of design-thinking leaders include

- Uses empathy to understand the experiences of others.
- Focuses on creating a benefit for the customer.
- Listens with mutual respect and fearless exploration to understand others.
- Openly expresses their ideas and what they think, see and feel.
- Pursues knowledge by being curious, inquiring and asking questions.
- Demonstrates the ability to be vulnerable, including accepting of their mistakes and incompetence.
- Coaches others, rather than sharing viewpoints and competing with others.
- Relies on the knowledge and insight of others, and not acting as the lone genius.
- Strives for self-knowledge and uses the personal power of choice.
- Uses curious confrontation to effectively manage disagreement and conflict.
- Aligns their personal purpose in contribution to the organization's mission.

Purpose

The simple truth is that, for any organization to be innovative requires it to have a shared set of ideals as to its purpose for existence. Why? If members are in alignment with an organization's purpose for existence, they will be more engaged and more motivated in how they think and act.

To be purpose-driven is to hold a promise. Whether it's a large, well-established global company or a highly innovative restaurant, what evokes the emotion that leverages the collective imagination is its purpose. One element that design-thinking companies share is a clearly defined purpose. Some may call it a mission.

Today, more than ever, this is a part of a broader and more engaged consumer ecosystem in which customers are no longer bystanders in the creative process. The fundamental rules have changed and an organization's purpose is the commitment it makes. Not only do consumers want assurance that purpose and the promise will be met, they want to be involved.

Recent studies indicate that more than seven out of 10 younger consumers want to be engaged in the creation of the products and services they are shopping for. More than seven out of 10 are more willing to pay for products and services that are seen in a positive social and environmental light.

Clearly articulating purpose is no longer a matter of influencing only the people within an organization or as a general marketing and advertising tool. It is more and more becoming an element of engagement and innovation with a broader set of participants that are savvier and more interested.

For that reason, not only does the purpose of an organization have to be emotionally compelling, it also needs to offer specificity, accessibility, powerful imagery, social benefit, environmental responsibility, strategic clarity and continuity. A good way of getting there is through the use of design thinking.

We have the ability to actually design new cultures of innovation. More than any other of the organizational processes that have come before it, design thinking offers the greatest opportunity to confront and innovate in response to the greatest challenges of humankind.

MORE SV CONTENT ON LEADERSHIP

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Summary: *The Four Lenses of Innovation* by Rowan Gibson. Rowan Gibson presents an innovation methodology for producing a portfolio of high-quality ideas and radically new growth opportunities. You will learn how to reverse-engineer creative genius and make radical business innovation an everyday reality, using four key business perspectives.

Webinar: *How to Thrive in the Era of Endless Innovation* by Jay Samit. In this Soundview Live webinar, digital-media expert Jay Samit describes the unique method he has used to invent new markets and expand established businesses. This engaging, perspective-shifting presentation will demystify the mechanics of disruption for individuals and businesses alike.

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6Ps of Essential Innovation

Michael McCathren

Executive Book Summaries®

6Ps of Essential Innovation

Create the Culture and Capabilities of a Resilient Innovation Organization



by **Michael McCathren**

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THE SUMMARY IN BRIEF

We do not know what tomorrow has in store for our businesses and organizations. The world is changing too rapidly for traditional "future-proofing" to be effective. The key to true resilience lies in preparedness, and the most prepared organizations are those built around innovation. But what does it mean to become an innovation organization?

In ***6Ps of Essential Innovation: Create the Culture and Capabilities of a Resilient Innovation Organization***, Michael McCathren, Senior Principal of Innovation at Chick-fil-A, lays out a practical framework for embedding innovation into the core of an organization. Drawing on over 30 years of cross-functional leadership experience, McCathren introduces six foundational elements: Perception, People, Philosophy, Process, Place, and Permanence, that collectively form the cultural and operational DNA of resilient companies.

Through research, real-world case studies, and actionable exercises, McCathren shows how to foster a culture where innovation can thrive. He also highlights the two "super-skills" that all transformative innovation leaders must master: challenging the status quo and identifying emerging opportunities. This book provides a hands-on blueprint for leaders who want to build organizations that are not just reactive, but proactively shaped for the future.

IN THIS EXECUTIVE BOOK SUMMARY:

- Details the six essential building blocks of an innovation-ready culture.
- Explains how to identify and address innovation blind spots in your organization.
- Helps leaders gain the necessary strategies to lead innovation through structure, not just spontaneity.
- Shares exercises that translate theory into practice across your teams.
- Helps organizations build long-term resilience through a culture of continuous adaptation.

Introduction

There is no more "future-proofing." The future is happening too fast. There is only preparedness.

We do not know what tomorrow has in store for our businesses and our organizations. The key to organizational resilience is to be adaptable and flexible with any disruption that may come our way.

In 2021, Deloitte published its 2021 Global Resilience Report, which surveyed 2,260 CXOs in twenty-one countries. Deloitte found that companies with a few core attributes are better positioned to overcome disruptions and help usher in a "better normal."

Prepared was the attribute that topped the list.

Next on the list were Adaptable, Collaborative, and Trustworthy.

I noticed that "prepared" however, was not clearly defined in terms of actionable steps leaders could take to make their organizations more resilient. It made sense in my mind that these attributes represent variables in an equation the sum of which is **Preparedness**.

Prepared = Adaptable + Collaborative + Trustworthy

The secret to becoming a prepared organization is to be an innovation organization. Becoming an innovation organization will help ensure its resilience.

Section One: 6 Ps of Essential Innovation

1. Perception

As individuals, we have to be able to step outside of our contexts from which we operate routinely and acquire a less-biased vantage point on who we are and why we do what we do. The same is true for organizations, but in a more dramatic way. The collective perception of the members of an organization fuels its common beliefs, which drive individual behaviors, which ultimately defines the culture of the organization itself.

Creating a culture that is effectively and sustainably innovative begins with changing how individuals throughout all levels of the organization *perceive* innovation—how it is defined, how it works, and what it does.

INNOVATION PERCEPTION ASSESSMENT

The Innovation Perception Assessment (available at www.essential-innovation.com) aims to establish a baseline for where your organization is today in terms of being innovative, as perceived by your staff. The scoring is compiled across four pillars:

1. Senior Leadership Pillar: Examines how staff view the innovation behaviors of departmental and senior leaders.

2. Staff Pillar: Provides staff with the opportunity to evaluate the degree to which they believe they are empowered and equipped to innovate.

3. Culture Pillar: Evaluates the extent to which beliefs and behaviors of a healthy innovation culture are present in the organization.

4. Sustainability Pillar: Examines the role that innovation plays in exploring and planning future growth opportunities.

Each pillar represents areas of your organization that are critical to creating and sustaining an innovation organization.

2. People

For years, there has been debate whether sustainable value-add innovation is the result of a faultless innovation process or talented, highly creative **people**. The most common conclusion is that it takes both, to varying degrees, depending on the business or operating model.

At the highest level, evolving into an innovation organization involves flipping the traditional management model on its head and creating a culture that unleashes the power of its people to creatively solve problems more autonomously.

Leaders of the future will be required to lead with an innovation mindset, not a process mindset. This perspective requires a particular set of skills that anyone can acquire, but it requires intentionality, diligence, and practice.

INNOVATION SKILLS

Questioning

Future leaders will seek the right questions rather than the right answers.

Observing

Multiplicity of perspectives will provide future leaders with deeper understanding, which leads to wisdom.

Networking

Future leaders will possess the ability to activate higher-than-average innovation thinking through networks of people who represent multiple diverse perspectives, thus elevating the power of their innovation mindset.

The only way to overcome this counterproductive fear of failure is to shift the narrative away from failure to *unexpected outcomes*. Unlike failures, unexpected outcomes refine good ideas and transform them into great solutions.

Experimenting

Future leaders will understand that experiments are not judged in terms of successes or failures, but on the merits of how well they searched for and eliminated "unexpected outcomes."

SHIFT THE FAILURE NARRATIVE

Building on the experimentation skill mentioned previously, it is necessary to address the fear of failing that is associated with experimentation. A culture of innovation will not take root in an environment where the fear of failure is stronger than the desire to adapt, collaborate, and trust one another.

The only way to overcome this counterproductive fear of failure is to shift the narrative away from failure to unexpected outcomes. Unlike failures, unexpected outcomes refine good ideas and transform them into great solutions.

THE INCLUSIVE LEADER AND INNOVATION

Bernadette Dillon and Juliet Bourke, client director and partner, respectively, in Human Capital consulting at Deloitte, advise that diversity of thinking is a critical ingredient for effective collaboration.

Far from being guided by hunches and feelings, or leaving success to chance, inclusive leaders adopt a disciplined approach to diversity of thinking, paying close attention to team composition and the decision-making processes employed.

Bourke describes six traits of inclusive leadership: Commitment, Courage, Cognizance of bias, Curiosity, Cultural intelligence, and Collaboration.

ONE MORE THING ON PEOPLE

An organization does not become an innovation organization by simply creating an innovation process. Leadership must be intentional about creating an innovation culture and lay a foundation of Humility. Humility leads to Trust. Trust leads to bold, wild, fantastic conversations in safe environments where new ideas can flourish.

3. Philosophy

The third P of Essential Innovation, **Philosophy**, is a critical next step in creating a culture of innovation before moving into the process Ps four, five, and six. Taking this step assumes you have already adopted the second step, **People** behaviors, because there are essential questions that must be answered about the culture of innovation before innovation as a capability can be activated.

Many organizations wrestle at length with the Philosophy step. The work can be difficult, but the outcome is of utmost importance because it sets the trajectory for everything else that follows.

Philosophy is the study of fundamental questions concerning:

- Reason
- Beliefs
- Mind
- Knowledge
- Language
- Value

We will look at each of these through the lens of creating a culture of innovation.

REASON

Making sense of things and practices.

Your Innovation Purpose Statement explains the reason innovation exists at your organization. It will play a key role in launching the practice of innovation across your entire organization. It will help everyone make sense of why innovation is important to the growth of your company. Consider the Innovation Purpose Statement in three sections:

1. Long-term value or impact
2. An emotional connection
3. A catalyst for new areas of growth

BELIEFS

Rationale for believing what the organization thinks is or should be true.

FORMING "WE BELIEVE" STATEMENTS

A "We Believe" statement is like the core values of your organization—it articulates what your organization believes about work, customers, staff, the community, the environment, fairness, diversity and inclusion, care, etc. These values help explain where your company stands philosophically regarding essential topics.

MIND

Relating to the body. Th innovation team: who we are.

The **Mind** component of Philosophy is a double-click on the Purpose and "We Believe" statements. It explains how the innovation team defines itself and its role(s), and how it relates to the rest of the corporate body.

The roles and responsibilities of the innovation team should also be clearly defined in a "Who We Are" statement. Having these roles clearly mapped out and defined make it clear how the innovation team serves the greater organization.

CENTRALIZED OR DECENTRALIZED INNOVATION MODEL

As mentioned earlier, someone must be responsible for creating an innovation organization. This dedicated person or team is essential whether centralized or decentralized is the preferred model. Practically, the distinction between the two models is in how innovation and ideas flow within and around the organization.

The model that is best for your organization may largely depend on how it is organized. For example, if your management structure is more hierarchical with vertical levels of management and few decision makers, a Centralized model may be the best fit. If your management structure is flatter, less hierarchical and decision rights are distributed throughout the organization, a Decentralized model may work best.

I encourage you to consider the Decentralized model first. It is the model that contributes the most culturally to an innovation organization.

KNOWLEDGE

Awareness, comprehension, recognition, and mastery.

FORMING THE INNOVATION PROCESS

It's important to begin the Innovation Process by determining the degree to which innovation becomes an integral part of ongoing training and education in your organization. Many organizations deal with this component as an afterthought and then find it difficult to gain buy-in and funding late in the process, when resources and support are needed most.

If your organization desires to become an innovation organization and to achieve meaningful innovative outcomes, then there are two areas of innovation your staff must comprehend:

- Education—awareness and understanding of innovation principles and process
- Application—effectively setting innovation principles and processes into practice

LANGUAGE

Commonality and agreement.

FORMING A COMMON LANGUAGE

A common language is the foundation of every culture. Your organization is no different, and an innovation culture is especially dependent on a shared language. The process of innovation has many moving parts and without a common language binding these parts to the greater whole in consistent ways, the application of innovation principles and processes become diluted as everyone begins to do the work of innovation in increasingly disconnected and individualistic ways.

VALUE

Assigning worth and judging usefulness.

FORMING INNOVATION METRICS

Innovation is much more than brainstorming for ideas. It is an investment of time and energy that should be measured against other work on which the same time and energy might have been better spent. Assigning a value to innovation can be a challenging endeavor.

Characteristics of Innovation Metrics

As with any data used to measure business decisions, innovation metrics must have the following characteristics:

- **Quantifiable** –There is something about the value of every innovation that can be calculated, from new product sales and profit margins to efficiency gains in time, quality, or costs, to employee satisfaction and engagement, to name a few.
- **Verifiable** –The data must be valid and accurate, and the same formulas must be used consistently.

Just as it is with people, the process is easier to trust the more you know about it. This process is not just something you do—it is how you think about what you do.

- **Understandable** – Make the information easy to access and consume.
  - ◊ Include the baseline, trend line, and goal
  - ◊ Provide a clear legend and defined units of measure
  - ◊ Proactively provide explanations for commonly asked questions

4. Process

We will present a **process** for making innovation happen in your organization. Before we discuss each step of the innovation process, we must address the importance of teaming.

Without successfully aligning the project team prior to entering the innovation process, the outcome will likely take longer and will not deliver the value it could have had team alignment occurred first.

Alignment consists of several elements including shared purpose, norms (communication expectations, meeting attendance, conflict resolution, etc.), role clarity, decision rights, dependencies, timeframes, milestone deliverables, and so on. Teaming is an essentialprocess within a process.

ORIGIN AND BENEFITS OF THE INNOVATION PROCESS

With a strong team formed and ready to apply its innovation process, let us first explore the nucleus of any innovation process: design thinking. The Interaction Design Foundation defines design thinking thusly:

"Design Thinking is a design methodology that provides a solution-based approach to solving problems. It's beneficial in tackling complex problems that are ill-defined or unknown, by understanding the human needs involved, by re-framing the problem in human-centric ways, by creating many ideas in brainstorming sessions, and by adopting a hands-on approach in prototyping and testing. The five stages of Design Thinking, according to the Hasso-Plattner Institute of Design at Stanford (d.school), are as follows: Empathize, Define (the problem), Ideate, Prototype, and Test."

It is important to acknowledge these foundation stages so that you can create an innovation process that best fits your organization while remaining true to the principles of design thinking.

THINKING TYPES AND THE INNOVATION PROCESS

You will notice in my discussion of each stage I include the correlating thinking type. There are four different thinking types that correlate to each step of the innovation process:

- Investigator
- Inventor
- Investor
- Implementer

It will be important to understand the thinking types of the project team to ensure that the team is not weighted toward any one particular thinking type.

The most effective innovation teams are those consisting of a balance among the four thinking types.

AUDIENCE AT THE CORE

Everything that happens in the innovation process begins with knowing your audience (or consumer or customer—the terms are interchangeable and refer to the group of people for whom you are designing innovation.) Regardless of what you call them, it's critical that you define your audience narrowly enough that its members all share a common need to be met or a problem to be solved.

After prioritizing all the audiences relative to each other, select one audience that represents the *largest group with the highest level of significance*. That audience becomes the First Most Important Audience (fMIA).

STAGE ONE: DISCOVER

Once you have selected your fMIA, the project moves into the Discover Stage. The first task in this stage is to develop Discovery and/or Opportunity Statements. This approach is acutely audience-centric: you will determine who your fMIA is and discover the root cause of their most pressing Need, Pain, or Obstacle (NPO), and produce a Discovery Statement.

STAGE TWO: DESIGN

Using the Root Cause from the Discover Stage as the aiming point, you are ready to think about solutions. This stage is not a one-hour brainstorm meeting. It requires intentional planning by the leader and a commitment by the participants to be fully engaged in an event that is a departure from their everyday routine and mindset.

The participants must have a *focused divergence mindset*—every thought should be expressed, no matter how wild, silly, or far-fetched it may seem, while not straying from solving the Root Cause.

STAGE THREE: DEVELOP

The Develop Stage is perhaps the most exciting because it is where you begin to see the idea from Stage Two: Design come to life and observe how it might solve the most important NPO for our fMIA from Stage One: Discover. Before actively developing a prototype of the idea however, you need to have completed the Prototype Readiness Checklist.

STAGE FOUR: DEPLOY

The Deploy Stage is where you begin the handoff of the idea and reach a formal end to the innovation project. Many game-changing, impactful ideas fall apart at this point. The handoff can be a long process depending on who is receiving it and the nature of the environment in which the handoff occurs. A poor handoff has immense consequences.

Just as it is with people, the process is easier to trust the more you know about it. This process is not just something you do—it is how you think about what you do. Remember, the two most important questions you can ask yourself after, "who does what?" are "am I doing the right thing?" and "am I doing things right?"

The innovation process provides answers to both. Create it, teach it, trust it!

5. Place

Of all six Ps, **Place** is perhaps the most overlooked and undervalued. Your organization has a place for everything. The props from projects past are probably still stored somewhere, because that is their place. Everyone has a place to work, gather, practice, think, and so on. Place matters. Priorities that do not have a place to call their own are not priorities. Innovation is chief among all the priorities that needs its own space. Innovation as a culture and a capability may be foreign to many of your staff. They need a place to go where they can explore what innovation means and experience what it is like to do innovation and see how it works.

Nothing says more about a company's commitment to be an innovation organization than the lack of an innovation space.

6. Permanence

A culture of innovation cannot be established then ignored. Like a vegetable garden, it takes a great deal of preparation. Room and space must be dedicated to it where adequate sunlight and water are easily available. The soil must be fertile and prepared to accept the seeds. Someone must be responsible for planting the seeds and caring for them as they begin to grow. Maintenance must begin at the start.

The same is true for nurturing a culture of innovation. Do not allow your hard work of establishing a culture of innovation to be laid waste by neglect. Focused management of a thriving culture of innovation falls into three activities: Accountability, Education, and Communication.

Section Two: Secret Essentials

7. Questioning Authority

Innovations throughout history began with a question. From nautical navigation to Netflix, someone at some point asked a single question, which led to more. It is tempting to simply not ask the difficult, more provocative questions, because they are the most difficult to answer. Yet it is sometimes the most difficult questions that lead to breakthrough answers.

If we are going to be great innovators who can model the innovator's mindset and eventually create an innovation organization, we must kill the part of us that feels dutifully obligated to always have the right answers and revive that part of our minds that asks questions. We must become authorities on asking great questions—we must become **Questioning Authorities.**

8. Finding Future Growth

How do you bridge the gap between the present day and the future? Does your organization dedicate time and attention to a method of looking into future micro and macro trends and devising appropriate plans? How much time do you or your leaders devote to future planning?

WHY WE CAN'T GET PAST THE PRESENT

The biggest challenge in identifying future disruptions and opportunities are the necessary priorities having to do with

managing the present. But our tendency to focus on the present is more than just our work being anchored to annual goals, quarterly reports, and monthly project updates.

There are inherent cognitive biases that confine our thinking to the here and now and prevent us from seeing long-term opportunities and disruptions:

- ***Bounded Rationality*** *is our instinct to solve problems based solely on the information that we have immediately at hand.*
- ***Automaticity*** *is the ingrained habits borne of doing the same things over and over again.*
- ***Sunk Cost Fallacy*** *compels us to keep wasting money on losing propositions because we have spent so much on them already.*
- ***Hyperbolic Discounting*** *is our tendency to choose a smaller reward that we will receive sooner over a larger reward that we will receive later.*
- ***Normalcy Bias*** *inclines us to overrate the likelihood of things continuing to go as they always have and to discount the possibility of them going horribly wrong.*
- ***Confirmation Bias*** *leads us to interpret data in a way that supports our pre-existing expectations.*

Beyond maintaining awareness of our proclivity for these biases and of their power on us, building cognitive diversity can enhance our vision of the future and help us to progress toward future-oriented decision making.

DEFINING TREND ECOSYSTEMS

Trendspotting and future casting are often misunderstood. Many times, we focus on the hype that a trend generates through all the various media channels and overlook the numerous details that make up its ecosystem.

None of these trends can exist in a vacuum. Each one requires an ecosystem to support, maintain and scale it.\

WHERE TO LOOK FOR SIGNALS: INNOVATION NETWORK

The mistake many organizations make regarding inventing the future is that they believe they must do it themselves through internal resources.

Strategic partnerships are the key to future innovations.

By utilizing the Innovation Network Map, you can identify potential members of your network who will create rich conversations around your organization's table that could lead to new relationships and transformational innovation.

Be a connector, not a protector. Gather the right people and examine interesting topics. Allow them to interact and innovate together, and you will benefit from it. Your job is to develop and manage the process for their frequent convergence and to ensure open collaboration which could lead to a future yet unimagined.

There is no one silver bullet approach that will work for every organization. What is most important is not how you do it, but that you do it.

Every organization, for-profit, not-for-profit, and government agency needs someone on the team who can articulate a vision from a "what if " perspective and point to valuable new growth opportunities in a more far-off future. Maybe that someone is you!



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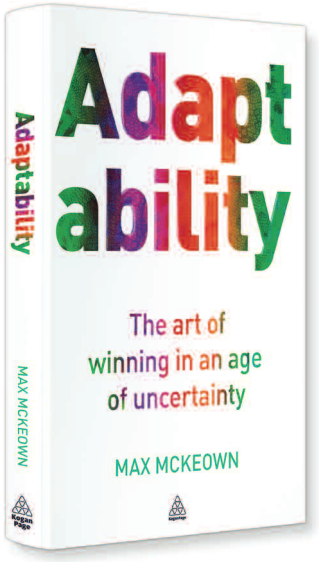
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Adaptability

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Innovation



Adaptability

The Art of Winning in an Age of Uncertainty

by Max McKeown

THE SUMMARY IN BRIEF

Adaptability is the key human trait. The ability to adapt faster and smarter than the situation is what makes the powerful difference between adapting to cope and adapting to win.

Our history is a story of adaptation and change. In this time of brutal competition and economic uncertainty, it has never been more important to understand how to adapt successfully.

In a series of powerful rules, Max McKeown explores how to increase the adaptability of you and your organization to create winning positions. Fascinating real-world examples from business, government, the military and sports bring the rules of adaptability to life — from the world's most innovative corporations to street-level creativity emerging from the slums.

Adaptability is about how people adapt. It's also about winning. Not just winning by playing the same rules, but by playing better. It is a powerful, practical and inspirational guide to success in uncertain times.

IN THIS SUMMARY, YOU WILL LEARN:

- Why some groups adapt better to uncertainty.
- How to be inspired by stories of successful adaptation.
- How to transcend the constraints of your situation.
- Why "adapt or die" is not the only choice.
- What the rules of adaptability are.

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THE COMPLETE SUMMARY: **ADAPTABILITY**

by Max McKeown

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Introduction: In Search of Adaptability

Adaptability is more than flexibility; it's more than merely coping with a miserable set of choices in an unhappy game. Adaptations may be deliberate or non-deliberate. They may also be successful or unsuccessful.

How do some people start from a losing position and end up winning? How do others follow the reverse path, starting from a winning position and end up losing? Why do individuals, groups, markets and nations end up in situations that are mutually destructive? In short, what are the rules of adaptability?

There are three steps that have to be followed if there is to be deliberate adaptation that works.

- **Step 1: Recognize the need for adaptation.** If no one recognizes a need or opportunity to adapt there can be no deliberate attempt to adapt.
- **Step 2: Understand the adaptation required.** There are many people, and whole nations, that recognize problems without knowing what to do about them.
- **Step 3: Do what is necessary to adapt.** It's fairly common for people to know what is necessary and still not do what it takes.

The outcomes of adaptation, or lack of adaptation, may be collapse, survival, thriving or transcendence. There is overlap between them. They will also change.

You can improve every day of every year and still fail. Or you can be part of the group that adapts faster and smarter than the situation changes. You can think your way to a better future. ●

PART I: RECOGNIZE THE NEED TO ADAPT

"We didn't adapt fast enough" is a common enough explanation for the poor performance and disastrous leadership of many organizations.

"We got it wrong" is less popular but just as relevant. People can move rapidly but in the wrong direction.

The most successful adapters are curious. They understand that stability is a dangerous illusion and they reach beyond the limits of what is, to what may be, both good and bad. They reach out beyond the obvious questions to non-obvious answers and are willing to embrace unacceptable wisdom as a way of increasing the options available.

Rule 1: Play Your Own Game

The Ancient Greek poets described the monstrous Hydra with more heads than the vase-painters could paint. Worse, for attackers, for each head cut off, the Hydra grew back two more.

The U.S. military doctrine known as "shock and awe" faced an example of the Hydra problem. The idea was that dropping enough precision bombs would destroy the chain of command and demoralize Iraqi forces, who would then surrender.

Yet, resistance did not stop, it simply adapted to the impossibility of winning the war by U.S. rules. The traditional stand-and-fight army melted away and became something better adapted to the situation. There were 139 American deaths between the start of the invasion

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and President Bush declaring "mission accomplished" and more than 4,335 after.

The adaptation of strategy to U.S. forces was very rapid. In contrast, adaptation of the U.S. strategy was dangerously slow.

This is the gap between the situation changing and an organization adapting to those changes. Changes must be recognized, the nature of change understood, and the changes made in time to engineer a winning scenario.

This disconnection, or gap, between what is happening and what prompts the organization to adapt, creates a reality distortion field that slows any attempt at action. And while you're failing to adapt, for reasons of tradition, ignorance or self-interest, your opponent's adaptation, whether in war, business or politics, will continue to succeed. ●

Rule 2: All Failure Is Failure to Adapt

If you find a system that is failing, then you have also found a system that is failing to adapt. You need to discover, first, what adaptations are needed for the system to succeed. Second, you should understand what has stopped the system from adapting successfully. And third, you should find out how to free the people in the system to make the necessary adaptations.

In the aftermath of the financial crisis of 2008, the government invited Ford Motor Company to consider a government bailout. Despite losses that year of $14.6 billion, Ford insisted that it did not need the funds.

It stopped producing unprofitable and inefficient vehicles, brought production lines together, closed down 14 factories and more than 30,000 jobs.

Ford had recognized the necessity of deep adaptation before its Detroit competitors. In 2006, it had set up $23.5 billion credit before the financial crash. Ford's CEO, Alan Mulally, explained that he had taken the original restructuring plan to more than 40 banks to get the financing. He asked for much more bank credit than anyone expected to use. By reacting as soon as possible to patterns of change, he was able to make changes on a timescale that suited Ford and invest in R&D to accelerate the development of new technologies. This is also pre-emptive adaptation.

In 2010, Ford earned its biggest profit in 10 years. Sales were up 16 percent primarily because of strong demand for more fuel-efficient vehicles.

Shift in perception, particularly at the top, allows an organization to move more rapidly and adapt situations more effectively into winning games. ●

Rule 3: Embrace Unacceptable Wisdom

Reversing the obvious adaptation opens up possibilities. Even just speaking the opposite of the prevailing wisdom out loud can create opportunities.

Levi Strauss & Co. reversed normal operations strategy when they decided to work with environmental groups to move into water reclamation, water efficiency and reuse even in factories owned by the suppliers of suppliers. In 2007, they started to look at a full life-cycle assessment of a single pair of 501 jeans. They figured out that more than 3,000 liters of water were used from the production of cotton through the manufacturing process to keeping the jeans clean.

The obvious adaptation would be to hide the facts from their customers or at least not go looking for inconvenient truths. The less obvious adaptation to customer and environmental concerns was to find out how much water was used and then advertise that information. The obvious adaptation would make the customer responsible, through a public information campaign, for the water used in the care of the jeans, and then stop. But the less obvious adaptation would be to accept responsibility for water wastage in the production process and then try to do something about it.

Carl Chiara, director of brand concepts and special projects, wasn't happy with the three to 10 times each pair of jeans was washed. The company proceeded to invent stonewashes without stones and find a way of rinsing with resin instead of water. As a result of all the changes made, the water used in the most efficient production processes went down by 96 percent.

Many innovative solutions come from creating a problem instead of waiting for one. Embracing unacceptable wisdom allows us to benefit from better ways of adapting our situations. Non-obvious suggestions can provoke more ideas that lead to improvements beyond expectations. Looking to the past, to the future and outside the day-to-day limits of your village, city, profession, corporation or country will increase adaptive options. ●

Rule 4: F*** with the Rules

Knowing the rules is valuable; knowing when to break them is critical to successful adaptability. If you don't know the rules, they can't help you with shortcuts to what is already known. Rules are made of experience and much of experience is useful. Yet rules may also include prejudice or mistaken beliefs. Behaviors learned

in one set of circumstances may be ill-suited to new challenges.

Time-based adaptation is hugely important to the art of winning. You should make it a priority to consider your own efforts over time. How can you get people ready, able and willing to adapt in the very short term? How can an individual pull in colleagues and resources in flexible ways to deal with short- or medium-term threats? And what can you start, or stop, doing that will put you in a better position to win in the longer term?

Everyone needs the responsibility and power to change what is necessary to win according to the game you have agreed to play.

The front-line colleague needs to know when and how to bend the rules to help out a customer. The contract negotiator needs to know how to adapt the deal to what is on the table without exposing the organization to damaging agreements.

Just as important is how you adapt the wider organization in response to short-term adaptations that have succeeded or failed, and how you consider longer-term changes that can take advantage of what is learned in any pattern of threats. This is what the most adaptive organizations do better than the rest. They continually notice what is happening, they actively seek to adapt ahead of the curve and also ahead of trouble, and they figure out ways to treat events not as exceptions, but as triggers to develop new, enhanced capabilities.

If you are the weaker player, you should understand the rules and deliberately, creatively figure out how to benefit from them. ●

Rule 5: Stability Is a Dangerous Illusion

Historically, people have put up with remarkably awful circumstances. Or, more accurately, people have ended up stuck in remarkably unhappy situations. Despite efforts to improve the way things are, things stay the same, or even get worse.

The area of science that looks most closely at problems of this kind is game theory. It views all relationships and transactions between individuals and groups as a form of game. It's not a game that is played for fun, but a relationship that involves moves, or actions, by all players. And, it's a game that leads to outcomes and varying levels of victory and defeat.

Thomas Schelling, an American academic, won his Nobel prize for pointing out over many years, that there can be common interest in cooperating even in games that start non-cooperatively.

Winning is not just about defeating the enemy by killing him or destroying his weapons. Winning is not just about being the last person standing. Winning can be a game of adaptation; a bargaining process through which all sides may shape a better future.

There are a number of difficulties with real-world games. There is seldom perfect information about the choices everyone will make, so each person must guess what may happen. They may be wrong about those choices, making inaccurate assumptions about actions and motives. Equally, the ability to make choices that actually deliver the best possible outcome may be constrained by prejudice, habit or hatred.

Even where a situation is miserable for all involved, one or all groups may not recognize the possibility of a better situation. Despite recognizing the opportunity for something better, one group may be unwilling to act because they do not trust or want to help other groups. The rest of the groups may be unable to understand what would be necessary to shape a better future or simply unable to break the destructive patterns of behavior.

Game theory can be as irrational, destructive or limited as any other way of reaching a decision. Starting with the assumption that peace is impossible, for example, introduces prejudice that disallows certain actions. An attempt is made to perpetuate the status quo out of fear of a future that is worse. Yet that fear prevents moves that could make the future better. ●

Rule 6: Stupid Survives Until Smart Succeeds

It's hard to say you're wrong. The challenge is to realize what's wrong before it's too late to put it right, and before the unintended consequences of a wrong decision become unwelcome and unmanageable.

In 1958, Pedro Bach-y-Rita suffered a severe stroke and collapsed. At age 65, he was a professor of Spanish at the City University of New York. After his stroke, he was hardly able to speak or move; his face was paralysed along with half of his body.

The prognosis was hopeless. His sons, Paul, a doctor, and George, still at medical school, were told that there was nothing that could be done for their father. The damage to his brain could not be repaired and would not heal.

George brought his father back home and decided that there was still progress to be made. Basing his approach on how babies learn, George decided to teach his father to crawl. He explained to his father how they would start from the beginning again.

Gradually Bach-y-Rita improved. He learned how to sit down and eat with his son. He moved from crawling to shuffling on his knees. He learned to stand again and walk unaided. After three months of practice, his speech began to return. In a few more months, he could type.

Within 12 months, the professor was back teaching full-time at City College. His brain had found a way of adapting. It had reorganized itself to change the function of healthy parts to replace the functionality of damaged parts. The constant work with George had given his brain the prompts to use existing tissue in new ways, demonstrating that parts of the brain that usually do one thing can be retrained to do something else entirely.

This story is also about the adaptability of science, of human knowledge. It is a demonstration of how science seeks to disprove its own theories in search of more and more useful theory. Over the long term, theory adapts to discovery, to evidence. But it can only do so if someone challenges existing limitations. For as long as any constraint is accepted, there can be no new knowledge that goes beyond it.

The challenge is to stay open to new paradigm shifts without becoming obsessed with the newest thing at the expense of progress. The new way of looking at situations isn't necessarily better than the old way, but to avoid new thinking is to reduce the effectiveness of adaptation.

Unhelpful, unworkable, illogical, even false ideas can survive simply because people are not ready to listen to a smarter alternative. A lesson that is useful to any adaptive effort is: Be open to the absurd and insignificant.

PART 2: UNDERSTAND NECESSARY ADAPTATION

Recognizing you need to adapt is a good start, but it's not enough. You may see that there is a problem, but that won't necessarily lead to a solution. Without understanding what adaptation is necessary, the wrong actions become more likely.

Moving directly from recognition to action is tempting. The second step is often skipped because of impatience to get on with doing something. Yet to jump straight into action can be a mistake.

Rule 7: Learning Fast Better Than Failing Fast

To be allowed to experiment and learn from those experiments is valuable. To learn to stop delivering success is potentially disastrous. Just as dangerous is learning to live with varying levels of failure without doing anything to improve the situation.

The point is not to learn *to* fail, but to learn what works *from* failure. Learning fast involves moving from knowing change is necessary to figuring out what to do differently and doing what is necessary. It is the complete movement from insight to action that is relevant to adaptability. You may not notice. You might not react. You may react too little, too late. You may under-react or even overreact.

Making the same mistakes for the same reasons is a failure to learn. Even making new mistakes for the same reasons is a failure to learn. The most effective adaptation happens when thought is given to the reasons for failure so that they can be avoided and new lessons can be learned. Why did it happen last time? What were the assumptions?

Adaptation is a game within a game within a game. There are rules to be changed or broken or ignored and there are turns to be taken. Each action contributes to other games in an infinite, occasionally vicious, regress. Winning positions may be lost by your bad move or by a move by any other player.

Under Steve Job's leadership, Apple Inc. began to learn fast in a number of ways. One way is when Apple does fail, it seeks to rapidly recognize and respond to the problem, including pulling the product from sale, dropping the price or making immediate improvements. If public reception to a product is negative, Apple notices and acts.

In 2008, when an online service called MobileMe received mainly critical reviews, the CEO summoned the team responsible to a meeting. He asked them what the product was "supposed to do." Someone answered and Jobs reportedly shot back, "Then why the f★★★ doesn't it do that?"

Jobs then sent an email to employees accepting the product was "not up to Apple's standards." Apple offered free extensions to subscribers and announced a replacement service called iCloud.

Hating to fail in public doesn't have to be about avoiding learning. Instead of playing safe, you can just play to win. You can refuse to waste valuable lessons by not trying again. The smartest, most adaptive organiza-

tions identify something worth doing and keep on learning until they get it right. ●

Rule 8: Plan B Matters Most

Adaptability doesn't always kick in automatically; it must often be prompted. It's easy enough for adaptation to be screwed up if the need to adapt is not recognized, if the nature of the adaptation is not understood or if the action to adapt is not taken. At any of these points, effective adaptation is stopped.

The Easter Islanders became the poster children of self-inflicted environmental destruction. In their two giant canoes, the Easter Islanders landed on one of the most fragile environments in the Pacific Islands. They did not know that the domestic rats they brought with them would eat and destroy the roots of the palm trees. They cut down trees for wood and to clear land for crops. Increasingly elaborate rituals used wood to transport huge statues.

Scientists tend to agree that the deforestation happened over a period of 200 years. It is generally accepted that the islanders had a food economy based on hunter-gathering in the forest and fishing.

Shortage of food and the realization of the consequences of their failure to adapt, contributed to internal conflict. Weapons were made and violence grew between different groups. It isn't clear to what extent they fought before the deforestation, but the population dwindles from around 15,000 to fewer than 3,000 in about a century. Twenty-one species of trees and all species of land birds were extinct.

As a result of fighting over resources and the loss of population, the Easter Islanders went through a process of adaptation. They appear to have avoided final failure for their society by deliberately adapting. They turned to farming for food production and may have fertilized their soil because by the time the Dutch arrived in 1722, the soil was rich and under cultivation.

Path dependency is not deterministic. There is room to move outside the most obvious direction of a path. Even a path that is well worn can be evaded. Successful adaptation depends not so much on what has happened before, but on what can be imagined next. ●

Rule 9: Free Radicals

During the last week of August 2005, the president of Facebook, Sean Parker, was arrested for possession of cocaine. This arrest was used as an excuse to push him out of the company by investors concerned about his influence with founder Mark Zuckerberg. In Sept. 2011, Parker stood alongside Zuckerberg to announce changes that could transform the music industry.

The radical had returned triumphant although, in truth, he had never really left. He was one of the key reasons for the relentless, restless adaptation that has characterized Facebook. Parker never settles for safe. He never accepts traditional obvious.

Adaptation benefits from a healthy mix of convergent and divergent approaches. Once a solution is found that pretty much works, it requires stability for it to work over and over again. Those who inherit knowledge are able to use it until those who create knowledge replace their legacy. The knowledge creators, the radicals and the rebels permit adaptation. ●

Rule 10: Think Better Together

Human adaptation can be genetic, technological or behavioral, but attempts to adapt culture or social behavior require collective support to be successful. This collective does not need to start with majority support; it often starts with an individual who finds a small core of supporters who then improve the arguments and methods necessary to move a majority to action.

Peter Hedström, one of the founders of analytical sociology, investigated the process of convincing a majority to alter collective behavior. Hedström created computer models that looked at what is necessary for a large social group, a corporation, or even a society, to change direction. His models suggest that the majority does not need to be convinced for them or an organization to take actions in a particular direction. There need only be a majority at the highest level to convince a majority in most groups.

Improving collective ability to think is helpful to effective adaptation. This often involves challenging the dominant thinking that has led to an undesirable situation.

It's not always easy to understand the exact kind of adaptation required to move to a winning position. Start by looking at how people think. Explore the way they reach decisions, examine where information comes from and how they share their opinions. If you investigate how people think together, you can find creative ways to improve how they think together. ●

Rule 11: Get a Kick-Ass Partner

The Nazi Zombie game published by Activision came about by accident. One developer, Jesse Snyder, and the lead level designer, Jason McCord, were working on Call of Duty: World at War.

Snyder came up with the idea of developing some kind of "Tower Defense" game in which players would seek to survive each wave of attacks and then use points to buy weapons.

Snyder rushed to one of the producers to pitch his fantastic idea. The producer wasn't impressed. Fortunately for Activision, Snyder continued to share it with other people on the team. It got to the point where it was fully functional but full of bugs, too slow and unbalanced. The two men at the core of this hobby development were exhausted and overscheduled on the main game release. A genius games designer, Mike Danny, was assigned to fix the flaws and turn it into the polished, awesome game it became on release.

It is a significant part of the $1.8 billion online revenue the company generates.

Adaptation is helped by having a kick-ass partner. Having a close working relationship between people with diverse skills and talents increases adaptation effectiveness. ●

PART 3: ADAPT AS NECESSARY

After recognizing the need to adapt, and figuring out what kind of adaptation is needed, the next step is actually making the changes necessary.

Adaptability is intelligence. It can be the ability to adapt rapidly and gracefully to small changes in structure or process at the workplace. It can be the ability to gain insight from anywhere and respond by enhancing the state of the art in anything.

Rule 12: Never Grow Up

Organizations get old. They grow up. Most corporations lose the edge that led to their eventual success. The original entrepreneurs are replaced with professional managers who are given the responsibility to sort out the mess left behind by the amateurs who gave the company life.

The most successful adaptive companies are those that never grow up. Instead of buying into the notion that they must become old and boring like their competitors, they stay forever young. Some remain fun-loving, curiosity-driven rock stars long after their peer group has gained gray hairs. ●

Rule 13: Hierarchy Is Fossil Fuel

Traditional hierarchy has problems at multiple levels. Traditional we-all-know-our-place hierarchy never knows whose job it is, but always whose job it's not. It's the dominant form of organization despite its problems, costs, frictions and inefficiencies. As a structure, it resists learning and institutionalizes self-interested behavior.

Sony struggled with exactly this kind of adaptive challenge. In 2011, a relatively small number of U.S. executives among their 168,000 employees decided to file a lawsuit against one individual — George Hotz, a 21-year-old American from New Jersey. The company was unhappy that Hotz — voted one of the top overachievers in the world — had outwitted them. He had publicly published his method of getting past the security of the Sony games console: the PlayStation 3 (PS3).

The security had been set in place to stop people from using the games console in ways that Sony did not directly approve.

When Hotz was threatened, Anonymous, a leaderless movement that uses internet attacks to support its views concerning freedom on the web and elsewhere, also attacked Sony's PS3 network. The attacks by Anonymous demonstrated security vulnerabilities in Sony's network. They gave someone the opportunity to copy 77 million user names, which forced Sony to stop service to gamers for two months.

Before Sony managed to bring its network back online, it settled out-of-court with Hotz. And the boy-genius is working for Facebook, a company that — so far — understands the limitation of hierarchy and the enhanced adaptability of alternatives. ●

Rule 14: Keep the Ball

The University of Oregon's Oregon Ducks had a pitiful record in college football. In 1996, the founder of Nike, Phil Knight, offered his help. The coach asked for somewhere to practice indoors, so Knight paid for a space to be designed, built and maintained.

Originality attracts attention. Attention provokes action. Knight asked his designers, "How can we help attract better students and better student-athletes?" Their answer included making them look cool.

The uniform changes the game because teenagers considering where to play football are more likely to want to look cool while they're doing it. The style of the uniforms creates a buzz that attracts talent to the team.

Talent helps the team to win. The Oregon Ducks became the No. 1 ranked team.

Nike's use of style changed the traditional balance of power in U.S. college football because it redirected the flow of talent. Power is produced by a system that works in a particular way. If you change the flow of any system, you can change the outcomes of that system.

Deep adaptation may appear to produce rapid success but only because it only gains wider acknowledgement after it proves to be successful. ●

Rule 15: Swerve and Swarm

Efforts to increase recognition of the need or possibility for adaptation are valuable. The value of protest can be in dragging eyes towards a particular situation. Some campaigns attract willpower to do something if only people knew what. The most valuable protests increase the brainpower applied to understanding the nature of the adaptation required. They encourage better thinking together: emergent thinking.

Back on July 13, 2011, one of the creative minds at Adbusters, a campaigning organization based in Canada, proposed a peaceful protest on Wall Street. Their creative minds include 90,000 people who take part in an online community of global brainstorming.

Thousands of people took part in New York — and then Detroit and Oakland — and Paris and London. They deliberately adapted from the techniques of swerving attacks to one of swarming to occupy a symbolically important place.

Only when people swarm can they overwhelm the limits of an existing system, for good or bad. Only when they swerve past an obvious objective can they move resources to overwhelming those existing limits. ●

Rule 16: Get Your Ambition On

Ambition is not equally distributed, nor is the kind of ambition we have equal in its nature. There are different kinds of ambition. Blind ambition is much criticized, while much endured. Narcissistic ambition can be unattractive to those who deal with the self-obsessed. Low ambitions may keep people in self-limiting situations while ambition to overcome constraints can be an active imagination that changes the world.

Think back to Bill Gates wanting a computer on every desk. In 1981, this was an ambitious statement. In 1981, this seemed excessive because the personal computer was only just emerging from the hobbyist's workbench and inventor's garage. Ambition is a way of seeing the future. The way we see different futures shapes our actions in the present. We can only change anything in time going forward; ambition is what gets us started.

Getting your ambition on requires a certain letting go of old limitations, forgetting of old constraints, going over the line and towards new worlds. ●

Rule 17: Always the Beginning

In adaptive terms, if you are still in the game, then it's always the beginning. There are many advantages of adapting first, or adapting best over a long period of time. Yet, not winning first, or often, or ever does not stop adapting more successfully in the future. Weaknesses may turn out to be strengths as the situation changes. The features of a winning strategy may become exaggerated over time. Excessive resources may encourage recklessness, waste or complacency. Successful patterns of behavior can become locked in, so that people mindlessly or unimaginatively repeat actions. They forget how to adapt.

Most organizations do not renew themselves more than they think is necessary. Part of this is efficient; they seek to avoid wasting time and resources on change if what they have is already working.

Knowledge and skill are valuable yet a key feature of adaptation effectiveness is the willingness of people to relentlessly, even joyously, throw themselves back into the never-ending work of perfect ideas and better futures. ●

Final Words

Your deliberate efforts to provoke adaptation that leads to a winning position should focus on the smallest possible change to create the biggest possible long-term impact. Once a better system is established, the various parts of that system will naturally compete to keep it that way. There really has never been a more important skill than understanding the art of winning amid uncertainty. ●

RECOMMENDED READING LIST

If you liked *Adaptability*, you'll also like:

1. ***What Matters Now* by Gary Hamel.** What are the make-or-break issues that will determine if your organization thrives or dives in the years ahead? The answer is in values, innovation, adaptability, passion and ideology.
2. ***The Reinventors* by Jason Jennings.** Business success is fleeting. There are only two real choices: stick with the status quo until things decline, or continuously change to stay vital. Jennings shares his "reinvention rules."
3. ***Change the Culture, Change the Game* by Roger Connors and Tom Smith.** Learn how to transform your entire organization through each level of the Results Pyramid: Experiences, Beliefs, Actions and Results.

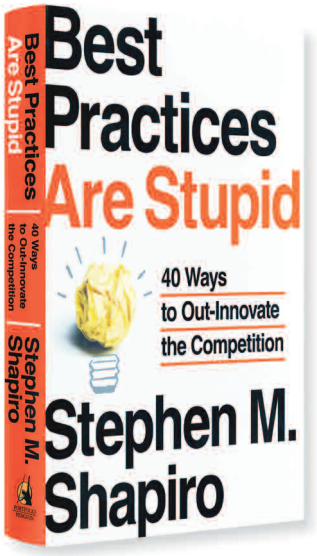
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Best Practices are Stupid

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Best Practices Are Stupid

40 Ways to Out-Innovate the Competition



by Stephen M. Shapiro

THE SUMMARY IN BRIEF

What if almost everything you know about creating a culture of innovation is wrong? What if the way you are measuring innovation is choking it? What if your market research is asking all the wrong questions? It's time to innovate the way you innovate.

Stephen M. Shapiro is one of America's foremost innovation advisers, whose methods have helped organizations like Staples, General Electric, Telefonica, NASA, the U.S. Air Force and USAA. He teaches his clients that innovation isn't just about generating occasional new ideas; it's about staying consistently one step ahead of the competition.

In *Best Practices Are Stupid*, Shapiro offers counterintuitive yet proven strategies for boosting innovation and making it a repeatable, sustainable and profitable process at the heart of your company's culture.

Shapiro shows that nonstop innovation is attainable and vital to building a high-performing team, improving the bottom line and staying ahead of the pack.

IN THIS SUMMARY, YOU WILL LEARN:

- How to innovate both successfully and efficiently.
- How to bring in the right mix of people to unleash your team's full potential.
- How to define challenges more clearly.
- How to increase your employees' creative output.
- How to innovate through process, strategy, people and technology.

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THE COMPLETE SUMMARY: **BEST PRACTICES ARE STUPID**

by Stephen M. Shapiro

The author: Stephen M. Shapiro is an expert on innovation, a popular speaker and the author of *Personality Poker*. He previously led a 20,000-person process and innovation practice during a 15-year tenure at Accenture.

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OVERVIEW

Innovate the Way You Innovate

The *only* way to survive is to stop treating innovation as a one-time event. Innovation must be a continuous, never-ending process. The second you rest on your laurels, you can be certain that someone will catch you for breakfast.

So what can an organization do to not get eaten by the competition?

The answer to that lies in a basic understanding of the three levels of innovation.

Level 1: Innovation as an event. This is where most companies find themselves. They conduct brainstorming sessions or hold random contests to generate new ideas. If a good idea is produced, there is some value added to the organization. However, there is generally a huge amount of work that needs to happen between an idea's generation and its realization.

Level 2: Innovation as a capability. The organization puts in place structures and processes to define problems, generate and evaluate solutions, and develop action plans to implement those solutions. The result is a realistic deliverable based on an organizational challenge or opportunity.

Level 3: Innovation as a system. The ultimate level involves creating an environment where innovation is embedded in everything you do. With embedded innovation, people innovate to deal not only with "problems or challenges" that are presented to them, but with everything they do. This creates exponential and ongoing value.

Where do you begin? The first step is to create an environment where creativity is encouraged and where solutions are implemented in response to specific challenges. Once this is mastered, you can more easily move on to innovation as a system: the holy grail of innovation.

Although people believe that Charles Darwin suggested that it is the survival of the fittest, his perspective on "natural selection" was that it is not physical shape, but rather the ability to adapt that is critical.

This is the goal of innovation. The smartest organization will not survive. The company with the most money can quickly fall from grace. But the organization that adapts and evolves to address ever-changing market conditions will thrive in the long run.

Asking for Ideas is a Bad Idea

A large European retail bank that was suffering from eroding market share thought it had a great idea to solve this emerging problem. Its executives decided to get input from all of the employees on ways to improve and grow the business. In order to collect employee ideas, they implemented an enterprise-wide electronic suggestion box. They believed that this would help them tap into previously undiscovered innovations. Sounds like a great idea, right? Wrong!

They received thousands of ideas. Evaluators looked at every one and, in the end, none were implemented. The company's entire innovation program lasted a total of 18 months, at which point it was shut down and deemed a huge failure.

In an attempt to be more innovative, many companies start by asking employees for their ideas. This is a bad idea! The ideas that are submitted tend to be impractical and of low value, and end up only creating an overwhelming amount of unproductive clutter in the system.

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This points to one of the most important yet underconsidered measures in the innovation process: the "signal-to-noise ratio."

The signal-to-noise ratio is an engineering term that is used to quantify how much a signal is corrupted by noise. Many online discussion forums use the term to describe the ratio between useful information and spam or false/irrelevant information.

In innovation, the signal is composed of solutions that are implemented and create value. The noise is made up of all of the ideas that never come to fruition and the useless suggestions that don't matter and don't create value.

Suggestion boxes are cluttered with noise, and the amount of time required to sift through bad ideas to get to the gold is huge. Even when you do find a good suggestion, the amount of effort required to rally the troops to implement the idea can be significant.

My suggestion? Throw out your suggestion box!

Expertise is the Enemy of Innovation

Unilever, the giant consumer goods company, wanted to develop a toothpaste that would whiten teeth without using the traditional methods of bleach or abrasives. The toothpaste experts didn't have a solution. Recognizing the limitations of their own knowledge, they asked themselves, "Who makes whites whiter?" They quickly realized that a different Unilever business unit made laundry detergents that whitened clothes without bleach. What they learned was that most detergents use a blueing agent to make whites appear whiter. Armed with this information, they created their "Signal White Now" (and other brands) toothpaste. Instead of using harsh bleaches and abrasives, the toothpaste has a blue dye that runs through the middle and creates the immediate optical illusion of white teeth. Toothpaste experts were seemingly unable to solve this problem on their own. This breakthrough solution was discovered only when people with different specializations were brought together.

While this might seem surprising, it is not uncommon. Expertise can indeed be the enemy of breakthrough thinking. The more you know about a particular topic, the more difficult it is for you to think about it in a different way. Your solutions will most likely be "been there, done that" ideas that are limited to your area of expertise. If you want breakthroughs, you need to bring together people from a wide range of disciplines, backgrounds and experiences.

This idea was confirmed by research completed by Lee Fleming, a business administration professor at Harvard Business School. By analyzing 17,000 patents, he discovered that the breakthroughs that arise from multidisciplinary work "are frequently of unusually high value — superior to the best innovations achieved by conventional approaches."

His research highlights the pros and cons of each method. He learned that teams composed of people with similar backgrounds have a great number of successes yet yield fewer breakthroughs. On the other hand, cross-disciplinary teams have a higher failure rate, yet their innovations are more radical and have the potential to create incredible value.

Is there a way to get all of the benefits associated with diversity without any of the negative effects?

Yes. It is called open innovation.

Open innovation is an innovation process where you engage people outside your organization to help solve challenges. One common form of open innovation occurs when you post your challenges on a website and get responses from a diverse group of outside experts. ●

The Goldilocks Principle

Remember the story of Goldilocks? She enters the house of three bears. After sampling their porridge, she decides to go to sleep. She finds the papa bear's bed too hard, the mama bear's bed too soft and the baby bear's bed just right. The same is true when defining challenges. They can't be too big (broad and abstract, e.g., asking for "new ideas") or too small (overly specific, e.g., an extremely technical problem that can be solved only by one discipline). They must be "just right"—framed in a way that maximizes the likelihood of finding a workable solution.

When framing challenges, you must adhere to the Goldilocks Principle.

PROCESS

Challenge-Driven Innovation

It is quite common for a company to ask its employees to find ways to increase revenue. This is a lofty goal and posing this type of general challenge usually results in fluffy solutions. Instead of asking people to solve broad problems, ask specific questions that will likely result in an implementable solution. For example, are there specific markets that you have not yet penetrated?

Are you missing out on customer segments that present a greater opportunity?

When a cell phone company wanted to improve customer service, instead of simply asking people how to improve the customer experience, the company analyzed call data and found that there were 10 primary reasons why people dialed in to the call center. One of the most common reasons had to do with a specific billing issue. The solution? It was concluded that the best way to improve customer service in the call center had nothing to do with the call center itself. Instead, it involved a change in the tariffs associated with the particular issue. This one small change resulted in dramatically reduced call volumes and higher customer satisfaction. The only way that this solution could have been found was by asking a more specific question backed up by data.

A critical step in trying to find solutions is to clearly define the challenge. The way a challenge is framed will impact the way it is solved.

What Do Cisco, LG Electronics and GE Have in Common with *American Idol?*

American Idol, even after all these years, remains one of the most popular televisions shows. Why? Partly because it is entertaining and partly because the show is able to uncover previously undiscovered talent.

It is this latter reason why many organizations are employing the *American Idol* approach to innovation. Their objective is to uncover some truly amazing ideas that were previously hidden.

In the innovation space, these events are sometimes referred to as "innovation tournaments," a term coined by Christian Terwiesch and Karl Ulrich from the Wharton school in their book *Innovation Tournaments*. With a tournament, there is always a winner, although it is not necessarily winner-takes-all.

Cisco, LG Electronics and GE have all used this "find a winner" model as a way to discover ideas.

The Cisco I-Prize tournament guaranteed $250,000 to the best submission. LG Electronics held tournaments to design a revolutionary mobile phone with $20,000 going to the best design. GE is currently using a similar approach for its "ecomagination"challenges.

But sometimes simply selecting the "best" submission is not the best approach. Sometimes it is better to select the "right" solution. That is, instead of crowning a winner for the sake of naming a champion, you only offer a "bounty" when someone provides a workable solution to a real and specific business problem. This "pay for solution" model outsources the risk associated with complex problem solving.

Two well-known innovation bounties were the Netflix Prize and the Ansari X Prize. Netflix paid the $1 million bounty only after a team was able to improve their video recommendation engine by 10 percent. The Ansari X Prize awarded $10 million dollars to the first team that could "build and launch a spacecraft capable of carrying three people to 100 kilometers above the Earth's surface twice within two weeks." Winners only got paid when they could produce results that met specific criteria.

Tournaments are great for getting a broad set of ideas in an undefined space. Bounties, on the other hand are great for hunting down practical solutions. ●

STRATEGY

Innovation Strategy and Customers

Imagine you are a hearing aid manufacturer and you want to develop the next generation of product. You conduct surveys and focus groups, and discover that nearly 80 percent of the hearing-impaired population, despite the recommendations of their health care providers, refuse to wear hearing aids, mainly citing cost as the key reason. What do you do?

The obvious answer is to find ways of producing a lower-cost hearing aid. Or is it?

Oticon, a large global manufacturer of hearing aids, wasn't convinced. It realized that is market research only gathered information at a "conscious" level: what the consumers said to it in focus groups and surveys. But the company wanted deeper insights. So it employed a number of techniques for tapping into the subconscious minds of potential customers.

It eventually discovered the real reason people did not want to wear a hearing aid: It made consumers feel flawed, stigmatized and old, especially those individuals with early stages of hearing loss in their 40s and 50s.

Although making the devices even smaller or nearly invisible might seem like the right answer, further research found that this would only reinforce the consumers' negative feelings, as it confirmed in their minds that a hearing aid was something to be ashamed of.

Based on these new insights, Oticon took a very different route: It made large yet fashionable hearing aids

that looked more like earrings and were offered in bright colors and patterns, from the colors of one's alma mater to zebra stripes. During a trial study of people who wore the device for a few weeks, some users said their friends mistook their hearing aids for Bluetooth headsets. In the end, the product was a hit with consumers and even won several design awards.

What Oticon learned was that what consumers say in surveys and focus groups often contradicts what they actually think and feel, and how they will ultimately act. The key is to tap into the subconscious minds of your customers because it is the subconscious mind that really drives behavior.

Best Practices Are (Sometimes) Stupid

Innovation is about adaptability, your ability to change in order to stay one step ahead of the competition.

When you copy someone's best practice, you are not staying ahead; you are playing a game of catch-up. By the time you implement someone else's best practice, they are onto the next practice. Replication is not an innovation strategy. Your differentiating capability, in particular, must be unique and distinctive, and not based on what others are doing.

When Progressive Insurance wanted to compete with the "big boys," it did not use best practices; it created the Immediate Response Vehicles, something unique to the industry.

You also need to understand *why* a company chose that practice. For example Google's 20 percent free time to experiment was not an innovation strategy, but was a retention strategy. Equally important it to recognize that what works for one organization may not work for you. 3M's 15 percent rule works for them because their culture embraces it. A more command-and-control company may find their strategy wastes resources and yields few results.

Having said that, I am not against best practices altogether. I am just against using them blindly as the innovation strategy for your "differentiating" capabilities.

Here are a few places where best practices can be useful:

• **Core and Support.** These capabilities should run like a well-oiled machine with high quality and low cost. But these capabilities will not help you stand out in a crowded marketplace.

• **Best Practices from Outside Your Industry.** You can get some incredible innovations from companies that are not your competition. In fact, I encourage you to "steal with pride" from companies outside your industry. For example, Southwest Airlines did this when it benchmarked an Indianapolis 500 pit crew to improve plane turnaround time. Hospitals have gained new insights by studying the check-in process of hotels. And a mail-order office supply company improved the return of empty toner cartridges by applying Netflix's DVD subscription process. Sometimes these cross-industry best practices can be revolutionary.

• **Innovation.** Although you want to focus your innovation efforts on your differentiating capabilities, unless you are an innovation company (like IDEO or InnoCentive), how you innovate is probably not a differentiator. For example, if you are an insurance company, you want to apply innovation to your claims processing if claims processing is a differentiator. But the innovation process is only a core capability. There is no point in your inventing new innovation methods. Therefore, you should use innovation best practices wherever and whenever possible.

Best practices are not an innovation strategy. Copying the competition will only help you achieve parity. Only when you fully understand your innovation targeting strategy can you determine where best practices are useful and where they are truly a waste of time.

MEASURES

Innovation Measures and Motivation

If you want to go faster, stop focusing on speed. If you want to be more creative, stop measuring creativity. Paradoxically, when organizations hyperfocus on their goals, they are less likely to achieve those goals.

I call this the performance paradox. It occurs when overly focusing on a future goal (e.g., beating the stopwatch) may be the very thing that prevents you (and your team) from hitting your targets.

In the early 1900s, Robert Yerkes and J.D. Dodson developed the aptly named Yerkes-Dodson law. The premise is that performance increases relative to motivation (they called it "arousal") only to a point, after which performance drops. Then, as you become "overmotivated," performance paradoxically decreases.

The key is to find the sweet spot of optimal performance. And this usually involves a focus on the activity, not the target or goal.

Not all tasks are equal. Physically demanding tasks often require higher levels of motivation. This explains

why professional athletes are inclined to be more goal driven.

On the other hand, creative activities require low levels of motivation to hit peak performance.

Studies reveal that creativity often diminishes when individuals are rewarded (externally/extrinsically motivated) for doing their work. Why? The desire to achieve the goal overtakes the personal interest in the endeavor.

If a reward — money, awards or even praise — becomes the reason for engaging in an activity, the endeavor will ultimately be viewed as less enjoyable in its own right and the focus will shift to getting the task done quickly with minimal risk.

We also know that the best ideas are generated with a quiet mind while relaxing, meditating or showering. Stress, goal-obsession, and deadlines activate the judgmental part of the brain that kills creativity.

Creativity is a process that cannot be forced.

You Get What You Measure, but Will You Get What You Want?

In business, there is an old adage, "You get what you measure." But the big question is, will you get what you want? Too many innovation-measurement systems are designed in a way that inadvertently creates undesirable behaviors. They measure the wrong things, resulting in poor results.

In general, there are four types of innovation measures:

1. Activity/Capability Measures. These measure the activity associated with participation in your challenges and the overall innovation program (e.g., number of registered solvers, number of submissions per challenge, percentage of time invested in innovation.)

2. Solve-Rate Measures. These subjectively measure how well you solved your challenges (e.g., percentage of challenges partially solved, percentage of challenges completely solved, potential value of solutions).

3. Implementation Measures. Finding solutions to your challenges is not enough. You need to implement the solutions in a cost-effective and timely manner (e.g., percentage of solutions implemented, time to market, implementation costs, percentage of on-time product launches).

4. Value Realization Measures. These measure the actual value accrued (e.g., increase in revenues, reduction in costs, percentage of revenue from innovations introduced in last six months, overall Return On Investment).

Of course we want our innovation efforts to result in value — the last measure — as this is where the rubber meets the road. But sometimes value realization can take years or, in the case of pharmaceutical companies, decades. Therefore, you need the first three measures as a way of monitoring progress with your program in the short term. These are leading indicators that can help predict long-term success.

The first category is useful in measuring trends over time for things like community engagement, effectiveness of internal communications and quality of challenges. But sometimes measuring activity can be misleading.

When working with clients, one of the most common activity measures is the number of solutions submitted for a given challenge. But this often leads to misleading results. Which is better: getting one hundred solutions or getting only two solutions? Although most people intuitively think that one hundred is better than two, this is not necessarily true. As pointed out earlier, it is not the absolute number that matters but rather the proportion of good solutions to bad solutions. If you received one hundred solutions where only two of them were exactly what you needed and the other 98 were duds, this would be worse than getting just two that were right on the money.

The key is to make sure you understand the unintended consequences of your measurement system, especially when it comes to activity measures. If used properly, these measures can help you drive higher solve rates.

Diagnosing Performance

But higher solve rates do not always lead to greater value. High solve rates with low value can indicate problems with your innovation program:

Poor implementation. You are unable to convert solutions into finished products/services.

Poor commercialization. Your solutions do not meet the needs of the market/customers and therefore do not generate revenue.

Poor relevance. Your challenges, although solved, are not important enough to "move the needle" of the organization's innovation efforts.

Measures are important for helping track your innovation efforts, and they can help diagnose potential issues, but it is important to measure the right things. Simply shifting what you measure can significantly impact the results.

Peter Drucker once said, "If you can't measure it, you can't manage it." Yes, measures play an important role

in innovation. They give a snapshot of performance, they provide early detection of potential issues and they drive behaviors. The key is to use the right measures in a way that helps, rather than hinders, innovation.

PEOPLE

Organization, Leadership and Culture

The desire for similarity has inherent advantages. When people think the same way, act the same way, speak the same way and use the same language, things get done more quickly.

But is this ultimately good for the business?

For relatively simple tasks, homogeneous teams consistently performed more efficiently than heterogeneous ones. When you are surrounded by a bunch of "yes-men" and "yes-women," you agree quickly and get things done. However, in situations involving high-difficulty tasks, diverse groups consistently perform more effectively. That is, people who think differently can innovate better as a group.

This makes sense if you really think about it. Developing something new requires a wide range of thinking. Innovation demands diversity of perspectives, disciplines and personalities. Having a group of people who think the same way only gives you more of the same. Having people on your team who get along well may seem easier, but it will rarely lead to new and innovative ideas.

Instead, consider the mantra, "The person you like the least is the person you need the most."

Someone who is different from you may, at times, seem annoying. But consider that this person is quite complementary to you. They have skills and perspectives that could provide balance and help you become more effective and innovative. They will challenge you — a crucial factor in business success.

If you only hire people who "fit the mold," you will most likely hit a growth plateau at some point.

The 'Top Down' Philosophy Should Be Left to Convertibles

Charles Koch, CEO of Koch Industries, one of the most successful companies in the world, believes that central control is a "fatal conceit" for organizations. For the past 50 years, Koch has continually chipped away at the command-and-control style of management. In its place, he asks employees to run their businesses as if they owned them. When someone is brought in specially to do a job, he or she is immediately given the authority to spend money and move people when and where he or she chooses. Decision making within Koch is decentralized as far as possible to those with the best local knowledge and information. This approach must be working, as Koch Industries has grown more than 2,200-fold since 1960 and is outperforming the S&P 500 by nearly 3,200 percent.

Koch Industries is involved in many hazardous businesses, like asphalt, paper, pulp, oil and gas. Therefore, a number of years ago, not satisfied with industry-average accident and injury rates, it set a goal of moving to the top tier in the industry. Instead of having a few safety engineers scout the company for unsafe conditions, it made safety the responsibility of each and every employee. Employees were given rewards both for uncovering unsafe conditions and for discovering new ways to conduct business more safely. This initiative resulted in 35 to 50 percent improvements each year in the number and severity of accidents across the company. Within one year the company had moved from the middle of the pack to one of the best safety records in its industry.

CREATIVITY

Techniques for Stimulating Creative Thinking

The best way to quickly find solutions to your challenges is to identify someone who has already solved the problem — but in a different context. That is, someone from another industry, discipline or practice who might have the same problem.

Previously, I mentioned how a toothpaste manufacturer developed a novel concept for whitening teeth by using the same blueing agents that are used in laundry detergent to whiten clothes.

Another toothpaste innovation comes from GlaxoSmith-Kline (GSK). Its "Aquafresh iso-active" toothpaste is based on an idea from a GSK cleaning product that comes out as a gel but foams upon use (in the mouth), much like gel shaving creams. This formulation removes 25 percent more bacteria than regular toothpaste and has proven to be a market success.

Adapt Your Product to a Different Environment

Although label maker manufacturers sell their products primarily through office supply stores, the products' uses are unlimited. One such manufacturer, in an effort to expand is reach, made a list of 200 different possible customer segments: hospitals, authors, farmers, computer technicians, tollbooth collectors or hotel concierges. Then, each day, the manufacturer would choose one from the list and develop a list of possible marketing opportunities. Although sometimes a slight product adaptation was needed, in many cases it was simply a matter of changing the marketing materials.

Although innovation can be useful for creating new products. But sometimes the best innovation is about taking something that already exists and adapting it for a new environment. How might you sell your products/services to a totally different customer market than you normally do? Make a random list of potential targets and "force" an association between your existing product and that market's needs. Then find ways of marketing and packaging your product to meet those needs.

How can you take a product that has no market potential and turn it into a cash cow? Consider Arm & Hammer. Baking soda is a commodity. And because few people bake from scratch anymore, getting people to buy more baking soda for baking is a losing proposition. What do you do? Find new uses. Arm & Hammer turned its simple baking soda into an empire of product extension. Refrigerator fresheners made of 100 percent baking soda supported with clever packaging. Carpet fresheners made of nearly 100 percent baking soda enhanced with a mild fragrance. Laundry wash booster, toothpaste, pot and pan cleaners, polishes and more. The company took a simple product and extended it in previously unimaginable ways.

Although not always advisable to stray too far from your core audience or product, adaptive innovation can sometimes provide an extra revenue boost without your needing to invest heavily in new products.

Predict What the Competition Will Do Next

On Dec. 22, 2001, Richard Reid was caught with plastic explosives in the soles of his shoes. That's why we now have to walk barefoot through airports while our shoes are scanned.

Enron had its meltdown. What was done in response? Stringent rules like the Sarbanes-Oxley Act were implemented. When our financial institutions started to falter, $700 billion dollars of taxpayers' money was spent to sort out the mess.

These are examples of a "reactionary" approach to innovation. Wait for something to happen and then try to devise a response.

Most organizations use creativity to help them determine what to do next based on current information. They brainstorm ideas, select the best solutions and then implement the most promising ones.

But in these rapidly changing times, creativity can be even more valuable for determining what the *marketplace* and your *competitors* will do next. Or, if you are the government, it may help determine what banks and terrorists will do next.

When is the last time you had a brainstorming session where you asked the following questions?

- What are we most afraid our competition will do to us?
- Who is not a competitor now but might be in the future?
- What shift might happen in the buying habits of our customers that might make our product less appealing?

The list of outside-in questions can be endless — and valuable. In your next brainstorming session, try the following:

- Brainstorm your own list of questions, building on those above.
- Determine which ones you want to tackle first.
- Brainstorm, using a variety of creativity techniques, to identify "possible" outcomes.
- For those that are deemed plausible, brainstorm a list of "triggers" for each. These are market conditions that tell you that the given scenario is moving from "possible" to "plausible."

This approach blends creativity with scenario-based planning. It helps you move from reactive solutions to proactive solutions. And in today's volatile world, this might just be the key to your long-term survival.

RECOMMENDED READING LIST

If you liked *Best Practices Are Stupid*, you'll also like:

1. ***Escape Velocity* by Geoffrey A. Moore.** Executives will discover a pragmatic plan for a critical challenge: how to move beyond past success and drive next-generation growth from new lines of business.
2. ***Serial Innovators* by Claudio Feser.** What does it take to exist beyond the average company's lifespan of 15 years? Learn how to build a company that is adaptive, innovative and can survive well into the future.
3. ***The Reinventors* by Jason Jennings.** Based on a study of more than 22,000 companies, this summary reveals how to pursue never-ending radical change.

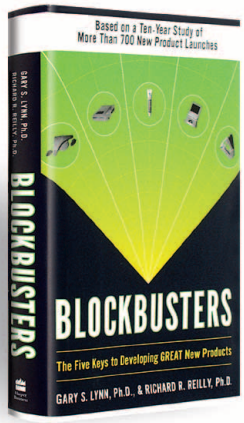
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Blockbusters

Gary S. Lynn, Ph.D. and Richard R. Reilly, Ph.D.

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Gary S. Lynn, Ph.D., and Richard R. Reilly, Ph.D.

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The Five Keys to Developing Great New Products

BLOCKBUSTERS

THE SUMMARY IN BRIEF

All companies, no matter what size or in what industry, need to generate innovative new products and services if they are to succeed. Increased competition, both domestic and global, the rapid pace of new technology, and changing customer demands have created a marketplace that is more competitive than ever before.

One innovative product can alter the future of a single company, lead to entirely new families of products, and may even usher in a whole new industry.

In Blockbusters, *Gary S. Lynn, Ph.D., and Richard R. Reilly, Ph.D., share the results of their exhaustive 10-year study of highly successful new product development teams.*

This study, as shown in detail in this summary, discusses the five critical practices that all successful new-product teams must follow. Lynn and Reilly explain why senior management involvement, having a clear vision for a new product, sharing information, knowing your customer, and teamwork are keys to creating a winning new product.

To illustrate how the best new-product teams work, Lynn and Reilly tell the success stories of Colgate, IBM, Polycom, Iomega, Apple Computer and other organizations.

What You'll Learn In This Summary

✓ Why the development of blockbuster products requires the full commitment of top management.

✓ How customers can point the way toward the best new product ideas.

✓ The secret of "lickety stick" improvisation.

✓ The power of unconstrained information sharing — and how Apple Computer continued to harness that power as the number of its employees went from a handful to several thousand.

✓ How new product development teams benefit from disagreement, but not dissension.

✓ Why companies learning the five best practices of new product development should start small.

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BLOCKBUSTERS

by Gary S. Lynn, Ph.D., and Richard R. Reilly, Ph.D.

— THE *COMPLETE* SUMMARY

How Blockbusters Happen

Great companies succeed and endure because they continually produce great products. Companies often fail because they've forgotten this simple truth. Tactics like manipulating inventory values, speeding up depreciation schedules or moving corporate headquarters offshore don't create value. Even establishing world-class customer service won't do much if a company's products or services are inadequate. To create real value, companies must develop and launch great, blockbuster products—this is the heart and soul of any successful business.

This summary presents the five key practices required for developing blockbuster products. These five practices were identified through a multiphase, systematic, large-scale study of extraordinarily successful, award-winning products, as well as not-so-successful product launches and outright failures.

The study was based on a detailed survey called an "innovation report card." This innovation report card was used to rate hundreds of new product development (NPD) teams in many different industries.

To identify the "best" of the best practices, authors Lynn and Reilly reviewed projects conducted by the top 100 teams. Those teams had earned either an award from their own company or in their industry for excellence by national publications, such as *Business Week*, *Design News*, *Newsweek*, *PC World* and *Popular Mechanics.*

The authors then screened the teams again, this time selecting only those award-winners who scored a "perfect 10" in meeting company goals, meeting or exceeding customer expectations, and meeting or exceeding profit and sales expectations. Thirty-four teams met all of the criteria.

For the next two years, the authors observed how these blockbuster teams did what they did, analyzing every phase of their development process from concept to launch and following up with personal interviews. They learned what the teams did on a day-to-day basis: how well they communicated, how they met deadlines, how deadlines affected the team, how often they held meetings, how those meetings were structured and how well they stayed focused.

The Five Critical Practices

Based on the data from the authors' 10-year extensive research, here are the five "golden rules" of new product development that the best teams followed:

1. Commitment, Not Contribution of Senior Management. Blockbuster teams had the full cooperation of the highest level of management. Senior managers were either intimately involved with most aspects of the project, or they made it clear that they totally supported the project.

2. Clear and Stable Vision. Blockbuster teams stayed on course by establishing "project pillars" early on — specific, unchanging goals for the product that the team must reach.

3. Improvisation. Blockbuster teams did not follow a structured, linear path to market. Instead they moved "lickety stick." That is, they were flexible, trying different ideas and prototypes in rapid succession (lickety) until they developed a prototype that clicked with their customers (stick).

4. Information Exchange. Blockbuster teams did not limit their information exchange to formal meetings. They shared knowledge in dozens of small ways — from coffee klatches to video conferencing to hundreds of e-mails.

5. Collaboration Under Pressure. Blockbuster teams focused on goals and objectives instead of interpersonal differences. They built coherent teams, but they were

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The authors: Gary S. Lynn, Ph.D., was named by Business 2.0 Magazine (October 2002) as one of the nine leading management gurus in the country. He is a foremost expert on product design and launches, and the author of three books. Richard R. Reilly, Ph.D., is an authority on individual and team assessment. Lynn and Reilly are professors at the Stevens Institute of Technology in Hoboken, New Jersey.

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How Blockbusters Happen

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not especially concerned about building friendships or even insisting that everyone like each other.

These five practices fit together like interlocking pieces of a puzzle, and it was this "fit" that helped teams create blockbusters. All five practices must be implemented for success — implementing one or two isn't enough, as revealed through the study. If a new product development team in the study executed the five practices poorly or not at all, its probability of failure was almost 100 percent. But if a team excelled at the five practices, its probability of failure was only 2 percent.

The remaining pages of this summary examine in detail each of the five practices. ■

PRACTICE #1

The Buck Starts Here

Blockbuster products do not happen without the intense personal involvement of senior management. Usually that's the CEO — or the person who will be the next CEO or division head. Lynn and Reilly found that without the active participation of senior management, new product development teams were unlikely to create blockbusters, a finding that challenges the advice given by many management books today.

What Doesn't Work

Coming up with the "big idea" is only the beginning. When you're the senior manager, your involvement does not stop there. Effective senior managers didn't practice "management-by-walking-around," a style in which a company's top executives "pop in" unexpectedly here and there to check what's going on and sprinkle their wisdom like stardust. Rather than being helpful during new product development, this management style caused what might be called "hit and run." When the senior manager comes in to "offer suggestions" on a problem and then moves on to the next crisis, the result is typically a Band-Aid solution. The suggestions are typically short-term, cosmetic fixes that don't address underlying issues.

Another management style that fails for NPD is the "seldom-seen-and-rarely-heard" approach. This is when a senior executive provides the guiding hand at the beginning, but is conspicuously absent as the team develops the product. The team is constantly hampered by a lack of authority to move the product forward quickly.

Close Encounters of a Beneficial Kind

While "hit-and-run" management fails miserably on new product development, Lynn and Reilly define several useful roles that senior managers can play: project leader, technical guru, coach and active champion. The authors' advice to senior management is that it doesn't matter what role you play as long as you make an effort to play one of them.

Project Leader. At some companies, particularly smaller ones, company presidents might spend most of their day on NPD. James Hayssen of California-based Sequoia Voting Systems says that as company president he spent at least half his time on the development of the electronic voting machine which came to market in 1988. "We weren't a big company — it was our lifeblood, it represented our future," Hayssen says. The division manager at Sequoia, Craig Short, says, "Hayssen operated pretty much as an equal voice on the team, except when he needed to make decisions regarding financing and deadlines. He was the glue that made it happen. We were in constant communications with him whenever we felt any issues needed resolving."

Technical Guru. In some cases, the role senior management played on blockbusters was that of technical expert, even though it was not a role that some envisioned for themselves when the project started. One CEO, Brian Hinman of Polycom, said he thought his role would be to go out and raise money. Instead, the mastermind behind the Polycom SoundStation teleconferencing unit turned out to be immediately useful as part of a team, and he ended up becoming the group's main signal-processing person.

Coach. On other teams, senior managers were not technical experts driving the NPD; they were more like coaches. Iomega's Kim Edwards describes what Lynn and Reilly call "management by coaching": "The coaching aspect of managing is spending specific time to solve the problem. The problem may not get solved in my presence, but I get the process going, so when I leave, the group had a different way of looking at things. I taught them how to learn."

Active Champion: Trust but Verify

The authors did find an exception to the rule of hands-on involvement. On some teams, particularly when the new product was a technological departure, the CEO or senior manager functioned like an executive sponsor and typically provided funding to the project in "chunks." On the phenomenally successful IBM PC project, the CEO at the time, Frank Cary, got monthly reports from project director Bill Lowe and attended status review meetings. Cary would then release the next installment of cash for the project. He soon became comfortable enough with the team's progress to give them the rest of the funds. Lynn and Reilly call this

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The Buck Starts Here

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approach "trust but verify."

One caveat: If the trust-but-verify approach is the one your company favors, the team will more likely succeed if senior management is actively involved at the project's inception and establishes the project's parameters. ■

PRACTICE #2

Have a Clear and Stable Vision

Having a clear idea of the product-to-be is a key element in creating a blockbuster. But a great idea is not enough to ensure success. Your chances of turning a good idea into a big success increase dramatically if you establish specific parameters of what the product will be.

Called "project pillars," they must be easy to understand and agreed to by both senior management and the team. They must remain stable until you offer the product for sale. Changing project pillars midstream discourages the team, leads to conflict among team members, will probably hold up production, and will most likely result in the new product failing in the marketplace. So the second practice of blockbuster product development is: Articulate clear project pillars that remain stable.

Blockbuster teams were three times more likely to excel in having a clear and stable vision than the failed teams.

Finding Your Project Pillars

How can companies establish project pillars? The authors came up with 12 questions to ask when developing project pillars:

1. What is the product's "reason for being"?
2. At what level of excellence must the product's main benefit be delivered?
3. What features must the product contain?
4. What are the design constraints affecting engineering, manufacturing, marketing?
5. In what critical points must this product excel against competition?
6. How must the product differ from the competition?
7. How is the product better than the competition?
8. Is this difference meaningful to the target market?
9. Who is the specific target market for this product?
10. Can you characterize the ideal customer for your product (age, income, lifestyles for a consumer product, size, geography, level of service for an industrial product)?
11. How big is the potential market for your product?
12. Are there schedule constraints for bringing the product to market, such as a trade show or holiday season?

To answer these questions, a company must analyze and test competitors' products and truly understand who its customer is. This period takes study, observation, analysis, time and patience.

When Customers Lead the Way

Lynn and Reilly found that the visionaries and teams who created blockbusters followed a distinct, identifiable process that started with knowing the *customer's* needs inside and out. Sometimes the visionary with the blockbuster concept was the customer himself.

Be Your Own Customer

The authors found that the "eureka" moment often occurred when product developers actually lived in the environment in which the innovative new product would be used. In effect, they were their own first customers. This happens so often with blockbuster products that we've come to think of this as the Golden Rule of Blockbuster New Product Development: You are your own first best customer. In other words, you'd buy and use your own product if it were available.

Guy Kawasaki, one of the first Apple Computer employees and a highly regarded Silicon Valley venture capitalist, says unequivocally, "If you want to create a revolutionary new product, design something that you yourself would use."

Go, Look and Listen

Sometimes, however, you can't be the customer. You must find a way to get in sync with your target buyers, to find out what they want in a new product — or what they could want — when they may not really know.

Developing this kind of consummate customer empathy won't happen in a telephone conversation with a customer or a quick visit that's little more than a hello and a handshake.

It takes in-depth, on-site dialogue that sometimes does more than nail down the exact features of your new product. It can lead to a nugget of information that could spawn a whole new product category for your company.

What are the questions to ask when you visit your customers? Here are some suggestions:

- What can't you do that you'd like to do?
- If you could change one thing about the product you're now using, what would it be?
- Are there tasks you'd like to do with the product you are now using that you can't?
- What does this product not do that it should do?

The answers will probably give you insights you wouldn't get otherwise. These up-close-and-personal

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Have a Clear and Stable Vision

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interviews enable you and your team to make more informed decisions about the product you're creating.

What can you achieve with go, look and listen?

- You identify unmet customer needs.
- You may uncover new opportunities.
- You hear firsthand the likes and dislikes about a product or service.
- You see how customers perceive a bundle of features.
- You learn how the customer will use the product.
- You understand what goes into making a purchase decision.
- You may generate alternative solutions to a design.

Knowing the Competition

However you choose to achieve consummate customer empathy, it's only half the story when creating project pillars. You must also know the competition inside and out. Buy their products, study them, use them, take them apart. You're looking for the answers to four questions:

1. Does any product already on the market solve the existing problem?
2. Does your concept do it better?
3. What are the advantages/disadvantages of competitive products?
4. What do customers like or dislike about those products? ■

PRACTICE #3

"Lickety Stick" Improvisation

The authors call blockbuster practice number three improvising "lickety stick." This practice advises team members to go from the first concept to prototype to market test to the next concept, prototype and market test "lickety" until the product "sticks" with the customer. Each effort doesn't have to be perfect; it just has to be better than the last one.

The End of the Orderly Sequence

The lickety stick approach differs from the norm today. Conventional wisdom dictates that NPD teams complete a multiphase process (idea generation, screening and evaluation, development, testing, launch) in an orderly, sequential fashion. At the end of each phase, companies conduct a review meeting at which the core team and senior management make a decision about whether to move to the next phase or end the project.

Blockbuster teams took a different approach. First, the time sequence for NPD was significantly compressed. Second, the team frequently went back to the drawing board — if customers weren't enthused about the prototype, the team reworked the design. And third, blockbuster teams rarely went through time-consuming phase reviews. There was never any discussion about whether the project should be killed — the decision to proceed was a foregone conclusion.

Lickety Stick Rule #1: Get That First Prototype Out the Door — Fast!

A main principle of the lickety stick theory is: Get that first prototype out the door quickly! The initial prototype, no matter how crude, is for customer feedback at the beginning of the development process. What kind of time frame is involved? Depending on the product, the time frame is weeks, not months. If possible, use off-the-shelf components to accelerate the time to first prototype.

Lickety Stick Rule #2: Now Do It Again . . . And Again

The next step in lickety stick is bringing out subsequent versions of the product as quickly as possible. It means showing each prototype to end users and refining the prototypes, but keeping your project pillars firm. It's OK to tweak product specifications, but don't constantly remake the project to try to meet every customer's whim.

> ***It's OK to tweak product specifications, but don't constantly remake the project to try to meet every customer's whim.***

You can't ferret out this invaluable kind of information any other way. Not only does prototyping make the final product more technologically polished, it can also inspire commitment from both inside the company, and outside from venture capitalists, suppliers and customers. It confirms that the idea is viable.

Lickety Stick Rule #3: A Hard Deadline

One more critical component to the lickety stick process is a hard deadline held over the heads of the NPD team. This creates a sense of urgency that drives blockbuster teams to great successes. There are several types of deadlines: the next annual trade show, the impending collapse of a company unless the next product saves it, or a team's sense that if they don't prove themselves soon, they might lose their jobs.

If you have a hard deadline, the emphasis changes from what you should do to what you can do given time constraints. ■

PRACTICE #4

Information Exchange

When Lynn and Reilly asked blockbuster team members how they handled communication across disciplines, they found that this wasn't a problem at all — team members readily shared information.

How effective information exchange can strengthen your NPD is best demonstrated with the story of Apple Computer.

Creating a Knowledge Core at Apple

Steve Wozniak, Steve Jobs and Ron Wayne started a computer company on April Fool's Day, 1976. Their goal was to design, produce and sell an affordable personal computer primarily targeted to electronics enthusiasts.

The group first introduced its "computer" three months later. It was a kit with a printed circuit board that you plugged into the back of your television set. With a modest four kilobytes of memory, it didn't even have a keyboard. It sold for $666.66 and was one of the first computers to be mass-produced, even though they made only two hundred. All but twenty-five of those early models were sold.

Steve Wozniak, Steve Jobs and Ron Wayne started a computer company on April Fool's Day, 1976. Their goal was to design, produce and sell an affordable personal computer primarily targeted to electronics enthusiasts.

The following year, Wozniak worked on Apple's next computer, designing it almost completely by himself — for himself. And when it came to market the following April, the Apple II was a huge leap forward. It had color graphics, a keyboard, a power supply in a distinctive case, and eight kilobytes of memory, all for $1,298. It appealed to many people because its operating system was easy to use, unlike the other computers available at the time that were too complicated for the typical user. You could play games on it. You could remove the case to see how it worked. You could work on two tasks at once using its split-screen capability.

Apple II was a big success for the fledgling company. More than 4,000 units were sold in nine months during 1977. Within two years, the company had shipped 35,000 units. By late 1981, more than 300,000 units were sold, and demand was growing. For those glorious years in Apple's checkered history, the Apple II was the most popular PC in the world. As the market for computers broadened, the Apple II found a place in the home, the classroom and the office.

Wozniak and Jobs knew their early successes would be difficult to follow. Still, they were determined to make a better computer. They went on to create the legendary Apple IIe, the product that secured Apple's lead in PCs for nearly a decade.

How did an upstart little company create such phenomenal blockbusters? When the authors interviewed people who worked on the IIe, they learned that the team excelled at sharing information. When Wozniak created the Apple II, the company had only a handful of employees literally working out of a garage, so communication was free and easy. It was as if they were in an all-day meeting every day. But, by the time they developed the Apple IIe, the company had grown to over 2,500 employees. Now Apple Computer needed to create a real system for sharing information, and the one they created was simple, yet incredibly effective.

The War Room

Apple designated a conference room as the "War Room." There, everyone working on the project could easily find the many bits of information amassed on the project.

In the War Room the status of the different functions (R&D, marketing, manufacturing) was constantly updated on handwritten notes posted on the walls. It looked untidy, but that comfortable, lived-in feeling made everyone feel welcome — not just those on the team, but also customers, suppliers and company representatives. The War Room was a communication conduit that embodied the "collective consciousness" of the project.

Some days the key people on the team spent whole days in the War Room as others streamed in and out with updates, concerns, criticisms and suggestions. The whole team met there once a week. Any significant changes on the project filtered out of the War Room within minutes, so all functional areas knew promptly if they needed to make an adjustment. ■

PRACTICE #5

Collaboration Under Pressure

Why do some teams never seem to pull together? Why is collaboration sometimes so hard to achieve? Lynn and Reilly found that effective teamwork is a natural by-product of implementing the other practices they discuss in their book. This brings us to the last rule of blockbuster product development: Teamwork matters.

Effective collaboration is the result of a team sharing both a common commitment to the vision and a respon-

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Collaboration Under Pressure

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sibility for getting the job done. With all the different personalities and functional areas involved in bringing a new product to market, conflicts will occur. The trick is to manage them so they aren't detrimental to the overall effort. Conflicts over product issues can actually be beneficial to the team effort because, if managed properly, they bring up design or manufacturing problems that others may have ignored.

NPD teams are different from many other teams — they're multifunctional and highly interdependent. The team members are experts in their respective disciplines, and they're not used to deferring to someone else's judgment.

Teamwork Is the Result of Implementing The Other Practices

Teamwork was such a constant on blockbuster teams that nearly 90 percent of the top teams were rated excellent in this category.

How did blockbuster teams achieve effective teamwork? Lynn and Reilly found that teamwork was not a result of people liking one another. Teams worked as a unit because they had strong participation from senior management, a unified goal, effective information sharing and clearly delineated roles and responsibilities. Engineers knew what their jobs were, as did people in marketing, manufacturing, and so on. And by implementing the other four practices, effective teamwork emerged.

The Myth of Positive Team Chemistry

The authors found that on teams developing new products that take a large leap forward, intellectual argument was actually a plus. Here, the team maverick is not afraid to bring up problems with the design, and the team members willing to argue important points move the creative process forward in search of ingenious solutions. The people who "go along to get along" are not the original thinkers and problem-solvers a blockbuster team needs.

On the blockbuster teams, there may not have been constant camaraderie, but on the failed teams there was usually outright dissension. Dissension occurred because team members didn't have clear project pillars or didn't agree on the pillars they had, and senior management didn't pay enough attention to the team. ■

What About Radical Innovation?

A radical innovation uses untested technology and creates a new market category. The first television is one such product. Intel's smart card — a credit-card sized device that holds mountains of data and may revolutionize how information is stored — is another. And DuPont's Kevlar, the material that goes into bulletproof vests, is a third.

When the authors looked at how companies developed radical innovations that became blockbusters, they discovered that the companies applied the five key practices, but in a different way. Senior management support is likely to consist of funding, not day-to-day involvement; the vision and project pillars may not emerge for several years; concept testing in the early stages is impossible because the product is so far from being ready for market; and the market itself is questionable.

The Message to Management

What are some of the lessons managers can draw from the study of best practices in product development?

The first and most obvious lesson is that top managers must be directly involved with new product development. New products are the lifeblood of your organization, and deserve your time and commitment.

Note that this doesn't mean that as a top manager, you should immediately demand that all product development teams immediately adopt all five best practices. But you should apply these practices to one project per division, with the division manager or vice president shepherding the project from development to launch to refinement. A key step is selecting the right project to focus on.

Picking a Project

How do you select which project to shepherd? According to a recent study, product selection is one of the most poorly performed aspects of new product development. To select the project, consider the following questions:

1. Which project has the greatest potential if it succeeds?
2. In which area is your company most vulnerable to competition?
3. Which products could potentially change the competitive landscape in your market?
4. Which project is at the core of your competencies?
5. Which project excites the people on your team?

Corporate Culture Constraints

A question senior managers often ask is how they can implement the lickety stick process in an established corporate culture that appears to be directly opposed to it. In that situation, create a team and let team members know that the old rules don't apply — they have your permission to use the lickety stick approach. ■

For Additional Information about a case study on breaking cultural constraints, go to http://my.summary.com

THE FIVE PRACTICES: A CASE STUDY

How a Blockbuster Product Saved Iomega

One company that succeeded at producing a blockbuster product is the information technology firm, Iomega.

From Dire Straits . . .

In 1993, the company desperately needed a new product. Three years earlier, it had been flourishing in the information technology industry, but aggressive competition and technological advances by the competition left the company's product line in the dust. Nearly half of its work force had been laid off. Stock was trading at an all-time low of $2.50 a share. Pieces of the company had been sold. Needless to say, a feeling of gloom hung over the company from the board room to the shop floor.

. . . to Billion-Dollar Revenues

But just when Iomega was about to collapse, it engineered a remarkable comeback.

A new CEO, Kim Edwards, arrived to perform entrepreneurial CPR, and in just over a year, the company began shipping an innovative new product that took the market by storm. Four months later, the company's stock had skyrocketed from just under $7 a share to an after-stock-split equivalent of $112 a share. In the first full year of sales, a million units were shipped. In two years, sales increased from $141 million to $1.2 billion, climbing in the next year to $1.7 billion with $115 million in net income. The company's blockbuster product was the Zip Drive.

How did Iomega accomplish such a remarkable turnaround? By integrating the five key practices throughout its product development process. Doing so wasn't a matter of starting with one practice and then moving methodically through two to five. Each of the practices — senior management involvement, clear and stable vision, improvisation, information exchange, and collaboration under pressure — affected the other practices and remained in play throughout the entire development process.

CEO Edwards Plays Key Role

The gravity of Iomega's situation — and Edwards' persistent involvement — eventually won everybody over. "I talked about having a maniacal focus," said Edwards. "This is what we have to do, and anything that gets in the way has to be removed."

Edwards was the employees' constant coach. "What can we do to get the price down?" he would ask. Or he'd remind them that the product "has to be fast, but only fast enough." Edwards explains: "If you really want to maximize performance, you can't tell people what to do, you have to help them get there. If you say, 'I'm going to take you out and you're going to run the hundred-yard dash in 9.5 seconds,' you're never going to get there. You have to run alongside and tell them what's necessary to do it." With this kind of coaching, Iomega's engineers became determined to prove they were up to the task.

The team held weekly cross-functional meetings that were informative rather than finger-pointing exercises. Engineering, marketing, sales, advertising and operations were cooperating like parts of a well-oiled machine.

A Great Success — In Half the Time

The whole Zip Drive project, from inception to delivery, took only 11 months, less than half the development time Iomega had allotted for previous products.

The initial sales target was 200,000 units for the first 12 months. The company sold a million instead. A few months after launch, Iomega set up production in Switzerland and Japan to try to keep up with demand. Three years after Zip's launch, Iomega's stock soared from approximately $2.50 to $150 in real dollars. The market capitalization of the company went from $59 million before Zip to $3.2 billion in 1997. *Business-Week* awarded the Zip Drive its gold medal, its highest honor for an innovative new product.

The intense focus of working on a blockbuster team is immensely rewarding for the people involved. It is an experience they usually want to re-create. "A whole bunch of other very able, very talented people are ready to do the next project," says Greg Allen, electrical manufacturing engineer on Zip, who is still with Iomega. "All we need to know is what the next project is. We would do it again in a second."

Everything, All at Once

What did Iomega do right? The quick answer is: absolutely everything. CEO Edwards and R&D director George Kreiger established a clear, easily understandable vision for their new product, stuck to it, and made sure everybody bought into their vision. The engineers did whatever it took to get from concept to reality, improvising as needed and using all kinds of equipment.

The CEO was a highly visible part of the team, visiting R&D regularly and sitting in on morning get-togethers over coffee. Everybody kept him in the information loop. More formal meetings were true exchanges of information among different functional areas. Iomega unconsciously implemented the five practices of blockbuster success, and came up with a winner. ■

· Book 15 of 61 ·

Born to Create

Anne Jacoby

Executive Book Summaries®

Born to Create

How Creativity Sparks Connection, Innovation, and Belonging in Our New World of Work



by **Anne Jacoby**

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THE SUMMARY IN BRIEF

Given that over one-third of our lives is spent on work, isn't it only fair to make every day as fulfilling as possible?

The book ***Born to Create: How Creativity Sparks Connection, Innovation, and Belonging in Our New World of Work*** unravels how leaders can tap into vital creative skills and bring them into business in an impactful, engaging, and memorable way. Weaved in the form of a delightful three-act structure of a theatrical script, the book paves our path toward building creative confidence and resilience and living a creatively fulfilling personal and professional life.

By stitching together stories of artists, business leaders, and entrepreneurs, author Anne Jacoby helps leaders tap into their own creativity to lead others and build a vibrant culture where everyone gets to tap into their creative prowess and contribute to business success. The pages ahead guide us to foster stronger bonds, spark innovation, and ultimately find a deeper sense of purpose in our work.

IN THIS EXECUTIVE BOOK SUMMARY:

- Develop your creative skills and apply them in business.
- Learn how to lead effectively and authentically through creativity.
- Understand the importance of building resilience and a culture of creativity for business success.

Introduction

If your work doesn't currently light you up, it could be time to focus on something else that does. Life is short. With an estimated one-third of our lives spent at work, I believe more creativity can help it become something that fuels you.

I've structured this book as nine scenes within three acts as a nod to my roots in the theatre, but also as recognition that creativity leads to performance, "the action or process of carrying out or accomplishing an action, task, or function." I won't just talk abstractly about creativity; I'll help you apply the skills to get things done.

Act I is The Spark, where we'll focus on your individual creativity. There, we'll dive into the power of creative confidence, how to strengthen your imagination and put things on their feet, and the importance of continuously gathering and integrating feedback.

Act II is The Blaze. That's the section to learn how to lead more creatively and develop creativity in others to innovate. We'll examine how our workspaces influence creativity and also take a closer look at how creativity can build collaborative team dynamics.

And finally, Act III is The Bonfire, where we'll discover how to build the creativity culture that we all crave. Filled with practical exercises to create an organizational North Star, this section will include the building blocks of creativity culture and the rituals that enable us to authentically foster this connection at work.

Act 1: The Spark: Igniting Your Creative Confidence

Scene 1: Building Your Creative Confidence

When we cultivate the confidence to welcome our own bad ideas, to not hold back, we can foster creativity. We are all born to create. We just have to muster the confidence to believe it. Creative confidence can be strengthened with practice.

Today, our relationship with work is changing. That's one of the big reasons I believe creativity is such an in-demand life skill. Creativity enables us to spot problems and view them as opportunities and then imagine how we can be part of the solution. Whatever your big goals are, they require an entrepreneurial mindset. And that translates to the need for creative confidence. Successful entrepreneurs have a few things in common:

- Resilience and grit to push through the discomfort of making mistakes.
- An insatiable curiosity and appetite to learn.
- A vision to see the possibility in their ideas.
- Resourcefulness and a bias toward action.
- The ability to be a talent multiplier, possessing a subtle magnetism to attract people to join in their journey.

Entrepreneurial thinking requires a beginner's mind. Start a project or creative idea with a sense of wonder: What might I learn from this? If it's successful, what could be the outcome? Envision your creative output even before it's produced. We have more agency over building our creative confidence than we may think. Getting our creative mojo takes effort and a willingness to adapt.

Creative constraints can lead to sharper creative output. It's true, that we can't always control when creativity comes, or exactly how. But we have to be ready to receive it when it does. Make time for Creativity Boosters. Write down three words that reflect your creative energy. Circle the one that feels most unexpected. Write three more words that relate to the circled word. Circle the one that surprises you most. Take your final circled word and see if or how it shows up in your daily work. Finally, know yourself, including how, when, and where your creativity shows up.

Scene 2: Strengthening Your Imagination and Putting It on Its Feet

Trained actors are skilled at getting into the heads of imaginary people. They transport themselves to a human experience separate from theirs. Using that new lens, they then filter the world in a new way. To bring this power to life in the workplace, journal in great detail about a day in the life of this future version of you. Be sure to jot things down in the present tense, as if they're happening now. What is your typical routine? Who's in your life? What projects are you working on that light you up?

Finally, reflect on the day-long story you just created. What surprised you? Maybe you're no longer at your current job and your day starts with a long neighborhood walk with your dog. You see, memory plays a powerful role in creative thinking, too. Harkening back to that moment our hearts first opened, we can draw on the details of past experiences to inspire more specificity in what our imaginations are creating. Find your motivation and Ikigai. Ikigai is a Japanese philosophy around our life's purpose. A quick Google search will yield dozens of visual frameworks on Ikigai, but

Being aware of our brain's hardwired fear when facing feedback underscores the importance of actively seeking it out to regain some control.

here's my take on it: Ikigai is the intersection of:

- Love (What I love doing)
- Talent (What I'm good at doing)
- Commence (What I can get paid doing)
- Demand (What the world needs)

Make time to be creative and create a lifestyle that supports your creative journey. You might start by considering if the work that sustains you can be done at least part of the time remotely. Or perhaps you'd find more fulfillment by working fewer than forty hours per week to make space for other creative passions.

Scene 3: The Art of Seeking Out Feedback (Taking the Note)

Being aware of our brain's hardwired fear when facing feedback underscores the importance of actively seeking it out to regain some control. We can develop techniques to prepare ourselves to move through it: deep breaths to manage the physiological reaction, and self-talk to remind ourselves that it's only one person's perspective. "Love Notes of Resistance" can indicate where we might want to pause or gather feedback. These can look like: "Something feels off. Am I on the right track with this idea? Is there any business value in what I'm creating?" A response to the Love Note might be:

- Hmm, I wonder why I'm not feeling connected to this work... What would it feel like to be on the right track?
- How can I get a fresh perspective on this idea, or whom can I ask for feedback?
- How might value from this idea show up in the business (e.g., happier employees or customers, more revenue, reduced cost, a differentiated product or service)?

The best way to overcome or respond to Love Notes of Resistance? Ask more questions. Be objectively curious. Remember, feedback is merely a perspective that can come from many inputs: ourselves, peers, managers, or what the data is telling us.

Start with self-feedback. Seek out peer feedback. Be specific in asking for manager feedback. By taking more control over the areas where you'd value more guidance, you can boost your level of autonomy, owning your development. Connect this feedback from work to other parts of your life. Take notes, incorporate what's helpful, and then move on - don't take feedback too personally. Beware the Creativity Killers that might be blocking your creative expression. Here are some common patterns that can easily stop creativity in its tracks:

- Overthinking
- Judgment about our creative product too early
- Lack of sleep
- Hunger
- Fear
- Perfectionism
- Overvaluing the status quo
- Encountering those with a fixed mindset (e.g., "This will never change")

Dropping in to follow our passion is a form of self-feedback. Think about your spark. Reflect on what lights you up and gift yourself that personal feedback. Think about the thing in your life that is not only deserving of your focus but invites the metaphorical tap on the shoulder, reminding you of the moment your heart first opened.

Act 2: The Blaze: Cultivating Creativity in Others to Innovate

Scene 4: Trust Falls: What's Required to Be a Creative Leader Today

Creative leadership starts with trust and having a mindset of believing in your team's limitless potential to be creative. Building trust and psychological safety is the foundation of a creative team. Creating that culture of possibility is up to everyone, but the leader sets the tone. Belonging at work leads to greater work satisfaction, including the social permission to create, experiment, and be imperfect.

Creativity in times of crisis is often born out of necessity.

For instance, you may be in the position of leading creatively through challenging economic times and are looking for untapped revenue streams or eliminating waste in expenses. Whatever the case, your foundational skill as a creative leader is to build trust with your team and the broader organization to bring these creative ideas to life.

When facing a thorny challenge, find a quiet hour all to yourself. List all of the common solutions that may have been tried before. Next, look for hidden parts of the problem. What hasn't yet been examined? Are there areas where no one has looked or re-examined? Start there. Aim to see the problem in a different light.

Scene 5: Creative Physical and Psychologically Safe Workplaces

The physical workspaces your team inhabits may impact creativity. Create an office like a set designer to demonstrate your commitment to psychological safety. Offer choice. With creative leadership, you can listen to what your employees value and build a strong culture across multiple team structures.

For leaders who aim to inspire a creativity culture, the environment - the office décor and physical structure - reflects the people and company mission within it. Ask your team what equipment or materials would make them more comfortable and effective at work, ranging from an office chair, improved lighting, standing desk, or ergonomic keyboard setups. Invite team members to share what environment helps them to focus and share best practices for technology (and analog!) tools. Not only may it help others to try out and adopt new, effective habits, but it's also a great way to learn more about your team's individual preferences and unique work styles.

Embrace the nonlinear workday. Find processes that support both synchronous and asynchronous work experiences. Spot creativity gatekeepers and consider how to mitigate the risk of Creativity Killers, such as:

- "We'll leave the creative ideas to x team."
- "Let's save all of our creative thinking for our team-building event."
- "Let's go with what's been done before since we know it works."

Knowing the propensity to reject creativity, it often falls to the creative leader to help position new ideas as safe, accessible, and relatable. This might require:

- Walking through a potential user experience and pulling in common fact patterns and emotions.
- Outlining other successful creative leaps or incremental improvements made across the company.
- Sharing breakthrough inventions in a similar industry that may have looked foreign at first, but led to new operating and consumer norms (think about the leap from horses to cars, faxes to email, or Polaroid pictures to the ubiquitous use of cameras on our phones)

Creative leadership comes in all shapes and sizes. Your job is to define the challenge at hand, note any gaps from where you are to where you'd like to be, and experiment.

Resist the impulse to obsess over what could be and celebrate the creativity you already have within your team. Be the learn-it-all.

Scene 6: Collaboration Is a Jam Session (Creative Team Dynamics)

As creative leaders, we are the conductors. You may find yourself leading a team full of individual superstars, but if they struggle to play off and support each other to blend their individual voices, those lofty objectives are doomed to fail. The creative leader can spot the unique needs across the team and coalesce them around a shared purpose. Your collaborative teamwork becomes the music, the soundtrack to your company's journey. Then you can jam. When we collaborate with others, slowing down is often the best way to find our team's rhythm together. It's how we fully see the talents on the team to let them shine. There are a few things we can do to help slow things down:

- Observe. In rushed or panicked moments, consider zooming out to objectively recognize what's happening.
- Ruthlessly prioritize. Remember, if everything's a priority, then nothing is a priority.
- Practice saying no. Saying no can also mean passing the baton to others who are ready and able to say yes!
- Get perspective. To fully gain the benefits of slowing down, experience the good stuff that happens after a vacation away from home.

To solve each problem, perform:

- Root-cause analysis. What's the potential source of the problem? What would need to change to address this root cause?
- Divergent thinking + mind mapping. What are the emotions and downstream consequences of this problem? How would these feelings change if the problem

Remember, creative work is messy. Feedback on our creativity can wound us. But it can make us even more determined to build something of value.

were solved, and what would be the business impact?

- Perspective-taking. How do different stakeholders in your company (e.g., sales, marketing, finance, product, HR) think about this problem? Next, think of a leader you admire outside of your industry. How might they approach this problem?
- SWOT analysis. Consider a leading solution to the problem. What are the strengths of the solution? What are the potential weaknesses? What opportunities lie within this solution? Are there any threats to consider before implementing it?

Finally, know your role. You may define roles as:

- The Culture Carrier. The role that represents your team culture and evaluates if the candidate brings compatible attributes.
- The Skills Champion. The role to evaluate if the candidate has the mindset, skills, and experiences to effectively thrive in the position.
- The Seller. The role in charge of marketing the opportunity and company experience, bringing some razzle-dazzle.
- The Closer. The role responsible for the recruiting process, managing the next steps, and facilitating all communications with the candidate.

Act 3: The Bonfire: Fostering Creativity Culture Across Your Organization

Scene 7: Your Company's North Star: Finding Purpose at Work

Creativity culture has three pillars: connection, innovation, and inclusion. If you have connection and innovation but lack inclusion, you get an insular culture, one that may lack perspective and create an echo chamber. With connection and inclusion but no innovation, you can find yourself with a family culture and a bad environment. Finally, if your company embraces innovation and inclusion but lacks connection, that can lead to a transactional culture, one that's transient, with high turnover. When all three elements of connection, innovation, and inclusion are present, that's when creativity culture can thrive.

I've found these three pillars of creativity often help bring the North Star into sharper focus. You start to break the mold of what you think your company should be and inhabit the space of who you authentically are. Then you can shine light on the path to a creativity culture of your own. Remember, creative work is messy. Feedback on our creativity can wound us. But it can make us even more determined to build something of value. Building a creativity culture requires a heightened focus on the words that bring your organizational messages to life. When crafting these marketing and communication messages to best reflect your company culture, it's helpful to:

- Start with your North Star. Define your organizational purpose or reason for being.
- Define your different audiences. This includes your employees, prospective employees, customers, board members, investors, community, and anyone else who may interact with your company experience.
- List your communication channels. How does each audience receive the message of your north start?
- Consider your timeline. Much like evaluating your communications channels, think about the right cadence or timeline for each messaging opportunity.
- Evaluate consistency or impact gaps. Much like the quantifiable value of a strong brand, the strength of your North Star message can have an impact on your ability to attract, retain, and develop talent, drive a qualified pipeline of business, or improve your investment options. The clarity of this message matters.
- Create ongoing measurement. Learn how to track engagement levels, evaluate email open rates, gather customer input, and solicit employee and customer sentiments about your North Star.

Scene 8: Be the Conductor: Applying the Culture Strategy Framework

Workplace culture is influenced by why you exist, who thrives there, how you engage, and when and where you co-create and this is what the Culture Strategy (CS) covers:

CS 1: "Why We Exist." The key questions to help discover WHY your organization exists include:

- Purpose, Vision, Mission: Why does our company exist? How do we communicate that purpose?
- Core Values: What three to five stories demonstrate the behaviors of living the values that each team member should know? What do we do when someone is not living our values?
- Value Proposition: What are three to five customer impact stories that each member of our team should know?

CS 2: "Who Thrives Here." A few starter questions to prompt thinking around WHO thrives at your company:

- Demographics and DEIB (diversity, equity, inclusion, and belonging) strategy: What strategies do we have in place to increase diversity and equity across the business?
- Competencies, behaviors, and learning: What are our leadership principles and how are they consistently applied? What EQ/power skills do we want our people to develop and how do we support them?
- Culture fit and assessment: Who are the change champions across our business and how do they embody our culture? How do we celebrate different identities, backgrounds, and lived experiences across our organization, through employee resource groups (ERGs) or other methods?
- Moments that matter, milestones, and social impact: What social causes does our organization care about that are aligned with our values, and how do we support employee activism?

CS 3: "How We Engage." Here are a few questions to determine HOW you engage:

- Listening and feedback: What different methods do we have to listen and gather feedback on our culture from ALL stakeholders? How do we model giving real-time feedback and ensure 1:1 manager-report meetings are happening?
- Business operations: What constitutes an effective meeting and how do we measure success? How do people in different functions or regions collaborate on shared business challenges and opportunities?
- Goals: How does goal achievement link to future growth opportunities?
- Team building and community: How are we communicating our culture to our board and/or investor community? Do we have a culture dashboard, and if so, what are we measuring?

CS 4: Where and When We Co-Create. Here are a few questions to think about when reviewing WHEN and WHERE you co-create with colleagues at your company:

- Organizational structure and shared organizing principles: When do we connect as a team to build relationships? When and where do we meet as a leadership team, either in person or virtually?
- Physical work environment: What physical artifacts represent who we are as an organization? How do our virtual or in-office team-building experiences reflect our culture?
- Conflict and concern: Do team members know the code of conduct, policies, behavior guidelines, and what to do if something isn't right?

Think like a marketer to transmit your "culture messages." Effective marketing - as well as a distinctive workplace culture - is designed to feel fresh, not canned versions of things you've seen dozens of times before. Remember, being the conductor is much more than simply standing on a podium. Embodying the mindset of a conductor within a creative culture means deeply listening. It means applying a strategic outlook to shape the arc of the employee experience.

Scene 9: Activating Values with Stories and Rituals

In a healthy culture, early employees keep the business drumbeat as new joiners layer in new perspectives, riffs, and rhythmic syncopation of their own. Ideally, a fuller, more sustainable song emerges. Then, we can be willing to accept the last first tooth with an appreciation for what's ahead, without diminishing the loss of what's right in front of us. As your company scales, be sure to:

- Ensure your onboarding process has an experiential way of activating company values.
- Take regular people-pulse surveys and examine key culture questions quarterly.
- Review meetings, town halls, and company communications to layer in North Star principles, semiannually.

- Reassess core values annually, ensuring they still feel relevant to your growing business.
- If there's growing tension between new joiners and the OG, create culture carrier opportunities, like Tiger Team working groups or rotation stretch opportunities, to strengthen bonds between the two groups.

Consider answering questions like: What business rituals can we develop or continue? What leadership habits should we let go of and retire? What are the values and behaviors we'd like to carry forward in our next chapter, and how can we reward and celebrate them? How can we intentionally set up collaborative teams that honor our veteran team members yet welcome new perspectives?

Even after culture has been established within a more mature organization, there are still ongoing opportunities to influence and shape it. Be mindful of the practices that no longer serve your organization or team. Reflect on the meaningful rituals that you want to preserve as you grow. Consider the different maturity stages and sizes of your organization when operationalizing initiatives and building a creativity culture. Finally, scale creativity by sharing and operationalizing memorable stories.

Conclusion: Director's Notes: After the Final Curtain Call

So now, I put down my paintbrush. Not because I feel like I'm done, but to step back and reflect on what's been created. To sit with it for a moment. I'm ready to generously share what I've learned so that you can build on the ideas that resonate with you - and discard those that don't. Now it's your turn. The fire is burning brightly. Everything you could ever need to create is already within you - your personal spark is lit, and you're ready to cultivate creativity in others and foster a creativity culture across your organization!



Anne Jacoby is founder and CEO of Spring Street Solutions, a consultancy dedicated to sparking creativity at work. Through culture assessments, workplace strategy, leadership programs, and coaching engagements, Anne partners with leaders who crave more connection, innovation, and inclusion across their teams. Her clients range from high-growth tech startups to F500 global organizations. With an MBA from NYU's Leonard N. Stern School of Business, Anne blends her creative roots and over twenty years of business know-how to enable desired organizational change.

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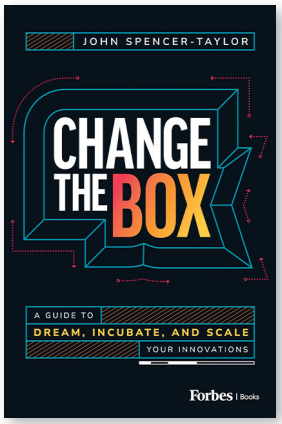
Change the Box

John Spencer-Taylor

Executive Book Summaries®

Change the Box

A Guide to Dream, Incubate, and Scale Your Innovations



by **John Spencer-Taylor**

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THE SUMMARY IN BRIEF

Innovation is a thrilling yet complex endeavor. While great ideas can spark change, executing them successfully requires discipline, focus, and strategic decision-making. Many organizations struggle to balance creativity with business viability, often finding themselves overwhelmed by too many projects, undefined processes, and a lack of alignment.

Change the Box: A Guide to Dream, Incubate, and Scale Your Innovations offers a structured approach to innovation, helping organizations refine their ideas, validate their feasibility, and bring them to market effectively. The book provides actionable frameworks to evaluate and prioritize innovation efforts while maintaining agility and adaptability. Through principles like setting constraints, selecting the best ideas, and creating a culture that embraces smart risks, businesses can foster innovation without sacrificing operational efficiency. Author John Spencer-Taylor presents a blueprint for companies to optimize innovation while maintaining focus and delivering value to customers. With the right processes in place, innovation becomes not just a possibility but a sustainable practice that drives meaningful growth and transformation. The book serves as a guide for leaders and innovators seeking to refine their approach, ensuring that every idea pursued has the best chance of success while contributing to overall business goals

IN THIS EXECUTIVE BOOK SUMMARY:

- Bring innovative ideas to life using the Change the Box framework.
- Learn why constraints fuel innovation rather than limit it.
- Discover the three stages for managing innovation effectively.
- Foster a culture of smart risks to drive sustained innovation.

Introduction

The start-up world is all about ideas. Big ideas. The more audacious, the better. Entrepreneurship attracts people with vivid imaginations, who can see solutions to problems - sometimes because those problems are obvious to the broader public.

Big ideas are great. But vision alone isn't enough to sustain a start-up. Consider the statistics of businesses that don't make it: data from the US Bureau of Labor Statistics suggests that approximately one in five businesses fails during the first two years. Especially in technical fields, the gap between innovator and consumer can be tough to bridge, and equipping technical visionaries to integrate business viability isn't always easy.

On one side, you have research and development (R&D) eager to innovate without necessarily considering the business implications. On the other side, you have the business-minded leaders of the organization, who appreciate the talent of their R&D teams but may struggle to understand their priorities that often focus more on maximizing innovation than maximizing profits.

I've been a part of these kinds of discussions, balancing the two viewpoints, hundreds of times. Full transparency: I often have this debate internally, balancing my love of technological innovation with my role as CEO of BrainGu, a software innovation lab.

Brain Gu's overarching mission is to dream of, incubate, and scale dual-use technology platforms that unlock innovation. BrainGu makes software for teams that make software, empowering innovation and rapid software prototyping for customers in highly regulated industries.

Over time, we've learned to nurture imagination within limitations - and that's been the sweet spot of our success. That is what this book is all about. By balancing creative zeal with analytical discipline, Brain Gu was able to rapidly scale, transforming from a fledgling consultancy to an exemplar of high-growth innovation led by products, not consulting.

The Innovator's Dilemma

The very first product BrainGu tried to bring to market ended up being shelved. We spent months developing this cryptographic key management software, building our prototype, and testing the market. We used the technology internally, and we loved it (and we still use it). But the market didn't love it as much as we did.

We were targeting non-tech companies where software was a secondary concern. They were looking for something simple and straightforward - a ready-to-drive car with all the safety features already built in. That's not what we were offering; we were just offering the safety components: antilock brakes, airbags, collision avoidance, crumple zones, and safety belts.

We tried to sell the product but it didn't stick. And then another company came onto the market with essentially the same product, except they released it as open source. So that would have completely gutted the company if we had decided to base our entire business on that idea. Luckily, we hadn't gotten that far yet, and when their product released, we decided to stand down. We shelved ours.

Those three little words can't fully encapsulate the gut punch of that decision. We had taken an idea we believed in from concept to reality, and in the process, had fallen in love with our creation (as innovators tend to do). However, we also recognized that it was OK to end the relationship there. We still had work we were proud of. We just had to be pragmatic about whether or not to bring it to the world. In this case, it was a no.

I like to summarize the problem thusly: "When you can do anything, what do you do?" And the harsh reality is that you cannot do everything. At BrainGu, we have had to learn that lesson over and over. We still have to learn it today. We love ideas. But you can't make money on an idea alone. You have to implement that idea in an execution phase, followed by a production phase. You need to capture that idea in a way that someone else can take it and use it to make their problem go away - because the whole point of innovation is to solve a problem for someone, right? Having an idea about how to solve a problem and actually solving it are two very different things.

Constrain and Collapse

Change the Box– the BrainGu company mantra– involves fostering innovation within constraints through strategic frameworks, while instilling a culture of accountable autonomy that empowers innovation.

The constrain component of Change the Box involves applying top-level constraints to the innovation process that reflect your business objectives. You name and define variables, and then periodically step back to review and answer questions and assess those variables.

Life isn't a whiteboard; implementation isn't instantaneous. The idea that is formed in moments with a dry-erase marker takes weeks, months, or even years to realize off the board.

The collapse component of Change the Box involves determining which ideas are worth moving ahead with (again, considering your business objectives). Only the very best can proceed to the next round of innovation. The model can be described as a sorting funnel that brings everything together and then sorts it out into proper buckets. The top of the funnel basically ensures everybody is going from the same book, metaphorically speaking, while the bottom of the funnel gets more specific, making sure everyone is on the same page of that book.

From this sorting funnel, five possible end states emerge:

Shelve: The project doesn't have enough value at this time to move to the next stage, and there is no further funding to be allocated.

Divest: The project is valuable but cannot fit into the current business model, and the IP should be sold to an appropriate party to take it forward to market.

Merge: This project is not addressing a large enough opportunity but could improve the value of an existing capability.

Diverge: The exception to the rule. Every so often, some project will truly diverge from all existing business capabilities and provide a significant new value to your market. This should be approached cautiously so as not to distract the company.

Proceed: This option is rare. It should be pursued only with a high degree of scrutiny and should never be considered the default choice.

At Brain Gu, we have amazing technology sitting on the shelf that I think could absolutely change the market. However, the market isn't ready for it. You can't get customers to pay for a solution to a problem that they don't yet understand they have.

If you've got an innovative team, you've got so many smart people who you can lean on, which is amazing. But you have to use them for things that are going to generate you the most revenue while simultaneously balancing, not stifling, their creativity. The process of shelve, divest, merge and diverge is one of the ways we've managed to do that at BrainGu.

Creating Focus with Constraints

To a lot of people, constraints imply limitations. For innovators who are looking to exceed limitations and push boundaries, that can be a petrifying thought. But I think limitations can actually be assets for sparking ideas – not to mention for creating strategic focus amid the chaos that often accompanies innovation. The truly innovative do the best work with one hand tied behind their back and on an impossible deadline.

At BrainGu, we'd have these free brainstorm sessions in front of whiteboards to discuss the different ideas swirling around us. We'd let ourselves get swept up in each tornado of ideas, disregarding the potential damage that might result, and when we were really excited about an idea, we'd start prototyping it. At first, those tornadoes were exciting. Seeing a funnel form overhead, the clouds black and swirling in a slowly emerging cone, is a wild adrenaline kick – if you've ever seen it, you know. A tornado is an awesome force of nature. But it can also be wildly destructive.

When the rubber meets the road, and you have a limited number of resources – coupled with a lack of overall focus – reality sinks in. Life isn't a whiteboard; implementation isn't instantaneous. The idea that is formed in moments with a dry-erase marker takes weeks, months, or even years to realize off the board. As you get a little bit further down the calendar, you find that you've done the first 20 percent of twenty different projects.

We at BrainGu have always been big thinkers who love big ideas. But the newness and fun of creating things and chasing ideas wear thin when you realize that your ideas will go nowhere. Part of what makes innovation fun and exciting is the premise that you will create something that other people will also get excited about. We had ideas that we were excited about. We'd identified particular problem spaces and imagined what the solution spaces could be. But the imagination alone isn't enough to create the solution space. Realizing an innovation could be a game changer for a specific set of stakeholders isn't enough. The stakeholder has to realize it too– and that requires way more than simply creating the solution.

To be blunt, it took us years to realize this. Now we know that we need constraints that will continue to facilitate innovation but will hold us accountable to creating value that grows the company and creates capacity.

By now (a mere ten years since its inception), BrainGu's vision is clear. We help organizations whose number-one job is not software to modernize and secure their critical systems into the future. We imagine solutions for highly regulated industries, believing that advanced technology and bureaucracy don't have to be enemies.

This simplified narrative is itself a constraint. It's the overarching constraint that will help guide all your other experiments and innovative efforts. Hang on to it as tight as you can, because it's going to keep you from getting swept up in the bone-crushing winds of too many thought tornadoes.

In an innovative organization especially, leadership is particularly tasked with keeping the big picture in mind. Discipline and accountability are critical to making constraints actually work for you. Mapping out some constraints on paper isn't the same as actually enforcing them. Innovators who are in the tornado of experimentation and iteration are not always going to think about the business value.

Wearing the hat of innovator and CEO, it's on me to always keep that business case in mind and to remind others of it when necessary. This has added up to fewer wasted resources and more dedicated focus on innovations that actually serve our customers.

Only the Best Proceed to the Next Round

Not every idea is worth pursuing, even if it's a great idea. The constrain-and-collapse approach of the Change the Box model enforces a strict premise: only the best ideas proceed to the next round. What's "best" means coming back to your overall business objectives.

Most of the ideas we discuss at BrainGu end up in one of the four buckets: shelve, divest, merge and diverge. Very rarely does something get the "best" designation and proceed. How do we decide?

First, I should clarify that we don't typically have pre-weighted go or no-go criteria. When we do have a conversation where we have criteria and an ability to score or prioritize it, we tend to think of it in terms of conditions of satisfaction– what requirements must we satisfy for customers in order for them to feel like our products have delivered what they need or want?

First, putting aside the idea, we establish the conditions of satisfaction by working out a list of the key value propositions we're trying to create. It's important in this step to separate our love of the solve from the challenge being addressed. Then we'll imagine how we might measure what "good" looks like for each of those. From there, we bucket those into a neat three to five top value/measure pairs– our conditions of satisfaction.

Looking at our conditions of satisfaction, we then bring back in the idea. We carefully match components of the idea to the conditions of satisfaction, constructing a positive case for why the idea is a great fit. Any perceived value of an innovation that cannot be linked to a condition of satisfaction– its cleverness, our passion, its uniqueness, or other internal bias– falls away. That's the constrain step.

For us, these criteria help determine whether or not to move forward with engaging a new class of customer or exploring a cutting-edge technology. Is it going to require Herculean effort to do so? Or is it in line with the Change the Box approach of menial change, maximum impact? Ultimately, it's about identifying where the center of gravity is and then using that gravity in your favor to help create impact and value.

Each situation is unique. Constraints like time, money, people, compliance, and technical feasibility will vary for every industry. From the context to the people around the table, there will be differences, so a measure of subjectivity is inevitable. There isn't a mathematical equation of X + Y = Z that we can use every time. Plus, if we were using a mathematical equation and scoring things, we probably would not get a chance to exercise that creativity that remains the heart of our company.

The more rigorous you are in your innovation process, the more you'll get to emerge from the darkness and hold your creation up to the light for someone to see and say, "Check it out. Look what I made." That means you will get more of that innovator's joy. Without that, the best innovative organizations wouldn't exist.

Dream – Incubate – Scale

Innovation is a complicated beast. It's exhilarating to watch it run free– but the real rewards come when you harness all that wild, creative energy. Only when you tame the beast are you able to intentionally, incrementally scale up.

Innovation is a complicated beast. It's exhilarating to watch it run free– but the real rewards come when you harness all that wild, creative energy.

The problem is that scaling isn't inherent to innovation. On the one hand, innovation doesn't scale. On the other, top-down command and control do not innovate. With the two being diametrically opposed, you must carefully transition any capability through its innovation stages, passing through controlled gates that are recognized and well understood by the organization's people. In this way, you can maximize innovation or scale as best fits the maturity of that capability.

At BrainGu, we've broken out the process into three overarching steps: Dream, Incubate, and Scale. By mapping such intentional stages, it's possible to move from structured tinkering to incubation to disciplined scaling. However, each of these stages of innovation is unique. You can't treat the experimental Dream stage the same way as the more focused Incubate stage or the rigorously repeatable Scale stage.

The dream stage is what makes any innovator's heart tick a beat faster. It's all about wild experimentation, ideally with calculated risks. Dreaming means challenging assumptions. This is how wild ideas become nascent unpolished capabilities. At BrainGu, Dream is the stage that most encourages calculated risk-taking and drives advancement by prioritizing experimentation. The team is empowered to try new things, challenge the status quo, and push the boundaries of what is possible– to question the impossible. Is it really impossible?

Eventually, we add the Incubate stage, our transitional step between Dream to Scale. This stage is all about testing and validating with customers. For BrainGu, it consists of controlled iteration in real-world circumstances with real customers. In the Incubate phase, you find some customers who have the problem you're seeking to solve, and engage with them– for example, by bringing them some kind of prototype. Often, it's through customers using a product that you will see how to improve it.

Once you've found that product-market fit, there's the next stage: go to market. That's when it's time to scale up, at which point the scales balancing business versus technical consideration tip in the favor of business. The Scale stage is when you turn the dial way up on the business side of the equation, and the technical side takes the back seat.

Once you reach Scale, you cannot innovate aggressively, because your customer already has the solution, and you can't disrupt that for them. They've bought something; now they're looking for predictability and consistency. They're not interested in innovation.

One of the biggest risks in a stepwise process like Dream, Incubate, Scale is staying too long in a phase. If you get too comfortable in a certain stage, you are never going to achieve the end objective, which is to create value– by which I mean value for the consumer but also value for your company, because value translates to money, and money is what funds innovation in the first place. If you want to get more ideas to the Dream Stage, you've also got to Incubate and Scale the older ones.

While Dream, Innovate, Scale might work for me and my organization, that doesn't mean that it's right for you and your organization. Whatever approach you take to innovation in your organization, leadership will play a pivotal role in both designing and implementing it. You can't just define a process. You have to create the culture.

Leading a Culture of Smart Risks

To prepare for the Scale stage, we scaled up our people. We build out our executive team as well as our frontline staff. This growth continued exponentially for the first couple of years. Because we were in a state of hyper-growth, we were essentially building the bridge while riding the bullet train across it.

We wanted to create a culture of smart risks, because we believe innovation requires a focus on end goals balanced with the freedom to experiment–and experimentation is inherently tied to risk. However, if we were going to achieve that kind of culture, we needed to establish a foundation of trust. It was on us as leaders to promote smart risk-taking balanced with accountability.

Tackling the culture breakdown at BrainGu meant addressing insidious nuances– tiny differences that didn't seem like a big deal but that were actually breeding miscommunication

and, in turn, misalignment and tension. We had to start with the basics and establish a common set of language, tools, and concepts to converge around–centers of gravity that could ground us all. Such consistency was the difference between one single team on the journey to solve a problem together and being a group of people who have similar goals.

In the bigger picture, we also had to give everyone a more well-defined vision to coalesce around. It's important to define success precisely, so people can see the direction to go in. A clear, articulable vision and strategy narrative is the biggest center of gravity in your organization. That clarity of vision minimizes miscommunication and maximizes trust. And without that culture of understanding and trust, you just aren't going to get far. There's the saying that "Culture eats strategy for breakfast," and it's so true. If your organization is culturally dysfunctional, no strategy can truly thrive.

Architecting an Innovation System

After years of ups and downs, including many tough decisions, BrainGu had made the desired pivot. We'd firmly left behind the consulting work we used to rely on financially and were focused on the software platform we had built. Millions of dollars of new business were flowing in, and new customers were signing contracts left and right. Sounds great, right? Unfortunately, beneath the bright, shiny surface, things were starting to rot.

BrainGu has always had talented people. But talented people alone can't sustain an organization. For longevity, you need to embrace tools just as much as you embrace talent. You need to architect an aligned innovation system that works for you, not against you. Otherwise you risk losing focus.

In BrainGu's case, the issue was that we were letting customers bully us into delivering unique customizations that were unsustainable–and sapped our focus, once more. We knew that if we were going to sustain our focus and move ahead as a single, unified organism, we had to create a clearly focused innovation system. We already established the value of having a clearly defined end point when it came to weeding through early innovation ideas. Now we needed to become more intentional about how we moved from ideation to end point.

Today, BrainGu relies on a series of multilayered cycles to move our work forward in a focused way, creating a sort of telescoped calendar of objectives and tasks. We have our overarching vision, the BrainGu mission, which can look as far ahead as ten, fifteen or twenty years. Then we have a five-year strategy that we run as a company, which is further broken down into annual strategies.

This time-based approach to innovation helps us stay on track. We still leave time for the whiteboard scribbling and "mad scientist" brainstorming. But we are consistently reminded of the end goal through reiteration of our annual, five-year, and long-term strategies, ensuring a value-driven approach. We are moving along– but always according to our objectives.

Nothing is truly sacred in innovation. You're inherently disrupting. Just be intentional, strategic and thoughtful about what you are disrupting, and make sure that your disruptive energy is spent on things that create new value, not disruption for disruption's sake. That's how you'll ultimately achieve that often-elusive dream of all big-thinking innovators – changing the world.



John Spencer-Taylor, known as "Spence," has a diverse background in business intelligence, financial systems, and cybersecurity. His journey into the tech world began with a focus on data analytics and automation, leading to various R&D roles in both offensive and defensive cyber realms. In 2012, Spence co-founded BrainGu, a company dedicated to solving complex problems at the intersection of data and cyber. Today, BrainGu builds platforms that enhance innovation efforts in industries ranging from energy and finance to national intelligence and defense. As CEO, Spence combines his passion for creative problem-solving with a broad technological expertise to drive BrainGu's success.

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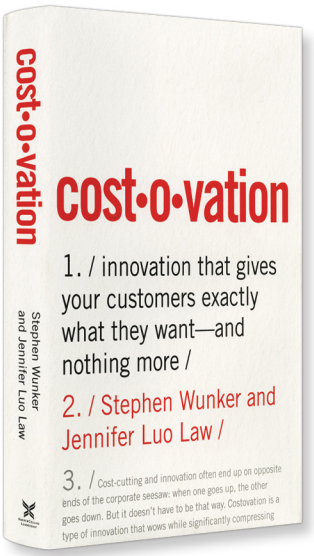
Costovation

Stephen Wunker and Jennifer Luo Law

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Costovation

Innovation That Gives Your Customers Exactly What They Want — and Nothing More



by Stephen Wunker and Jennifer Luo Law

THE SUMMARY IN BRIEF

Cut costs — it's a common corporate refrain. But if you constantly slash expenditures, what happens to innovation? How can you stay competitive and satisfy customers?

Costovation solves the dilemma of how to spend less and innovate more. The book's revolutionary approach broadens the definition of innovation beyond products to the business model itself. With costovation, you let go of assumptions, take a fresh look at the market and relentlessly focus on what customers really want.

Authors Stephen Wunker and Jennifer Luo Law offer cost-innovation strategies that work for big and small companies alike. From open innovation and cost-sharing to simplifying products and turning waste into new offerings, readers learn how rivals are carving out niches, protecting positions and dominating industries.

Innovation and cost-cutting are not opposites. Combined, they expose untapped opportunities to outsmart and underspend competitors. *Costovation* is an indispensable guide for learning how to tap groundbreaking innovation through fresh strategies.

IN THIS SUMMARY, YOU WILL LEARN:

- The value of costovation and why it appears over and over.
- The three most important traits of costovation.
- Great stories illustrating how companies use costovation in different contexts.
- How to know if your industry is ripe for costovation as well as strategies and tips for how to use it.

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THE COMPLETE SUMMARY: **COSTOVATION**

by Stephen Wunker and Jennifer Luo Law

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PART I: INTRODUCTION TO COSTOVATION

What Costovation Is and Why It Matters

Costovation is a type of innovation that significantly compresses costs while still wowing customers. It's about meeting or exceeding customer expectations with less.

To get a better sense of costovation, let's look at an example from the hospitality industry. If you've ever been stuck on a six-hour layover, you know your options for comfort are bare: You can get in line for a shuttle to a local airport hotel (and plunk down your credit card for an entire night's stay), or you can cozy up to a worn-out chair in the airport terminal. Both of those options are depressingly unappealing, especially for the frequent traveler. Enter Yotel.

Yotel is a hotel chain found in international airports like London's Heathrow and New York's JFK. Accommodations are often directly on site within airport terminals, and rooms are extraordinarily small, fitting just a bed and an airplane-like bathroom.

But for time-conscious travelers, Yotel offers exactly what they crave — a comfortable bed, an excellent shower, strong Wi-Fi, proximity to their next flight and fast check-in.

This travel segment is not looking for extra amenities such as a tub, a gym or a pool. And by keeping things simple, Yotel's back-end operations can be exceptionally lean. It uses automated kiosks for check-in and food vending, and it makes the most of its prime real estate by shrinking room sizes to tiny pod-like cabins. These cost savings enable Yotel to offer rooms that are much cheaper than a typical hotel — cheap enough that travelers use it during long layovers. At the same time, Yotel exceeds competitive offerings in critical ways, such as by providing monsoon showers for customers looking to de-grime after a long flight. Yotel runs a low-cost model, but it still nails the core needs of long-haul travelers looking for a quick place to rest and freshen up.

Many industries need a Yotel — a company that excels at offering something at a radically lower price, for a well-defined customer set.

Innovation is typically thought to mean more: more flavors, more options, more features. What makes costovation so radical is that it flips this understanding on its head and says that sometimes the winning approach is to do less. Companies don't deliberately set out to make things complicated. But more often than not, they find themselves grappling with convoluted solutions to pressing problems that don't quite get them where they want to go.

Costovation defies this established thinking and suggests that big innovations can come from decluttering how you think, the way you do things and what you offer.

Here are three main reasons for why costovation repeatedly appears:

- Cost-cutting is never easy, and there's no more fat to trim. Costovation is a different approach to cost-cutting. Here, cost-cutting is not the overall mandate but, rather, a happy byproduct in the journey toward being truly customer-centric.
- Even in markets that feel saturated, there are still unmet needs everywhere. Although it can feel as

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though the world is cluttered with endless services and products, the reality is that many customers and businesses actually struggle with the products and solutions they use today. They complain about price, customer service and the product itself.

- There's a large swath of customers seeking low prices. Even during the long economic expansion of the past decade, many customers have struggled. Many people are under constant pressure to make ends meet, and they need innovation relevant to them.

Companies that excel at costovation share three traits: breakthrough perspective, relentless focus and willingness to blur boundaries.

PART II: THREE TRAITS OF COSTOVATION

Breakthrough Perspective

In 2012, John Zimmer was running a carpooling startup with his best friend Logan Green when they asked themselves a fateful question: If we could do this all over again, how would we do it?

It wasn't that their company was failing. Actually, the opposite was true. Zimride — named not for Zimmer but for Zimbabwe, where the business idea was hatched — had grown at a steady clip in the five years since it was founded. It had coordinated carpools for tens of thousands of students at over 125 university campuses, saving a collective $50 million in vehicle-operating expenses. It was turning a profit.

But the question still loomed over the Zimride founders' heads: What would we do if we were starting over today?

There was one trend in particular that would come to transform the Zimride founders' fortunes: the proliferation of smartphones. With smartphones, carpooling went from being something that you scheduled days in advance to something that you hailed on demand — a revolutionary costovation that made transportation both cheaper and a better experience.

You likely haven't heard of Zimride, but you've certainly heard of Zimmer and Green's second company: Lyft. Five years after Zimmer and Green had their brainstorming session, Lyft was valued at $5.5 billion.

Breakthrough innovation begins with breakthrough perspective. If you see the market in the same way that your competitors do, then you will solve problems in the same way that they do, too.

Businesses pass down lore about the industry and the product category from generation to generation, usually under the labels of "prized company secret" or "commonsense knowledge about the industry." Over time, these become set in concrete. And all it takes is for one company to shed outdated assumptions before the industry dominoes come tumbling down.

Five Methods for Developing a More Unique Perspective

Costovations defy assumptions about the way things should be done.

Based on Soviet inventor Genrich Altshuller's Theory of Inventive Problem Solving, these five lines of inquiry can help you see your industry in a new light.

- **Examine your industry from afar, as if you're wearing binoculars**. Take a step back from your business and try to identify long-held assumptions about the industry that may no longer hold true — or that can be tested. Just because you have always done it that way doesn't mean it is the best way.
- **Study your offering through a microscope**. Concentrate on the pieces individually, instead of the whole. Ensure that every piece of your offering contributes to your overall mission and strategic goals. You'd be surprised how much "stuff" gets grandfathered into companies.
- **Look through your customer's eyes instead of your own**. Companies get bogged down with issues that the customer has no idea about — a shipping container held up in customs, a supplier that wants to renegotiate a contract, a new IT system that is taking forever to install. But that's not what the customer sees, and that's not what the customer cares about. Do your operations truly focus on what your customers care about?
- **Reframe the way you view customers and customer segments**. Instead of organizing market segments around traditional measures like demographic groups or product lines, dig deeper into the jobs that these customers are trying to get done. The result will be fundamentally customer-centric.
- **Rethink the way you view suppliers and other parties in your value chain**. They always say customers may be king, but they are not the only ones in your business ecosystem with jobs they are looking to get done. Explore how you can help other parties in your value chain do their jobs better — and in the process, strengthen your own business.

Relentless Focus: Zoom In!

Now let's zoom into the tinkering, prioritization and detailed trade-offs that companies make as they move toward costovation.

Costovation is about relentless prioritization. If you are trying to cut costs, you can't have it all — and you better have some *vision* and *consistency* in the way you prune. The "vision" part comes from having a clear strategic objective, or a clear business reason for pursuing this new project. The "consistency" part comes from choosing a focal point that you will make your tactical priority.

Setting a Vision with Strategic Objectives

The first step in any innovation project is to know where you are going. What are your business reasons for pursuing this new project? What are you working toward? Clear and succinct strategic objectives are important because they will guide you through the difficult trade-offs and decisions inherent in any innovation project.

Choosing certain strategic objectives means not choosing others. If you choose to compete on price, you may not be able to prioritize selection or speed.

The online shoe empire Zappos, for example, competes not on price but on customer service, offering perks like free overnight shipping to differentiate itself. It also resolved itself to the reality that it will not underbid its competitors, killing any temptations to engage in price wars.

Choosing a Focal Area to Make Your Vision a Reality

Over time, businesses tend to add things, not subtract them. This strategy of continually one-upping your competitors may have payoffs in the short term but, over time, has the tendency to create a competitive field where each player looks strikingly similar to the last. It only takes one smart company to unseat them all with a low-cost offering that satisfies the customer's core needs.

You can resist the natural gravitational pull of premiumization — and avoid random and strategically meaningless innovations — by articulating a clear focal point for your innovation project and rallying around it hard. Your focal point forms the roadmap for achieving your strategic objective.

There are four major focal areas that costovation companies drill in on:

1. Focusing on a customer segment. This means championing a customer type and then designing an offering that satisfies its needs precisely — no more and no less. Ask these questions: How big is the current potential of this segment? What is the growth potential of this segment? What is the potential for disruption? Is there an immediate fit?

2. Focusing on a job to be done. There are two major types of jobs to be done: functional jobs (e.g., "de-grime after a long flight") and emotional ones (e.g., "feel good about my food choices"). Both are strong starting points for costovation projects. To pick a job to be done, ask these questions: Is it a high priority? Is this opportunity large enough to pursue? Having a general sense of this opportunity size is critical information for deciding whether or not to hit "go."

3. Focusing on an area of the business. Costovation can also be focused on a specific area of the business, such as procurement, order fulfillment or post-sales customer support. Companies usually prioritize certain areas of the business based on what is perceived to have the greatest effect on achieving their strategic goals. Ask these questions: Which area of the business is traditionally the most expensive or cumbersome in your industry? Which area of the business creates the most pain points for your customers? Is there more than just one area of opportunity? What will get off the ground fastest in your organization? Look outside your industry. Where do you see operational innovation occurring?

4. Focusing on an attribute. These are outcomes and goals that customers are seeking to meet — such as convenience, price or ability to customize. To pick an attribute, pay attention to attributes that are considered secondary or tertiary in your business. What do customers consider the main pain points for your category? Finally, understand how an attribute can vary throughout your customer base. Attributes can mean different things to different customer segments. Use market-research techniques to assess how important an attribute is and when it matters most.

Willingness to Blur Boundaries: Innovating Beneath the Surface

Now let's dig into the innovation mechanics that happen deep inside a business, and point out areas where costovation opportunities are particularly abundant.

For many companies, innovation is product-oriented. This means that innovation efforts almost always result in a shiny new offering that we can see and touch, like new menu offerings or next-generation car models. Sadly, many of these new products are unlikely to materially

change a company's growth trajectory: Nielsen estimates that for every 100 new fast-moving consumer-good products launched, 85 fail in the marketplace.

The kind of innovation that we usually think of when we think of "innovation" is just the tip of the iceberg. Underneath the surface, there are enormous opportunities for operational innovation that can have profound and lasting impacts on the bottom line.

Here are five areas of the business where costovation opportunities are particularly rich:

1. Costovation in the product itself. Product innovation is splashy and visible, making it easier to get customers excited and stakeholders on board. It is also the easiest to copy. Costovation in the offering itself can take many shapes. Common themes include simplification (often to target a specific customer category's needs) and technological enablement, which uses new advances in technology to address customer needs in ways that were previously impossible.

2. Costovation in how the product is made. This is where we get into the details of manufacturing and assembly. Costovations in this realm help companies make giant steps in the way they make their product — often to make production faster, cheaper, more flexible and easier to customize. *Postponement* (making customization more efficient by delaying it for as long as possible), *modularization* (accelerating build time by working in chunks) and *external innovation* (companies working together to create something new) all find their home here — along with redesigned factory floors, interlocking pieces in the final product and new manufacturing techniques.

3. Costovation in how the product is delivered. This includes everything from how the distribution chain is arranged to improvements in the transportation methods themselves. Costovations in this area tend to fall into three categories: a better way to do what you do now (e.g., leveraging technology or partners); a fundamentally new way to do what you do now (e.g., leapfrogging usual distribution steps); and a forward-looking action plan for answering the big distribution trends of tomorrow (e.g., distribution systems designed for the unique constraints and infrastructure of super-dense megacities in emerging markets).

4. Costovation in how the product is sold. Don't overlook innovating the way you sell. Unlike previous categories in this list, the sales process is a fundamentally customer-facing action. It is a critical part of the overall customer experience and begins the moment the customer learns of your company or product name. Costovations in this area could include new ways to handle payments, innovations in the pricing model and new ways to deploy the sales department. It can also involve new ways for customers to interact with a brand throughout the buying process.

5. Costovation in how the business partners with its ecosystem. Though many businesses exude an "us-versus-them" mentality, the fact is that they don't operate alone. They instead live in rich, lively networks, full of suppliers, vendors and other partners. Each one of those relationships represents an opportunity for symbiosis, such as asset-sharing. When your vendors and partners are strong, you are, too.

A small number of companies manage to innovate not just in one category but in multiple ones simultaneously, bringing to market transformative new solutions. For example, let's look at Picard, a popular grocery retailer in France that sells only frozen food. Freezer meals have a less-than-savory image in the U.S., but Picard's offerings are gourmet — think dishes like Basque chicken, vegetable tartine and specialty sausages with morel mushrooms.

Customers rave about having Picard products on hand for an easy dinner party, for a quick work lunch that still feels elegant, or for a wholesome meal when you're too tired to cook or go out to eat.

How many types of innovation did Picard bake into its business model? At least four:

- **Product:** Picard sells only frozen food. This greatly limits the number of unique items it has to handle.
- **Make:** Products are private label, meaning that Picard can skirt around distribution brokers, brand management and other sources of overhead costs.
- **Deliver:** Twice-daily deliveries enable stores to practically eliminate the stock room, meaning that more store real estate can be put toward customer-facing uses.
- **Sell:** Picard stores are small and tucked into urban areas. The small store footprint means that Picard can hire fewer staff, and shoppers can easily find what they are looking for.

The result is a business model that is difficult to copy, which is invaluable when you're competing in an industry as competitive and unforgiving as grocery. Layering multiple innovations also enables Picard to forge its own pricing standards and refrain from price wars, since it creates new forms of value and offers a combination of convenience and quality that was previously unmatched in the market.

PART III: COSTOVATION STRATEGY PLAYBOOK

Strategies and Tactics

What follows is a guide to putting the ideas of costovation into action. Let's look at several costovation strategies, show how they have been used in different contexts and give practical tips for getting started.

The product and service. Let's begin where most people innovate first: the offering itself. This is the most visible part of your business, whether or not your offering is a tangible item that can be bought on a shelf or shipped in the mail.

One strategy is to use technology to unlock new costovations. You can harness new technology to excel in totally new ways — and at lower costs.

Self-driving cars have captured the imaginations of investors and dominated news outlets around the world. But somewhere off the coast of California, self-driving boats are already a reality.

The Saildrone is a sleek vessel, a tall metal sail perched on what looks like a fancy surfboard. It can operate unmanned on the ocean for weeks at a time. These self-driving boats exist primarily to collect data. As they circle the world, they measure things like the temperature of the ocean, the number of fish in an area, the salinity off the coast of a melting iceberg and the landscape of the ocean floor. Using satellites, that data is beamed thousands of miles away to research scientists working at the National Oceanic and Atmospheric Administration.

Before the Saildrone, scientists collected data slowly and painstakingly. They could raise funds for a full-fledged expedition on a traditional scientific research vessel, but that clocked in at a rate of $80,000 a day. They could launch stationary buoys into the water, but then they had to go back to sea to adjust and retrieve them. In comparison, the daily rate for the autonomous Saildrone is just $2,500.

As you monitor the latest technological advancements — whether breakthrough or incremental — explore what potential uses they may have for both lowering costs and increasing customer delight.

How you make the product. Plenty of innovations also happen behind the scenes, resulting in processes that are faster and less costly — and harder to copy. For example, you can find intention in waste. Reduce waste — or find new uses for it.

The California Cedar Products Company, Cal Cedar for short, is a family-owned company that has been producing pencils in the U.S. for over a hundred years. Starting in the 1960s, Cal Cedar started eyeing expansion opportunities — what else could it do given its assets and expertise in cedar?

Cal Cedar's approach was remarkably down to earth. Instead of investing heavily in speculative technologies, it experimented with what it had: an abundance of unwanted cedar shavings and sawdust. After mixing bits of wood with various wax blends, Cal Cedar invented the world's first manufactured firelog, the DuraFlame. Customers loved that these new logs were easy to light and burned cleanly and attractively. Today, that product generates over $250 million in annual revenue.

Most applications of this strategy involve companies with physical offerings, such as pencils, fruit and candy bars.

Brainstorm a list of the "waste" that your industry produces. Map out what currently happens to that waste, and identify the pain points throughout that process. Thinking broadly about this list, consider how waste can be put to new uses — the makings of a new product, being recycled back into the final product, or other ways to impact product positioning or operations. What value can we add to waste?

How you move the product. Delivery and distribution are yet another area ripe for innovation. One strategy is to zoom in on last-mile delivery. Pay special attention to the costliest step in a parcel's journey.

End customers are usually not aware of the processes and the journey their parcel has gone through before arriving at their address, but one thing is certain: They do factor the speed and accuracy of final delivery into their overall experience. Many companies are investing large sums into revolutionizing last-mile delivery, employing technologies like drones, robots, driverless vehicles, and advanced algorithms and analytics. But innovating on last-mile delivery doesn't have to be a high-tech speculative activity.

Hindustan Unilever, for instance, tailored its distribution channels for rural India. The 16-wheelers that Unilever employs to deliver to big-box stores in Europe are impractical there; these small, remote villages require a new solution. Unilever's response was a program called Shakti Amma, which empowers local entrepreneurs (often women) to sell Unilever products in their villages, having picked up small quantities from their district salesperson.

This line of thinking is especially important for companies selling tangible products that need to be physically made, moved and sold, like office supplies and facial soap. It is applicable in emerging and developed markets, as well as for rural and urban geographies; each of these has its own challenges and unmet needs that demand a fresh new look at distribution.

Draw out the distribution journey map for your products. Identify areas of potential weakness, frustration or inefficiency. Compare how companies in other categories who share your target customers are handling last-mile delivery. Get out of the office and follow a few deliveries yourself. Take careful notes about pain points that arise, and be mindful of the ways that pain points can shift, depending on the context.

How you sell the product. One strategy in this area is to think twice about real estate. Examine how location can be an opportunity area for innovation.

Businesses in many contexts have found ways to bend the cost curve around real estate and location. Food trucks, for example, live a nomadic life free of rent.

United Apparel Liquidators, an off-price high-end fashion retailer that the *New York Times* has called "the best-kept secret in fashion," plants its stores in secondary markets like Hattiesburg, Mississippi and Slidell, Louisiana. In those towns, there is little competition from big retail chains, and image-conscious fashion labels feel okay about "burying the goods" there.

Keep this tactic handy when you are in a crowded category and need to dramatically differentiate yourself, and when the industry or market you are in is accustomed to paying high rents for premium locations.

Engage in a thought exercise: What would a business in your industry have to do to be successful if it were constrained in the location or size of its establishments?

Partnerships with your ecosystem. It used to be that businesses lived and thrived within industry silos, where expertise was narrowly focused. But as markets have evolved and advanced, businesses are starting to look a lot more like nature — that is, living in and interacting with richly networked ecosystems comprising suppliers, distributors, customers, competitors, government agencies and even companies in other categories.

One strategy is to share costs in the supply chain. Apply the sharing economy to your business functions.

In 2008, a social-impact–minded Brit named Simon Berry was working in rural Zambia when he observed three things that took his breath away.

The first was that childhood diarrhea — just a pesky nuisance back home in the U.K. — was positively lethal in sub-Saharan Africa. It was the second biggest killer of children aged five and under. The second was that anti-diarrheal medicines, while very cheap, were consistently hard to find. The third observation was that while medication was in short supply, Simon never had a problem finding a bottle of soda. Even the tiniest retail stores in the most remote locations in sub-Saharan Africa always had a selection of (warm) soda.

Putting these three facts together seemed to write its own solution to a health problem that international aid had long battled. How about piggy-backing diarrhea medication with soda bottles? Through his aptly-named nonprofit ColaLife, Simon designed special wedge-shaped packaging that could slip medication kits into the empty space around the bottles in a case of soda — without adding any significant new weight. This meant that instead of traveling three or four hours to reach a regional health center, a mother could buy a life-saving antidiarrheal kit at the same local store where she bought a soda, for the price of a dollar.

ColaLife's costovation was to share resources with a business with unexpectedly similar goals, which in this case was to distribute products widely throughout sub-Saharan Africa.

Make a list of the basic functions of your business which are replicated by others. Exclude those that provide a competitive advantage. Then summarize areas of excess capacity that could be used in a partnership.

Similarly, identify areas where extra capacity would be quite welcome to your organization. Now, using internal and external contacts, identify companies with common supply chains, customers and distribution channels.

PART IV: THE GREATER CONTEXT

Diagnostic: Seven Signs That Your Industry Is Ripe for Costovation

People often ask, "When is costovation appropriate for us?" No one can predict the future with much specificity. But there are indicators that can foreshadow what is to come. Here are seven signs that often characterize industries before a costovation hits the market.

Sign #1: Expensive features. A significant amount of cost is driven by a handful of features. Costovation response: Isolate the features that drive up costs. Cut back or find ways to improve their return on investment.

Sign #2: Expensive customers. A significant amount of expense is driven by a handful of customers. Costovation response: Adjust your approach to more efficiently serve the "expensive" customers, or make the strategic decision to focus on other populations.

Sign #3: Expensive sales. A significant amount of expense is in sales, not in the product itself. Costovation

response: Find daring new ways to circumvent traditional sales channels, and costovate the way the offering is sold.

Sign #4: Over-standardized product. Output is standardized despite very specialized customer needs. Costovation response: Zoom in on the customer subsets that are dissatisfied or under-satisfied with current solutions. They are your foothold to disruptive innovation.

Sign #5: Over-standardized sales. The offering is sold the same way to all customers. Costovation response: Identify customer segments whose needs are being underserved or overserved by the traditional sales mechanism. Design a new approach that is tailored to meet their core needs (and does not overshoot them).

Sign #6: Cost imbalance. The revenue for certain activities is not proportional to their costs. Costovation response: Stand out in the industry by adjusting pricing to accurately reflect the value being delivered.

Sign #7: Contingency creep. The system is built to cover all conceivable use cases, even those that are rare. Costovation response: Pick your battles and focus on what is the most impactful.

If any of these signs sounds like an apt description of your company or industry — and especially if multiple ones ring true — take a hard look at how costovation can change the playing field for you. If you don't, it may only be a matter of time before someone else does.

How Costovation Fits In With the Rest of Your Strategy

The sheer diversity of ways that companies have put costovation to use is surprising. Here are six ways that companies have integrated costovation into both their growth and defensive strategies and how you can do the same.

Playing offense with costovation. At its core, costovation is a way to *seize unaddressed markets*. Vast ranks of customers are barely touched by products and services today, their needs unmet and in many cases unknown. Costovation is a tool for creating and penetrating markets that didn't previously exist.

Costovation is also used to *disrupt an industry.* True disruptors start on the low end of the customer spectrum, where industry giants often have blind spots. Costovation is a formula for addressing those underserved customers effectively.

Costovation can also be a winning formula for companies seeking to *enter an emerging market*. Designing for these markets should be rooted in a deep understanding of your customers. You may be surprised by the trade-offs that they are willing to make, and how those trade-offs counter norms and industry assumptions found elsewhere.

Playing defense with costovation. Especially for more established businesses, costovation is an important technique for *defending market position against low-price competitors or the possible threat of one*. It's important to continually take stock of where and how your organization may be vulnerable to disruptive innovation and low-priced competitors, and then to formulate a pre-emptive response.

Costovation is also a way to *stay on top of a market amid great macroeconomic, population and demographic change*. The answer to these pressures is not always to run upmarket or even to economize down to nothing. Sometimes it's best to reinvent the offering.

Over the past four decades, average wages in the U.S. have barely kept pace with inflation, despite increasing worker productivity and overall positive economic gain. While incomes for the top 1 percent have grown 138 percent since 1979, incomes for the bottom 90 percent have grown just 15 percent in the same amount of time.

Innovation needs to *address those who aren't gaining economically,* as well as to *build up safeguards against downturns*. Even in times of economic prosperity, make sure you have a plan for inevitable downward cycles.

Businesses like Yotel, Cal Cedar and ColaLife know that cost-cutting can lead to the best sort of innovation. With the principles of costovation, you now have the tools to create your own groundbreaking innovation.

MORE SV CONTENT ON INNOVATION

Summary: *Competing Against Luck* by Karen Dillon, David S. Duncan, Taddy Hall, Clayton M. Christensen. The authors present a new conceptual framework for products and innovation based on their conclusion that customers don't "buy" products or services; they "hire" them to do a job.

Webinar: *How to Thrive in the Era of Endless Innovation* by Jay Samit. In this *Soundview Live* webinar, Jay Samit, a digital-media expert who has launched, grown and sold startups and Fortune 500 companies alike, describes the unique method he has used to invent new markets and expand established businesses.

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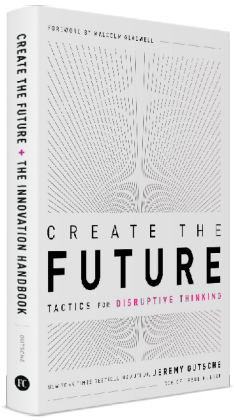
Create the Future

Jeremy Gutsche

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Create the Future

Tactics for Disruptive Thinking



by **Jeremy Gutsche**

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THE SUMMARY IN BRIEF

Jeremy Gutsche is a bestselling author, award-winning innovation expert, and one of the most sought-after keynote speakers on the planet.

In his book, ***Create the Future,*** Gutsche shares with readers the secrets to unlocking true innovation in a powerful and actionable way. He highlights the fact that would-be innovators exist in the most dramatically disruptive eras with a greater rate of change and opportunity than any other point in history, and shares how those who are willing to put in the creative work can grasp some of that opportunity for themselves.

The world is abundant with more potential for innovation than ever, and it's possible to predict many of those opportunities by learning to better decipher the trends in your world. ***Create the Future*** teaches readers how to do exactly that.

IN THIS SUMMARY, YOU WILL LEARN:

- How to unlock the ability to change and escape predictable grooves to influence the world.
- How to foster a culture of innovation that will transform your organization's ability to innovate.
- How to efficiently seek and find opportunities for innovation and strategic advantage.
- How to supercharge the power of innovation through infectious messaging.

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Introduction

We're all currently experiencing history's highest rate of change, disruption, & opportunity. This means you're closer than ever to achieving something more. Your breakthrough might be a new product, service, role, idea, or just a different way of doing something.

The problem is that your ability to change will keep being limited by seven specific traps. Collectively, these traps reduce your innovation potential by 93%. These traps blind you from seeing opportunity and compel you to stick to the path you are already on. This explains why most people miss out on realizing their full potential. It doesn't have to be that way.

There are proven methods you can use to break free, to identify opportunities faster, and to make change happen. In this double-sided book, you will learn the same techniques my team has used to advance the world's highest-performing innovators at Disney, Starbucks, American Express, IBM, adidas, Google, and NASA.

We already have the technology to read the inner voice in your mind, and do a whole host of other 'futuristic' things. These are not far-future concepts. They're possible right now. And with hybridization, instant entrepreneurship, and artificial intelligence, the pace of human progress is about to become not so human at all. Life as we know it is about to change dramatically, and this will create countless new opportunities.

The average lifespan of a large company has fallen from 75 years in the 1950s to 15 years today. If you look at the list of the Fortune 500 companies from the year 2000, more than 52% are now gone or displaced, and that rate of disruption is accelerating.

Ironically, the companies that should be the best at innovation are the same companies that often fail. Fortune 500 brands have all the resources and Harvard MBAs they need to innovate, but somehow that is not what's happening. Although we obsess about innovation, we must be mindful that making change happen is half the battle.

The Ability to Change

Many people will tell you that culture is the most important thing you need for innovation to happen. I used to be one of them.

However, after working with 700 leadership teams and brands, I have come to a deeper realization: whether you are an entrepreneur dreaming of your next idea, an ambitious hard-worker, or a billionaire CEO, the most important trait you need for our fast-moving future is the ability to change.

Master change and you will be in a position to better spot new ideas, act on opportunity, and know how to convince others about your wonderful new vision. The key is to realize that your ability to change is hindered by seven traps that all relate to your expertise. In many ways these traps are like puzzles, because if you understand how they work, you can defeat them to your own advantage.

To break from the path, you must escape seven traps. Over time, it seems that we find fixed paths to travel within, just like those grooved ruts carved by the chariot wagons of the Roman Empire. These are the 7 traps of path dependency.

The Subtlety of Opportunity

When people miss an opportunity in their own industry, it's not because they were blind to new ideas. Typically, smart people miss out because new ideas seem awkward and different. To find your breakthrough, you need to better spot the subtle clues that hint toward great ideas.

Neurological Shortcuts

Our brain becomes fast and efficient by creating shortcuts. These shortcuts enable us to process familiar situations quickly. However, they also cause us to skip steps and miss out. In addition, we become so familiar with how we do something that we become resistant to change, particularly in areas where we have expertise.

The Ease of Inaction

Smart people do not intentionally resist change or adaptation, but we get so caught up with everything that needs to be done that we become less proactive about ideas that are different, are not in our department, or are not our greatest concern. A multitude of factors make it easier for us to lack urgency, and if you can address those factors, you can spark the action you need to create the future.

Optionality

We tend to make decisions that get short-term results, not realizing that certain choices can fix us to the path we are on and reduce our future potential. Optionality is about making decisions that increase our future choices.

The Traps of Success

For evolutionary reasons, we are prewired to be loyal, con-

sistent, and disciplined about our craft. These traits serve us well, enabling us to provide for our families and thrive in organizations. However, these same traits also have a darker side, which is that success makes us complacent, repetitive, and protective.

Linear Thinking

Unfortunately, our human brains are not designed for our exponentially evolving world. We understand that our world is changing, but we assume the next interval of change will be similar to the last. We have a very difficult time understanding the compounding impact of change.

Discomfort vs. Breakthrough

When you finally stumble upon a great idea, you must be prepared to deal with the awkwardness and discomfort of pursuing something that makes you uncomfortable. New ideas are awkward, they require us to change, and we have many traps that block us from seeing their potential. To achieve breakthrough, you must master discomfort.

Our pace of change has not just increased— it's accelerating. That acceleration is being empowered by hybridization, instant entrepreneurship, and AI. Knowing this, the ability to adapt will be far more important than ever before.

Culture of Innovation

Drucker, the father of management thinking, used to say, "Culture eats strategy for breakfast." The concept is that your great idea doesn't matter if you can't put that idea into action and make it happen. Your organization's culture can either enable disruptive thinking or lead to your company's total disruption and failure.

Despite the increasingly rapid pace at which technology is evolving, the true horsepower behind any successful company is its people. Work culture can no longer be an afterthought in today's business world.

Employees today not only expect excellence from themselves, but look for it from within their organizations as well. In the same way that consumers shop mindfully, employees want to work for companies with a purpose beyond profit. Studies show that companies with a clear, strong sense of purpose will attract top talent.

Studies also suggest that organizations with more diversity will retain employees longer. Meanwhile, a phenomenon known as job-hopping is very common among younger people today, most notably millennials. Many of these young people are ambitiously looking for new opportunities and roles that are more fulfilling and meaningful.

Making work culture a central focus of your company will help you retain some of this young talent that can be instrumental in the future of your company.

Opportunity Hunting

Innovation and strategic advantage hinge on the ability to anticipate trends and identify the next big thing. By casting a wide net and clustering ideas, you can filter through chaos to identify patterns of opportunity. This section breaks opportunity hunting into a number of key steps we've learned in our work on more than 10,000 custom trend projects and over 400,000 published articles.

Here are some important questions to ask yourself to help guide your approach to identifying opportunities for innovation that will help expand the potential of your business and vision:

What are the key innovations happening in your industry?

What are the innovations happening in adjacent markets?

What innovations are happening in the world of your target customer?

Adaptive Innovation

Chaotic markets and untamed creativity have the potential to take you dangerously off-course. To increase the consistency of winning, you need to manage your innovation and prototyping in a methodical, adaptive way. This section breaks innovation down into two parts: a set of circular steps, and tactics to manage innovation like a stock portfolio.

The adaptive innovation framework below is a simple process to help you think about innovation in a scientific way. It is important to develop a process that is your own, inserting the right checks and balances to ensure you find your new fields of opportunity. However, the simpler takeaway is that you want to increase your odds of success by approaching creativity with consistency.

Innovation is circular. Like a dog chasing its own tail, you always need to be adapting, redefining the customer need you are trying to solve. Unlike a dog, you will become more intelligent with each spin.

At any given time, the process can be adjusted based on observations from your wonderful trend hunting. Explore, test, gamble, optimize, and be safe.

Questions to ask yourself about adaptive innovation:

How might you add more to the scientific or portfolio management approach to your innovation process?

If you looked at all of your offerings and new ideas, how would you classify them in terms of low-risk, medium-risk, and high-risk? Do you feel like you have enough projects in each category, with the right buy-in and financial backing?

If you evaluated new products not by the likelihood of winning, but by the size of the bet, what ideas might suddenly be more appealing?

Infectious Messaging

We live in a world cluttered with chaos. If you want your innovative idea to break through all the noise, you need a well-packaged story. Fortunately, we've spent a lot of time studying this in our quest to attract billions of views to Trend Hunter's website. By cultivating infection, your ideas will resonate, helping you leapfrog ahead of the competition.

Create something that is interesting to your customers and your product will have the potential to become viral. Meanwhile, you have to relentlessly obsess about your story in order to make your brand truly iconic.

After attracting over 3 billion views, we've learned how to make messages that travel quickly. Our analysis led us to ensure that every article we publish has a title that is: simple, direct, and supercharged.

Simple (Supercharge Word of Mouth): As Jack Welch of GE put it, "Simple messages travel faster, simpler designs reach the market faster, and the elimination of clutter allows faster decision-making. Similarly, author Seth Godin notes that simple messages 'supercharge word of mouth.'

Direct (Answer: Why Should I Choose You?): An outsider should understand your value proposition from just seven words. Your value proposition is your advantage. It's the unique attribute that explains why I should choose you.

Supercharged (The "I Have to Tell Someone" Test): Your seven words should pass the "I have to tell someone" test. If they don't, why would someone else care? You can't expect your message to drive word-of-mouth exposure if you don't give people a supercharged story.

Conclusion

Every morning, write a list of the things that need to be done that day. Then do them. If you want to create the future, the time to act is always now.



Jeremy Gutsche is a New York Times bestselling author, chaos expert, innovation keynote speaker and CEO of Trend Hunter, the world's largest trend platform, with more than 3 billion views total views from 150,000,000 people. Over the last decade, he has helped more than 700 brands, billionaires, CEOs and NASA in the quest to make innovation and change actually happen. Routinely sourced by the media, Jeremy's appeal ranges from The Economist and CNN to Entertainment Tonight.

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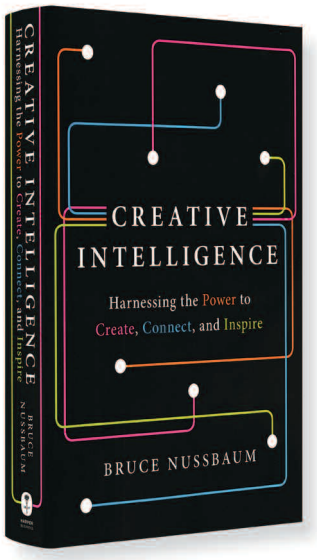
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Creative Intelligence

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Creative Intelligence

Harnessing the Power to Create, Connect and Inspire



by Bruce Nussbaum

THE SUMMARY IN BRIEF

The world is quickly changing in ways we find hard to comprehend. Conventional methods of dealing with problems have become outmoded. To be successful, one can't just be good; one must also be a creator, a maker and a doer.

In *Creative Intelligence*, innovation expert Bruce Nussbaum charts the making of a new literacy — Creative Intelligence, or CQ. From corporate CEOs trying to parse the confusing matrix of global business to K–12 teachers attempting to reach bored kids in classrooms, Nussbaum shows how CQ can become a powerful method for devising solutions and a practical antidote to uncertainty and complexity. It's a skill set that explorers have tacitly used for eons but that is explicitly revealing its secrets to us only now.

Nussbaum investigates how people, organizations and nations are learning to be more creative and the ways in which those groups are enhancing their CQ. He offers five new creative competencies — Knowledge Mining, Framing, Playing, Making and Pivoting — to help individuals and organizations learn to create routinely and well.

Smart and eye-opening, *Creative Intelligence* helps boost creative capacity and inspires us to connect our creative output with a new economic system called Indie Capitalism, where creativity is the source of economic value, entrepreneurs drive growth, and social networks are the building blocks of the economy.

IN THIS SUMMARY, YOU WILL LEARN:

- How Indie Capitalism is fast becoming the new model.
- The five creative competencies of Creative Intelligence and how to cultivate them.
- Why the New Economy of the early 2000s, based on efficiency and control doesn't work anymore.

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THE COMPLETE SUMMARY: **CREATIVE INTELLIGENCE**

by Bruce Nussbaum

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For additional information on the author, go to www.summary.com.

PART I: RECLAIMING OUR CREATIVITY

Strokes of Genius Are Not What They Seem

In 1959, a young man from Kent, England, was expelled from high school after skipping assembly. "We wanted to have a smoke," he recalled, "so we just didn't go." He'd never been much of a student — even as a boy, he'd hated school.

The boy devoured music by all the greats: Little Richard, Fats Domino, Elvis. And he had a talent for drawing; it was his art teacher who noticed and helped him get into Sidcup Art College. Even at Sidcup, though, the boy didn't play by the rules. While classes were being held down the hall, the boy and his peers were teaching each other fingerboard work. In 1962, the boy dropped out, moved into a flat with his friend, and together, they formed a band. His name was, of course, Keith Richards, and his collaborator and friend was Mick Jagger.

It goes without saying that Richards and Jagger are two of the most creative individuals of our time, but perhaps not for the reasons some might think. We know that Keith Richards did not write "As Tears Go By" alone, but with Mick Jagger and only after Andrew Loog Oldham, their manager and producer, pushed them into a kitchen and told them not to come out without a song.

That revelatory moment when the two began writing lyrics might have seemed like a stroke of genius, but it was actually a natural result of years of study and hard work: they learned to do what they love in a different kind of classroom — not by memorizing the right answers to an old test but by playing together to generate something new. "What I found out about the blues and music," wrote Richards, "was that nothing came from itself. As great as it is, this is not one stroke of genius. This cat was listening to somebody, and it's his variation on the theme. And so you suddenly realize that everybody is connected here. This is not just that he's fantastic and the rest are crap; they're all interconnected."

Richards' story reveals that we all have the capacity to be creative. We just need to search a little deeper to bring it out. Indeed, we have been searching for the source of creativity for some time. ●

The Search for the Secrets of Creativity

At *BusinessWeek*, we put in a massive amount of work and effort to covering innovation over the years. We wrote hundreds of stories about innovation successes, compiled scores of lists, and congratulated ourselves on really covering innovation. And then I stepped back and really looked at the results.

Thousands of public and private companies launch innovative products and services each year, but only a tiny sliver of that group ever showed up. To add insult to injury, the one company that everyone agreed was the most innovative didn't fit any of the traditional measures; that was, of course, Apple. Apple spent very little on R&D; it didn't have a formal innovation "funnel" process with established procedures; it made just a few things, and it was run by an imperious CEO and a small band of followers.

Frustrated, I began asking around, starting with my contacts at a number of consultancies whose job it was

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to help existing companies become more creative. They were reluctant to talk about it at first, but eventually, they began to share the same surprising truth: They had an incredibly low success rate when it came to helping companies usher in the kind of transformative innovation they were seeking. The heads of two top innovation firms would tell me that of the hundreds of projects they worked on each year, only a handful actually worked.

Why were all the hugely disruptive innovations coming out of left field? Why were companies that were spending money and time on all the right things failing to come up with the same kinds of life-altering products and services that some twenty-somethings could with zero budget? I began asking myself not only, "What are we measuring?" but also, "What aren't we measuring?"

Cracking the Code of Creativity

In 2010, I joined a remarkable group of design thinkers at Stanford for the Future of Design Conference. The goal was to go beyond the design thinking paradigm that worked well enough but that many at the conference felt just didn't scale. In the intense discussions that took place in those two days, some new terms emerged — "design intelligence" and "CQ," or "Creative Intelligence." Assessing this kind of intelligence was important. But how do you do it?

When society is safe and stable, what we need most are the tools to make things a bit better, more efficient. When technological, political and environmental shifts threaten the status quo, what we need most are the tools to make things sharply different, radically new. We need to be less incremental and much more creative.

And yet, the prevailing view on creativity is psychological, mental, brain-centered and individualistic. We tend to believe that creativity comes through the individual and is expressed only by the individual.

We need to go further. We need to stop searching for some magical place in the brain where creativity resides. We need to believe in our own abilities to create and to improve upon our creative skills by teaming up with the right people. We need to stop studying creativity just in labs — and recognize that it's all around us.

We were trained to deal with a world of predictable futures, but the future — both the good and the bad — is anything but predictable. We're living in an "I don't know" world where we can't fathom the problems to come, much less the answers. We need to prepare ourselves for jobs that don't yet exist using technologies that haven't been invented to solve problems that we haven't recognized.

The five competencies of Creative Intelligence aren't simply best practices for organizations to transform themselves; they are tools that can help you plot a career path if you're young and to transform your career if you're not. They can also help us generate the kind of jobs, businesses and revenues that the nation so desperately needs today.

The Five Competencies of Creative Intelligence

Knowledge Mining. Today's most creative entrepreneurs, thinkers and artists are in touch with what's truly meaningful to people — starting with themselves. They use their own experiences and aspirations as a starting point for dreaming up new companies and technologies. They go straight to the source and partner with people who are more embedded in the culture than they are. They are skilled at connecting information from various sources in new and surprising ways.

Framing. Framing is a focal lens that can guide us through the vagaries of a volatile world. Understanding your frame of reference as it compares with other people's is a key strategy no matter your aspirations or industry. People who understand framing techniques are able to recognize where they stand, when they need to refocus their lens, and who else needs to be in the picture.

Playing. Playing is a complex behavior that is driving the creation of life-altering technologies and companies. Creativity can be found in many kinds of spaces where people are given permission to play games, make up new rules and discover different ways of winning. New research is showing that playing can be a superior alternative to a problem-solving approach to innovation. Games are the perfect organizational structure for learning.

Making. Making is perhaps the most surprising and exciting shift to arise in our global economy. After decades of rewarding mental agility, we are experiencing a maker's renaissance. Americans want to make things again. Thanks to a whole host of new technologies and the democratization of the tools of creativity — from Photoshop to 3-D printers to Behance — we're doing it.

Pivoting. Pivoting from the inception to the production side of creation is the final of the five competencies. Truly creative people don't stop at the idea; they make the pivot into creation. Google, Facebook, Zipcar, Wikipedia and Kickstarter were all founded by individuals, not big corporations. Pivoting often requires charisma and a relationship with the community of people invested in your project: team members, partners and a devoted audience.

Together, these competencies give us a new foundation to build a more vibrant kind of economic system. People with Creative Intelligence are ushering in a new way of doing business, one that's more in keeping with the origins of capitalism than the finance-based model of the last couple of decades. I call it Indie Capitalism because it is free of many of the constraints and notions that we commonly associate with the economy. ●

PART II: THE FIVE COMPETENCIES OF CREATIVE INTELLIGENCE

Knowledge Mining

Steve Jobs followed his own path, and the insights he had along the way set him up to make surprising connections down the line. We don't need to leave it up to fate to make those connections. Serendipity affects how and when we connect different ideas to produce new ones, but there are behaviors we can learn to better facilitate these connections. This kind of "Knowledge Mining" can involve studying what came before, as Jobs did with calligraphy classes, or "mashing up" seemingly unrelated knowledge to create something new.

There are several different kinds of knowledge mining. They include:

Embodiment. Embodiment involves becoming aware of knowledge and skills you may not have even recognized as creative and putting them to use in new and surprising ways. Embodiment begins with knowing who you are, what cultures you belong to, and what you want to create in the world. We often don't see this as knowledge because it's something we understand intuitively rather than something we were "taught."

When it comes to embodying the values of a generation, a gender, a culture or even a region, you can't be an immigrant. That doesn't mean that you can't participate in the rituals of a culture, but accept your outsider status, and be willing to partner with people whose insider knowledge exceeds your own.

Immersion. Not all of us want to remain in the culture we were born into. We want to explore new places, meet new people, and try out new ways of life. For those who don't already embody the values of a group we're trying to reach, we can team up with those who do or immerse ourselves in learning about that group's beliefs and habits.

Connecting dots. The first step toward building bridges that connect seemingly unrelated islands of knowledge is often as simple as looking at what you or others have done in the past and thinking about how you might expand on that to create something entirely new. But you do need a strategy. You're not born with a great ability to connect dots. You learned. The anxiety many feel about creativity often stems from a belief that we need to create something from nothing. We don't.

Donut Knowledge. Sometimes what's not there is more important than what is. Donut knowledge is the ability to see what isn't there. How do you gain donut knowledge? The simple answer is time. The more you know the pattern, the better prepared you are to see where it breaks.

Dreams, Not Needs. We frame commerce and society in terms of needs, but that kind of framework is limited. What makes humanity unique are the dreams that are much deeper and more complicated than mere necessity. No one needs an iPhone or a Zipcar, and yet, these products have become as meaningful to us as the homes we live in or the food we eat. ●

Framing

We all hold a number of beliefs about the world that color our interpretations of people and events. These "frames" are there whether we are aware of them or not, and people with creative intelligence have a knack for turning frames a bit to the side, spinning them around, or maybe tossing them all together, changing the way we view the world and our place in it.

How do we break out of our ingrained habits and dare to try something different? We can begin by understanding that we interpret the world through specific lenses — and it's within our power to change our glasses.

Narrative Framing. Reframing is about breaking routine. We tend not to think about the narratives that structure our lives. We take the frames we were born into — and even the ones we've created for ourselves — for granted. If you are enmeshed in narratives that don't work, changing your frame just may be the first step toward changing your life. Stories themselves exist within a larger framework — their meanings are dependent on the way they're being told, who's telling them and why.

Engagement Framing. Examining the many engagements in our lives can lead to the creation of deeper, more meaningful interactions. We now share more deeply, more widely and more publicly than ever before. And we have many more roles to play. Understanding how people frame their engagements allows individuals and organizations to be more creative on their feet, more deftly navigating the sea of interac-

tions we have each day, both traditional and modern. We are seeing our frames of engagement shift from passive to active, transactional to relational, impersonal to very personal.

What-If Framing. Asking "What if?" is the final and perhaps most exciting kind of framing. It's a way of challenging our understanding of the world as it is and can be. By pushing yourself out of your conventional narrative and engagement frames to think about what might be, you're forced to look deeply at your habits, biases and beliefs. What-If Framing is radical blue-sky framing, a provocation to go beyond what's known. At its best, the strategy challenges us to imagine the unimaginable.

Knowing that you have the power to frame your interactions in your place in the world opens up opportunities to interact with people in new and creative ways and to rethink the way you see everything. ●

Playing

For centuries, musicians, painters and dancers have utilized the strategies of play to create masterpieces. Though there are countless ways of playing, play can be defined as tossing aside the rules of "regular life" for a period of time in order to follow new rules or try new possibilities. It can exist within the structure of a formal game, but it doesn't have to.

We often aim to achieve a goal, but sometimes we play simply for the joy of it. Playing can involve strategies — some simple, some very complex. Some games teach you everything you need to know before you begin; in others, you learn to play as you play to win. We throw away what doesn't work and build on what does. We can play alone or compete against someone else.

War games continue to be an essential part of U.S. military strategy and training. Where military strategists have gone, economists and business thinkers have followed. The most prominent economic thinkers have used games as a metaphor for capitalism for over a century.

A clear theme emerged in many of the discussions I had with leaders of some of the most creative organizations out there: simple, silly play on its own doesn't lead to innovation. The best ideas emerged out of a process that involved a variety of players who trusted one another working together toward a specific goal.

Problem-solving approaches work — but only when you know the problems. Today there are so many "unknown unknowns" that we don't know the questions we should be asking, let alone the answers. Playfully discovering new answers to puzzles that do not have one right answer is a better approach than solving existing problems that do.

Play triggers competition and cooperation, tenacity and joy. When people are playing, they take risks they would not ordinarily take. They experience failure not as a crushing blow but as an idea they tried that didn't work.

Build Your Own Games

There are many different kinds of games, but game designers frequently distinguish between two kinds: simple and complex. Simple games include puzzles, and like *The New York Times* crossword, they do not change as a consequence of the decision you make. Puzzles are simple to solve, they often are played alone, and they have exactly one solution.

Complex games, however, are a different story. They are open systems; players receive information from each other and often from outside the game. Complex games mirror the volatility, uncertainty and ambiguity of the real world, which is why understanding them — their rules and rituals — is a compelling strategy for meeting the challenges of our lives today. Walk into many science or engineering labs, hot design studios or product development departments, and you will find people playing. ●

Making

In 2007, just before the biggest financial crash since the Depression began, 41 percent of all U.S. corporate profits went to Wall Street investment banks, commercial banks and other financial institutions. This was astonishing. By the first decade of the 21st century, finance was no longer just the fuel powering investments but also the motor, the gear shifts and the steering wheel of the entire economy.

And so it was only natural that many of our best and brightest flocked to the industry where the action — and the money — was. So complex were the models created by the Wizards of Wall Street that few bank CEOs actually knew what they really were or, more important, how much they were worth. We all know how that turned out.

It wasn't supposed to be like this. Placing our trust in the experts in finance and trading was, we were all told, a crucial part of the New Economy. When *BusinessWeek* ran a cover on the New Economy in 2000, it was a celebration of technology, finance, strategy, consulting,

sales, service and experience. The message was that we should ship all our manufacturing overseas and concentrate on higher-level, value-added information activities. Using your head, not your hands, was considered a higher evolutionary state of affairs.

As Americans began to feel the effects of the Great Recession, it became clear that the economic benefits of the New Economy disproportionately went to a tiny elite. We witnessed an inequality gap that hadn't been as wide since the 1920s. Alternative ways of thinking and doing had begun springing up around the nation. Craft became popular again. Generation Y begin to use digital tools to make a variety of things, from hand-bound books to independently produced web series, and 3-D printing tools can print out different kinds of objects in a variety of metals and plastics. The new "maker movement" is manifesting itself in so many ways that it's easy to miss the overall trend.

Making involves learning the tools that can help us bring creativity to life. Diving into the Making stage of the creative process is hugely rewarding. Making and crafting things personally and locally have prestige and status once again.

Local Goes Global

It's not just startups that are adopting homegrown values. The go-local philosophy is beginning to shape the strategy of huge global corporations as well. General Electric is about as global as you can get, with 60 percent of its revenues coming from Asia, Europe, Latin America and Africa and 54 percent of its 287,000 employees working outside the United States.

Only after the financial crash of 2007 did CEO Jeff Immelt change GE's strategy to focus less on finance and more on making. GE is spending $1 billion to bring manufacturing back to its plants in Louisville, Kentucky; Bloomington, Indiana; and Decatur, Alabama.

Water heaters and washing machines now made in Asia and refrigerators currently made in Mexico will be on assembly in Louisville. Why the shift to "reshoring"? Lower prices for technology make manufacturing at home in the United States easier. And rising wages in China, Mexico and other suppliers coupled with falling wages in the United States have made it more advantageous to make things in America. And perhaps most important, being close to customers who increasingly want to participate in the design of their consumer goods makes manufacturing across oceans and time zones problematic.

Companies have been outsourcing for so long that many managers assume it's the best way to make things. A whole generation has grown up with outsourcing as its primary manufacturing model. But now that labor and energy costs in China are rising, and technology and manufacturing costs in the United States are decreasing, it's a perfect time to ask some simple questions: If we wanted to make things in the United States again, how would we do it? Are there still suppliers in this country that we can count on? My guess is that there will be a lot of surprises, that people who ask these questions will discover that a significant amount of the knowledge has survived the wide-scale shift to global manufacturing strategies. ●

Pivoting

The pivot from creativity to business creation is one of the strongest economic forces of our time, but it isn't just happening with the fields of design. There is an explosion of entrepreneurialism in America today, especially within Generation Y.

The word "pivot" is often used in Silicon Valley to describe the move from one idea to another in the early stages of a startup. Often founders start out with one idea only to "pivot" to a second or third before hitting on the product that brings them great success. Pivoting is the scaling of creativity that's essential to creating new products, new models for business and nonprofit organizations, and even entire industries.

No matter your field, your pivot network is key to getting your idea into the world. The first customers of most architects, artists and startup founders, for example, are often their parents or friends. With certain companies it can make sense to "rent" space on a sales platform such as Etsy, Amazon and eBay. Your goal is to take your original creation and find others who see value in it and are willing to supply resources to bring it to life. You can crowdfund your ideas and get them in front of millions who might be willing participants in your dream.

Charisma is not central to any economic model, and yet, it is often what helps innovators bring their idea beyond the moment of conception and into the lives of people. We see the charismatic person as if with an internal light, that rare person who "has" it because he or she is born with it. But that view of charisma doesn't hold much water at a time when even the shyest or geekiest among us can make a YouTube video that attracts a massive audience of followers. Where, after all, would the charismatic leader be without loyal followers?

Charismatic leaders understand that the relationship between a leader and the community involves an exchange. What binds charismatic leaders to their fol-

lowers is the promise of a gift that gives meaning to their lives. Charisma starts with your calling. It often takes months or years to develop the confidence to present your ideas and yourself in a way that truly grabs people and makes them want to be involved. The challenge is to find your own personal kind of charisma.

Pivoting: Turning Your Idea into a Game Changer

No two people will have the same pivoting strategy. For some, pivoting might begin the moment you decide to go from knitting scarves for your family to setting up an online storefront. For others, it can happen when you get enough funding to hire 30 more people to join your startup.

Pivoting should play an important role in any organization's strategy. That means not being afraid to step away from hierarchical models in order to facilitate innovation and giving people more control about how they team up and partner. It means hiring or training in-house wandering managers who can help employees bring their ideas into being. These wanderers should have experience in the design or creation of products, not simply in managing. they need the right blend of vision, discernment and domain knowledge — an understanding of the company or industry's past and a willingness to drive it into the future. ●

PART III: THE ECONOMIC VALUE OF CREATIVITY

Indie Capitalism

In May of 1970, Eugene Fama, a professor at the Booth School of Business, published an article in the Journal of Finance that would take Adam Smith's theory of the "invisible hand" to new levels. What was missing from the efficient market theory was uncertainty. By excluding uncertainty and focusing on measurable risk, the efficient market theory (EMT) model of economics assumed and reinforced a culture of control.

This would have important consequences for creativity, innovation and economic growth over the next decades. It is, after all, uncertainty that forces us to look for opportunities to create new things that have new economic value. Like artists, entrepreneurs thrive within a culture of chance, not a culture of control.

The financial crash has, of course, tarnished the efficient market theory. There is recognition that the model didn't work as promised. By the middle of 2012, even the bankers themselves were admitting the model was a failure. The model has taken a devastating toll on innovation. Because creativity is not considered a key variable, there is insufficient reward for it in big corporations and little pressure to provide incentives for innovation from government. Creativity and innovation are shunted to the periphery of the economic system.

In 2009, the futurist Paul Saffo predicted that a new "creator economy" would replace the industrial and consumer economies. Saffo's term captures the rise of active consumer participation in the digital economy. There are, however, deeper and wider changes under way that are transforming the economy. We are becoming makers again, intent not simply on consuming. We are becoming more local, placing more value on national, state and neighborhood sourcing, design and manufacturing. We are becoming more entrepreneurial both online and off. I believe what we're beginning to see evidence of is the birth of a movement I call Indie Capitalism.

"Indie" reflects an economy that is independent of the prevailing orthodoxies of economic theory. It shares many of the structures of the independent music scene, which shuns big promoters and labels.

Indie Capitalism emphasizes the economic value generated by the creation of new products and services:

Creativity is the source of economic value. Creativity transforms what money can't buy into what money can buy. It taps our aspirations and turns these hopes into products and experiences that have economic value.

Uncertainty is the state of social and economic life. Accelerating volatility, complexity and ambiguity are a constant state of economic life, not an aberration. Uncertainty provides opportunities.

The entrepreneur drives economic growth. The entrepreneur, motivated by a calling to create something new or better, generates innovation, growth, jobs and, ultimately, profits.

Capitalism is a social movement. It exists within a social context that makes it dynamic, vibrant, uncertain and ever-changing. A familiarity with the rituals, rites, behaviors and values that people find meaningful is key to entrepreneurial activity.

Social networks are the basic building blocks of the economy. People belong to a large and growing number of real and digital economies and play a vast number of roles: consumers, investors, designers, co-creators, makers and collaborators. Significant economic value is generated as a result of the engagements people have within these social networks.

The contours of Indie Capitalism are already in sight at the edges of our economy. There is still much work to be done to overcome widespread belief in old and stale models and ideologies. ●

What's Your CQ?

My close friends have a 4-year-old daughter named Zoe, and my hope is that by the time she applies to Stanford (and she will), the university admissions office will have developed a methodology to assess her Creative Intelligence. Perhaps by then, we will have comparable "CQ assessments" for children around the world, paralleling the current global measures on math and science.

Creativity doesn't appear to lend itself to metric measurement at this point in time. Perhaps in the future, we might be able to come up with an algorithm that works. For now, we need qualitative measures.

The Juilliard process includes both planned and spontaneous performances. The professors look at technique as well as risk-taking, skill as well as learning ability, solo performance as well as ensemble work. All these categories are assessed by a small jury of experts who, based on their own domain knowledge, determine the best candidates. This method of assessing Creative Intelligence can be found throughout society. Creativity is assessed using portfolio and performance criteria every day.

At IDEO, one of the most innovative consultancies around, portfolios are presented in several forms. They can be movies, interactive games or sites, visual imaging or even just the written word. For members of Gen Y, portfolio works particularly well. IDEO, like Google and a growing number of companies, gives performance challenges right at the interview. Spotify has a page of puzzles that assess problem-solving abilities, which it encourages prospective employees to try.

What can you as an individual do to boost your Creative Intelligence? Reflect on what you are good at. Most of us don't know how to evaluate our own creative competencies. By framing skills differently, you can utilize them in countless creative ways. Start keeping a portfolio. It could begin as a journal that contains your ideas, notes, sketches and work.

The challenge ahead of us is not to invent new forms of assessment for creativity. We've already done the hard work. What we need to do now is apply the models that are all around us to our own personal lives and businesses. We need to move the way we assess creativity from the periphery of our lives to the center of our society. ●

Epilogue: Rethinking Creativity

In August 2012, Apple became the most valuable company in history. Its soaring stock, which hit $680 per share, pushed the company's market capitalization toward $700 billion. Just a year before, ExxonMobil had been at the top of the pyramid. Of course, Microsoft had been number one back in 1999 at the top of the Internet boom. And General Motors and IBM had once been dominant in their day as well. But unlike that of previous corporate achievers, Apple's value did not rest on energy extraction, manufacturing or even technology. Apple is the first company to become "most valuable" because of its creativity.

In pricing Apple so highly, the market is beginning to value creativity in a new way. It is recognizing, perhaps for the first time, that the greatest economic value can now be found in the kind of originality that engages us, satisfies our aspirations, and empowers us to make our lives better.

We need to heed this message. On a policy level, the increasing value of creativity bolsters the idea of an economic system based on innovation. It makes even clearer that Washington should be focused on promoting creative skills in the classroom and entrepreneurial ventures in the business world. This is a very different agenda from the one we currently have.

In practicing creativity, in using our Creative Intelligence, we can build better careers for ourselves, new kinds of businesses, and health and education systems that make sense in the 21st century. We can reinvent and revitalize our capitalist economy and take it to the next level. It's a liberating and exciting prospect and maybe, at times, even risky. But what else are we here for if not to create a better world than the one we inherited? ●

RECOMMENDED READING LIST

If you liked *Creative Intelligence*, you'll also like:

1. ***The Accidental Creative* by Todd Henry.** Henry teaches practices that support your creative process and help you focus on your most critical work.
2. ***Disciplined Dreaming* by Josh Linkner.** Learn how to create profitable new ideas, empower all your employees to be creative, and sustain your competitive advantage over the long term.
3. ***Borrowing Brilliance* by David Kord Murray.** Murray proposes that the best way to come up with the next great new ideas is to borrow from the best of what already exists. Murray uses examples from a variety of industries to show that innovation is an evolutionary process.

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Creative Together

Steven Kowalski

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Creative Together

Sparking Innovation in the New World of Work



by **Steven Kowalski**

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THE SUMMARY IN BRIEF

The world changes quickly, often right before our eyes. In the vast landscape, our creativity is what sets us apart from all the rest. Venturing into the unknown is often a foreign concept for most of us, especially in life and business – we aren't too keen on moving out of our comfort zones. In ***Creative Together: Sparking Innovation in the New World of Work***, Steven Kowalski talks about how connecting more deeply with creativity can help us navigate the opportunities and challenges that are right in front of us.

Through the GIFTED methodology (Greet the unknown with passion, Ignite your creative potential, Flex your superpowers, Thrive in co-creation, Experiment in the swamp, and Dare to dream big), Steven explains how to overcome Creativity Disruption Disorder (CDD), a disorder of our mindset that comes from believing an old story about what creativity is and who we are as creators. By using this guide, you can begin navigating the new world of work.

IN THIS SUMMARY, YOU WILL LEARN:

- That your creativity is always with you – it never left.
- How to intentionally use your creativity to achieve more.
- Implementing creativity into your leadership.
- Working together to use creativity to achieve greater things.
- How you can use creativity for the future.

Introduction

All of us have creativity inside us, although some of us have not unlocked the true potential of this power. If we want to spark innovation and bring the full power of our creativity to the table in the new working world, we have to be willing to expand and co-create as we embark on new journeys of discovery and adventure.

Using the GIFTED methodology, you can learn how to embrace what others are already embracing – a new story using this very methodology to invent, innovate, and transform their work and their lives. By learning to work with your creativity, you can spark innovation, even in collective pursuits. Once you claim the potential locked within yourself, there is no turning back because the possibilities will be endless and opportunities will open up.

Adventure One: Claiming Your Gift

Overcoming CDD starts within. We must explore our relationship with our creativity, challenging the old story we tell ourselves about what it is and how it should function. The process is a foundation for a fuller expression of creativity in our work and life. Once you claim your gift, you learn to greet the unknown with passion, ignite your creative potential, and flex your superpowers to navigate the tests that show up on creative quests.

1. Discovering Your Creative Potential

Our creativity is with us, but for some it is locked deep inside. Approaching creativity as a potential instead of an ability transforms who we are as creators and how we show up in the world. When you understand your creativity as potential, important shifts take place in your life (and work).

The first – your purpose becomes more critical. When your "why" is weak, so is the creative potential. The importance of your purpose is what fuels the intensity in which your creativity shapes and guides what is needed in any specific circumstance.

The second – letting go of comparison and judgment. We have been brought up to compare creativity, but when we let go of this preconceived notion, we begin to see the true potential our creativity brings to the table at any scale.

The third – gain greater access by choosing to activate creativity more often. The more you engage creativity openly, the more opportunity you have to access its power. Instead of narrowing the definitions of creativity, we can expand upon them, drawing from other creative forces within our circle.

The fourth – giving up elitism and gaining connection. The ability-based approach is unequal, whereas a potential-based approach identifies everyone as creative without the need to compare. Connecting with others out of genuine curiosity for who you are, who they are, and what everyone brings to the table unlocks the true potential of creative expression.

The fifth – giving up victimhood and gaining responsibility. Accountability becomes a critical factor in how you actively engage, ensuring you have meaningful and compelling purposes to drive creativity. You begin to cherish the diversity of how people activate their creativity and the uniqueness each one brings to the overall creative contribution.

2. Activating Creativity

There are three powerful forces behind the decisions and choices that are made – purpose, possibility, and constraint. Purpose is the most powerful force of all, giving rise to conditions that call for creativity and generates the gravitational pull that gets things going. Possibility opens us up to imagine and is essential when taking a leap of faith, especially in a world you haven't been to. The further you venture into the unknown, the more possibility thinking you will need. Constraints shape the landscape of our discovery, forming guardrails, limiting the flow of action, influencing sequencing, and impacting the time horizons that shape our possibility. Not all constraints are non-negotiable, but it is best not to change the ones that play a significant role within the new work structure.

3. Greeting The Unknown

The unknown can be intimidating, depending on how you approach it. To meet it with maximum potential, you must cultivate a mindset of experimentation instead of one of achievement. Try viewing your efforts as an experiment, this allows you the freedom to find new allies, pause when necessary, reflect, and assess the progress as you push out from the boundaries of the known frontier. When you combine discovery with conscious creativity and learning, the results are often remarkable – innovation and the generation of the new value that follows. You become better positioned to learn more quickly from mistakes and shape where you are headed.

4. Flexing Your Superpowers

Once activated, your creativity gives you four superpowers

– creative license, questions, seeing beyond, and learning. These gifts animate and amplify your creativity in life. They are crucial to navigating the tests you face in any quest, teaching you how to flex and strengthen them, transforming you and the new world within your sights. Not all of these superpowers will be easy to engage and requires a great deal of practice to really get the most from each one.

5. Navigating Tests

Your creativity doesn't come without its own set of tests and trials you must overcome and learn from. Whether it be the blank canvas, mistakes and failures, time and timing, obstacles, or the swamp – each one brings its own set of lessons in which you can learn from and achieve more. These tests are vital steppingstones you encounter on your journey toward a more conscious, fulfilling, and creative life. You can't avoid these tests, they are inevitable, especially when aiming for innovative results that depart from the status quo. When these tests appear, you can be prepared to greet them, allowing you to cross the threshold and become anew.

6. Stepping Across The Threshold

No matter the circumstances in your life, you are in control of creating the outcome. You are making choices, gestures, succeeding, failing, and finding new paths that gather experiences and learning from them. Your creativity is a gift, and you get to take your gift out into the world. When you do take this gift out into the world, it opens the door for more effective co-creation, which sparks innovation and increases success on your next adventure.

Adventure Two: Getting Creative Together

Once you identify the inner work you need to do, you can begin to realize the benefits. You can begin taking your gift out into the world to create more effectively within social systems. You have to let go of the idea that you can create alone – you must go out and share the gift of creativity. Strength, especially when faced with true upheaval and uncertainty, comes from creating together. This requires you to thrive in co-creation, experiment in the swamp, and dare to dream big when working to bring conscious creativity into collective pursuits.

1. Identifying Your Creative Style

Coming to understand the patterns, habits, and behaviors of your style, you gain access to new choices and new possibilities. Instead of adapting your creative style, you can get to know it better and adapt to what it means for you.

2. Co-Creating

When incorporating co-creating, it requires developing a shared dream. Having a meaningful purpose activates your creative potential. While this seem like an easy feat, it can be a journey trying to explore the unknown together. When being co-creative, it requires that everyone stand together and bring all creative forces together – but you have to check your ego at the door. The more collective your creativity, the further the efforts will go, bringing about different outcomes.

3. Adapting Your Style

Your creative style is more than just how you bring your ideas into the world, they are also a driving force for you. In order to use your style to your advantage, you have to learn the best ways to adapt. The best way that really adapt is to practice – use your style to your advantage by creating a practice plan. The plan should help you focus on how you can let go of control and co-create the work, ease the sense of righteousness which can end up pushing people away, quiet the judgment that forms within the psyche, and allows you to formulate the ideas that allow for successful collaboration to bring about success.

4. Sharing Leadership

When sharing leadership, there is no place for hierarchical control, the power of position, or giving up our powers to others. Every part of the company ecosystem becomes a part of a web of support, guidance, and care focused on developing innovation and bringing shared dreams and goals to life. There has to be openness to letting the circumstances guide you on how you lead, support, and develop yourself and one another.

5. Leading Co-Creation From Any Seat

Leading from any position can be uncomfortable due to the new kinds of tests and places you might end up during the journey. There are various swamps that you will be required to navigate, but the goal is to approach from a survival standpoint in both work and life. From any point within the dynamic, the creative approach should be adaptable with the mindset that it can take you forward instead of keeping you in a standstill position. You must take charge and dance between the me and we factors that will implement themselves while working as a catalyst for one another. The more you focus on becoming a mentor or coach will help in

defining where you are as you approach goals from a more creatively (and co-creative) standpoint.

6. Crossing The Swamp

The swamp throws several obstacles in the path of a creative looking to increase success in new world work. From encountering resistance and protectiveness to organizational sludge that builds up over a lifetime of doing things the same way – there is a way to navigate and learn from each experience, building a more creative component to co-create together. Hurdles are not something you can avoid in any experience, life or work, so being able to come at them with the right approach and adapting the approach to get around or over them becomes crucial. Co-creative styles can work together in most instances to create the path of least resistance – bringing together a team and bringing the innovative new plans that set course for success no matter what curveball is thrown.

7. Coming Together Anew

Once you are on the path that fosters working together and using each other's creativity as potential, the next steps can either be met with optimism or with resistance. A collective that is working together creatively and harmoniously can elevate the impact on any project they encounter, using the proper skills to navigate the swamp and provide maximum results. Instead of becoming objective in times where the swamp seems to have won, simply collaborating and enjoying the ride (versus stressing the small stuff) can bring about a new perspective and enhance the overall experience geared toward maximum return and success. When working like this, it is possible to not only unleash your superpowers for the good, but unleash the potential of others working alongside you.

Conclusion

Navigating the advances within the new world of work requires innovation and a collective of creativity that pushes forward to meet and exceed organizational goals. While creativity is most often used in ability form, shifting to potential-based creativity can change the entire outlook of how projects (in work and life) are approached. By learning to unlock the creative potential in every person, there is more that can be accomplished – especially when leadership takes on the process of co-creation and works closely to create the web of support and care necessary to navigate through the objections and hurdles that will present themselves. By following the GIFTED methodology, CDD can be overcome with an emphasis on enhancing relationships, work experiences, and driving overall potential within both work and life experiences.



Steven Kowalski, PhD, is a leading voice in the global movement for conscious creativity with more than 25 years of experience as an organizational development expert. Through his firm, Creative License(TM) Consulting Services, he works with clients to shape organizational cultures and reinvigorate how teams co-create new value. As a coach, speaker, and consultant-partner, he facilitates the creativity of scientists, engineers, business leaders, and professionals across industries.

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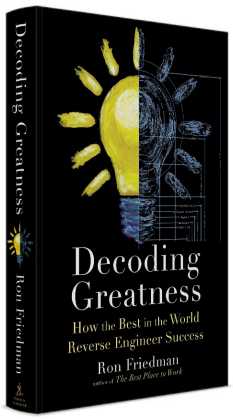
Decoding Greatness

Ron Friedman

soundview
Executive Book Summaries®

Decoding Greatness

How the Best in the World Reverse Engineer Success



by **Ron Friedman**

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THE SUMMARY IN BRIEF

For generations, we've been taught there are two ways to succeed—either from talent or practice. In ***Decoding Greatness***, award-winning social psychologist Ron Friedman illuminates a powerful third path—one that has quietly launched icons in a wide range of fields, from artists, writers, and chefs, to athletes, inventors, and entrepreneurs: reverse engineering.

To reverse engineer is to look beyond what is evident on the surface and find a hidden structure. Using eye-opening examples of top performers and groundbreaking research on pattern recognition, skill acquisition, and creative genius, Friedman reveals the staggering power of reverse engineering and teaches you how to harness this vital skill for yourself.

You don't have to be a genius to achieve greatness, but you do need a method for getting there. Bursting with unforgettable stories and actionable strategies, ***Decoding Greatness*** is an indispensable guide to learning from the best, improving your skills, and sparking breakthrough ideas.

IN THIS SUMMARY, YOU WILL LEARN:

- Why creativity is not the most important part of innovating.
- The importance of pattern recognition.
- To take apart models you admire, pinpoint what makes them work, and apply that knowledge to develop novel ideas, methods, and products.
- Strategies to bridge the gap between vision and ability.

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Introduction

When Michael Dell received an Apple II for his sixteenth birthday, he didn't so much as bother turning it on. Instead, he quietly carried it to his room, closed the door, and—to the sheer horror of his parents—dismantled it piece by piece so he could examine how it was assembled. A few short years later, he founded Dell Computers, a company that set itself apart by inviting buyers to customize their computers one component at a time.

And the laptop used to type this sentence would not exist had Compaq not reverse engineered an IBM personal computer and applied their learnings to develop portable computers.

But the practice of reverse engineering, of systematically taking things apart to explore their inner workings and extract important insights, is more than an intriguing feature of the tech industry. For a surprising number of innovators, it's a tendency that appears to have emerged organically, as something of a natural inclination.

No matter what you do for a living, you're facing significantly more competition than your colleagues did a decade back. You're no longer up against professionals only in your region. You're now competing with experts around the globe. Never before has it been simpler for clients and hiring managers to identify the best in your field and invite them to collaborate.

In a world where expertise is a moving target, the ongoing pursuit of knowledge is imperative to getting ahead. Staying on top of new innovations and professional trends is no longer just for go-getters—it's a basic requirement for staying relevant. Reverse engineering is a tool you can apply in your field to learn from your contemporaries, extract valuable ideas, and evolve your work in exciting new directions.

PART I: THE ART OF UNLOCKING HIDDEN PATTERNS

The Mastery Detectives

To reverse engineer is to look beyond what is evident on the surface and find a hidden structure—one that reveals both how an object was designed and, more important, how it can be re-created. It's the ability to taste an intoxicating dish and deduce its recipe, to listen to a beautiful song and discern its chord progression, to watch a horror film and grasp its narrative arc.

Many of the painters we now celebrate as creative geniuses devoted a significant portion of their careers to copywork. Claude Monet, Pablo Picasso, Mary Cassatt, Paul Gauguin, and Paul Cézanne all developed their skills by copying the works of the French painter Eugène Delacroix. Delacroix himself spent years copying the Renaissance artists he grew up admiring.

What makes copywork so effective is that it forces an artist or writer to do more than simply recall content. Reproducing a piece demands that he or she pay careful attention to the organizational decisions and stylistic tendencies reflected in an original work. It is an exercise that enables novices to relive the creative journey and invites them to compare their instinctive inclinations against the choices of a master.

Ultimately, what the process reveals is decision-making patterns. And once an artist or writer's underlying code is broken, it can be defined, analyzed, and applied to producing original works. The same can be said of successful entrepreneurs.

How to Reverse Engineer a Billion-Dollar Franchise

What separates celebrity entrepreneurs like Jeff Bezos, Mark Cuban, and Richard Branson from everyone else? Research suggests it's not just their creativity, intelligence, and drive. Successful entrepreneurs also excel at something else: pattern recognition.

When we think about entrepreneurs, we tend to think about creative solutions, fresh ideas, and above all originality. As it turns out, that line of thinking is exactly wrong. More experienced entrepreneurs—those who spend decades leading successful businesses and reliably launch profitable ventures every few years—focus on something completely different: viability.

Decades of experience have taught them that successful businesses fit a pattern. A few key factors tend to predict whether or not a venture will flourish. And nowhere are these patterns more evident than in the business models of other profitable companies.

What sort of patterns might a discerning entrepreneur deduce? For one thing, that winning business strategies can be applied across industries. When San Francisco chef Steve Ells was considering launching a taqueria in the 1970s, he knew his chances of breaking through were slim. The Bay Area was flooded with Mexican eateries, and the competition was overwhelming. So he took his idea for a streamlined Mexican restaurant to a place where tacos were relatively rare: Denver. He called it Chipotle.

In recent years, algorithms like Tinder's have upended a wide swath of industries, in large part because of their ability to quickly detect patterns.

What makes Ells's story so compelling is that his shop's success can, in large part, be traced back to a single decision: taking a product that's popular in one location and introducing it to an entirely new geographic region. That's an approach that applies to a lot more than tacos.

In the automotive industry, reverse engineering has played a pivotal role for generations. In 1933, after disassembling a new Chevrolet, Kiichiro Toyoda convinced his family to branch out from building weaving looms by creating an automotive development program. Three years later, they had their first car and renamed the venture Toyota (a simplified version of the family name produced by eight brushstrokes—a lucky number in Japan).

Almost a century later, Toyoda's once-maverick approach has been co-opted into standard operating procedure. Today, car manufacturers routinely dissect their rivals' cars, except they don't call the process reverse engineering. They call it "competitive benchmarking."

So how do you do it? How do you take apart work you admire—from your favorite podcast to a competitor's website to an Academy Award-winning film—enabling you to extract its formula and unleash your own creative juices? Is there a reliable road map for deconstructing works we wish to emulate?

Algorithmic Thinking

Alyssa Nathan was 22 when she met Josh Yanover. They exchanged a few shy texts, then a few more. He suggested they go out. On their first date, they visited a paint and wine studio. It went well.

After some time, she noticed that the studio had emptied and employees were cleaning up. She asked one of them if they were getting ready to close. "Sweetie, we've been closed for 45 minutes." It was late, but they weren't ready to call it a night. Not even close.

On a whim, they ventured out to a pizzeria Josh was crazy about, where they shared a delicious mushroom slice and their first kiss. It was the perfect date. Less than two years later, they were ready to spend the rest of their lives together and finalizing plans for their wedding.

A Marriage Made . . . From an Algorithm

Alyssa and Josh owe their marriage to an algorithm. They met online on the world's most popular dating app: Tinder. Not too long ago, the idea of searching for a romantic partner on a website was considered an act of desperation. Studies suggest that nearly 40 percent of romantic relationships now begin online and that they tend to be considerably more successful than those initiated in person.

One reason online dating apps are so effective at pairing couples is that they utilize machine learning to identify unspoken preferences—ones people themselves may not consciously realize they possess.

In recent years, algorithms like Tinder's have upended a wide swath of industries, in large part because of their ability to quickly detect patterns. The capacity to distill thousands of clicks, scrolls, and swipes into a formula and then apply that formula to predict future behavior has profound implications for the worlds of business, technology, and even romantic love.

Pattern Recognition: The Basics

Pattern recognition engines have four major components. The first is **data collection**. Before you can start to predict the type of men Alyssa finds attractive, you first need examples of men she likes and men she doesn't. You can get both from her reaction to a handful of profiles, and that's the first step: gathering examples.

Step two is unpacking those examples and **finding important variations**. What's different about these men that could be contributing to Alyssa's decisions? Obviously, there are physical features, like the men's age, weight, and height. But then there is the quality of their profile: the number of photos they post, the length of their biography, and the personality type their description conveys. The more variables you identify in this second phase, the better your chances of pinpointing a factor that prompts Alyssa's interest.

The third step involves **detecting similarities**. What do the men Alyssa finds attractive have in common? What features do they share? Now, how about the men Alyssa rejected? What differentiates them from those she liked? By comparing the characteristics of both groups—men selected against men rejected—a dating algorithm can start to identify the elements driving Alyssa's decisions.

The last step is when an algorithm applies its analyses to **generate predictions** of men Alyssa will find appealing. It's here that the options Alyssa is presented with start to look a little cuter, a little more her type. And the more Alyssa swipes, the more accurate the algorithm gets, using Alyssa's feedback to refine its predictions and improve its performance.

The Curse of Creativity

Simply cloning a formula that works for someone else is ultimately a failing strategy. What you need is a formula that works to complement your unique abilities, interests, and situation. But where exactly do you find one?

You might think that the solution is to deliberately avoid the influence of others entirely and instead strive for complete originality. But this, as it turns out, is also a mistake—especially in projects geared toward a broad audience. If you're looking to write a blockbuster movie, deliver a winning presentation, or cook a memorable dish, the last thing in the world you want is a flood of novelty.

Why? Because no matter how much audiences claim they want bold, innovative ideas, studies indicate that in practice, they reject them all the time.

Why exactly are we so loath to embrace the new? Because novelty makes us uncomfortable, and that discomfort is unpleasant. Nowhere is this tendency more evident than at the office. At work, we vastly prefer ideas that make us feel safe and confident, especially from those in charge.

Outright mimicry leads us nowhere. Absolute novelty is met with scorn. So what exactly is the right approach?

Don Draper's Guide to Winning Ideas

Mad Men aired an episode in which the famously volatile Sterling Cooper creative director is pitched a television show in the vein of *Candid Camera*. His response captures what might be the ideal formula for popular appeal: "It's derivative with a twist. That's what they're looking for."

In other words, the solution is to steer clear of both extremes. The secret to producing work with lasting significance is leveraging a proven formula and adding your unique twist.

Steve Jobs didn't invent the MP3 player or the cell phone. But he led a team that found a way of combining the two, leading to the iPhone. Back in 1995, two Stanford University students took the way academics cite research articles and applied it to organizing information on the World Wide Web, resulting in Google.

The history of innovation is so dependent on the blending of existing ideas that even books would not have come about had the wine press (which gave us ink) not been combined with the coin punch (which gave us typographic blocks for letters) to produce the world's first printer.

Blending influences is one way of finding your twist. But it's an approach with one critical limitation: your ability to locate unique influences. Combining influences works best for those who hunt for inspiration outside the cultural mainstream and import the elements they love best.

PART II: THE VISION-ABILITY GAP

It's one thing to distill exceptional work into a formula and quite another to reproduce it effectively. As the creator of *This American Life*, Ira Glass, observed, when you are developing your skills, there is often a gap between your vision and your ability:

"What nobody tells people who are beginners—and I really wish someone had told this to me—is that all of us who do creative work, we get into it because we have good taste. But there is this gap. For the first couple of years you make stuff, and it's just not that good. It's trying to be good, it has potential, but it's not. But your taste, the thing that got you into the game, is still killer. And your taste is why your work disappoints you. A lot of people never get past this phase. They quit."

The divide Glass is describing—the gap between vision and ability—can be debilitating, especially when you have high standards. Harnessed correctly, the desire to perform masterfully and meet your inner standard will provide the motivational fuel for improvement. The challenge, of course, is knowing how to bridge the divide so that the distance between where you are today and where you need to be feels inspiring, not deflating.

How exactly do you do that? It all starts with the first step

to elevating your performance at any task: the Scoreboard Principle.

The Scoreboard Principle

Search the internet for "Ritz-Carlton customer stories," and you'll learn that the hotel prepares surprise rose-petal baths on customers' birthdays, leaves chocolate wrenches in rooms requesting repairs, and mails children the stuffed animals they've left behind, along with a photo album of their toy in various hotel locations, including the pool, spa, and gym, enjoying their extended vacation.

How exactly did the Ritz-Carlton become so good at customer service? By relentlessly tracking performance metrics. Each property's management team monitors a slew of figures, from check-in wait times to advance bookings to employee satisfaction.

> Something powerful happens when we link behaviors to metrics. Measurement begets improvement.

But there's one metric the Ritz Carlton staff monitors obsessively. It's not the hotel's financials, nor is it its customer satisfaction ratings. Twenty-four hours after guests leave a Ritz-Carlton property, they receive an email asking them how likely they are to recommend the hotel to friends and colleagues (a metric market researchers refer to as a "net promoter" score). This, the Ritz-Carlton has discovered, is the holy grail. Score well on this item, and you haven't just executed a successful stay. You have created a raving fan.

Something powerful happens when we link behaviors to metrics. Measurement begets improvement. The moment a metric is introduced, we instinctively pay it more attention and pursue its optimization. Identifying the right metrics can therefore make all the difference between consistent growth and eventual bankruptcy.

How to Design Your Scoreboard

To leverage metrics effectively, we need more than global feedback on performance. We need data that measure our key behaviors and tell us which we are executing well and which we have the potential to improve.

What should you measure? The precise elements worth monitoring will depend on the nature of the task, your level of skill, and your ultimate goals. With that in mind, here are three approaches worth considering:

- The first involves breaking down a single activity into multiple subskills. In the same way that a tennis match consists of different types of shots, most intellectual activities can be broken down into several distinct categories of skill. Suppose, for example, that your job involves pitching your firm to new prospects and you want to develop metrics to track your performance. A number of subskills come into play when you present at meetings, including memorization, delivery, body language, presence, and poise. Recording your pitch and scoring these elements individually will provide you with a clear sense of where your performance is strong and where it needs improvement.
- The second approach is useful for tasks where success has less to do with combining disparate skills than hitting on particular features. By turning features into metrics, you create a measure that offers you immediate feedback on your performance and draws your attention to elements of your work that can be improved.
- A third approach for crafting metrics that track your performance is more holistic than the first two. It involves looking beyond a particular task and evaluating the totality of your performance over the course of a specified time frame.

How to Take the Risk Out of Risk Taking

Growth requires strain. A moderate degree of difficulty is essential to both mental and physical development. Teachers know it. Bodybuilders know it. Athletes know it.

Yet, what's the one place where stretching our limits and experimenting with new techniques is most challenging? The workplace. Paradoxically, the one domain in which skill building is arguably most essential is the same domain in which learning is also hardest to achieve.

Why is learning at work so hard? When it comes to failure,

the workplace is unforgiving. Every day is game day. There are no opportunities for practice.

A second reason skill-building at work is difficult is that the opportunities for taking risks are surprisingly limited. Businesses, after all, are optimized for efficiency, not employee growth. Then there's a third barrier: even if we do somehow manage to endure the possibility of failure and identify an intelligent risk worth taking, there's still one other crucial impediment to learning in the workplace: the absence of consistent, detailed, and immediate feedback.

But successful organizations take on enormous risks and adapt to market feedback all the time. The best companies don't play it safe. Just how are these organizations able to jeopardize so much risk? By figuring out something crucial: how to take the risk out of risk taking. Using a set of strategic, nimble, and inexpensive practices, many of the most innovative organizations and entrepreneurs are able to reap the benefits of risk taking without putting everything on the line.

Why you need a pseudonym. Operating under a pseudonym is an approach to minimizing the risk in risk taking. It also turns out to be surprisingly common in the world of business. Consider The Gap, a clothing retailer headquartered in San Francisco. The Gap uses subbrands to target different audiences at distinct price points. Instead of risking the possibility of confusing shoppers, it uses Old Navy to appeal to value shoppers, Banana Republic to sell to a more affluent audience, and Athleta to attract activewear buyers.

The Gap creates and acquires new brands even when it can sensibly roll out its new merchandise under an existing brand, in part because it has learned that marketing multiple brands grants it flexibility to take risks and more easily adjust when those risks fail to pay off.

Everyone has heard of Old Navy, Banana Republic, and Athleta. Those are the successes. Few are likely to remember Forth & Towne, Piperlime, and the Gap's other failed attempts to break through to consumers. Those subbrands were quietly abandoned not long after their launch.

Sell first, build later. Nick Swinmurn's life was going nowhere when a billion-dollar lightning bolt struck. The former film student turned minor-league baseball ticket attendant was at the mall, hunting for boots and having no luck. The trouble was he knew precisely what he wanted: a pair of brown Airwalk Desert Chukka boots. Lots of stores had them—just not the ones he wanted.

The year was 1999. Swinmurn was living in the San Francisco Bay area, so the next step seemed obvious: He started a website. It was called Shoesite.com. Swinmurn's nascent business plan had one blip: He didn't have any shoes to sell. Nor did he have the budget to build up his inventory. His business résumé was blank, and he had never even met an investor.

So he walked into his local shoe store, Footwear Etc., and offered a win-win proposition: "I'll take some pictures, put your shoes online, and if people buy them, I'll buy them from you at full price." The manager happily agreed.

Within days, sales started rolling in. And when they did, Swinmurn would personally drive to the mall, pay with his own money, and place the shoes in the mail. A year later, after raising $150,000 from a few friends, some family, and his chiropractor, Swinmurn renamed the business after the Spanish word for "shoes": zapatos. Then he tweaked a few letters until he had Zappos, a name that seemed "fun and different." Roughly 10 years later, Zappos would sell to Amazon for a staggering $1.2 billion in stock.

Swinmurn didn't build a massive warehouse and stock it with shoes. Doing so would have required enormous resources, which he did not possess. What did he do, instead? He sold photos of shoes that he could secure after consumer demand was established. By selling a prototype, Swinmurn managed to greatly diminish the risk involved in starting a retail business. He did so by selling first and procuring second.

Practicing in Three Dimensions

Professional tennis players like Serena Williams regularly face serves exceeding 120 miles an hour. That's barely enough time to blink an eye, let alone lift, aim, and swing a racquet. And yet somehow she manages to not only make contact but also hit returns with such precision and power that her opponents are left gawking.

How does she do it? The same way New York Mets slugger Pete Alonso blasted an astonishing 53 home runs in 2019. If you analyze video of any of his moon shots, you'll notice something peculiar: His swing starts before the ball leaves the pitcher's fingertips.

Not long ago, ESPN asked John Harbaugh, head coach of the Baltimore Ravens, to track his time and report back on how he spent a week during the regular season. How many hours does Harbaugh spend watching film? A staggering amount: nearly six hours a day. Harbaugh devotes more time

Public speakers who visualize their performance before getting up onstage experience less anxiety, appear less rigid, and deliver more compelling presentations.

to reviewing previous games than any other activity, including running practices, meeting with players, and mapping out his team's game plan—combined. As a strategic thinker, he understands that learning from past performance is one of the smartest things you can do to prepare for the future.

Directors, athletes, and coaches rely on film to help them learn from the past and make crucial adjustments. Needless to say, they have access to a tool most people lack: objective recordings of performance. So, what about the rest of us? What do you review when there is no tape?

A Beginner's Guide to Reflective Practice

One method that is surprisingly common among top-performing inventors like Thomas Edison, artists like Frida Kahlo, and athletes like Serena Williams is journaling. Developing a daily practice to pause, reflect, and strategize can yield substantial benefits that compound over time.

Journaling by hand, in particular, forces us to slow down. Because most adults think faster than they write, we're compelled to pause and reflect as we wait for our hand to catch up, examining our thoughts in a way that rarely occurs on a busy day. This simple practice can yield surprisingly profound insights, not unlike when a therapist repeats your words back to you, illuminating a hidden motive or a limiting belief.

The case for thinking more and doing less. There is no shortage of Hall of Fame-caliber athletes who credit their success to mental imagery. Hockey great Wayne Gretzky used his imagery routine to practice lasering in on the empty patches of net behind a goalie, picturing them decorated with red lights and ribbons.

Lindsey Vonn is an Olympic medalist who relied on mental rehearsal to gain an edge before competition. Not only did Vonn visualize herself slaloming downhill, she did so while forcing her lungs to suck air in and push it out, simulating the unnerving, treacherous conditions of a high-speed run.

Studies show that surgeons who mentally rehearse procedures in advance of entering the operating room commit fewer errors and experience less stress during surgery.

Musicians who practice playing a piece in their head before sitting down at the piano learn compositions more quickly. Public speakers who visualize their performance before getting up onstage experience less anxiety, appear less rigid, and deliver more compelling presentations.

How to Talk to Experts

Late in the fall of 2001, the hottest ticket in Hollywood was not a glitzy movie premiere or an exclusive award ceremony. It was a private 10-day acting seminar led by the man *Time* magazine had declared Actor of the Century: Marlon Brando.

All the big names were in attendance: Leonardo DiCaprio, Sean Penn, Whoopi Goldberg, Robin Williams. They were there to learn from a legend. This was one of the most accomplished thespians of a generation, the Godfather himself, the trailblazer who had popularized Method Acting, now prepared to reveal the secrets of his craft.

Brando had hired a camera crew for the occasion. He planned to have the footage edited and sold to film schools and acting programs. He even brought on a director to oversee production. When the moment arrived, Brando gave the signal. The cameras began rolling. What happened next is something no one in the room will ever forget.

The *Hollywood Reporter* recounted the event this way: When the doors flung open, the 78-year-old Brando appeared wearing a blond wig, blue mascara, a black gown with an orange scarf and a bodice stuffed with gigantic falsies. Waving a single rose in one hand, he sashayed through the warehouse, plunked his 300-pound frame onto a throne-like chair on a makeshift stage and began fussily applying lipstick.

"I am furious! Furious!" Brando told the group in a matronly English accent, launching into an improvised monologue that ended, 10 minutes later, with the actor turning around, lifting his gown and mooning the crowd.

Over the course of the 10-day program, Brando had his audience observe improvisational scenes featuring Samoan

wrestlers and a troupe of little people, invited a homeless person off the street and tried to teach him the basics of acting, and asked his students to remove their clothes in full view of their classmates. Eventually, Brando's students were invited to perform a variety of improv exercises, which he offered to critique.

Brando was merciless in his feedback. When he didn't like what he saw, he didn't wait until a scene ended. He burst onstage and thundered his dismay, barking out, "Lies! Lies!"

Three days into the program, several students staged a walkout, declaring the seminar "a circus." The number of attendees continued to dwindle as the course progressed. Even the director quit.

What to Ask an Expert

It should come as no surprise that domain expertise and teaching performance do not go hand in hand. Doing and explaining are different skills.

When talking to experts, three categories of questions are worth considering: journey questions, process questions, and discovery questions. **Journey questions** are designed to achieve two objectives: unearth the experts' road map for success and remind them of their experience as a novice.

For example, "What did you read/watch/study to learn your craft?" "What mistakes did you make at the beginning?"

Process questions get at the nitty-gritty of execution. They're designed to illuminate the experts' approach by drilling down on the specific steps they apply to bring their work to life. For example, "What do you do first? What's next? And after that?" "Where do you get your ideas and strategies?" "How do you go about planning?"

Finally, **discovery questions** focus experts on their initial expectations and invite them to compare those naive beliefs with what they know today. For example, "What do you wish you had known when you first started?" "What factors turned out to be crucial to success that you weren't expecting?"

Those at the peak of their profession earned their standing by nurturing an insatiable hunger for new ideas, perspectives, and solutions. You get there by identifying concepts worth mastering, growing your arsenal of skills, and experimenting at the edge of your ability. Never before has that mindset been more pivotal than it is today.

The good news is that stimulating ideas are everywhere. We live in an age of unparalleled creative abundance. The ingredients are readily available. You now know how to unlock, master, and evolve them in new directions. It's time to see what you can do.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- ***Primary Greatness: The 12 Levers of Success*** by Stephen R. Covey
- ***Authentic Confidence: The Secret to Loving Your Work and Leading an Unstoppable Career*** by Ben Fauske



Ron Friedman, Ph.D., is an award-winning psychologist who has served on the faculty of the University of Rochester, Nazareth College, and Hobart and William Smith Colleges, and has consulted for political leaders, nonprofits, and many of the world's most recognized brands. Popular accounts of his research have appeared on NPR and in major newspapers. He is the founder of ignite80, a learning and development company that translates research in neuroscience, human physiology, and behavioral economics into practical strategies that help working professionals become healthier, happier, and more productive.

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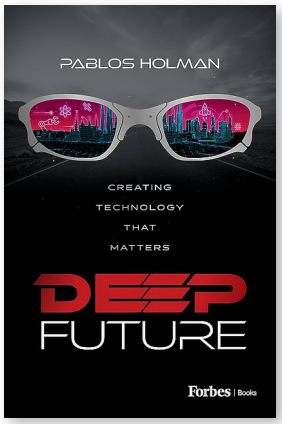
Deep Future

Pablos Holman

Executive Book Summaries®

Deep Future

Creating Technology That Matters



by **Pablos Holman**

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THE SUMMARY IN BRIEF

Core systems that every human depends on, from energy and water to food, waste, manufacturing, construction and more, have made only incremental and uneven progress over the last century, with many parts of the world struggling to access resources that are widely available for other regions. Unlike computing, which has enjoyed exponential leaps, these industries remain largely stagnant.

In his book ***Deep Future: Creating Technology That Matters***, Pablos Holman argues that this imbalance is unsustainable and examines how technology can change this. Holman introduces readers to Deep Tech, the frontier of advanced technologies designed to tackle the world's most pressing problems. Far from the narrow focus of Silicon Valley's software-first era, Deep Tech is about inventing and scaling solutions that could redefine energy production, food security, climate resilience, and beyond.

Drawing on a career that spans hacking, AI, spaceflight engineering at Blue Origin, and global health projects with Bill Gates, Holman weaves stories of invention with a blueprint for how leaders, entrepreneurs, and innovators can direct their talents toward technologies that truly matter. *Deep Future* is both a call to action and a practical guide for those ready to lead the next great wave of progress.

IN THIS EXECUTIVE BOOK SUMMARY:

- Learn why exponential innovation must move beyond software into critical human systems.
- Understand how Deep Tech is already reshaping energy, food, and health on a global scale.
- Explore lessons from Holman's career building disruptive, world-changing technologies.
- Find out how leaders and entrepreneurs can back and build companies solving humanity's hardest problems.

INTRODUCTION

Deep Tech is about creating new superpowers for humanity. Building the toolkit to solve the biggest problems in the world, to force multipliers to match the global scale of our species' challenges.

Deep Tech is about creating technology that matters. The tools we need to fight in a resistance movement against dystopia.

Deep Future is a vision, a podcast, a venture fund, and also the book you're reading. I'm on a mission to make the future as awesome as possible. I want to understand the biggest problems in the world and the technologies that could help us solve them.

SUPER MODELS

Humans create models. This is important to understand because, increasingly, we have been able to use computers to create computational models of our world, and in a lot of cases, these models dramatically outperform what any single brain is capable of.

Computational modeling is a new superpower, unprecedented for humans. The models can show us our possible futures and let us choose which of them we want to pursue. In all of human history, we were only able to run one grand experiment—the one we ran in the real world. Now, we can run a multitude of experiments in simulations and make better decisions.

How AI Works

There are all kinds of models, but fundamentally, they are comprised of data and algorithms. All the so-called AI models that have taken over making art, writing novels, and driving cars essentially work the same way. For these, the algorithm is trained by picking over a metric shit-ton of data to figure out what to do. Computers create a bunch of random algorithms, test them to see which work the best, and throw out the sucky ones. If you do this enough times, you can end up with something that works pretty well most of the time.

Where we are headed with these models requires a Darwinian process. We need all the best models to learn from each other, improve over time, compete and advance, or die off.

The greatest evolutionary leap in all of human history is well underway. We will advance into the zettaflop era by the time this book is published. With zettaflops, we can model every neutron in a nuclear reactor core. We can model the thermal activity in the atmosphere, the melting of arctic tundra, the butterfly flapping its wings off the western coast of Africa. We can model every single cell in your body, every neuron in your brain.

A book about Deep Tech has to start with AI, because we build the future using whatever tools we can get our hands on. Right now, the most powerful tool humans have to make the future better is AI.

LONG TIME HORIZONS

Occasionally, a human can learn to think on longer time horizons. One path to this mindset appears to be getting wealthy enough that you don't have to worry about the same things as everyone else. Jeff Bezos is successful and wealthy because of his long-term mindset, not the other way around. If this is true for him, maybe it can be learned by the rest of us.

For each of us, I find that it is important to be mindful of the timeline that matters to ourselves. Most people are very sloppy about this, causing irrational prioritization and a lot of unnecessary conflict.

An easy way to figure out what is worth doing is to just ask yourself: A hundred years from now, will we still be doing things the same way, or would this new idea be better? Often, the answer is obvious.

Then you can ask yourself: Does it have to take one hundred years, or could we do it in ten? This gets much closer to the window of time that the world is currently good at dealing with. Financing, careers, contracts, companies, and governments can all be compatible with a ten-year time horizon.

ORIGIN OF A HACKER

Computer hackers have no formal training, we don't read the directions. We just have an insatiable appetite for solving puzzles. Hacking is all about misusing technology. Deliberately discovering new value in technology by using it for a purpose other than what it was designed for. To understand where Deep Tech comes from, you need to understand the hacker mindset.

Iteration

Software is eating the world, but the world can't eat software. Now is the time to take all the superpowers we got from our computers and aim them at the biggest problems in the world.

The tech industry is now the biggest, most profitable, and most powerful industry on this planet.

Today, we make software using rapid iteration, and that is what makes us powerful. Rapid iteration is why Silicon Valley has been able to take over entire industries.

This is the secret behind every successful software company in the last couple of decades. They could build faster than their obsoleted competition could imagine. They could try everything and throw out what didn't work. If you take one thing away from this book, please understand that nobody is smart enough to guess what will be successful in the future. In business, in government, in life, we need to run a lot of experiments and throw out what doesn't work.

INVENTORS

We celebrate artists—musicians, painters, novelists, actors, and creative people who can stir emotions with their work. But what have they created? In almost every case, they're doing something that has been done before. Even if they are doing it better, there is no act of true creation in a new pop song, romance novel, or NBA game. We call it art, but really, they are honing a craft.

Creativity, creation, creators—to create means to do something new, for the first time. Inventors are a special class of creator. Their creations have to transcend inspiration and artistic merits; they have to be functional and, ideally, even useful. When inventors succeed, humanity gets a force multiplier on solving problems.

Without inventors, most of us would not be alive at all. We have grossly undervalued the inventors and overvalued artists. Cruel as this sounds, we owe it to ourselves to at least imagine an alternate universe where this is inverted.

SAINT OR ASSHOLE?

All around you are people doing things that don't scale or move the needle on solving a problem. All around you are people whose actions are thinly veiled attempts to make people like them more and to make themselves feel better. You don't need to be like that. You can have a much more meaningful effect on many more people.

For millions of years, there just weren't very many humans at all. Then, all of a sudden, we went from millions to billions, then more billions, mostly in our lifetime.

The reasons we exist are mostly because of new technologies that humans invented. We made all these people, but we haven't done the work to take care of them all. How can we solve the hard, technical problems that keep humans from thriving? How could we reinvent our industries to be faster, cheaper, safer, cleaner? How do we move the starting line for everyone on Earth to the one-yard line, just like it is for spoiled-brat Americans?

WE ARE ALL MADE OF STARS

If you want to understand the problems in the world, you have to realize that they almost all start with energy. Energy is what we need the most. If you solve energy, you can solve a lot of other problems for free.

Most people in the world do not have a choice; they live resource-constrained lives. They deserve to solve for energy and will do it by any means necessary. We have the chance to take a leadership position and develop and scale the technologies that can power the whole world. The job is to give every human on Earth as much energy as we give an American.

Imagine for a moment what the world will be like when that happens. What do people fight over? What are all those wars about? They're about access to resources, access to energy. In a world where everyone has more than enough, what will they fight about? I imagine a beautiful future where they can all fight about dumb shit on Twitter, like Americans.

HEAVY METAL ENERGY

We conflated nuclear reactors with nuclear bombs and outlawed the wrong one. If we had done it the other way around, you never would have heard of global warming. That's what could be possible with this miraculous energy source, but we made one of the worst decisions possible, dooming millions to live in poverty.

We achieved all the scientific breakthroughs needed to harness the energy stored in heavy metals, such as uranium and thorium. We did all the engineering to build nuclear reactors and prove this could work. And then, we told ourselves a bunch of scary stories about what could go wrong. We outlawed this technology and regulated it into oblivion.

It is time we get a more accurate and positive story in our heads.

The tech industry is now the biggest, most profitable, and most powerful industry on this planet. It will be funding every campaign for every seat of Congress and will demand that nuclear reactors get built.

China has twenty-six reactors under construction. It tends to get them done on time and on budget. The US is investing heavily to build chips. China is investing heavily to build nuclear reactors. Only one of those things is useful without the other.

WHERE THE SUN DON'T SHINE

Solar panels have two big problems: clouds and nighttime. The world needs baseload energy that works around the clock, and this is not what you get from windmills or solar panels. Can't someone just invent a miraculous battery to store enough energy to power a city through the night? Currently, we'd need about $100 trillion in Tesla Megapacks to store enough energy to power the world through the night.

We need a miracle in energy storage to make solar or wind power capable of displacing fossil fuels, but we're still waiting for it.

So here's a crazy-sounding idea: What if you put those solar panels on a rocket ship and blast them into space? There's no nighttime in space; we just have a bad angle on it. It is literally noon in space all the time. And there are no clouds. Solar farms in space could get sunshine 24/7, all year long, actually receiving 8x as much energy as they would on the ground.

But how do we get the energy down to Earth? Beam it down using radio waves. These can go right through clouds, sending energy to antennas on the ground—even in the middle of the night or during a snowstorm.

This is way more practical than it sounds. All the technology to do this exists already. No breakthroughs are needed. Radio waves have literally been beaming energy to you for your whole life—on the radio, on television, and on cell phones. Probably the hardest part is steering the beam, and that's been solved for satellite communications and 5G networks already.

PERPETUAL MOTION BULLSHIT

About the same time that Morihei Ueshiba was developing aikido, a martial art distinctive for giving primacy to "harmony," in the 1920s, Arthur Eddington conceived the idea that atoms might be doing the same thing—that a hydrogen atom, being attacked by another, could accept this energy and fuse together, becoming a helium atom. Harmony. Along the way, an unfathomable amount of energy would be released as the other stuff in these atoms, mostly neutrons, is set free.

It turns out that Eddington was right, and this is exactly how our sun, and all the stars, are powered. The mass of the sun is about the same as 333,000 Earths, and most of what it is doing is fusing hydrogen into helium. Since then, scientists have been imagining ways to do the same thing on Earth.

Fusion is twenty years away and always will be. This has been a running joke among physicists for so long that none of them can even remember when it was funny.

A lot of venture capital has been aimed at fusion companies. Each has a different spin on how it is just about to achieve a breakthrough. Most of these companies have a technically complex secret sauce that even their investors can't see or understand. Some of their claims range from disingenuous to delusional to fraudulent. Many have a legitimate idea but face big challenges in science, engineering, and funding to bring it to market.

THE MIDAS TOUCH

We've been recycling the cheapest crap on Earth—plastic bottles and pop cans—but we haven't even started recycling the most valuable stuff. Every year, tens of billions of dollars' worth of gold goes into manufacturing electronics because gold is the best metal for conducting electricity. Then, it ends up in a gold mine we call a landfill. Less than 15 percent is recovered, mostly by incineration.

At the University of Leicester in England, a team of researchers has been working on a chemical process called "deep eutectic solvents"—chemicals that can liquify the metals in electronics waste. These researchers started working on it twenty years ago. Their spin-off company DEScycle can now separate the metals from electronics

It isn't that the entire society has embraced failure. Rather, the entire society has embraced the need to try a lot of things, throw out what doesn't work, and iterate on what does work.

with nontoxic chemistry and recover most of the chemicals to use in the next batch.

By the time our kids are our age, all of the gold we need for electronics could be mined from landfills. Metals are infinitely recyclable and can typically be restored to high purity levels, essentially making them just as good as new every time. This isn't true for plastics or cardboard.

FASTER IS CHEAPER IS BETTER

The global fashion industry produces over two billion tons of greenhouse gas emissions annually—more than aviation and shipping combined. At least 20 percent of the plastic in the ocean and 20 percent of global fresh water pollution are from making clothes.

The $1.8 trillion apparel industry is doing speculative manufacturing, creating garments long before finding out if anyone actually wants them. Overproduction leads to overstock, to discount liquidation sales, to brand devaluation, to disposal.

If we can build surgical robots or make self-driving cars, how long do you think it will be before a robot can make your clothes? CreateMe, a team of engineers that built automated factories for electronics and semiconductors, got to work figuring out how they could automate apparel manufacturing. The team invented new binders that can be printed on fabric with something like an inkjet. This makes it easy for robots to put bonded seams on any kind of fabric. These seams are stronger than sewn seams, and they can even be stretchy. All this paves the way to making a programmable factory for apparel.

SILICON VALLEY WINS

Everywhere I go, people try to show me "Silicon Alley" or "Silicon Galley" or "the Silicon Valley of South America." Respectfully, what I see is start-up cosplay.

Here's what I know: Silicon Valley wins. I'm not saying this is right. I'm as critical of Silicon Valley as anyone, albeit for different reasons. What I am saying is that Silicon Valley has figured out how to be successful at some things, and we need to stop lying to ourselves and be honest about what is going to work.

The future of technology is going to be global. We are going to diffuse technology advancement out of Silicon Valley around the world, but if we're being honest, most of the world has no chance of competing. Why? Silicon Valley has all the money.

Silicon Valley is basically a giant ecosystem that runs thousands of million-dollar experiments. Every start-up is an experiment. We know most of them are going to die, but collectively, this process wins.

When a start-up fails in Italy, they might open a criminal investigation. When my start-up in Silicon Valley fails, I get calls from VCs the next day. They aren't calling to find out how I lost their money. They are calling to find out what I plan to do next.

It isn't that the entire society has embraced failure. Rather, the entire society has embraced the need to try a lot of things, throw out what doesn't work, and iterate on what does work.

TASTY MORXELS

In about 2008, I started trying to invent 3D printers that would print food. I was already working with the biggest heretics in food, and even they thought it sounded crazy. The idea sounds a little less crazy every year, and some companies have even begun commercializing food printers of different types. So why would anyone want food from a printer?

The real reason to do this is that the way we feed people now is wildly inefficient. About 40 percent of the food is wasted before we even eat it. In some places, those losses are in the agricultural process. In the US, farmers are pretty good at getting as much out of their land as possible. Our waste is in the last mile, between the grocery store and your mouth.

Food is 90 percent water, which we are shipping around the planet. Compare that with cartridges full of shelf-stable in-

gredients. Maybe you don't think you want to eat powdered tomato, but you don't question having a bag of powdered wheat in your kitchen. These ingredients need no chemical preservation, contain all the flavor and all the nutrition, and all we need is a machine that can make meals out of them.

CLASSIC ROCK

Cement is one of the biggest problems in the world. It is the material most used by humans (not counting fossil fuels). The process of making cement is extraordinarily CO2 intensive, although not in the same way as other materials. Most years, cement ranges from about 8 percent to 13 percent of global CO2 emissions.

We then build skyscrapers and bridges and stadiums out of the stuff. These last for about fifty years or so before they start to crumble. But what about the Pantheon in Rome? How did the Romans build the Pantheon? Made of nonreinforced concrete, it remains standing after two thousand years, in a seismic zone—while our concrete with steel rebar struggles to last a century.

No one was able to figure it out for two millennia. And then, a couple of years ago, Admir Masic solved the mystery. Admir got a sample near Rome to analyze and was able to reverse engineer how it was made.

All concrete cracks. Water seeps into the cracks and destroys it from the inside out. The trick of the Roman concrete is that it has lime deposits trapped throughout it. So, when water seeps in, it activates the lime and fills the cracks. It is self-healing concrete that just gets stronger with time.

The implications are staggering. It's possible to make stronger, self-healing concrete. It can be lower in cost and only needs a very easy change to existing production operations, which is not true for any other significant advancement we've seen in cement. Possibly all of the cement being produced globally could be upgraded in less than a decade.

YOU AREN'T WHAT YOU EAT

Thousands of species of microbes live all over you, on every surface of your body. There are microbes in your gut, on your hands, and in your mouth, vagina, and ears. They add up to about two to six pounds of your body weight, but they are not you. They are wholly different organisms.

Just like you and me, each of these critters has its own unique DNA. And in the same way that we can sequence your DNA to read the code that makes you, we can do that for your microbiome. Now we can see what you have a lot of, what you don't have enough of, and maybe spot things you shouldn't have at all.

Some of the critters are superbugs. These bugs are very important and can have major health effects. Unfortunately, you can't buy most bacteria that we have coevolved to have on us. Instead, you rely on the chance of being colonized with the "right" microbes—a chance that continues to be reduced with widespread antibiotic use and shitty diets.

Of the five thousand or so species of gut bacteria we know exist in people, you can only buy fifty today. Holobiome is solving this problem by figuring out which ones are most important and developing them as food products or drugs. They've already found one that seems to outperform popular antidepressants; another to mitigate pain; a third that reduces stress. They are running their first human trials as I write this book, but if it works, expect to see me on an infomercial about antidepressant yogurt!

YOU'RE GOING TO DIE

All kinds of proteins are inside you. They're in your bloodstream, floating around, taking in the nutrients you've consumed and building all the kinds of things your body actually needs to thrive. Because so many of these proteins are in our bloodstream, learning to see and count and understand them is an incredible frontier that will show us so much about human health. This frontier is called proteomics. My buddy Jamie Heywood has been obsessed with figuring out how to read the story these proteins are telling us. He got an early start on collecting high-quality health data about people and correlating it to the thousands of proteins that are visible in blood samples.

Jamie can predict how I'm going to die in the next ten years. With high accuracy, he can predict whether I'll get heart disease, diabetes, a stroke, Alzheimer's, or any of three hundred other health conditions, from a single blood sample. This is all possible because the proteins really are a snapshot of your health.

Think about that for a moment. Machine learning is suited to tackle this kind of situation. Imagine a model like ChatGPT, but instead of being trained on Reddit and spam, this one is trained on the proteins seen in a billion blood tests. Then, we feed it the medical history for each of the people linked to those tests. The proteins seen in your test results become the prompt. The model correlates all of

There is no boogeyman. Learn the truth and get on with your life. Ignore the doomsayers and go build some cool shit.

this to show you the top health issues experienced by people with a similar cross section of proteins in their blood.

COMPUTATIONAL MAXIMALISM

Hyperbole fails me when trying to describe the importance of computer chips to the world today. Everything made possible by computers relies on chips. So-called accelerated computing is partly about designing chips optimized for the kind of calculations they will be used for most. This is important, but the boon in computation is mostly about connecting these chips together.

The computational capacity of planet Earth doubles every couple of years. Everything changed when LLMs proved to the world that the surplus of computation could be used to build previously unimaginable superpowers. The miracle of AI we've just witnessed is not just the genius of nerds in San Francisco; most of it comes from the compound interest of throwing more and more computation at machine learning. We know that with enough computation, we can build systems that do almost anything we want. Anything that is worth doing, we'll aim computation at it until we get good results.

If you could make better decisions with the help of an AI, wouldn't you? If you don't, will your competitor? Is the AI you are using making the best decisions, or would more computation make it better? At what point does more computation stop improving things?

BOOGEYMAN

These days, technology advancement is compounding on itself. The pace of change is very difficult for people to get comfortable with. Naturally, if the change threatens your livelihood, your way of life, or the career you've invested a lot in, you'll be nervous. But there's a much more sinister problem that we don't talk about. That nervousness puts us on edge, and we look out for signs that things might go wrong. This makes us vulnerable—vulnerable to manipulative people with boogeyman stories.

Every time a new technology comes along, some class of doomsayers will concoct a story about how we are all going to hell in a handbasket. We're going through the same thing with AI now. A whole new generation of professional paranoiacs are trying to caution the world about the dangers and evils of AI. AI doomers propose solutions that range from "safety councils" to establishing global governmental policy outlawing AI altogether.

What we actually need is an AI war of escalation. We need an evolutionary process that discovers problems quickly, prioritizes them, and incentivizes creating defenses. There is no boogeyman. Learn the truth and get on with your life. Ignore the doomsayers and go build some cool shit.

CYPHERPUNKS

In the late '90s, I'd been hanging out with hackers who were trying to make the internet more secure. One of the more deeply thoughtful and technical corners of the internet was the Cypherpunks email list. Cypherpunks were the intellectual fringe radicals of the internet, and the list was vehemently anarchistic and deliberately unmoderated. The indelible themes were privacy, security, anonymity, autonomy, and how these were necessary ingredients to preserve freedom on the internet. The methodology would be decentralization, open protocols, and trustworthy systems that would eliminate the need for trust. Our toolkit was cryptography.

Cypherpunks made Bitcoin. I'm not going to tell you who Satoshi Nakamoto is, but I will tell you who Santa Claus is if you want. You don't need to know. Governments worldwide hate Bitcoin and can't kill it. What could be more egalitarian?

The ultimate goal is to decentralize everything; to eliminate central points of attack that could bring a system down; to make it possible for everyone to have access to reliable, free (as in freedom) resources on the internet.

In the long run, decentralized protocols win over centralized services. Fundamentally, a decentralized blockchain is a better way for humans to organize a lot of what they do. A shared

database that everyone can use and trust. Humans figuring out how to cooperate in groups is the basis of civilization.

ROLE MODELS FOR ROBOTS

Humans have evolved to work, and not working isn't making us better. Robots have evolved to do what we teach them how to do, and we are terrible role models for robots. Robots run on AI. The AI is trained on everything humans have ever done. On average, we're not setting a very good example.

For now, AI is best at working with what it has seen a lot of. The data used to train these systems matters. These AI systems are hungry for data, and we need to feed them a lot of positive, practical visions for how humans can create these tools, learn to wield them, and build a future much more awesome than any of the dystopian stories we're bombarded with.

In a moment when creative people of all types are grappling with what these tools mean for them, we need creativity the most. After all, it isn't just the computers that will need hopeful stories; we need them too.

PROBLEMS THAT MATTER

Silicon Valley has a kind of religion, called "Scratch an Itch." If you're a start-up founder, this is the advice you get: Find a problem that you have and try to solve it. The rationale is that you'll be better at understanding the nuance of what other potential customers need.

Go get a pad of sticky notes and a pen. Start by making a list of problems you care about or things you think should be better, in the whole world. Write each one down on a sticky note. You could make hundreds of these if you want.

Then put them in order, with the most important one on top. Now that you've got your list in order, let's think about how much time you have to devote to all the things you pretend to care about. Pick a number and divide it by how many items there are on your list. That's how much time you have to contribute to solving each of these problems. I'm guessing this doesn't leave you with a lot of time, so let's start throwing out some of the items on the bottom of the list.

Keep going. For each one of these, just ask yourself, "Have I had any meaningful effect on this problem? Could I?" If the answer is no, just throw that sticky note in the circular file. Be honest with yourself.

Whether you have four minutes or forty-eight minutes each day to devote, just start doing it. It doesn't matter if you chose a problem you don't know anything about; you can learn! Before long, you'll find that one or a few of these sticky notes has become your primary interest.

Now, go find some coconspirators. Go to some meetups. Find a group on Reddit. You need to find at least one other person who cares about the same thing. Maybe they already have a head start, and you can join their tribe! Be patient, it is going to take a long time to get anywhere, but now you have forward motion. This is so much better than the stasis you got used to before. It is hard, frustrating; often, you won't know how to get to the next milestone, but your life will have direction.

BOYCOTT DYSTOPIA

We were all raised on some bullshit stories. At about the same time we got the wrong story about nuclear reactors, we were told scary stories about another kind of mushroom and outlawed psychedelic drugs.

We're told a lot of scary stories about AI, and many people are trying to make the same kind of mistake, outlawing a technology they don't understand instead of researching, learning, experimenting, and inventing ways to build a better future with these tools. Now is the time to create some better stories.

Vision without action is a daydream.
Action without vision is a nightmare.

AFTERWORD

By the time this book gets printed, some of the technologies I described will have been made obsolete by something better. Others will blow up, fizzle, or flame out—hopefully with few casualties, lots learned, and some good stories. Maybe one of them will be a supernova and help solve some big problem.

I'm cool with all of that; I look forward to being wrong about some things. It isn't important to agree with me about everything, and the examples in this book are meant to inspire you with possibility. I hope you and I both find even better breakthroughs!



Pablos Holman is a former hacker turned inventor whose career spans groundbreaking work in cryptocurrency, AI-driven stock trading, and aerospace engineering at Jeff Bezos' Blue Origin. He co-founded the Intellectual Ventures Lab with Nathan Myhrvold, where his team earned over 6,000 patents, including innovations such as hurricane suppression machines, nuclear reactors powered by waste, and malaria-fighting mosquito-killing lasers supported by Bill Gates. Today, he leads Deep Future, an "Invention Capital" firm dedicated to backing unconventional inventors, maverick entrepreneurs, and visionary scientists committed to building a better future.

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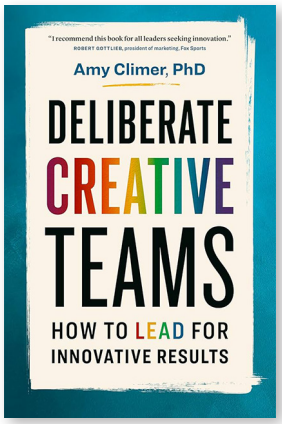
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Deliberate Creative Teams

Executive Book Summaries®

Deliberate Creative Teams

How to Lead for Innovative Results



by **Amy Climer, PhD**

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THE SUMMARY IN BRIEF

Are you finding it difficult to spark fresh ideas within your team? Do you wish your group could approach challenges with more imagination and deliver stronger solutions? By fostering deliberate creativity and innovation, you can unlock your team's true potential and help them generate groundbreaking ideas and unparalleled results.

Written for leaders across industries, from senior executives to HR professionals and project managers, ***Deliberate Creative Teams: How to Lead for Innovative Results*** aims to do just that by offering a clear framework for cultivating a workplace where innovation is steady and reliable rather than occasional.

Author Amy Climer, PhD, an experienced consultant and researcher in the field of innovation, emphasizes that creativity is not a matter of chance but the result of deliberate effort. Drawing on years of coaching and research, she presents the Deliberate Creative Team system, which is built around three core elements: a shared purpose, healthy team dynamics, and a structured creative process. When combined, these factors empower leaders to tap into their team's full creative capacity and consistently generate impactful results.

IN THIS EXECUTIVE BOOK SUMMARY:

- Learn how to build a clear, shared team purpose that inspires creativity
- Strengthen team dynamics to foster trust, collaboration, and openness
- Apply a repeatable creative process that transforms ideas into results
- Cultivate a team culture where creativity and problem-solving thrive daily

Introduction: You're Not Creative (or So You Were Told)

Nearly everyone has had someone, at some point in their life, tell them they are not creative. It may have been a teacher, a parent, a boss—but always someone they believed had more wisdom than they did. The message gets buried deep in our psyches, and we believe it, especially if it happens at a young, impressionable age.

Then all those people who were told they were not creative grew up and entered the workforce. Nearly every job requires some creativity, yet many employees have no idea how to be creative. Not only do they lack the skills for it, but they also deeply believe they cannot be creative. This is a serious problem that hinders innovation around the world.

Creativity Is Innate

For years, I kept experimenting with the best ways to teach creativity. At first, I focused only on individual creativity, but then I started combining my background in experiential education and team development with teaching creativity to teams.

I saw that teams could indeed become more creative with training. Developing creativity in teams could reverse the mangled messages so many of us received about creativity. If we reversed those messages and developed team skills around creativity, teams could effectively navigate the complexities organizations were facing and bring positive change to their customers, clients, communities, and even the world.

Deliberate Creativity Together

Through my research and consulting work, I have learned so much about creativity and innovation. The underlying premise is that creativity will not happen by accident. It is only through deliberate work that you will be more creative. A process and a system for being creative have emerged from how we as humans naturally solve problems. I call it the Deliberate Creative Team system.

Chapter 1: Why You Need to Innovate Now

Without the removal of a brain tumor at Mayo Clinic in the 1970s, my mom would have died long before I was born. It is because of Mayo's innovative approach to medicine that I exist. For me, innovation is personal.

For Mayo Clinic, innovation has always been at the core of their identity. Because of their innovative approach to medicine and their drive for improvement, they have saved millions of lives, and their inventions and discoveries have affected nearly every human on Earth.

Mayo Clinic understands that innovation is a system.

Specific strategies, techniques, and tools make up the system for creativity. Creativity and innovation emerge by following a deliberate process, a system that allows individuals and teams to identify challenges, generate new ideas, develop those ideas, and then test and implement them.

The bottom line: Both creativity and innovation are the result of a process that leads to a product that is novel and valuable.

Innovate on Demand

As a leader, your job is to guide your team to identify problems, find new ideas, develop solutions, and implement those solutions that lead to positive change. It is a big challenge, but quite doable—because if you understand how team creativity works and you know how to bring out the best in your team members, then you can lead them to collaborate toward true innovation.

Chapter 2: Not by Magic or Chance

Two important things should be noted here:

- Creativity is a teachable, learnable skill that is available to nearly everyone.
- When we follow a system for creativity, we produce more creative and innovative results.

Creativity Is About Solving Problems

Creativity is not about drawing; it is a skill, a process, and a system. It is also less about innate ability; rather it is about working intentionally to solve problems and create new solutions to meaningful questions. It is about thinking in a new way and accepting that there is no one right answer. To develop these skills, you and your team members must learn how creativity works.

Creativity Must Be Taught

Our beliefs about creativity need to catch up with research, which is crystal clear: creativity training works.

Creativity training positively impacts communication, the fluency and originality of ideas, the ability to evaluate and implement ideas, attitudes toward divergent thinking, as well as the financial bottom line. For instance, one study

> Creativity will not happen by accident. It is only through deliberate work that you will be more creative.

reported that a manufacturing plant saw a decrease in expenditures of $40,000 per week based on one change that came about from creativity training.

The Deliberate Creative Spectrum

A team's ability to innovate falls along a spectrum. Below, the Deliberate Creative Spectrum describes five levels that teams progress through. As teams move up the ladder, their creativity grows, and their impact increases.

1. **The Destructive Creative Team:** Starting at the bottom level, destructive creative teams are destroying creative efforts. Team members quickly shoot down ideas in meetings, talk about the way things have always been done, and work to maintain the status quo. They may not intentionally be demolishing creativity. They might mean well, but fear of change drives their response.
2. **The Stagnant Creative Team:** Up one level are teams that are stagnant in their creativity. They may be thriving in other aspects of their work. Perhaps they are highly productive or successful at sales, but they do not strive to be creative. They do not necessarily destroy creativity, but they are not contributing to it either.
3. **The Sporadic Creative Team:** The sporadic creative team strives to be creative, yet they do not always know what to do. They value creativity so they try various approaches, use their intuition, and sometimes have success that leads to positive changes. But they do not know why they were creative or how to do the same things again.
4. **The Sustainable Creative Team:** The sustainable creative team uses a clear process to harness creativity. The process is reliable and repeatable, and team members understand how to apply it in a variety of contexts. Therefore, they can be creative and produce innovative results with consistency.
5. **The Scalable Creative Team:** The scalable creative team knows the creative process so well that its members can impact not only the colleagues and clients they directly work with, but also those in other parts of an organization. They become creative evangelists and a model team to follow. They teach others throughout the organization how creativity works.

The Deliberate Creative Team System

A team's ability to innovate is not based on team members' level of education or their personalities. Instead, it is based on how the team members work together, the interactions and behaviors within the group, and the process they use to innovate.

What, more specifically, leads to team innovation? Building on the previous seventy years of research, I conducted a study to look at what teams need to be creative together. The outcome was an assessment tool called the Deliberate Creative Team Scale, which measures a team's behaviors related to creativity. The results of the research show that teams need three factors to be creative:

- **Team Purpose:** A team's collective focus, shared goals, and commitment to reaching those goals. A clear sense of purpose is critical to the success of any team, whether striving to be creative or not. It helps you prioritize projects, manage your energy, and focus on what matters.
- **Team Dynamics:** The behaviors and interactions within a team and the relationships among team members. Creativity requires risk, and if team members do not have strong team dynamics, they will not take the risks needed to be more creative together.
- **Team Creative Process:** The team's use of the tools, techniques, and strategies needed to be creative. This includes the structure of team meetings, the way the agenda is designed, and how problems are presented and approached. Without a clear, shared process, the team will not advance to the sustainable or scalable levels of a Deliberate Creative Team.

Chapter 3: The Source of Innovation in Organizations

Teams are such a big part of our lives. They allow multiple perspectives, skills, and expertise to come together and meld

brainpower to achieve powerful results. Most significant projects, plans, and goals are too large and multifaceted for an individual to approach alone. Therefore, teams have become the quintessential unit of high performance—and one of the primary sources of creativity and innovation in organizations.

Multiple studies have observed a trend toward collaborative research and innovation in recent years. In an analysis of 2.1 million patents and 1.9 million research papers over five decades, research produced by teams has increased significantly compared with research by individuals. The more complex our world is, the more critical teams are for innovation. They tend to generate more innovative ideas than individuals because team members bring diverse perspectives and expertise to address challenges.

From Cooperation to Collaboration

The difference between cooperation and collaboration is essential. Cooperation is when team members support each other, share ideas, and have mutual respect; but they are, in the end, working independently and results are evaluated independently.

Collaboration is about mutual accountability and trust. Team members become interdependent, working together to produce something new. They move from sharing ideas to generating new ideas together. This work is deeper than cooperation. When teams can truly collaborate, they can be creative together.

Chapter 4: The Clarifying Force of Team Purpose

The role of a team is to collectively work toward a shared purpose. "Purpose" may also refer to vision, mission, legacy, dream, goal, performance results, or calling. In each case, the purpose is different, but all teams have—or should have—a shared purpose.

However, in many cases, there is no discussion of it. Perhaps the team leader has a general idea, but it may not be clear to all the team members. When the purpose is clearly defined, members can adjust their approach to best meet that purpose and, in turn, produce better results for the team.

The Power of Team Purpose

Team purpose is the group's collective focus. It also encompasses shared goals and the team's commitment to reaching the goals. Without commitment, goals are just a list of targets that a team does not *share* responsibility for. And commitment is not possible without shared goals, because what would the team be committing to?

How about your team? Have you talked about your purpose? If so, how recently? I recommend at least once per year and regularly referencing it throughout the year so it stays fresh in everyone's minds.

You Must Be Clear

For a team to be clear on its shared purpose, the leader needs to be clear. This may seem obvious, but it does not always happen.

For teams, sometimes a clear purpose comes from supervisors or others who are higher up. Sometimes you need to go forth with minimal guidance and figure it out among yourselves. Whichever the approach, be careful to not throw up your hands when you do not get a clear answer from above. Take the time to work through it together.

From Shared Purpose to Shared Goals

Sometimes teams have a clear, shared purpose, but they stop there. Without creating goals, the purpose may feel nebulous or wishful. Goals are how we know we are getting to the purpose. They are especially valuable in a creative team because they provide a way to communicate with each other and ensure alignment.

Additionally, shared goals only count if they are written down. Team members are not going to remember them. We have too many other things in our heads. Make teamwork easier by writing down tasks and goals. Develop your goals as a team, and then make them visual with a spreadsheet or project management software, at the top of each meeting agenda, or on the whiteboard in the work area. Pick what fits your team's style.

A Cycle of Purpose, Goals, and Commitment

Once you have clarified your team purpose and recorded your team goals, your team will work on developing its commitment. The collective sense of purpose can unite a team and bring about great commitment. Team commitment can be defined as "the relative strength of an individual's identification with and involvement in a particular team." There are three characteristics of team commitment:

- A strong belief in and acceptance of the team's values and goals
- A desire to work hard on behalf of the team
- A strong desire to remain a team member

Trust and psychological safety are necessary if you want to have strong communication and for the team to engage in creative abrasion.

Chapter 5: The Key Ingredients in Team Dynamics

If you want your team to be creative together, they need to work well together. It seems obvious, but obvious does not mean easy. Strong team dynamics require emotional intelligence, empathy, and vulnerability to get to moderate or high levels of trust, communication, and creative abrasion.

Of the three elements teams need to be creative together (team purpose, team dynamics, and team creative process), team dynamics is the hardest and most complex, but the results are worth the work.

An Environment of Trust

Trust is a tough thing. It takes time to build, although it can happen faster than you might think. It can also be lost quickly, sometimes in just one moment. This makes trust somewhat precious. Trust and its close cousin psychological safety are necessary if you want to have strong communication and for the team to engage in creative abrasion—especially for teams striving to be creative together.

Psychological safety, sometimes called participative safety or group trust, is where team members feel emotionally safe to share their ideas, perceptions, and opinions. The environment is interpersonally nonthreatening, and team members are motivated to be involved in decision-making. Teams with higher levels of trust and psychological safety can engage in the real work needed to be creative together and produce innovative results. The key to building trust is creating an environment with a high level of psychological safety.

Different types of interpersonal trust are important for teams. Gloria Barczak, a professor at Northeastern University, and her team researched how trust impacts team creativity. She points out two types of trust:

- Cognitive trust refers to "one's willingness to rely on a team member's expertise and reliability." It is when team members believe another member will do what they say they will do.
- Affective trust is "the confidence one places in a team member based on one's feelings of caring and concern illustrated by that co-worker." It is sometimes called vulnerability-based trust. It is also the belief that I can be myself and bring my best self to the team.

When teams first form, cognitive trust is most important, but as teams mature, affective trust increases in relevance.

On Conflict, and Why You Need It

In creative teams, some conflict is needed because disagreements can lead to deeper thinking around creative challenges. But conflict can be challenging. It can be hard to know when to embrace conflict to help the team better solve a problem, or avoid it because the conflict signals an underlying issue that needs to be addressed.

Relationship Conflict versus Task Conflict

Teams may experience two types of conflict:

- Relationship conflict – when team members disagree with each other because of personality or identity (for example, race, gender, sexual orientation).
- Task conflict – when team members disagree about the work itself. This may include which idea to pursue, how to move forward with an idea, or if and how to gather more information.

While relationship conflict is not helpful and is distracting from the real work, task conflict is welcomed in creative teams, because disagreements can lead to deeper thinking around creative challenges. A moderate amount of task conflict highlights different perspectives and can unearth potential problems and issues that, if explored early, can be avoided or mitigated.

Moderation is the key here. Too much task conflict and a team will never agree on anything and will not get anything done. Too little task conflict and teams risk entering into groupthink, which can be dangerous.

The sweet spot teams aim for is called creative abrasion.

How You Meet Matters

Open communication between team members increases psychological safety and trust, as well as creative abrasion.

Sharing knowledge, information, and ideas is critical for teams to develop new solutions to challenges and innovate when needed.

For many teams, a big part of open communication takes place during team meetings. Team meetings are the time when the full team is together, usually focused on their work and the present challenges. Whether it is a special meeting convened to explore a problem or a regular weekly meeting, the norms, structures, and expectations of those meetings will play a big role in a team's ability to innovate together.

Avoid Being Insular

While internal team communication is important, like many things in life, it is best in moderation. If team members communicate too much with each other and only with each other, they become too insular. They need exposure to diverse perspectives. They need to communicate with those outside their team.

In addition, communication that is too centralized can also decrease creative performance. For instance, if team members must always relay information through a supervisor or other person, or if approval needs to be given for nearly everything, they will stop asking—and therefore stop innovating. The process is too cumbersome. Impromptu direct communication is essential for creativity.

Chapter 6: The Transformative Power of Team Creative Process

One pervasive myth is that creativity requires wild abandon or recklessness and that too many constraints inhibit creativity. In reality, creativity, and especially innovation, follows a fairly consistent, structured process that involves identifying a problem or challenge, finding solutions, and then implementing one or more of those solutions.

The creative problem solving process includes a series of operations, actions, norms, tools, and techniques, as well as the spirit in which they are approached. The process is the method of working together. This includes the way team meetings are structured, the way the agenda is designed, how you track progress on tasks, your approach to projects, how new ideas get considered, and more.

Diverge, Then Converge

Understanding the difference between divergent and convergent thinking and when to use each is foundational to the creative process.

- Divergent thinking is about generating lots of ideas and perspectives. It is when you think big and bold. You go in different directions and follow various tangents. It may occur in a free-flowing or spontaneous manner. It is the classic brainstorming technique where wild, wacky ideas arise.
- Convergent thinking is where you narrow all the ideas down to the best ones. You evaluate and critique; you compare and analyze. The focus is on looking for the one "right" answer.

All of us use both divergent and convergent thinking, but the key is to be deliberate about which one you are using and when.

We are trained in one way and then asked to be another once we "grow up." If you feel like you are not creative or that you struggle with generating new ideas, you are not to blame. Creativity has been trained out of you. The same is true for your team members. You all need to be retrained in divergent thinking.

Follow these three tips to enhance your team's divergent thinking skills:

1. **Be clear about your mode.** One of the best ways you can think more divergently is to be clear with yourself and your team about when you want to engage in divergent thinking and when you want to engage in convergent thinking. Designate a certain amount of time for diverging. When the time is up, move into converging and evaluating the ideas.
2. **Use a variety of techniques.** Mix it up beyond the classic brainstorming. Using a variety of ideation tools and techniques (e.g., brainwriting, SCAMPER, associations, and forced connections) stimulates different parts of your brain and leads to more diverse ideas.
3. **Follow the divergent thinking guidelines.** These guidelines promote staying in that divergent space and ideating more readily. The guidelines are:
    - **Suspend judgment** – The key word here is "suspend." Do not evaluate the ideas at first, including your own. You will get to judge them in the convergent phase.
    - **Seek wild ideas** – You never know what the next best idea will be. The wilder you get, the better.
    - **Combine and build on ideas** – One of the great values of collaboration is that you

Now comes the hard part: Do the work.
Build your skills to lead your team on this journey
to be a Deliberate Creative Team.

can combine and build on each other's ideas, perspectives, and brilliance.

- **Go for quantity** – Quantity leads to quality. You are ultimately looking for the best ideas, but chances are the best idea is not the first one or even the tenth. Keep going and push yourself to generate more ideas.

Creative Problem Solving: The Process

Creative problem solving (CPS) is a process designed to codify our natural creative process. First developed by Alex Osborn in the 1950s, over the years, CPS has been heavily researched and refined down to four main stages:

1. **Clarify** – narrowing in on the specific goal, wish, or challenge that will be explored. This includes gathering data and determining the questions that will lead to solutions.
2. **Ideate** – generating ideas to solve the challenge.
3. **Develop** – selecting and further refining the few promising ideas that will lead to solutions.
4. **Implement** – identifying resources needed, actions to be taken, and how to overcome hurdles related to implementing the best idea(s), then getting started.

Teams who use CPS can be more creative and generate more innovative solutions. For smaller problems, the entire process might take an hour. For bigger problems, the process might take months or even years, with small cycles of the process happening throughout.

Chapter 7: From Creative Inspiration to Innovative Integration

Contrary to the popular myth, Newton did not discover gravity in a single "eureka" moment after an apple hit his head. By 1666, he had already spent years studying math and physics and developing mathematical theories that led to calculus. His understanding of gravity unfolded over twenty-one years of hard work, dead ends, and divergencies.

There is so much to glean from this story about Newton. First, we tend to be most creative in areas where we have a moderate or deep understanding. Second, inspiration is helpful for innovation, but it is just a small part of the process. The hard work that follows inspiration makes something a reality. While ideas might pop in your head when your brain is idle, that eureka moment is only the beginning.

How Purpose, Dynamics, and Process Intersect

Earlier, we explored the three elements of the Deliberate Creative Team System: team purpose, team dynamics, and team creative process. These elements don't operate on their own—they intersect, and when they do, they lead to motivation, collaboration, and alignment.

- **Motivation:** The intersection of team purpose and team creative process is motivation. To increase your team's motivation to innovate, clarify your team's purpose, invest in creativity training, and develop strong creative processes. Your team members will increase their skills and find the creative process more meaningful and rewarding.
- **Collaboration:** The overlap of team dynamics and team creative process leads to collaboration. When team members collaborate, they meld their intellect and skills to collectively create something new. The hardest part of collaboration is that it requires each individual to have a reasonable amount of interpersonal skills. As you develop your team dynamics and use intentional processes to be more creative, you will increase your team's ability to collaborate.
- **Alignment:** When teams have a clear purpose and strong team dynamics, they reach a creative alignment that drives their motivation and increases collaboration. As you get clear on your team purpose through shared goals, your team members will feel more committed to the team. That commitment also increases as the team dynamics improve.

This is the Deliberate Creative Team system. Enacting the system requires team members to develop skills and competencies along the way. As they grow together, the system

becomes a framework, a methodology, and an approach. The system takes what at first seems like a nebulous process reserved for a few with the "creative gene" and turns it into an explicit, clear approach the team can follow to be more creative.

Chapter 8: How to Clear the Path for Creativity

There are many barriers to being creative. These include lack of time, scarcity of resources, a discouraging company culture, and limited internal beliefs. As a leader, you want your team to eliminate these barriers.

Find the Time

There are typically two big challenges with time. The first is an organization using outdated processes and procedures that could be streamlined to free up more time. The second is that as people begin new initiatives and new processes, they do not let go of the old ones.

Do your employees and clients a favor and update your procedures to be efficient and eliminate those that are no longer needed. A great approach to making this change is to use the creative problem solving process to clarify the issue, generate new ideas, develop them into solutions, and finally implement the new changes. And for everyone's sanity, please use modern technology.

Budget for Innovation

Innovation is never in the budget. Budgets are built around last year's ideas, situation, and plan. You cannot be innovative if you stick to the budget. Do yourself a favor and next time you write a budget, include a line item for new ideas. Perhaps something evolves that then becomes a significant income stream, improves an inefficiency, or leads to an important change.

Measure What Matters

When teams number their ideas, they generate more ideas. Since having more ideas leads to better ideas, numbering them makes sense. When you first start ideating with a team, aim for a certain number of new ideas. Depending on how much time you have, start low, maybe thirty-five or fifty ideas. As you gain more experience or if you have more time, aim for one hundred or more.

Abandon the Status Quo

It takes a little rebelliousness to be creative. Creativity is about abandoning the status quo. It is about letting go of some people's favorite phrase, "We have always done it this way." If those seven words are like a sword to your heart and cause pain deep in your belly, then you are rebellious enough to be creative. The challenge is you have to push back against "If it ain't broke, don't fix it." Some people cannot tell it is broken. The process is so ingrained in their head that they no longer notice it takes fifteen steps instead of three.

Set Up for Successful Change

Adaptive problems resist simple technical solutions because they require a change in human behavior. They may require individuals to shift their identity, learn new skills, or let go of old habits. They are much harder than technical changes.

As a leader, when you want to lead a change, you need to assess if others will be threatened in any of these areas. Then you decide if you need to approach the problem as an adaptive or technical problem. If you can get that part of the approach right, your change efforts will be much more successful.

Take Risks

The challenge with doing something new is that it has not been done before (at least in this context) so you cannot know if it will work. Be willing to take the risk and try. Organizations that have a culture where failure is acceptable, and even encouraged, tend to also foster the most innovation. You want to set up systems and opportunities where failure is okay.

Expose Limiting Internal Beliefs

You likely experience imposter syndrome from time to time. So do your team members. While you cannot get in their heads and control their inner thoughts, you can provide encouragement and tell them when they are doing a good job. Tell them you are proud of them and that you value their work. Perhaps talk about imposter syndrome as a team. Most importantly, do not let your inner critic, your self-doubt—whatever you want to call it—stop you from getting creative and serving those who matter with your innovations.

Barriers to new ideas, new approaches, and new ways of doing things are normal. They are part of our human experience. The barriers are part of what makes innovation risky and challenging. They also make you stronger and more resilient, and they make innovative wins so much sweeter.

Chapter 9: For Humanity

Innovation is not about us. It is not about the accolades or rewards or getting our name on the patent. It is about

serving others. It is about changing lives and doing good in the world. When we focus too much on ourselves, our work is not as strong or impactful. When we focus on serving others, it leads us to profound results. If you keep in mind who you are serving, it can keep you motivated and focused on innovation.

Creativity is about identifying problems and finding solutions and doing that over and over again. You now know how to lead your team to be deliberate creatives. You know how to cultivate your team purpose, facilitate strong team dynamics, and lead the team creative process.

Now comes the hard part: Do the work. Build your skills to lead your team on this journey to be a Deliberate Creative Team.

Work together to learn to be more creative. Learning together builds team trust and cohesion, and you already know how important that is. When your team gets clear on its purpose, builds strong team dynamics together, and everyone knows and uses the creative process, then creativity will flourish. That creativity will lead to innovative results so that you and your team can positively impact your clients, customers, communities, and even the world.



Dr. Amy Climer is a thought leader and consultant specializing in innovation and team development, helping organizations unlock creative potential to drive innovation. As founder of Climer Consulting, she has worked with clients such as Mayo Clinic, the US Department of Homeland Security, FOX Sports, and the University of Wisconsin. She holds a PhD in leadership and change from Antioch University, where her research produced the Deliberate Creative Team Scale, a tool for measuring team creativity. A TEDx speaker and Certified Speaking Professional, Dr. Climer is also the creator of Climer Cards, a popular tool for creativity and team building. Based in Asheville, North Carolina, she balances her consulting work with outdoor pursuits, including leading whitewater canoeing courses and woodworking.

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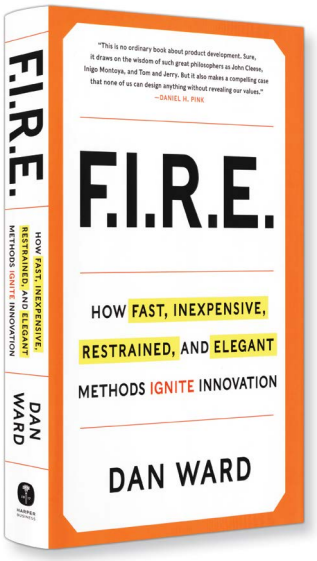
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F.I.R.E.

How Fast, Inexpensive, Restrained and Elegant Methods Ignite Innovation



by Dan Ward

THE SUMMARY IN BRIEF

Why do some projects deliver under budget and ahead of schedule, while others cost more and take longer than expected? More important, which products work better: the quick and thrifty or the slow and expensive?

In a story-filled blend of quirky pop culture and practical engineering insight, Dan Ward's *F.I.R.E.* answers those questions and more. Ward's extensive research and firsthand experience show how the world's top technologists consistently deliver best-in-class results on shoestring budgets and cannonball schedules, and using skeleton crews.

But this is not just a book about how to win. With unflinching candor, Ward shows how the FIRE method, even when followed wisely and well, can result in a flop. Taking a deep look at several negative outcomes, he shows how to make failures optimal rather than epic.

F.I.R.E. provides strategic concepts for leaders, decision-making principles for managers and practical tools for people working on anything from spacecraft and fighter jets to websites and children's toys. Technology professionals and curious amateurs alike will come away with a deeper understanding of effective product design.

IN THIS SUMMARY, YOU WILL LEARN:

- Build strategies for speed.
- Streamline your designs.
- Design your products and processes with less cost.
- Unleash the power of small teams and short meetings.

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THE COMPLETE SUMMARY: **F.I.R.E.**

by Dan Ward

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Introduction

In 2003, the acronym FIST (Fast, Inexpensive, Simple, Tiny) was coined to describe the U.S. military's approach to high-speed, low-cost innovation. This method uses constraints to foster creativity and, through a thoughtful application of speed, thrift, simplicity and restraint, has a track record of producing best-in-class and first-in-class technologies.

Over the next decade, the idea was refined in a series of journal articles and conference presentations, and the approach was implemented in half a dozen projects. Along the way, a wider network was built that used FIST methods and techniques to build everything from spacecraft to software.

When it seemed a reboot was in order, a new acronym emerged: FIRE (Fast, Inexpensive, Restrained, Elegant). While FIST aimed to reduce the time, cost and complexity associated with developing new military gear, FIRE extends these methods to applications beyond the battlefield. The idea was to take the concept from the profession of arms and bring it to the marketplace.

The FIRE Method

Why do some programs deliver their product under budget, while others see their costs expand by orders of magnitude? Why do some deliver ahead of schedule, while others experience endless delay after endless delay? And, most critically, which products work better — the quick and thrifty or the slow and expensive? Which situation leads to superior equipment?

After a few years of conducting research into these questions, the pattern that emerged is this: The most successful project leaders from government and industry alike tend to deliver top-shelf stuff with a skeleton crew, a shoestring budget and a cannonball schedule. Project leaders continually echoed one theme: "We had no time and no money. We were just lucky to have a small team of really creative, dedicated people, and we got it done."

In contrast, project leaders who are cursed with large budgets, large teams and long schedules generally have a difficult time delivering even a fraction of the promised capability, an outcome often blamed on an excessively cumbersome process. Interestingly, when faced with cancellation due to severe cost overruns and delays, these leaders typically respond, "If I had a little more time and money, I could fix this."

Yes, those who had the largest budgets were most likely to ask for more money and least likely to deliver an actual working product. Those with the smallest budgets were most likely to have cash left over after delivering 10 pounds of awesome in a five-pound purse. The faster, cheaper stuff also tends to perform better in actual use than the slower, more expensive stuff.

The idea that spending less time and money leads to better outcomes sounds a bit like claiming that moderate amounts of red wine and dark chocolate are good for you. Surely this is too good to be true. Be forewarned: just because FIRE is possible does not mean it is necessarily easy to implement.

Successful project leaders tend to place a premium on simplicity in their organizations, processes, documentation and technologies. They tend to view simplicity as a desirable attribute and pursue opportunities to simplify when they are able.

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FIRE codifies the practices, principles and tools used by some of the best technology developers in the world — people who sent spacecraft on intercept courses with asteroids or who built fighter planes that dominated the skies of World War II. FIRE also describes the way clever toy designers teach science lessons that are actually fun. The project leaders who embrace speed, thrift, simplicity and restraint tend to deliver affordable equipment that is available when it's needed and effective when it's used.

FIRE is emphatically not a process-improvement initiative. The primary objective is to improve our objectives and outcomes rather than our processes. FIRE is all about helping people make good decisions as we design and create new things. Accordingly, there is a set of practical heuristics — rules of thumb designed to help actual people make good decisions. These little guidelines don't dictate behavior; nor do they represent a step-by-step formula. Instead, the heuristic approach echoes Visa CEO Dee Hock's explanation of how he succeeded in founding the Visa credit card association: "We have no precise plan, only a clear sense of direction."

Before getting into the guidelines themselves, we need to take a closer look at the four components of FIRE, to see how they combine to foster that "clear sense of direction."

F Is for Fast

The F in FIRE stands for fast, which says it's important and good to have a short schedule. It's about defining a project objective that can be satisfied on a short timeline, not one we know full well will require 20 years to accomplish.

The precise definition of "short timeline" will naturally vary from context to context. As a general rule, speed is good. Slow kills. Speed fosters stability within a program and reduces our exposure to the forces of change. Speed enhances accountability and learning for the team members. Speed increases the likelihood that the product will be well aligned with both the market's interest and the available technologies.

But here is the twist: we must not be content with the superficial appearance of speed, where we appear to be moving quickly but are in fact spinning our wheels or running in the wrong direction. Nor should we pursue speed at the expense of doing good work. This means no cutting corners, no skipping essential steps in the development process. The project is only fast if we do quality work on a short timeline.

I Is for Inexpensive

The I in FIRE — for inexpensive — says it's important to have a small budget. That may be an unpopular position in an environment in which budgets equal prestige, but the ability to deliver meaningful capabilities on a shoestring is actually a widely respected skill, even in the cash-rich defense business. Ask yourself, would you rather be known as the person who manages a $50 billion project that is late or over budget or the guy who makes great things happen without busting the bank?

But just as fast does not mean hasty; inexpensive is not the same as cheap. A low-cost solution that doesn't work is actually a pretty expensive solution. Inexpensive does not mean simply picking the low bidder or settling for an inadequate component. Being inexpensive is about designing our organizations and processes with thrift in mind and solving problems with intellectual capital instead of financial capital. It's about setting program goals that can be satisfied on lean budgets and finding thrifty ways to perform even the expensive-sounding functions. The key is to treat the budget as a constraint, not a starting point to be expanded later. We're trying to get the most bang for our buck.

R Is for Restrained

The third piece of FIRE stands for restrained. This is the common thread that runs through the whole FIRE concept. It is a preference for self-control, for tight budgets and small teams, for short schedules, short meetings and short documents.

Yes, there's a point at which an organization isn't large enough to do the work and a point at which a document or briefing doesn't convey all the necessary information. As a general rule, we could get a lot closer to that boundary than we typically do.

E Is for Elegant

The E in FIRE stands for elegant in the sense of "pleasingly ingenious and simple." Simplicity is an ironically complex topic. Embracing elegant simplicity means designing our organizations and processes with simplicity in mind. It's about stating our goals clearly and incorporating mature, proven technologies into our designs. True sophistication, true design maturity and true process maturity are shown through deep simplicity, not through brain-meltingly complex diagrams and structures.

A certain degree of complexity is inevitable in any situation. While we may not be able to avoid complexity entirely, we can certainly take steps to minimize it. But

merely simplifying our design without making it better is a superficial application of simplicity. For simplicity to be elegant and virtuous, it needs to improve the project's quality, performance or usability.

The FIRE Principles

Soldiers, spies and other operatives who regularly face unpredictable scenarios must rely on tradecraft and ingenuity rather than rigidly defined procedures, to accomplish their missions. Mastering tradecraft involves learning a set of general protocols to guide behavior and decision-making in uncertain situations, then learning when and how to apply each one. Engineers, architects and other skilled professionals have a similar approach, relying on broad heuristics and rules of thumb to solve specific problems as they emerge. Accordingly, FIRE is a heuristic-based approach.

Unlike a rule-based approach, FIRE presupposes that wisdom resides in the hearer and doer rather than in the rule itself. Heuristics and rules of thumb suggest rather than dictate, offering illumination rather than demanding imitation. This more flexible approach acknowledges that the person doing the work is ultimately the source of goodness and is thus free to focus on outcomes rather than compliance.

A good rule of thumb conveys a depth of experience that goes beyond what can be captured in words on a page. Any attempt to define and explain a heuristic in writing will be partial at best. Text lacks the experiential context, hand gestures and immediacy that accompany a teaching moment where one person says to another, "In this situation, I find it helps to do this," or "Here is how we generally approach this type of problem." Therefore, the following summary of principles is offered as a representative sample rather than a comprehensive listing. The explanations accompanying each one are mere introductions to the practice rather than a rigorous analysis of theory. The objective is to indicate the type of thinking inherent in the FIRE approach, not to offer a definitive rule set. Consider this a jumping-off point for your own reflection, discussion and experimentation.

• **You Cannot Design Anything Without Revealing Your Values:** Project management is fundamentally a decision-making discipline. It involves making decisions about topics ranging from process and organization to technical architectures and choices of materials. The decisions we make shape the project's outcomes, but the decisions themselves — particularly design decisions — are shaped by the preferences, priorities and values of the decision maker. FIRE proposes a value set based on speed, thrift, simplicity and self-control. It posits that these four attributes are productive values and, when used to shape our decision-making, lead to desirable outcomes. But whether our decisions are shaped by the FIRE values or something else, it is wise to be aware of what we value and, as much as possible, to select values that are consistent with our objectives.

• **You Cannot Change Just One Thing:** Let's call this Systems Engineering Rule 1: Everything is connected to something, so in all but the simplest situations, changes to one aspect will have implications for other parts of the system. In terms of implementing FIRE, this means we can't simply shorten the schedule but leave everything else the same and expect to get a good result. FIRE aims to provide a comprehensive framework for making changes across the spectrum of decision-making rather than offering a tool to change just one or two aspects of the work.

• **Constraints Foster Creativity:** When we do not have enough time, money or manpower to pursue typical solutions, we are forced by circumstances to consider alternatives. This is a good thing. Constraints — temporal, financial, physical or otherwise — take the obvious approach off the table and lead us toward the non-obvious. The result of this minimalist approach, if done well, is a distilled essence of what really matters. Establishing strict constraints therefore can help prevent overengineered solutions, bloated software and incoherent PowerPoint decks.

• **Focus Fosters Speed:** If your priorities are clear and your activities are oriented toward an overarching objective, you'll find that things move along with minimal expenditure of time. Keeping the objective in sharp focus strips away distractions that slow us down. So, one of the key FIRE disciplines is to establish and maintain a small list of Most Important Things. This list should not have more than three things on it. Any more than three, and we'll find ourselves bogged down, slowed down and perpetually late to the party.

• **Speed Validates the Need:** If we don't plan to acquire a new product for another decade, there's a good chance we don't really need it. That is, if we don't need it now, we can't really say for sure whether we'll need it 10 years from now. It is much more accurate to say we have current needs and future wants. A short-term due date indicates a greater degree of legitimacy than a long-term due date. When we need something right away, it's generally because we have a clear understanding of some capability gap.

• **To Finish Early, Start Early:** When we have a firm deadline, the only way to add more time to our schedule is on the front end. For those of us who don't have a time machine, this might sound impossible. It isn't. With a little creativity and forethought, we can find many ways to "start before we start." Part of the answer involves constantly playing and experimenting. If we always have a collection of sketches, notes, ideas and prototypes in the works, we'll be ready to respond when a new request emerges.

• **Delays Cause Delays:** A schedule delay increases the program's exposure to change, as new technologies, new threats, new people and new economic realities conspire to place new demands on the project. Answering these demands takes time, and spending more time means we are exposed to even more changes. Thus the death spiral begins. The solution is to fight tooth and nail against any delays.

• **A Project Leader's Influence Is Inversely Proportional to the Budget:** An expensive project attracts more attention than an inexpensive one, and the more money we plan to spend, the more "help" we are likely to receive from various entities within the hierarchy. In contrast, smaller budgets correlate with autonomy; below a certain threshold, the project simply does not appear prestigious enough, important enough or risky enough to merit attention from senior managers.

• **Complexity Is Not a Sign of Sophistication:** Making something more complicated requires effort, not skill; there is a difference. A truly sophisticated design is one in which complexity is minimized. All unnecessary, redundant, excessive, duplicative components are removed, and those that remain contribute positively to the object's objective.

• **A Kick-Ass Half Is Better Than a Half-Assed Whole:** The phrasing for this particular heuristic comes from Jason Fried's book *Rework*. The idea is to be world-class at something rather than mediocre at everything.

• **The Best Way to Unleash Talent Is to Not Have Too Much of It:** This principle speaks to team size and recommends creating small teams of talented people. Large teams tend to dilute or even mute the talents of the members, thanks to the organizational version of the bystander effect, in which the mere presence of a crowd inhibits action and reduces people's feelings of responsibility.

• **Minimize the Distance Between Decision and Action:** The idea of reducing the distance between decisions and actions is a central theme of Peter Drucker's book *The Practice of Management*, in which he writes, "A decision should always be made at the lowest possible level and as close to the scene of action as possible." Relying on small groups of smart people and resisting constant organizational growth helps keep decision-making close to the action and ensures that things are handled by the smallest possible competent entity.

• **The Tactical Ability to Rapidly Deliver New Capabilities Is Itself a Strategic Capability:** Former secretary of the Navy Richard Danzig makes the case, in a 2011 report, that in an environment of rapid change, long-term projects are a losing proposition. The future is opaque, so the further out we extend the time horizon, the more unpredictable changes will come our way. Danzig's recommendation to build for the short term is good advice even outside the realm of military technology. The idea is that constrained timelines allow for timely course corrections and prevent corporate sclerosis, keeping our products well aligned with the need. Thus, building for the short term does not mean focusing only on the short term. Our technology projects may be oriented toward the immediate, but our ability to consistently produce them is a long-term strategic strength.

• **The Future Will Be Surprising; Prepare Accordingly:** Building for the short term doesn't excuse us from doing long-term thinking, particularly because if we build a system that works and is widely adopted, it's likely to remain in service longer than anyone expected and will have to adapt to a changing environment. It is therefore important to build a responsive capacity for change into our systems.

• **No More Than One Miracle Per Project:** When a product design relies on a large number of unproven, immature technologies, the opportunity for significant cost overruns and schedule delays becomes an irresistible force. Discoveries and breakthrough rarely occur on a predictable schedule, so if a product requires several advances to occur before it can be built, we are setting ourselves and our customers up for disappointment. Therefore, product designs should take maximum advantage of existing materials, components, pieces, functions and ideas. We need to focus on building things we know how to build, using things we know how to use.

A word of warning. These rules of thumb are shortcuts to wisdom, little Zen koans and iconic symbols hiding deeper truths. But not all heuristics are trustworthy or reliable. Beware the anti-heuristic, the shortcuts to foolishness, such as the following:

• **Faster, Better, Cheaper — Pick Two:** This supposedly self-evident guideline, sometimes called the Iron Triangle, seems rational and explicable. Upon closer exam-

ination, we discover that what little data there is to support this position is largely of the nature of a self-fulfilling prophecy. We sacrifice one leg of the triangle because we believe we must. It does not have to be this way, and as Howard McCurdy explained in his book *Faster, Better, Cheaper,* NASA proved it could simultaneously improve the cost, schedule and performance of a high-tech project.

• **You Get What You Pay For:** This silly little rule implies that we must pay a lot to ensure we get a quality product, as if a large price tag always correlates with quality. Excellence and expensiveness do not necessarily go together.

• **Take Your Time to Do It Right:** Here, we find a suggestion that excellence correlates with a slow, cautious approach, and an implication that extending the schedule will increase the quality of the final product. But this guideline tends to point us in the wrong direction by taking too jaundiced a view of speed. It implies that speedy action is the antithesis of "doing it right," when in fact slowness puts us off course just as readily as excessive speed.

The FIRE Prime Directive

Clearly some principles are more reliable and valuable than others. Discovering the difference requires a certain amount of experience and reflection. Spend some time listening to these guides, and stay close to the ones that point you in the right direction, recognizing that the best heuristics are those that draw out our own wisdom and reinforce our best tendencies while illuminating areas where our natural inclination points in the wrong direction.

Speaking of the best, it comes from the final frontier. Actually, it comes from the fictionalized version of the final frontier known as *Star Trek*.

We begin in 1966 with the original series. When Captain James Kirk and his crew set out on their five-year mission to explore strange new worlds, they were guided by Starfleet's General Order Number 1, also known as the Prime Directive. This rule prevented Starfleet officers from altering the natural progression of alien societies. The Prime Directive was expressed in slightly different ways throughout *Star Trek*'s various incarnations, but the consistent idea is one of non-interference in alien societies, particularly those that are less technologically advanced.

The underlying idea is that immature technologies can be unnecessarily complicating, expensive or even destructive. Like Captain Picard exploring a new planet, project managers should refrain from introducing high-tech components where they don't belong.

So it is with FIRE. In our projects, we should strive for a minimalist approach as much as possible, strenuously avoiding interference with the project's natural progression. There will be times when, in the name of exploration and discovery, adding an immature component or advanced piece of technology is absolutely the right thing to do. And that's okay, so long as such divergences are done deliberately and with thoughtful consideration.

Finding FIRE Solutions

With nearly 7 billion people on the planet today (and over 200,000 years since humans first appeared on the scene), it's pretty unlikely any of us will encounter a problem someone else hasn't already solved. This is good news. It means most of our solutions are out there, just waiting to be rediscovered and adopted.

Time spent on understanding a problem at the beginning is quickly outweighed by the time saved in solving the right problem, particularly if we borrow the solution from a previous solver.

The heuristic is this: *Someone has already solved your problem*. The solution might be in an old Hints from Heloise column, a PowerPoint presentation by a Special Operations dude, or hidden away in some obscure corner of the Internet. The point is, it's out there, so find it; don't reinvent it.

Regardless of the approach or the specific tool, once we have a solid understanding of the problem, we can almost always find a pre-existing solution. If every candidate solution fails to make things better, perhaps the problem statement itself needs adjusting. This practice helps ensure that our understanding of the problem is pointed in the right direction.

One of the most important heuristics is, *To finish early, start early.* Sometimes the most efficient way to start early is to let someone else start early for you.

FIRE Mechanisms

If we learned nothing else from *Tom and Jerry* cartoons, it's this: Roll a snowball down a long hill, and by the time it reaches the bottom, it will be very large indeed. This snowball effect is exactly what happens in a program when we add time and money. Whether the project is a software program, a military jet or the next iPod killer, extending the schedule to accommodate changes, add functions and fix problems means the program is exposed

to more changes (of people, technology, budgets and so on), which cost money to address and will require further schedule extensions. This exposes the program to yet more amendments and delays, and that can get expensive.

The more time and money we spend on the thing, the more complicated it gets, which in turn drives up the cost and schedule even further as we wrestle with all the complexity. Increased personnel turnover means less accountability and less learning; today's leaders are neither responsible for nor aware of yesterday's decisions and mistakes. Once we get into that cycle, it can be terribly hard to break out.

Two strategies for achieving the reverse snowball effect immediately come to mind: Start with a smaller snowball, and roll it down a shorter hill. Restricting the initial snowball size is critical, but hill length has the biggest impact, so let's begin there.

Constraining the development timeline is metaphorically equivalent to using a short hill. A tight schedule presents fewer opportunities for additional layers to accumulate and thus minimizes the snowballing.

Rather than feeling pressure to incorporate every new good idea into the current design, project leaders can focus on delivering a restrained set of capabilities at the speed of need.

Unmanned Aerial Vehicle(UAV) "Drones"

The decision to spend nearly 30 years building a fighter jet put the Air Force at the top of a very large hill. Any required capability had to be incorporated there, or it wouldn't be built at all in the foreseeable future. The result is a snowball of epic proportions. Something else happened as the F-22 spent the better part of three decades in development — something fast, inexpensive, restrained and elegant. That something was the unmanned aerial vehicle (UAV), now commonly called a drone.

Unlike the manned snowball, UAVs come in all shapes and sizes. With remarkable regularity and frequency, they fill in gaps on the battlefield and perform missions ranging from surveillance to communications to blowing stuff up with greater precision than ever before. For example, the Marine Corps' five-pound Dragon Eye surveillance drone gives forward-deployed troops eyes in the sky for roughly $60,000. Such smaller price tages (and shorter development timelines) have allowed for a greater degree of exploration and experimentation than the large manned platforms could accommodate. UAVs have also shown up in larger quantities, and their rapid development schedule ensures dynamic responsiveness and relevance to current needs and realities while simultaneously fostering rapid advances in the state of the art.

UAVs demonstrate the reverse snowball effect. Their smaller size and pilot-free simplicity enhance the speed and frequency of delivery, which in turn keeps costs down and frees up resources for other explorations. Because each UAV delivers *a* capability instead of trying to deliver *every* capability, the resulting environment is a diverse aviary of small, low-cost aircraft.

Anyone worried about economies of scale or diseconomies of diversity need only put the UAV environment alongside that of the F-22. It is immediately clear which approach is more economical. It is also immediately clear which approach delivers the most meaningful capabilities.

How can we apply the same dynamic to our projects? Start anywhere; constrain anything. Tighten the budget, and the schedule will constrict. Simplify the process and the architecture, and we'll see the cost drop. The virtuous cycle of the reverse snowball will take off automatically as long as we don't fight it. It works even better if we do it on purpose and help it along by following the full set of FIRE principles.

FIRE Successes

From 1992 to 1999, NASA launched 16 major missions under the Faster, Better, Cheaper (FBC) concept umbrella, including five trips to Mars, one to the moon, four Earth-orbiting satellites and an asteroid rendezvous. In a remarkable demonstration of good luck, nine of the first 10 missions succeeded wildly. Despite the initial string of triumphs, six out of the 16 FBC missions ultimately failed, which sounds like a high level of failure. However, it turns out, the total cost for all these 16 missions was less than the cost of the non-FBC Cassini mission to Saturn. How did NASA do it? Here are five of the unconventional secrets behind its underappreciated success.

1. Do It Wrong. The key is to undertake small, constrained experiments and build quick-and-dirty prototypes, most of which fail. This enabled NASA engineers to identify and discard impractical approaches, which eventually led them toward the right answers.

2. Reject Good Ideas. Each FBC mission focused tightly on a small set of critical activities, which meant leaders had to say no a lot. In Alexander Laufer's book *Project Success Stories*, NEAR project manager Thomas Coughlin explains, "Had I incorporated even half of these good ideas, the spacecraft would never have been built. Only those changes that could be made with negligible or minimal disruption were even considered."

3. Simplify and Accelerate Everything. Engineers on the NEAR project famously used a 12-line schedule to manage the project and were fastidious about giving three-minute reports. In contrast, non-FBC projects tend to rely on hugely complex schedules that look impressive but can end up obscuring important activities.

4. Limit innovation. Rule 61 from Laufer and Edward Hoffman's book *Ninety-Nine Rules* states, "Limit technological innovations and development to only those essential to achieve project objectives." Limiting mission objectives a little saved a lot of money, thus making funds available for other projects. However, this did not represent a trade-off between cost and quality for the individual projects. Fewer moving parts meant fewer things could break and also limited the ripple effects of any design changes.

5. Failure *Is* an Option. America's space agency is understandably proud of its rugged failure-is-not-an-option ethos, but under administrator Dan Goldin, things were a little different. Goldin made it clear from the start that some FBC projects would fail. In fact, he said a 100 percent success rate would indicate NASA wasn't trying hard enough. Of course, failures due to carelessness were not acceptable, but if a risky project failed due to the dynamics of exploring an unknown environment, that was okay. Such failures were tolerable in large part because time and money invested in each project were so limited.

FIRE Failures

Based on the F-5, the new F-20 Tigershark fit the FIRE pattern perfectly. Northrop's designers emphasized affordability from the start, since, like the F-5, it was intended for sale to allied nations whose pockets were not quite as deep as Uncle Sam's. For similar reasons, the Tigershark was made simple; it was simple to operate and simple to maintain by military personnel who lacked the extensive advanced training of American forces.

The Tigershark's production timeline matched its scramble time. Northrop rolled out the first one in 32 months, a full month ahead of schedule. The strange, unhappy conclusion to our story is this: Northrop failed to sell even a single F-20. Nobody in the entire world bought one.

Here's why that happened: When President Ronald Reagan came into office in 1981, he reversed the Carter administration's restriction on foreign weapon sales. Suddenly the Tigershark found itself competing in the marketplace with stronger, mightier planes like the F-16 Falcon. Sure an F-16 cost twice as much and required more training and maintenance, but it's what the big boys flew, so it's the one everybody wanted. Under the Carter administration's restrictive export policy, the Tigershark would almost certainly have sold nicely and served well. But because not one was ever sold, we can never know for certain. Any product that sells zero units is clearly a failure, and the Tigershark sadly belongs in that category. It was an informative flop, an educational failure.

The first thing to recognize is that the Tigershark's losses were constrained. Northrop did not spend multiple decades and multiple billions of dollars on it, so the cancellation, while no doubt painful, was not fatal. Second, the failure was almost immediately evident. The F-20 was cancelled quickly rather than having to endure a lingering, dithering demise. The F-20 failed because of FIRE. The thing is, nobody wanted a small, simple, low-cost fighter jet if they could have a larger, more complex, more expensive one instead.

Final Thoughts

Fortunately, you don't have to be in the defense or space business to use the FIRE approach, which has also been successfully applied to bridges, consumer electronics and even kitchen appliances. Whoever you are, so long as you're making decisions and solving problems, the FIRE principles can help point you in the direction of high quality and faster, simpler, less expensive outcomes.

Top-shelf technology development projects do not have to cost so much, take so long or be so complicated. By placing a premium on speed, thrift, simplicity and restraint, we can deliver first-in-class and best-in-class products without spending decades and billions. This level of performance may not be easy, but it is certainly possible. If you remember nothing else, remember that.

RECOMMENDED READING LIST

If you liked *F.I.R.E.*, you'll also like:

1. ***Little Bets* by Peter Sims.** Sims explores the value of taking small, experimental steps in developing breakthrough innovation.

2. ***Best Practices Are Stupid* by Stephen M. Shapiro.** Shapiro offers 40 counterintuitive yet proven strategies for boosting innovation and making it a repeatable, sustainable and profitable process.

3. ***The Wide Lens* by Ron Adner.** Adner offers a powerful new set of frameworks and tools that will multiply your odds of innovation success. It will change the way you see, the way you think — and the way you win.

· Book 25 of 61 ·

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Creating a Culture of Innovation

A Game Plan for Sustainable Growth and Profit

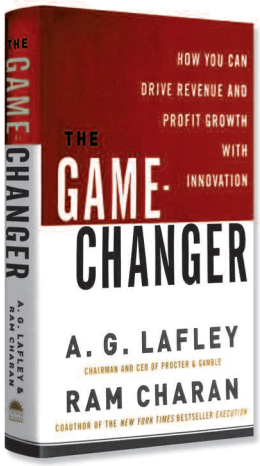
Review by Stephen Wolter

THE GAME-CHANGER

By A.G. Lafley and Ram Charan

Crown Business, $27.50

On June 6, 2000, A.G. Lafley received the most important phone call of his career. For the previous 11 months, Lafley had been working in an executive position in the beauty division of Procter & Gamble. As he was about to enter a business meeting on that June day, he answered a phone call from former Procter & Gamble CEO John Pepper, who wanted to know if Lafley was prepared to accept the CEO position at P&G. Lafley was stunned. Just the day before he had had a discussion with P&G's current CEO regarding the company's plans for the rest of the fiscal year. Now Lafley was informed that the CEO had resigned and that he was the man chosen to take the helm of one of the world's biggest and most recognized companies.



Lafley accepted the job immediately, left his meeting, and flew back to P&G's headquarters in Cincinnati. During the flight, he reflected on what he would have to do as CEO in the coming days, weeks and months, which he soon discovered was quite a lot. In 2000, P&G was struggling. Despite producing a huge number of popular products, with brand names such as Pampers, Tide, Olay and Crest, P&G's stock price had plummeted 50 percent in the first six months of the year. The company had recently changed its organizational structure while it adjusted to an increase in global competition and a host of different challenges presented by the new economy. As Lafley studied the numbers more closely during his first 24 hours as CEO, he found little to be encouraged about. "We were in worse shape than I suspected," Lafley writes.

How Lafley and his employees turned around the fortunes of Procter & Gamble is the topic of *The Game-Changer*, which Lafley cowrote with Ram Charan, the author of such business books as *Execution* and *Know-How*. Charan has built a reputation in recent years as a top-notch consultant to upper management at some of the world's largest companies.

Attributes of a Game-Changer

The two authors begin their book with an epigraph, a faux dictionary entry that defines the term "game-changer." Their definition includes seven qualities that a game-changer possesses, chief among which is the concept that the customer — not the CEO — is the boss of any organization. The other key idea that defines a game-changer is innovation. For Lafley and Charan, a successful leader uses innovation to sustain profitable growth and drive every element of a business. This leader sees innovation as an integrated end-to-end process rather than a series of steps, and understands that innovation is a social process, in which the way a company's employees interact with each other is more important than technology. In fact, the two authors examine innovation so much that the concept earned a place in the subtitle of the book: "How You Can Drive Revenue and Profit Growth with Innovation." It's an excellent summation of the ideas behind *The Game-Changer* and the motivation compelling Lafley and Charan.

The book is organized in such a way that Lafley and Charan take turns contributing their personal insights on what it takes for a leader to function as a game-changer, sometimes writing an entire chapter individually and sometimes sharing authorial credit for the same chapter. Still, the majority of the text appears to be written by Lafley, who filters his business philosophy through his experience as the Procter & Gamble CEO. (Charan, presumably, is the author when companies other than P&G are discussed.) As Lafley explains in the book's opening chapter, every business gathers around a central organizing principle, and for P&G that organizing principle is innovation. "Let me simply say," Lafley writes, "that innovation is the foundation for controlling your destiny, and was for P&G (in my experience) the real 'game-changer' — the real source of sustainable competitive advantage and the most reliable engine of sustainable growth."

Customer-Centric Innovation

In order to illustrate how game-changing works, Lafley and Charan provide a simple graphic in the book's early pages that depicts a wheel from which a series of spokes stretch outward. The wheel represents "customer-centric innovation," which is the beating heart of their business philosophy. For the authors, game-changing proceeds from the above-mentioned concept that the customer is boss. Each "spoke" attached to this core philosophy represents an aspect of an integrated managerial process necessary for any company. The authors call these processes "drivers," and each is important in delivering results when customer-centric innovation is the bedrock of a company's approach to conducting business. The drivers include such concepts as the purpose and values of a business, how to build on a company's core strengths, and the best ways to build enabling structures within a company.

"The most essential component to game-changing innovation is deeply understanding your consumer at both the rational and emotional level," Lafley writes.

For the bulk of the book, Lafley and Charan describe the various qualities of the eight drivers, sometimes devoting an entire chapter to a single driver, sometimes covering several drivers in a chapter. Regular readers of business books will recognize this as a typical device that authors often use — working through a list of ideas that form an overall business theory. But the authors are quick to point out that although they are presenting their ideas in a linear, sequential manner — something that is necessary when writing a book — the drivers should in practice be seen as part of an integrated process. Lafley admits that in his own experience this integration, in which drivers are performed in parallel, can be a messy way to work. Sometimes, as he puts it, you have to adapt and muddle your way through.

Lafley also makes it clear that he views this model of eight drivers circling a core philosophy of customer-centric innovation as exactly that — a model. He does not believe that the only method to success for every company is by following his plan precisely. Adapting to ever-changing conditions must also be taken into account. However for Lafley, and for the success of Procter & Gamble, the position of the customer remains paramount. The P&G corporate culture is filled with words and phrases that define the company's mission, he explains. But the one phrase that sums up all of P&G's priorities simply states that "the consumer is boss." That may not be the most original motto ever embraced by an American business — a slight variation, really, of "the customer is always right" — but Lafley insists that it is far more than just a slogan.

Lafley writes that for his company, customers are a rich source of innovation, but only if they are listened to and observed in their daily lives. In order to accomplish this, some P&G employees may actually take the step of living for a time with the customers who buy the company's products.

"The most essential component to game-changing innovation is deeply understanding your consumer at both the rational and emotional level," Lafley writes. "This goes well beyond basic demographics and psychographics." He goes on to explain that understanding the consumers' needs is not enough: a business must also understand its customers' aspirations.

Lafley describes a town meeting held for employees early in his tenure as the P&G chief executive. He told his coworkers that the company faced two moments of truth with its customers every day. The first was at the point of sale, when the customer was in the store and had to decide whether or not to purchase a P&G product. The second was when the customer was in her home, using the product and deciding if it was worth the money.

Did P&G do enough to convince the customer to purchase a product, and later, did it keep its brands'

promise with the customer? Only by winning both moments of truth on a daily basis, Lafley told his employees, would P&G earn its customers' loyalty, and in turn, continue to grow as a company over both the short and long term.

Who is Your WHO?

Understanding the customer better — as a means to spark innovation inside a company — sounds good on paper, but just what does it take to achieve that type of understanding?

Lafley concedes that when he took over as CEO at Procter & Gamble, the company wasn't doing a good job of seeing its customers as active participants in the innovation process. For P&G, the role of the consumer had become a passive one, in which consumers simply responded to stimuli in various demographic experiments, but with little input beyond that.

What the company needed to do was look at its customers more broadly. When matching products to customers, Lafley writes that P&G only looked at components of each customer group. For example, for shampoo, the focus was on hair; for laundry detergent, the emphasis became dirty clothes and washing machines, and so on. The company had developed a type of myopia that saw only what was important to P&G, namely products and technology.

What was missing was a solid understanding of a typical customer's life: how busy the customer was, what job responsibilities she held down (Lafley writes that P&G refers to its customers in feminine terms, as women make up the majority of those who purchase its products), what her family role was, and even what her personal aspirations and dreams were for her and her family.

Lafley provides one telling example of how P&G misunderstood what its customers really wanted in a product, despite the fact that it had created something new and, to all outward appearances, innovative. In the 1980s it developed a laundry detergent called Ariel Ultra. According to Lafley, the detergent delivered better cleaning performance while using only half as much product. Because of this, it could be packaged in smaller containers, which took up less shelf space. These were important factors when the company marketed the detergent in Mexico. Given the fact that the average income was $600 per month for a typical Mexican family, P&G reasoned, correctly, that lower-income families had limited living space. The smaller container, and the fact that customers used only half as much product as other detergents seemed like a sure winner for the Mexican market.

Wrong. Despite the fact that a huge campaign for Ariel Ultra was launched in Mexico, the product was a failure there. Mexican women would later tell P&G why the product didn't sell, although by then it was too late for the company. First of all, the women didn't believe that using half as much detergent would clean their laundry properly. And second, despite the fact that added enzymes actually improved the cleaning properties of the detergent, it didn't foam the way a typical detergent did. As P&G would later learn, many of the lower-income wage earners in Mexico perform manual labor as their principal job, and were highly aware of odor in their clothes. To the Mexican women doing laundry, foam was a sign that perspiration odors were being eliminated from dirty clothing. In just a matter of months, Ariel Ultra was eliminated from the market. As one P&G executive put it, "We could have understood. We should have understood. We didn't, so we failed."

In Lafley's view, if an innovative product doesn't achieve widespread use, it's not really innovative after all. That point can be debated, but Lafley is seeing the issue from the vantage point of a CEO, and if his company doesn't sell products, all the innovation in the world won't matter when it comes to the bottom line. To avoid mistakes like the one with Ariel Ultra, Lafley writes that a favorite slogan among the knowledge workers of P&G's various product divisions is "Who is your WHO?" WHO represents the customer. Know, appreciate and respect your WHO, Lafley advises. For those companies that don't, innovation won't happen.

Innovation Leaders

For a company to embrace a culture of innovation, it needs a leader who truly believes in the concept. Lafley writes that his most important role as a CEO is to integrate innovation into everything Procter & Gamble does. This means that he also sees himself as occupying the position of CIO — chief innovation officer.

Lafley expresses two deeply held convictions regarding innovation and leadership. The first is that innovation leaders are made, not born. The other is that innovation leadership is about making choices. He defines the job of an innovation leader as someone who inspires his company's knowledge workers in a way that will unleash their creativity, initiative and productivity. This type of inspiration requires, as Lafley puts it, a blend of IQ and EQ. The intelligence quotient of a good leader is a given, but Lafley also puts emphasis on empathy — the EQ. Empathy, he writes, is incredibly important in a people-intensive business. "We have to develop the intuition to understand and appreciate people's intentions, feelings,

and motivations," Lafley says, "all of which have been shaped by experiences that may be sharply different from our own." This sentiment reflects how Lafley views P&G's customers.

Along with their empathy, innovation leaders are also curious and accountable. They are not threatened by excellence, but rather recognize and reward it. And the most profound quality that makes innovation leaders different is their ability to embrace change — to actively seek it, in fact.

> "Along with their empathy, innovation leaders are also curious and accountable... And the most profound quality that makes innovation leaders different is their ability to embrace change — to actively seek it, in fact."

In addition to providing a detailed description of the skills that innovation leaders possess, the authors include a thorough description of the evaluation and recognition process that these same leaders must perform. Typically, they write, evaluation is tied to quantitative measures of performance. But just as in sports — where numbers are often analyzed by so-called experts to explain a team's successes or failures — the authors claim that numbers do not necessarily tell the whole story. In a company that is innovation-centered, performance appraisal needs to consider the qualitative element along with the quantitative. Why? Because, as Lafley and Charan put it, not all innovations are created equal, and different innovations follow different time horizons. Innovation leaders recognize this and are aware that some innovations are riskier than others.

Spreading Innovation

If there's a drawback to *The Game-Changer,* it's that the heavy emphasis on Procter & Gamble's business strategies and products can sometimes overwhelm the message. The cynical reader might see the book as nothing more than a 300-page infomercial for one of the world's biggest companies. But Lafley is writing about the culture he knows best. After all, if you pick up a book written by Jack Welch, you're going to learn a lot about the business culture at General Electric. In fairness to both Lafley and Charan, other major companies are discussed in the book. Also, Lafley isn't shy about saying that he's learned a lot from his failures at P&G, and he's willing enough to declare that there have been failures at the company he leads.

The concluding chapter, presumably written by Charan, focuses on the innovation leadership of Jeff Immelt, who succeeded Jack Welch at GE. After so much of the book has been about the innovation culture at P&G, this concluding chapter turns to another mega-star company to probe the current impact of innovation leadership, adding an interesting twist to the discussion.

Nevertheless, throughout their book, Lafley and Charan provide thought-provoking ideas about a business philosophy that many CEOs may not have seriously considered before. The authors insist that you don't have to be the leader of a billion-dollar company for innovation to work, and that customer-centric innovation can succeed at any organizational level.

But, predictably enough, innovation must begin at the top. When a company has a strong innovation leader, the authors claim, who pursues innovation with passion and then reinforces it with action, innovation will spread down to every level of the company. If a company leader recognizes innovation as the key to sustainable growth, and innovation is embraced with discipline, then it will become self-reinforcing within that company's culture, ever-present in the daily work of each employee who holds a position of influence.

The authors: A.G. Lafley is chairman and CEO of Procter & Gamble. In 2006 he was named CEO of the year by *Chief Executive* magazine. Ram Charan is the author of more than a dozen books on the topic of business management, including the best-selling *Execution*. His expertise has been sought by many of the world's top companies including DuPont, Nokia and Hewlett-Packard.

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True Tales From the Inventor's Incubator

Review by Chris Lauer

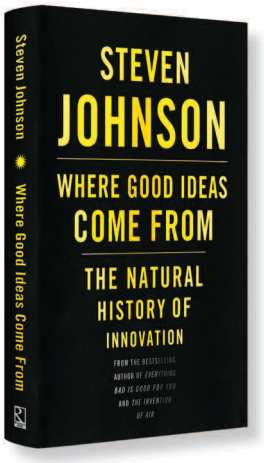
WHERE GOOD IDEAS COME FROM: THE NATURAL HISTORY OF INNOVATION

by Steven Johnson

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Good ideas generate the shape of the future. They are infinitely powerful forces in the universe. Everything around us is shaped by good ideas from both nature and people.

The list of good ideas is endless. From the sketches of Leonardo Da Vinci to Thomas Edison's lightbulb and Louis Pasteur's work in germ theory, each of these giant leaps forward was powered by human thought. Yet even these substantial innovations took time to be adopted. For centuries, the progress of change crawled along.



According to author and journalist Steven Johnson, a great example is the 20th century shifts in mass communication. Ideas followed a pattern Johnson describes as the "10/10 Rule." This is an environment in which an innovation takes 10 years to develop and 10 additional years for it to find its mass audience. However, as Johnson describes in his new book *Where Good Ideas Come From,* the innovation wave continues to change. He proposes that humans, like surfers, are becoming more and more accustomed to paddling out to meet the wave head on. His book offers a fascinating history of innovation from Johannes Gutenberg's printing press to the founding of Google.

The Ghost Map

Where Good Ideas Come From is the third book Johnson has published in the last four years about big global changes and the environments in which they grow. The first of those books is *The Ghost Map*, a chronicle of the 1854 London cholera epidemic. In this book, Johnson reveals a dark tale of death in Victorian era London. The story centers on the life-saving work of Rev. Henry Whitehead and epidemiologist Dr. John Snow, whose bright ideas saved many lives during a tragic outbreak.

Some good ideas are so innovative that they shake up the status quo, which can sometimes make it hard to be an innovator. Snow and Whitehead challenged the prevailing view of top doctors who said the disease was airborne. Snow said it was the contaminated water, and his good idea was right. His interpretations of the patterns forming around the spread of the disease helped him end the epidemic by leading him to a single contaminated pump. This way of looking at an environment and finding ideas eventually brought us safer and cleaner cities as a result.

Like Snow and Whitehead, Johnson searches for valuable patterns out of the chaos of the environment of innovation. The stories presented in both *Where Good Ideas Come From* and *The Ghost Map* dissect the skill of finding the vital patterns in tough times that lead to breakthrough innovations. Both books also focus on the metropolis as a natural organism where new ideas and technologies are cultivated.

The Invention of Air

In *The Invention of Air*, the second book in this unofficial trilogy, Johnson continues to look at scientific discoveries. He ventures from one of the world's largest cities to the fledgling American colonies to observe the influence and innovative thinking of Joseph Priestly, the chemist and theologian who discovered oxygen, sulfur dioxide, nitrous oxide, ammonia gas and soda water. Beyond his scientific breakthroughs, Priestly is also famous for fleeing from England to America to escape persecution for his religious and philosophical ideas. His correspondence with Thomas Jefferson aided the latter in his founding of the University of Virginia. Like Johnson's other two books, *The Invention of Air* looks at scientific innovations, their inventors and the places where breakthroughs take place.

While *The Invention of Air* and *The Ghost Map* each offers a single, well-rendered case study of innovation, *Where Good Ideas Come From* backs up from Johnson's absorbing subjects to take a wider look at the power of good ideas.

Compelling Stories

As an expert storyteller, Johnson weaves together the true tales in *Where Good Ideas Come From* to form a deeper, more complex understanding of how people innovate new ideas that help them illuminate and improve the world. The innovations he explores are some of the most important discoveries ever, which is why they are so compelling.

Innovation is usually a difficult concept to contain, yet Johnson's colorful anecdotes and history lessons unfold into a mesmerizing drama as theories are tested and strong ideas grow into new and useful products or tools. The characters and places he describes combine to form colorful pictures that overlap into a rich tapestry filled with exciting people, places, patterns and adventures.

His brilliant characters exemplify the best of human creativity and the exploration of new ideas. Along with their inventions, theories and equations, Johnson presents his passionate belief that there are many more great innovations simmering beneath the surface of the 21st century.

Johnson sees natural patterns emerging around history's innovations. In *Where Good Ideas Come From*, his descriptions of those patterns are exquisitely crafted. He writes that developing a better understanding of seven patterns in our habits and behaviors can help us tap into our capacity for a more creative and innovative mindset. That mindset can work to help people and their organizations become engines of innovation.

Innovative Environments

The environments in which great discoveries are made provide fascinating focal points for the exploration of innovation. Some places are rich in new ideas, others smash them before they are ripe. Johnson's curiosity about the spaces where innovation breaks through provides a helpful link for readers with which they can connect great stories about pivotal historical events to the search for good ideas in their own lives. Learning more about the environments where innovation flourishes provides hopeful inspiration for aspiring innovators, while examples of the smartest people in those places offer them valuable role models.

One interesting pattern that Johnson reveals in *Where Good Ideas Come From* comes from some recent discoveries made about cities.

Johnson loves cities, and it seems that his attraction for the power of metropolitan places is justified. According to research performed by theoretical physicist Geoffrey West and a team of international researchers and advisers who collected information on dozens of cities around the world, cities are incubators of innovation. The scientists' measurements of everything from crime to gasoline sales revealed an interesting trend: It seems that cities are much better than smaller places at creating breakthroughs. In fact, Johnson writes, West and his colleagues found that a city that is 10 times larger than its neighbor is 17 times more innovative.

For some reason, big cities make their residents more innovative than the residents of small towns. Why? Discoveries like this provide Johnson with the questions that fuel his voyage into the deep space where fresh ideas are born.

The 'Long Zoom'

By taking a lingering look at the discoveries that have shaped our world through what he calls the "long zoom," Johnson introduces readers to the patterns that appear in both nature and culture. He points out that the cells and ecosystems found in our cities often echo the innovations found in the natural world. Through a longer look at their similarities, we get a better understanding of our work spaces and the information networks of our culture.

Rather than focus on individual facets of creativity, such as the arts, science and technology, Johnson explores the entire universe of good ideas. Putting it all together, Johnson reveals processes and patterns that encourage development and collaboration. He also connects most of what we know about creativity and boils the data down to a few principles that can help us cultivate creativity in our own lives and organizations. This

cross-pollination of ideas forms a pattern of its own, which reflects the importance of open environments. Wherever innovation takes place, Johnson has found that open environments are more innovative than closed ones, and we should help good ideas complete each other as much as we drive them to compete.

Principles of Innovation

Johnson draws numerous examples from the annals of innovation history of the ways good ideas can be nurtured in a world that needs all of the good ideas it can muster.

The principles of innovation described throughout *Where Good Ideas Come From* come from the observations of scientists studying the nature of creativity on the Earth in its many varied forms. Johnson introduces readers to these principles through a set of clever terms that capture his unique set of observations. These include such elegantly titled ideas as "the adjacent possible," "liquid networks" and "the slow hunch." Although these exotic names may appear weird at first glance, they profoundly illustrate the ideas contained within them.

As British naturalist Charles Darwin did before him, Johnson searches for a unified theory on innovation that describes the types of environments where great innovations grow. That's why Johnson starts his book with Darwin's investigations of the coral reefs around the Keeling Islands in 1836 while his greatest insights were still forming around his own slow hunch.

Another hunch that led to a powerful breakthrough is the good idea of a Parisian doctor who took a stroll through the Paris Zoo one day in 1870 and got the idea to apply the technology of the zookeeper's incubator for newborn chickens to an incubator for newborn human babies. That good idea from obstetrician Stephane Tarnier helped to cut the mortality rate for low-weight babies in half.

'The Adjacent Possible'

Scientist Stuart Kauffman calls the strange nature of good ideas "the adjacent possible": One road leads to a place that leads to three new places to be discovered, and so on, into the infinite fractal future where good ideas grow others that are even more life changing than the last. As the rate of good ideas continues to grow, accelerating into exciting new regions of the universe, Johnson points out that this idea of the adjacent possible is a nice way to see that something even better might be right around the corner. An awareness of this growing nature of connections reminds us that we are always on the brink of a hunch that could lead to a modern marvel or long-awaited breakthrough. On the frontier of nearby possibilities, Johnson travels to where the horizon meets the characters who saw something new among previously ignored details. Johnson picked the adjacent possible as the first of his principles underlying the creation of good ideas because it contains both the limitations that hold back certain possibilities and the openness that is now available thanks to previous breakthroughs that created fertile environments for growth and change.

As the rate of good ideas continues to grow, accelerating into exciting new regions of the universe, Johnson points out that this idea of the adjacent possible is a nice way to see that something even better might be right around the corner.

Throughout *Where Good Ideas Come From*, Johnson never hesitates to set straight the historical record of innovation with the freshest insights and latest research available on the possibilities of good ideas. He also challenges the common modern belief that Darwin's theories are an endorsement of the belief that competition comes first in the natural world and the marketplace. Instead, Johnson explains that a deeper view of Darwin's theory reveals the natural power of collaboration and connection.

One great thing about *Where Good Ideas Come From* is its wonderful 44-page appendix, which is filled with a chronological list of all of the key innovations from 1400 to 2000 and their origins.

This list provides a captivating description of the many ways that great ideas have helped to change the world or at least improve our understanding of it. It also helps bring the many other types of innovations into clearer view, placing them among many of the top human breakthroughs of all time.

Leonardo da Vinci's Parachute

Johnson's list and analysis offers endless eye-opening historical facts. For instance, did you know the concave lens for correcting vision was invented by German cardinal Nicholas of Cusa in 1451? That was only six years after the printing press was invented. Shortly after that, Leonardo da Vinci designed the first parachute while doodling in his notebook in 1483, although the first physical test of the parachute was 300 years later in France. And where would we be without da Vinci's invention of ball bearings in 1497? The numerous entries on Johnson's list provide an abbreviated, yet useful glimpse of the best ideas that have appeared around the world in a wide variety of fields.

These important breakthroughs in science, business and culture plot an amazing course through the history of human innovation. By analyzing these discoveries and sorting them by their origins, Johnson leads readers to a clearer understanding of the historical record behind the world's best ideas. What he reveals flies in the face of many popular views of innovation.

Willis Carrier's Great Idea

Johnson's research reveals a multifaceted perspective on the source of important discoveries. Johnson explains that, yes, there have been individual innovators and inventors who have taken good ideas into the marketplace and created billion-dollar businesses. One of these people was electrical engineer Willis Carrier, a smart, young electrical engineer and researcher who made a discovery that would eventually help to change how and where people live on the planet.

While working in the lab of a heating systems manufacturer, Carrier pondered the ways he might be able to make hot buildings more tolerable environments. After discovering how to successfully lower the humidity in a Brooklyn printing company, he had a flash of insight about how to reduce the temperature as well. After designing the first air conditioner, he applied for a patent in 1904. When he was granted a patent in 1906, he and a group of engineers from his former employer quit their jobs, started the Carrier Engineering Corp. and began manufacturing air-conditioning systems.

As a result of Carrier's work, people began a mass migration to the Deep South and other places with previously intolerable climates. And Carrier got rich. In 2007, that company he created, the Carrier Corp. (now part of United Technologies) sold $15 billion worth of air conditioning equipment.

'Collective Invention'

Johnson's analysis of the top innovations of the last two centuries shows that a large majority of the most important breakthroughs were not the result of a sole inventor taking his or her new idea to market. People like that created only a small minority of the best new ideas since 1800. Today, we live in a world where most great ideas grow from collective and collaborative environments. Johnson writes that "most of the key technologies that powered the Industrial Revolution were instances of what scholars call 'collective invention.'" He points out that if we look a little closer at many of the great breakthroughs in modern technology, we will find that there was probably an organization of collaborators who shared the work that has been attributed to a sole inventor.

> "Today, we live in a world where most great ideas grow from collective and collaborative environments."

One of the most compelling thoughts in *Where Good Ideas Come From* is Johnson's extended metaphor of the coral reef, an idea to which he returns throughout the book. This image fills the book with a strong visual descriptor that sets his work in line with Darwin's search for a good idea in the coral of the Keeling Islands. The image of the reef offers readers a place to see relationships between creatures that borrow and change the work of others to suit their own needs. As he describes shells changing owners on the ocean floor, Johnson shows how these same interactions are taking place in human cities, where buildings change occupants and exchange ideas. These ideas are borrowed, shifted and recombined until they emerge new and useful. With them, we are better equipped for the future. By showing readers how to see the spaces where we work and live as potential hotbeds for innovation, Johnson reveals a guide for finding the patterns that lead to the good ideas that help us improve our schools, workplaces, governments and, especially, our everyday lives.

The author: Steven Johnson is the best-selling author of *Everything Bad Is Good For You, Mind Wide Open, Emergence* and *Interface Culture*. He is a Distinguished Writer in Residence at New York University's Department of Journalism, and the founder of several influential websites, including FEED, Plastic and outside.in. He writes for *Time, Wired, The New York Times* and *The Wall Street Journal.*

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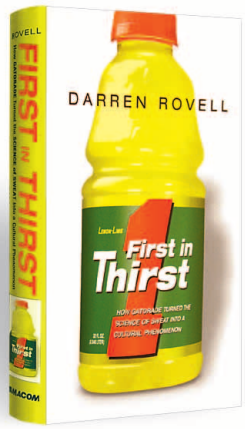
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First In Thirst

Darren Rovell

SOUNDVIEW Executive Book Summaries®

FILE: MARKETING



By Darren Rovell

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How Gatorade Turned the Science of Sweat Into a Cultural Phenomenon

FIRST IN THIRST

THE SUMMARY IN BRIEF

When was the last time you watched or took part in a sporting event where there were no sports drinks? And although there are other sports drinks out there, how often do you see a brand other than Gatorade?

Gatorade invented the sports drink 40 years ago, and it has been first in the marketplace — by a long shot — ever since. But Gatorade is more than just a thirst quencher and a dominant brand. It has become an icon of popular culture — witness the globally televised "Gatorade baths" administered to victorious football coaches — and a must-have symbol of "hip" well beyond the athlete's realm.

Published to coincide with the 40th anniversary of Gatorade's invention, First in Thirst *chronicles the rise of the sports-drink industry and the near-monopoly that Gatorade has built and maintained through savvy marketing and branding strategies. In this summary, business journalist Darren Rovell offers an inside look at the negotiations, battles, lawsuits, mergers and acquisitions, product strategies, lucky breaks, and even the missteps that have attended Gatorade's reign as the 800-pound gorilla of the sports-drink scene.*

What You'll Learn In This Summary

✓ **Discover Gatorade's history.** See how it spans the nutrition and fitness fads as well as the rise of celebrity endorsers and designer advertising.

✓ **Meet the people who invented Gatorade.** Learn which top executives and sports figures helped the inventors make it a success.

✓ **Learn how Gatorade was invented.** Get an inside look at the evolution of a global phenomenon.

✓ **Discover the nine "Gatorade Rules."** Learn which business principles helped to make Gatorade one of the most dominant brands ever.

✓ **Learn the details behind the product.** See how Gatorade's marketing process not only created and perfected a great product, but built the need and the market that would ensure that product's dominance year after year.

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FIRST IN THIRST

by Darren Rovell

— THE *COMPLETE* SUMMARY

Sweat in a Bottle

In the basement of the pharmacy wing of the J. Hillis Miller Health Center, in a room with unfinished floors and protruding pipes, surrounded by piles and piles of canned foods saved for a possible atomic attack, an eccentric nephrologist and his colleagues were working at a feverish pace.

Dr. Robert Cade, a 37-year-old associate professor of medicine who specialized in kidney disease, and his research fellows at the University of Florida were carrying out yet another experiment. They knew that the next day their magic potion would face what was sure to be its largest test yet. There was no time to spare.

It had been a month since Dewayne Douglas, a former University of Florida player who was an assistant coach of the university's freshman football squad, had sat down to lunch with Dana Shires, one of Cade's colleagues. Douglas told Shires that the freshman team was in bad shape. Over the weekend, 25 players had been admitted to the hospital's infirmary because of heat exhaustion and dehydration.

Heat-Related Diseases

In the 1960s, as many as 25 football players across the country died each year from heat-related diseases. In Florida, some players were losing more than 15 pounds during each game. Douglas pleaded with Shires to come up with something to negate the strain that the brutal summer heat had inflicted upon his players.

Players who drank too much water would get stomach cramps, while players who put too much salt in their bodies would often experience leg cramps. Making the perfect drink for football players wasn't exactly a priority for Cade. But given his history of mixing drinks at his liver-kidney symposiums, there was no chance he would pass up the idea of making a concoction in the best interest of science.

It wasn't so much that Cade thought that some day one of his ideas would make him millions. It was more about using science to solve problems. It didn't hurt that Cade was also a big sports fan. He was beginning to fall in love with the Gators. He and others knew that replacing athletes' fluids during games would be a true advantage for the team. Luckily Cade — himself a former high school track athlete — had a group of eager young medical school colleagues who were willing to follow him. Cade and Shires were aware that a decent amount of information about the physiology of body temperature was available. So they did research about sweat.

A New Solution

They also had a paper from Dr. Sidney Malawer, a medical resident, concluding that a beverage containing salt and glucose would move into the body much more quickly than water. This was helpful to Cade and Shires, who wanted to invent a drink that would benefit athletes as they played. Now, they needed to approach the University of Florida's varsity head football coach, Ray Graves, to tell him that they would need to use the players to determine the proper amounts of ingredients for their solution.

At the time, most coaches didn't allow players even water, believing that dehydration would toughen up players. Some coaches allowed players to practice "sip-and-spit," and others provided players with salt pills, but these could raise the sodium in the body to harmful levels.

The doctors told Graves that if they could devise a solution that would replenish what the players lost through sweat, it would prevent dehydration and could help strengthen them at the end of games. Graves agreed to cooperate, but only gave permission for the freshman players. His concern was understandable. He thought the solution was safe, but no one knew how it would affect performance, and his best recruits were upperclassmen.

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Sweat in a Bottle

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The Guinea Pigs and Testing

Graves allowed the scientists to attend freshman practice. With the players' consent, they were permitted to test two freshmen at a time. The doctors collected preworkout blood and urine samples, and the players put on special rubber gloves to collect their sweat. The players were injected with blue dye to measure the blood volume.

During the two-hour practice, the players dumped the sweat collected in their gloves into a bucket. The doctors analyzed the samples back at the lab. On one very hot day, the players lost 25 percent of their total body sodium, which could have been lethally dangerous.

One test subject, 6-foot-2, 242-pound tackle George Dean, later said, "We did it in part because we thought what they were doing could change the sport."

With their research in hand, it was now time for the doctors to make the drink.

Making the Drink

The simple idea of the sports drink was to replace fluids lost through perspiration. Water and various salts (or electrolytes) — sodium, potassium and magnesium — are essential to the electrical and chemical balance of the body. Since the body is about 65 percent water, fluids lost need to be replaced. Dehydration can cause headaches, dizziness, muscle cramps and, most extremely, heatstroke. The doctors had to concoct a solution — water enhanced with sodium and potassium — that would move through the body quickly to maintain fluid and salt balance during workouts. The doctors then added a mildly sweet simple sugar (glucose) to raise the players' blood sugar and provide them with an extra energy boost.

Since concocting the drink wasn't part of their daily business, they worked on it in the late afternoons. Mixing it began immediately. The original solution was colorless and didn't taste good. Cade vomited it out. The doctors weren't thinking about it reaching stores, only that it tasted so bad that players would never drink enough of it to make a difference. Shires thought it tasted like toilet bowl cleaner. They added lemons to mask the taste.

The First Test

The drink's first real test came on Oct. 1, 1965, with the freshmen playing four games against the varsity B team. Freshmen were drinking Gatorade; varsity B players had water. The youngsters easily edged the veterans. One freshman said the Gatorade gave him a lift. After that, the team's head trainer Jim Cunningham secretly ordered a batch of Gatorade for the varsity team. This was a big break for the doctors — their drink had survived its first test, and would live for another day.

The LSU Game

The very next day, the Gators were set to take on the LSU Tigers. The doctors now had to make Gatorade for the entire varsity team: a 100-liter batch. The temperature at game time was 100 degrees. The doctors were set up behind a table with hundreds of Dixie cups on it, and told the players what they were drinking — a sugar and electrolyte mixture that would make them feel better in the third and fourth quarters. The Gators won. If they had lost, that would have been the end of Gatorade. Hearing that the solution had been on the sidelines, Graves ordered it for the rest of the season for his varsity team. The Gators won their next two games against Ole Miss and North Carolina State.

The name of the drink came from the Florida Gators football team. It was the lemonade that the Gators drank, so it was dubbed "Gatorade." A sign was hung on the doctors' lab door, reading: "Dr. Cade's Lab. Home of GATORADE. Handmade by Licensed Physicians." ■

For additional information on how doctors developed Gatorade, go to: http://my.summary.com

The Mystique Is Born

The Gators finished the 1965 season a respectable 7–4, but Gatorade wasn't getting any national attention. The following year, Cade became interested in making money from it. He told Graves it would cost $5 a gallon, but the coach thought the price was too high. But after 24 players were hospitalized for dehydration, Graves called back, and Cade sold it to him for $10 a gallon.

Cade was suddenly both a scientist and a businessman, but he took it one step further. He went to the director of sponsored research at the university and asked if the university wanted to buy Gatorade, or at least give him $10,000 to keep it afloat. He offered to split his profits with the institution, but was turned down. So Cade decided to make it himself.

In 1966, the Florida Gators were led by quarterback Steve Orr Spurrier, who went on to win the Heisman Trophy that year. Whether it was the talent of the team or the help of Gatorade, no one will ever know. But the drink was soon credited with helping the Gators' cause. Players felt that the drink gave the team a psychological advantage, with Spurrier making "things happen."

Thanks to Spurrier's arm, and perhaps Gatorade, the Gators won their first seven games. By this point, most opponents had heard about the new drink the Gators were ingesting during games. In 1965, they could see huge vats of Gatorade on the sideline. In 1966, it was handed out in milk cartons. Gatorade was now a staple for the Gators, but Cade wanted to test how much it meant to the team.

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The Mystique Is Born

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Gatorade Snatchers

During the second half of the season, the Gators played the winning Georgia Bulldogs, but lost. They also didn't have their Gatorade. A truck carrying the drink to the game was forced off the road, and the drink was dumped on the ground, allegedly by Georgia fans. This event turned into a big break for the drink's inventors. The story seemed like a perfect marketing coup, and also too good to be true. Over the years, many stories were invented about what happened to the Gatorade that day. Whatever really happened, the Gators didn't have the drink, and they lost the game. During their next game against Tulane, with Gatorade back on their sideline, the Gators were back in the winning column.

Press Catches On

So far, there were no news stories about the magic new drink. But after a Miami game, a reporter for the *Miami Herald* noticed milk cartons scattered on the Gators' sideline. He asked if the players were being given milk. Graves told him about the drink, and suggested he call Cade. He then told his editors that he had an unusual story. "A liquid solution that tastes like a mint and works like a miracle may be one of the factors behind the success of the University of Florida football team this year," Neil Amdur began his *Miami Herald* piece. The story was picked up by other news outlets, but it wasn't clear that the drink could be effectively marketed. Reviews of the drink weren't flattering. Investors and beverage companies were not calling.

Gatorade Wins the Orange Bowl

The Gators ended up playing in the Orange Bowl that year against Georgia Tech. Florida won, and the Georgia Tech coach credited the Gators' win to Gatorade. But now the drink had competition. Cramer, an athletics products company from Kansas, was selling Take 5, a citrus-flavored "Instant Salt Dextrose Drink" to help replace salt and fluids lost by sweating. A lawyer for the doctors began taking steps to register the initial patent for Gatorade, and trademarking its unusual name. And Florida coaches began using the drink as a recruiting tool.

The doctors began selling it to other schools, but did not get paid much. Cade feared that his idea would die in the lab. But Alfred Stokely, chairman of the board of Stokely-Van Camp, the canned food company, found out about the "secret" new drink at the company's Christmas party in 1966. He and the company's executives wanted to take a look at it. They were spurred on by the fact that the 1966–67 University of Florida basketball team, whose players consumed Gatorade, was having the greatest year in its history. ■

From Field to Shelves

In March 1967, University of Florida scientist Dana Shires and Indiana University medical school scientist Kent Bradley walked into the Stokely-Van Camp headquarters in downtown Indianapolis. Their goal was a meeting with Hank Warren, the company's vice president of sales and marketing. They wanted to talk to him about their product, Gatorade. They ended up meeting with him; Bob Rice, the company's national sales manager; and George Lewis, the company's lead lawyer. The scientists told Warren and the others how their product had worked in Florida. "I couldn't believe what they had," was Warren's reaction.

The company's leaders tasted it, and Rice said, "It was really awful." But that didn't stop them from signing a letter of intent to examine the product.

By the time Shires and Bradley arrived at Stokely headquarters, the company was a national power in food, fruit and vegetable processing. Gatorade was not really a natural fit for the company's portfolio, but the company was already equipped to sterilize its products, a process step that Gatorade would need. Articles of incorporation had already been filed for Gatorade Inc., and the name had been trademarked. The doctors finally realized that they could make money from Gatorade, so they decided to try to get a $1 million flat fee for their product. But it wouldn't be easy. Warren wasn't sure Stokely management wanted to take it on. They finally decided to, but only on a royalty basis, where the doctors would earn a percentage of sales.

In Gatorade They Trust

That decision turned out to be a boon for the doctors. Instead of collecting a couple of hundred thousand dollars each, they were to earn more than $30 million each over the next 40 years. Stokely got exclusive world rights to make, market, sell and distribute Gatorade. To make more money, the company had several important things to do. The first was to make the product more palatable. June Davis, one of its chemists, began working on that, adding 2 percent more sugar and making it in a number of flavors. Next, Stokely decided to keep the Gatorade name and the association with the University of Florida teams. In four months, Stokely's stock price doubled.

The product was first sold in cans, but the salts in Gatorade caused it to leak and destroy whatever the cans were sitting on. Stokely decided to shift the product to 32-ounce glass bottles. Sports teams didn't like glass, so the product was shifted to pouches of powdered concentrate. Teams buying Gatorade now included Notre Dame, Purdue and Army. It soon became apparent that early Gatorade was on a roll. Helping this was Stokely's foresight to sign a deal making it the offi-

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Those Famous Green Cups

The green waxed-paper cups that have been so closely connected with Gatorade were the brainchild of a young marketing intern named Jay Funderberg, who ordered the cups as a "throw-in." The cups cost the company thousands of dollars. Funderberg almost got fired because of the cost, but he survived, and luckily, so did the idea.

From Field to Shelves

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cial sports drink of the NFL. The general public became aware of what the football players were drinking.

Early advertising dollars for Gatorade were spent in publications like the *Athletic Journal*, which went to teams and trainers. At the same time, competitors to Gatorade were being developed, such as Take 5, Sportade, Half-Time Punch, and Gookinaid (made by Bill Gookin, who was training for the 1968 U.S. Olympic Trials). Then, Gatorade was rolled out in supermarkets. An article that year about Gatorade in *Sports Illustrated* that told how it helped the athletic success of the Florida Gators boosted sales everywhere.

'The First Performance Enhancer'

"Gatorade hit at a particular time in our cultural history where people started to realize that the use of nutritional supplements was crucial to performance," said sports sociologist Jay Coakley. "At the very least this was the first performance enhancer that was marketed openly, and it was at a time when people were primed to connect science with performance."

Cade gloated about the product's success. While millions of dollars eventually flowed in, Cade gave much of his earnings from the product to charities and scholarships.

By 1969, Gatorade's national rollout was in full force. It had become the pride and joy of the Stokely brand. Stokely had rolled out Gatorade in 32 cities, including New York, and was on the cusp of beginning a $4 million advertising campaign — the most Stokely had ever spent on a single campaign for one of its brands.

An advertisement appeared in *Playboy*, and a rave review appeared in *Newsweek*. Even Elvis Presley promoted the product during his live performances. Nothing could stop Gatorade. Or so it was thought.

Cyclamate Disaster

When the University of Florida doctors were formulating the drink, they needed an artificial sweetener. A faculty member suggested calcium cyclamate. It had been used as a food additive, and so became the sweetener in Gatorade. But as early as 1950, a Food and Drug Administration (FDA) doctor noticed that studies of cyclamate in rats revealed frequent lung tumors. Eighteen years later, when it was injected into chicken eggs, a study showed an unusually high rate of birth deformities in the embryos. Although the level of cyclamate used in one test was equivalent to a person drinking 350 cans of diet soda per day, the FDA pulled cyclamate off the list of substances generally recognized as safe for use in foods.

So the doctors helped reformulate Gatorade without cyclamate. It was ready in a month, and in no time captured the number one market share. But with millions of dollars on the line, the University of Florida and the U.S. government weren't going to let the scientists, who'd been working under grants, have the invention and payouts to themselves. ■

Wrestling Over Gatorade

Gatorade had turned into a blue-chip brand, but by this time all was not well between Cade and the University of Florida. He was forced to declare that Gatorade was invented under a National Institutes of Health (NIH) grant that he had been given in order to study sodium levels in the kidneys of rats. Over a five-year period, the NIH had given Cade more than $80,000 to perform his research. A month later, the U.S. government informed Cade that since his work had been done under its grant, Gatorade might not be his to patent.

Cade and the others went ahead and incorporated Gatorade anyway. They then formed the Gatorade Trust and agreed to sell their product to Stokely-Van Camp. At a media event, Cade criticized the University of Florida for passing on his offer of the product. Reporters wanted to know how the university had committed such a blunder. Newspaper headlines appeared, such as *The Tampa Tribune*'s, "Public Funds Helped Develop Gatorade, But Taxpayers Lose Out," and *The Tallahassee Democrat*'s, "Nationwide Scandal Brews on Gatorade Drink."

The University Loses Out

Cade truly believed that the university had missed its chance. The university fought Cade even harder than the government, because as profits rose, it had more of a claim. After all, the university gave the doctors the chance to put their product on a national stage. If the football team hadn't done well while using Gatorade, it would never have made it out of the laboratory. And Stokely-Van Camp was capitalizing on the drink's association with the school.

Cade offered to give the school his entire share in the Gatorade Trust, but officials rejected the offer. Instead, the university sued him. The doctors decided to settle with the government by publishing their findings about Gatorade. The university received a 20 percent share of Gatorade's royalties, which by the end of 2004 totaled nearly $100 million. And Stokely kept the trademark. ■

The 'Tipping' Point

On a warm August night in 2003, Wagener-Salley High School's football team finally won a game after 12 straight losses, and in celebration, dumped a Gatorade cooler on coach Steve DeRiggs. This dunking has happened thousands of times over the past 20 years, in other sports as well, and gives the Gatorade brand thousands of free media mentions and impressions. It goes back to New York Giants nose guard Jim Burt dumping the drink on his coach Bill Parcells after a victory against the archrival Washington Redskins. It was a sign of affection that became a tradition for the Giants.

Parcells didn't mind the showers at all. Burt's teammate Harry Carson also got in on the act. After many more dunkings, Gatorade marketing director Bill Schmidt sent Parcells and Carson each a $1,000 Brooks Brothers gift certificate.

The grand stage for the "Gatorade bath" came at the end of Super Bowl XXI in Pasadena, Calif. There was much reaction to the Gatorade baths. Corporations wanted to get a hold of coolers for their annual meetings to dunk their CEOs. On his 76th birthday, President Ronald Reagan was given a cartoon showing an aide pouring a Gatorade bucket on him.

Product Placement

The Gatorade bath was now invading all walks of sports and life. The cooler had started out as a way to allow trainers to mix a large volume of liquid without having to transfer it. But now it was seen as one of the world's first forays into product placement. There was competition coming from Diet Coke, which was the official beverage of the Super Bowl. But Schmidt told the NFL that Gatorade also had to be on the sidelines. The NFL decided to put water in the Coke cups and Gatorade in the Gatorade cups. Water was put in the Gatorade cups as well, so the drink got even more branding. In 1998, Gatorade paid $130 million for six years of sideline rights. In 2004, Gatorade committed more than $500 million to the NFL.

There is no doubt that no other drink has ever gotten as much publicity from a dunk.

Eventually, Gatorade officials devised a prearranged package that went out to football, basketball and baseball teams at the start of every training season. The teams got coolers, towels and a holder with a logo, allowing assistants to carry squeeze bottles to the players. Gatorade became so good at this that other companies, such as Wendy's and Charles Schwab, tried to replace Gatorade's logo with theirs. These efforts failed. ■

The Deadly Dunk

Out of the thousands of Gatorade-bucket baths, only one has turned deadly. George Allen, after retiring from the Los Angeles Rams and the Washington Redskins, was coaching for the Long Beach State 49ers, and got dunked after a victory over the University of Nevada Las Vegas Running Rebels. Six weeks later, he died from heart failure. But in an interview shortly before his death, he said that he hadn't been healthy ever since he got the bath.

Allen said, "They dumped a bucket of Gatorade on me, only it wasn't Gatorade, because we can't afford Gatorade. It was ice water."

'Be Like Mike'

By the fall of 1990, Quaker Oats had bought out Stokely-Van Camp, and now owned Gatorade. But the beverage was marketed differently in the United States and Europe. In the United States, ad spending focused more on the message than on athletes. In Europe, athletes were paid endorsers of the product. American ads showed people in what Quaker executives referred to as "Gatorade moments," drinking Gatorade during a break or after their recreational league basketball or soccer game. Then there was a slogan: "Gatorade is thirst aid." By the end of 1990, sales were $900 million annually.

Another company had challenged Quaker's use of the term "thirst aid," so the company moved in line with new sports marketing trends. The company decided to follow the European "athlete endorsement" model. It wanted Michael Jordan, since Quaker was based in Chicago, and Jordan was the city's biggest star. He also lost as much as 5 pounds in water weight per game. And he loved Gatorade. The famous picture of him doing a slam dunk shows "Gatorade Thirst Quencher" on the scoreboard. By now, the product could afford Jordan.

Jordan Signs $13.5 Million Deal

In 1991, Gatorade signed Jordan to a 10-year deal worth $13.5 million. Bernie Pitzel, Gatorade's advertising chief, created the "Be Like Mike" ad for the Jordan campaign. The ad featured kids who wanted to be like Jordan. In Gatorade's 26-year history, this was its shining moment. The song was made available to the public, with profits going to the Michael Jordan Foundation. For Gatorade, it meant endless free commercials.

The alliance between Jordan and Gatorade prospered until Oct. 4, 1993. Jordan announced his retirement from basketball, a new Gatorade ad showing him playing in his Bulls uniform had to be pulled, and he switched to baseball, where he played terribly in the minor leagues. Gatorade wasn't hurt badly because it didn't count on him to carry the entire brand.

But in March 1995, Jordan announced his return to pro-

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For additional information on how the song 'Be Like Mike' was written, go to: http://my.summary.com

'Be Like Mike'

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fessional basketball. Gatorade got a few more years of basketball from him, and Jordan helped Gatorade gain space in Wal-Mart stores. Gatorade also seemed to help Jordan recover from the flu to lift the Bulls to victory over the Utah Jazz in the 1997 NBA Finals. The next year was his last with the Bulls, and when he retired again, Gatorade was more prepared. Women's soccer star Mia Hamm, Indiana Colts quarterback Peyton Manning, Houston Rockets center Yao Ming, and New York Yankees shortstop Derek Jeter became spokespeople for the brand. Then Gatorade did an ad featuring Hamm versus Jordan. It worked. Gatorade re-signed Jordan through 2007. ■

'We're Going to War'

In January 1992, Quaker and Coca-Cola were discussing a joint venture. Gatorade needed to get into Coke's worldwide system. Instead, a Coca-Cola sports drink, POWERade, was unveiled, and Quaker's potential partner became its chief competitor. Then Pepsi got in on the act with a sports drink called Mountain Dew Sport. At the time, Gatorade had 83 percent of the sports-drink market.

Coke and Pepsi Attack

Coke and Pepsi told consumers that their drinks tasted better. Gatorade said POWERade would cause cramping. The two giants then started a price war, but they ended up being hurt by it, creating the impression that their products were generic. Storage of POWERade and Mountain Dew Sport with the companies' other soft drinks, instead of with Gatorade, also hurt them. And Mountain Dew Sport, which was later renamed All Sport, was not really designed to be consumed during sports events. With commercials shown in test markets, Gatorade crushed the Pepsi drink. It also kept its place as a "sideline" beverage, in a real "unpaid-for" setting on national television.

Gatorade made sure to pay for its key properties: the NFL and the NBA. It was launched in Australia, where the ultimate thirst quencher had been beer. Back in the United States, Gatorade executives mastered the strategy of when and where to advertise, by matching soft-drink advertising during the summer, when most of the beverage was sold.

By the end of 1995, Gatorade's market share was falling, while Coke's and Pepsi's were rising.

During the 1996 Olympics in Atlanta, Coca-Cola's hometown, the soft-drink giant made a big push to unseat Gatorade, and failed. On top of that, Gatorade finally succeeded in selling to convenience stores and gas station mini-marts. Food brokers used their success with Gatorade to build relationships with other companies. Gatorade sold well through retailers. Apparently Coca-Cola executives never thought they could knock off Gatorade.

If You Can't Beat 'Em — Buy 'Em!

By 2000, Coke and Pepsi were both thinking about acquiring Quaker Oats in order to control Gatorade. Coke's board member Warren Buffet thought too much was being offered. Pepsi, already in the food business, bought Quaker Oats — and Gatorade — on Dec. 4, 2000. Now, Coke had to fight Gatorade again with its POWERade. Coke signed additional athletes. It tried to appeal to kids and mothers. By the end of 2002, it became clear how entrenched Gatorade was, with more than 80 percent of the market. The marketing battle reached its height in 2003 and 2004. POWERade used LaBron James. Because Gatorade had deals with the NBA teams, James couldn't drink out of POWERade bottles when he got back to the bench.

After 18 years of being NASCAR's official drink, Gatorade gave up that title to POWERade in 2002. Gatorade fought back by signing drivers. The competition reached a peak in 2004. Some drivers were even knocking big blowup POWERade bottles off their cars when they won. ■

The Gatorade Rules

The following are nine business principles that helped Gatorade become one of the most powerful brands in modern-day business history:

1. Make sure your product, service or brand is unique, and know what makes it unique. The drink started out as being sold only to athletic teams, but once Stokely realized that Gatorade could appeal to the mass market, it almost stopped positioning it as a sports drink. Stokely spent much time and energy trying to increase awareness of the brand through advertising that didn't always include active athletes.

2. Never stop researching the marketplace. Quaker executives realized that the thirst-quenching market was going to be enough of a business to make the company profitable. "We saw the baby boomers really coming into their prime, and the whole notion of exercise and getting out there and running was going to be huge," said Quaker Oats executive Phil Marineau.

3. Identify drivers of the business and take care of them. Bill Schmidt, the Gatorade marketer, realized that consumers would buy the product, but the "drivers," the influencers who drive sales, are the athletes and trainers.

4. Never stop working to get your next customer. From the time of Quaker Oats' acquisition of Gatorade, executives working on the brand always understood the value of grass-roots marketing. It was always important for the company to reinvest in the consumers, making sure Gatorade was sponsoring amateur events, and was available where active athletes were thirsty.

5. Packaging counts. The beverage market has always

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The Gatorade Rules

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used changes in packaging to drive sales. Early Gatorade research found that consumers were more package loyal than brand loyal. Gatorade's goal was to vary the type of packaging in order to get into the consumer's hands.

6. Learn from your mistakes. One of Gatorade's greatest mistakes was the low-calorie Gatorade Light. Gatorade tried to bring women — who made up only 20 percent of its customers — into the franchise by creating Gatorade Light in 1990. It used saccharin as a sweetener, which hurt the product's taste. But managers soon realized that consumers wanted a full Gatorade or nothing.

7. Seek to connect emotion and passion to the brand. A brand is only as good as the people behind it. Gatorade didn't fight off the onslaught of Pepsi and Coke in the early 1990s by simply having a good product. It also had good people who didn't want to lose.

8. Stay disciplined. With any major brand, the temptation is to use the brand name to branch out, but cannibalization of the brand is always a risk. Before Quaker Oats acquired Gatorade, Stokely-Van Camp had licensed the Gatorade brand name for a gum called Gatorgum. The problem with the gum was that it had no benefit that was similar to what Gatorade did for the body. Further hurting Quaker Oats was the fact that it wasn't a good seller. Quaker Oats got rid of it when the license ran out.

9. Form smart strategic alliances. Gatorade had partnerships with trainers and athletes and many leagues, but its alliance with ESPN also helped the brand grow stronger. Over the years, investing in the network's sports programming through advertising has allowed the brand to be automatically prominent in the minds of sports fans, who are not only consumers but often active participants who fall into Gatorade's target market. ■

Gatorade Critics

By 1989, Dr. Robert Cade had received nearly $8 million in royalties from the sale of Gatorade. But he was working diligently to beat out the very product that he had helped invent, and that had earned him a healthy fortune. He wanted to make a better product, called Thirst Quencher 2 (TQ2). Cade said that TQ2 would give an athlete a 30 percent longer workout than Gatorade. Quaker and the Gatorade Trust were not happy, alleging that any sports-drink improvements belonged to the trust and to Quaker. They sued Cade and the University of Florida. They settled, and TQ2 was sold to Quaker Oats, but it has never been marketed.

Pepsi's All Sport was easily shot down, because it contained bubbles and expanded consumers' stomachs.

POWERade caused more stomach upsets, because it didn't move into the small intestine fast enough.

Gatorade's Respectability

To fight off criticism, Gatorade developed the Gatorade Sports Science Institute, which has conducted studies over the years about the science of sweat. "When people see that the company has a lab, there's definitely a comfort level there that there isn't with Pepsi or Coke," says Dr. Chris Carr, sports psychologist for the Methodist Sports Medicine Center in Indianapolis, Ind.

But Gatorade actually has been beaten to the punch, since it never rolled out a during-exercise drink for professional and endurance athletes until 2004 in powder form. Specialty brands that appealed to this audience were becoming prevalent, so Gatorade came back with its Endurance Formula, which restored its dominance of the sidelines.

PacificHealth Laboratories in New Jersey is trying to beat Gatorade by developing a drink called Accelerade, the first during-exercise drink with protein — a muscle repairer — in it. Gatorade is evaluating whether protein during exercise helps.

The Dehydration Myth

Some critics say that the Gatorade Sports Science Institute overpromotes hydration in order to promote its product. South African exercise physiologist Timothy Noakes says there's nothing wrong with modest levels of dehydration in athletes, as opposed to high levels of hydration. He's written in the *British Medical Journal* that overconsumption of water or sports drinks before, during or after exercise can be fatal. Gatorade officials are sensitive to the criticism that they promote overdrinking, arguing that it rarely occurs.

Gatorade's storied history, its intricate marketing plan, its innovative sales team, and its scientific institute have all contributed in a very complex way to making it one of the strongest brands on the market today. ■

For additional information on what happened to the inventors of Gatorade, go to: http://my.summary.com

SOUNDVIEW RECOMMENDED READING LIST

If you liked *First in Thirst*, you'll also like:

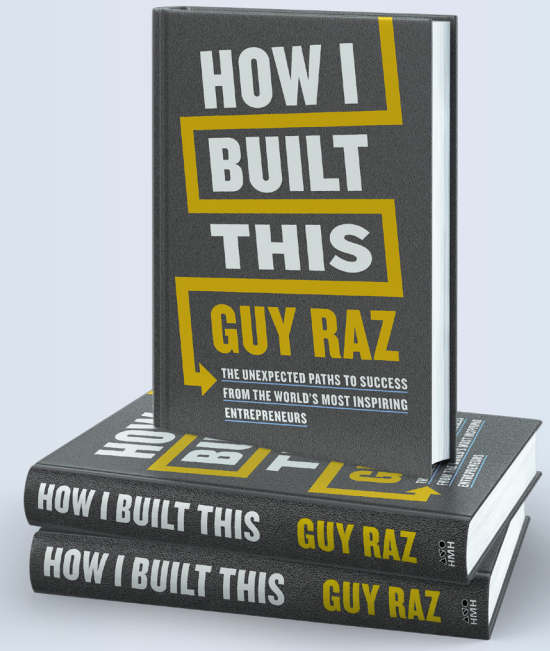
1. ***On the Ball*** **by David M. Carter and Darren Rovell.** Carter and Rovell deliver breakthrough techniques for building a business using lessons and examples from the multibillion-dollar sports industry.
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4. ***Brand Royalty*** **by Matt Haig.** Haig provides a list of 100 brand success stories, helpful commentary about them from experts in a variety of fields, and the secrets behind their worldwide recognition as great brands.
5. ***Brands and Branding*** **by Rita Clifton, John Simmons, et al.** Clifton and Simmons have brought together 15 other branding experts from around the globe to explain how successful brands can be built and sustained.

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How I Built This

Guy Raz

BOOK SNAPS™
Zooming In On Your Next Read



How I Built This

By Guy Raz

Guy Raz is the creator and host of the popular podcasts How I Built This, Wisdom from the Top, and The Rewind on Spotify. He's also the co-creator of the acclaimed podcasts TED Radio Hour and the children's programs Wow in the World and Two Whats?! and a Wow!. He's received the Edward R. Murrow Award, the Daniel Schorr Journalism Prize, the National Headliner Award, and the NABJ Award, among many others and was a Nieman journalism fellow at Harvard.

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How to Start, Launch, and Build a Successful Venture

Popular podcast personality Guy Raz is the host and creator of the podcasts "How I Built This," "TED Radio Hour," and the first-ever NPR podcast created especially for kids, "Wow in the World." His audience spans the globe with more than 19 million listeners tuning in to his wildly popular shows each and every month. When it comes to podcasting, Guy Raz tops the charts with his highly acclaimed shows that draw on his decades of experience in journalism with NPR.

The "How I Built This" podcast shares the stories behind the world's "greatest innovators, entrepreneurs, and idealists" whose work has sparked movements. The book ***How I Built This: The Unexpected Paths to Success from the World's Most Inspiring Entrepreneurs*** is based on the show and "offers priceless insights and inspiration from the world's top entrepreneurs on how to start, launch, and build a successful venture."

Raz organizes the book into three sections that "trace an entrepreneur's hero journey." "The Call" covers what happens when ideas incubate into businesses. "The Tests" shares wisdom that will help founders overcome the major hurdles inherent to any new venture. "The Destination" uncovers insights into the long term success of businesses and the people who build them.

Raz wrote the book for all those dreamers who are not "natural-born entrepreneurs or even entrepreneurs at all." This book is for those who lack experience, but excel in grit and vision. It is for people "who are idealistic but may not have found an idea worth going out on a limb for just yet." This book is organized to help normal people succeed.

The Call

Entrepreneurship is not a very "natural" calling. We all like to fit in and be part of a larger group that gains us security. Entrepreneurship is a risky business that often requires one to launch out alone and unsure. Those who embrace this call do so with "a different set of instincts." Throughout history there have been those individuals who left the comforts of home to forge a new

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path. Historically we have labeled those people "explorers." But, Raz writes, "in the twenty-first century, with the frontiers that are still open for exploration no longer physical, but technological, social, intellectual, and economic, we have given that person a new name: entrepreneur."

Entrepreneurs are not born or selected. They are self-made. Anyone can become one by answering the call. Anyone who listens to the idea swimming inside their head that breeds excitement is answering the call. Anyone who responds to a problem with a unique solution that only they can provide is answering the call. Once the call is received, there is a "critical set of things to think about as you prepare to cross the Rubicon of entrepreneurship into truly unchartered territory."

One key to being able to answer the call, is being wide open to ideas in the first place. You cannot answer the call if you are not listening for a ringer. Ideas may be a dime a dozen, but good ideas are rare. One of the timeless questions surrounding entrepreneurship is "can you actually find a good idea or does it have to find you?" Raz asserts that the answer to both questions is "yes." Looking for ideas really involves looking for problems that could use solutions. Being open to "the possibilities and perspectives around you" increases your chances of finding a launchable idea.

Taking a leap is scary but it doesn't have to be dangerous. In order to answer the call safely, entrepreneurs are wise to have a fallback plan and continue working in their "day job" for as long as possible. This may seem like you are not giving the required faith to your idea but that's not the case. All entrepreneurs suffer setbacks. Having steady income or something you can turn back to when the bottom falls out gives you "a cushion at the bottom of your entrepreneurial leap of faith so that if you do crash, you can bounce back to fight another day.

Many assume that founders of highly successful ventures choose a product or service about which they have vast experience or knowledge. Raz has found countless examples of just the opposite. Sometimes people are called into forming a business as a "consequence of curiosity and coincidence." Lacking "subject matter expertise or institutional knowledge" is not a deterrent on this kind of entrepreneurial hero's journey. In fact, it can be a "blessing."

They are not tied to predetermined bias or conventions. They are free to explore new options. However, it is imperative that they conduct thorough, exhaustive, and complete research about whatever they plan to launch. They have to "build a foundation of knowledge on which they can leverage their creative instincts and their professional judgement." Raz cites the enormously successful Away line of luggage as a prime example of this path as its founders had zero experience creating or selling luggage prior to taking their leap.

Though one person is often given credit for founding a company, more often than not, there is at least a partnership behind the scenes. Raz thinks startups with sole founders are almost automatically set up to fail. Humans are social creatures. "We live in groups. We work in teams. We mate in pairs. We thrive when we are together. It is as true in life as it is in business." Different people bring the necessary divergent skills and perspectives needed to turn an idea into a functioning organization. Find a partner that complements your skills, way of thinking, and strengths while elevating the vision you share.

The Tests

Most entrepreneurs "have a healthy fear of failure." The stark fact is that most startups fail. And even those who eventually do succeed, meet failures and setbacks of varying degrees along the way. The biggest fear that almost all entrepreneurs face full on is the fear of "if." What if your idea isn't good enough? What if it never gets off the ground. If you can just get it going, it is bound to succeed, but what if you can't? This is normal. Failure is going to happen but that shouldn't stop you from pursuing your idea. What you do with those failures, or tests, challenges and twists, can make all the difference between take off and failure to launch all together.

There has bever been a better time to launch something new than right now. The world is positively ripe with countless examples of what to do, what to avoid, and how to persevere. Those new to the entrepreneurial game only need to look to those examples to figure out how to avoid "falling into traps, making mistakes, or taking wrong turns" more than is absolutely necessary. Once is enough. Those who came before you can teach you everything you need to know about the tests your business will face.

Every market has barriers to entry and competition will be one of the greatest. Competitors will be poised to pounce if you let them know you are coming. One of your biggest defenses is to forget about entering the market through the usual channels, or as Raz calls it, "the front door." Instead, "enter through the side door" where you will be ignored. Look for niches that represent perfect opportunities for your product or service. Raz uses the powerbar RXBar as an example. The protein bar market was excessively overcrowded in retail outlets like Whole Foods. The founder looked for a side door, in this case selling direct-to-consumers in the CrossFit gym segment. Through that opening the founder was able to establish his brand before his " direct competitors could notice and stamp him out."

"Young businesses trying to find a foothold" need to zero in on exactly the right location for their business. In some cases, location choice can be obvious. Snowboards need to be sold in snowy locations. Bathing suits do better near beaches. However, sometimes a founder chooses a location that is not so obvious. For example, the founder of Shopify was told he needed to be in Silicon Valley but in reality, it was already overcrowded and ready for a bubble to burst. Instead, he kept his company's feet firmly planted in Ottawa, Canada where he had "the distance needed to be as creative and unconventional as he wanted to be." A move to Silicon Valley may have "rounded off many of the edges" of the fledgling founder's software, leaving it far less dynamic than what it ended up being. The point Raz makes through this and other examples is that sometimes a business needs to move towards the rest of the field and sometimes it

> **When you find that you and your business have finally arrived, you have to decide what comes next.**

needs to move away from it. It is "your job to figure out which camp your business belongs in."

The Destination

You may think the hardest part is over once an entrepreneur reaches their intended destination. Raz is sorry to say that achieving your objective actually marks the beginning of the real work. When you find that you and your business have finally arrived, you have to decide what comes next. "Do you keep moving and do it again? Do you stick around? Do you build? What do you build? How big? With what? And why?" These types of questions become all consuming and anxiety provoking. You may begin to wonder if all of this is really worth it and why you are continuing to put yourself through it.

In the earlier phases, you are figuring out what needs to be done to survive another day, hopefully moving ever closer to the goal line. Once you cross it, it's time to figure out if you want this business to stand the test of time. If so, what you are really talking about is your own legacy. This pulls in contemplations of your "mission and values" and how to "honor all the work you put in and treat those who helped you get here well." On top of that, grappling with these next steps leads you to answers that will "make you feel successful." If you get to your destination for reasons that are not authentically you or "along the way you lost sight of what inspired you from those very first days, then the long, arduous entrepreneurial journey may fill you with regret." The real destination is not profit alone. It is "also about finding and fulfilling a deeper purpose."

Businesses that remain long after a founder is gone "act as a force for good in the world." As a founding entrepreneur, your company's mission ensures that your business is about more than money. It is your responsibility to "identify and articulate it from the very beginning." Your mission must be fiercely protected and upheld in good times and in bad. Your mission gives you and those around you a reason to keep going, fighting the good fight, even when it is tempting to throw in the towel and walk away. It makes the business about something bigger and greater than your product, your efforts, and yourself. Become mission-first over money-first.

Founders must be intentional about culture if they want both themselves and their businesses to thrive. Many entrepreneurs find themselves in a sticky trap that, if left alone, could be hugely detrimental on a personal and professional basis. This may sound dramatic, but it is true. It comes down to whether you build a culture that is founder-centric or whether you learn to let go and rely on the team you have assembled.

In a founder-centric organization, "the impulse is to do everything yourself, to believe that only you know best, and then to build processes that reflect that belief." After all, you have nurtured this from its origin as an idea inside your own head to a full-fledged business. "It becomes difficult to know where you end and the company begins." If things go wrong, you take the responsibility as your own and work ever harder to avoid mistakes or wrong turns. This takes a tremendous toll both physically and emotionally.

Instead, entrepreneurs must put the business, not themselves, at the center. A major part of that process is creating a culture that can leverage each and every person on the team. It should be incorporated into recruiting, hiring, and daily life at the organization. Micromanaging and merging your own identity with that of your business is a recipe for ruin.

Guy Raz has found inspiration, wisdom, and camaraderie through the interviews he has conducted with founders and entrepreneurs. One of the most important lessons he has learned from them, and his own experience as an entrepreneur, is that the journey can be a lonely place. He writes, "Starting a business–starting anything creative for that matter–is difficult. It is a twisting road with hours, days, weeks, and months filled with struggle and failure and self donut and even tears." It is all too easy to not only feel the weight of the world on your shoulders, but to be overburdened holding it all up. The despair and stress and overwhelm encountered by entrepreneurs motivated Raz to produce the "How I Built This" podcast and to write the book.

Raz wants you to know, despite how you may feel, you are most definitely not alone. In ***How I Built This***, "you have every single entrepreneur who has come before you and has made the mistakes you can learn from without having to make those mistakes yourself." Raz's book serves as a means of support and refuge to build your confidence as you build your business. It is an excellent resource for anyone who finds themselves traveling at any point along the entrepreneur's journey.

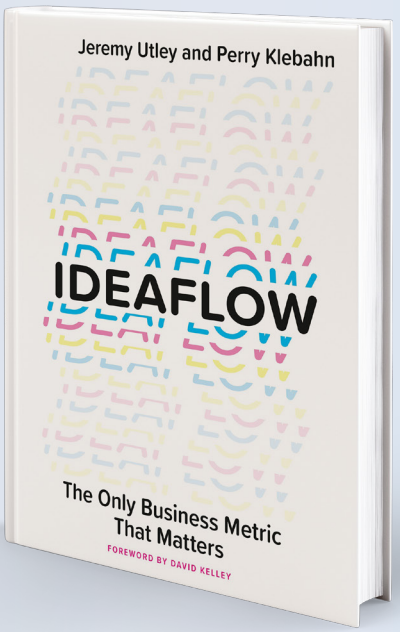
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Ideaflow

Jeremy Utley, Perry Klebahn

BOOK SNAPS™

Zooming In On Your Next Read



Ideaflow

The Only Business Metric That Matters

By Jeremy Utley and Perry Klebahn

Jeremy Utley is the director of executive education at Stanford's d.school and an adjunct professor at Stanford's School of Engineering. He is the host of the d.school's widely popular program "Stanford's Masters of Creativity."

Perry Klebahn is a cofounding member of Stanford's d.school faculty. He is an adjunct professor and director of executive education at Stanford's d.school. He has served as COO for Patagonia and as CEO of Timbuk2.

The Only Business Metric That Matters

In their book ***Ideaflow: The Only Business Metric that Matters,*** authors Jeremy Utley and Perry Klebahn make the claim that there are two types of problems: one a person does not know how to solve and one they do know how to solve. They claim that true problems are always idea problems, and they only respond to ideas. These problems occur in all different realms, but the tactics the authors give to help generate ideas to solve these problems can be generalized and used by professionals in all areas. The authors encourage their readers to think beyond the traditionally creative fields and realize that all professionals are called to be creative. The very basis of ideaflow is that in order to come up with truly high quality and innovative solutions, people need to generate a large number of ideas. For them, the world of creativity is a place where quantity should be placed above quality because it is not until a large number of ideas are generated that the true gems can be found, refined, and implemented.

At the beginning of the book, Utley and Klebahn quote a seventh grade student who said to them, "Creativity is doing more than the first thing that comes to your mind." They believe that when a person or team stops generating ideas when they come up with something that is good enough, they will never find anything that is great, and they possibly might not even find anything that works at all.

They explain that the human brain does not come up with new information from scratch. Rather, creativity and idea generation happen when the brain combines what it already knows in new and innovative ways. They believe that creativity is a skill that can be mastered, and they use this book to teach the reader the steps needed to master it. In the end, however, they advise the reader that reading the book will only get the reader so far. In order to make creative progress, the reader then needs to put the book aside and implement the suggestions and steps they give throughout.

The authors describe ideaflow as the number of ideas a group can generate in a certain amount of time. To them, this is the most useful way to measure creativity. To test a person's ideaflow, they recommend a person give themself a set amount of time to try to come up with as many possible subject lines for an email as possible. The goal is not to have the highest number

in a group but to grow one's own number of ideas over time. They maintain throughout the book that the best ideas come after the most obvious ideas have already been given, thus they insist that people continue to generate ideas after they believe they have thought of every possibility.

One way to improve creativity that the authors advocate is by enacting the idea quota. They say that idea quotas help people switch their thinking from focusing on quality to focusing on quantity. They give three steps for performing the idea quota:

"1. Seed. Select the problem and study it.

2. Sleep. Let the unconscious mind process the problem.

3. Solve. Flood the problem with ideas."

Utley and Klebahn claim that the biggest obstacle to ideaflow is internal censorship. This self-censorship helps people function in their daily lives, and it is reinforced quite frequently. Unfortunately, it limits creative thinking. The idea quota is one way to work against this internal censorship.

Also key to creativity is documentation. Utley and Klebahn insist on the importance of writing ideas down because otherwise good ideas will be forgotten. As an example, they explain a time when one of the authors came up with a great idea before bed and was tempted not to write it down. He wrote it down anyway. Awaking the next morning, he believed he remembered the idea, but when he looked at what he had written, it was completely different. Had he not written it down, the idea would have been gone forever. Utley and Klebahn recommend not just writing down ideas but also "interesting quotas, facts, stories, statistics, and other inputs." People should make it a habit to frequently review their notes.

In the next chapter, Utley and Klebahn tackle the ineffectiveness of traditional brainstorming techniques. Again extol the benefits of quantity of ideas, they believe that to come up with a successful idea, people need to generate 2,000 ideas. With this, they are not referring to 2,000 totally unique ideas as this number also includes all the different iterations and variations that are created. The key to getting so many ideas is to develop successful processes for doing so.

While idea generation is critical, winnowing and validation are also important. Through these processes, ideas can be used to create more ideas and insights. While brainstorming, it is important to give people a large number of ideas to come up with so that they do not stagnate and stop generating new ideas. There are numerous barriers people come across when they try to brainstorm in groups.

One of these is that people falsely believe that a need to generate many ideas is a waste of time. Another barrier is that people believe their creativity is being used up during brainstorming sessions, so they do not persist as long as they need to. Anchoring bias is another barrier by which people cling on to the first good idea they hear. Finally an additional barrier is the Einstellung effect which is the phenomenon whereby one possible solution prevents people from seeing other solutions. To overcome these barriers, it is important to have a good mix of people without too few or too many. Another suggestion is to give the participants time to come up with ideas before they are expected to share them. In addition, it can be helpful to give people warm up exercises or to split them into groups. At the end of a session, it is important for small groups to share their ideas and then for all to have a clear idea of what the next steps are.

Utley and Klebahn insist throughout the book on the absolute necessity of testing. They do not, however, seek elaborate and expensive tests. These are prohibitive for any number of reasons. Rather, they urge people to continually test their ideas in the simplest and cheapest ways possible. These tests may not offer official results, but they can can help innovators decide whether a certain idea is the way forward. The authors urge people to stop trying to predict winners and they instead urge people to test all the ideas and then compare the outcomes. Further, hey recommend creating a portfolio of tests whereby you are testing multiple different prototypes or ideas simultaneously.

To exemplify what they mean by performing simple tests, they tell the story of the time they tested whether people would go to a beer garden on the fourth floor of a mall. To test this, the team directed people in the mall to the fourth floor beer garden where they offered them free beverages. They found that people did not come, and because of this, they were able to scrap the idea completely. This was a simple and cheap test that produced results that guided their decision-making. Many executives balk at the idea of testing because they believe tests are too risky in regards to time and money. That is why it is important to use cheap and quick tests. The authors claim that "The key to effective innovation is velocity or more tests in a given amount of time." This speed allows people to improve their ideas and move on with the good ones more quickly.

A well-designed test has multiple elements. First, a hypothesis needs to be developed. Then data needs to be gathered. It is important to develop a baseline first. For example, experimenters should get the data for how something is performing now before the variable to be tested is tweaked. Then they need to close the loop or compare the results to the baseline. Finally, it is important to "revise, repeat, and, when necessary, pivot." The authors give numerous real world examples of the way testing has proven successful in business.

The second section of the book moves on to what the authors call elevation. Here they write about the importance of generating a variety of perspectives. Just like a company should desire a diverse portfolio of experiments, it should also cultivate a diverse portfolio of contributors. People in the same role and same business are likely to have the same blind spots. Sometimes it works best to have people with totally different viewpoints offer ideas. The authors give seven suggestions for cultivating a variety of viewpoints: create learning circles or a group of people who meet to discuss ideas, utilize pen pals whereby each person critiques the ideas of the other, create a customer council to consult about ideas, cross-pollinate by "seeking out serendipitous encounters with people outside your normal circuit," find inexperienced experience or people who

> The more specific the question, the more ideas can be generated. . .”

are experts in other fields, incorporate novices who have fresh perspectives, find complementary collaborators as they can help people see their blind spots, and allow space for candor because people need to feel safe to both give and receive feedback.

As part of keeping an open mind, the authors suggest interviewing people with empathy in order to gain understanding. This tool requires the interviewer to understand the person they are questioning on an emotional level. The authors encourage the interviewer to insist on specificity, making sure to understand exactly what the interviewee is talking about and making sure to be absolutely clear on the exact meanings of the words the interviewee is using. For example, if they use the word, “challenging,” the interviewer should ask the person what they mean by that. It is also important that the interviewer resists the urge to express understanding. Utley and Klebahn do not believe that the interviewer does understand, and “the gap between your assumptions and their reality is where you’ll find your insights.”

In addition to interviewing, the authors recommend observing. As with other concepts in the book, they insist on the importance of quantity - in this instance, quantity of time. They urge people to give a longer than expected length of time with which they are expected to look at something because this will bypass the brain’s ability to filter out what is expected. An additional way to improve observational skills is through drawing.

Utley and Klebahn then move on to discuss question generation. They say that “even if you start with a provocative question, there’s only so much you can do by looking at a problem from one angle.” The more specific the question, the more ideas can be generated, and when one idea dries up, the frame can be used and different questions can be approached. “Steady ideaflow means crafting lots of good questions and cycling through them as you generate ideas.” The authors recommend devising How Might We questions. When developing How Might We questions, the authors advocate playing with scale, focusing on quality, examining emotions, changing the stakes, and/or creating an analogy between the current situation and others.

There are other tools besides asking How Might questions that people can use when ideas start to wane. One thing people can do is look to see what could be solved by subtracting something from the equation. Another suggestion is to run a retroactive or look at the situation from the future and predict ways it might have failed. Utley and Klebahn also suggest generating un-ideas. By this they mean taking the worst ideas generated and finding ways to make them better.

Towards the end of the book, the authors reiterate the fact that the brain cannot create something new. It can only combine things it already knows in new ways. Therefore, the more varied input a brain receives, the more creative output it can generate. There are numerous ways a person can increase the input their brain receives. One is through a wonder wander where a person walks around, preferably outside, and asks themselves questions about what it is they observe. Wondering can also occur through reading books and browsing websites.

The authors remind the reader that a wide variety of reading materials unrelated to the task at hand can prove quite beneficial. They also recommend looking for analogous situations. This refers to looking at very different companies that might be dealing with analogous problems.

There are multiple steps a person can take to untangle their own creative knots. One of these is simply taking a break. It can help if a person pads their schedule so as to actually allow themselves time simply to be creative as creativity takes time. This can be challenging because people in our culture are so focused on productivity, and while breaks can lead to great advancements, they do not outwardly appear to be productive. It can be helpful for people to read, move, and talk to people during these breaks.

To Utley and Klebahn, creativity is not simply the domain of people who work in what are traditionally considered creative fields. Creativity is also not limited to just those who have a special knack for it. Rather, Utley and Klebahn believe that innovation is a key to success and that innovation requires creativity. Utley and Klebahn give the reader a blueprint for increasing creativity within the workplace. By following the suggestions and guidelines posed in Ideaflow: The Only Business Metric that Matters, professionals should be able to increase their own ideaflow and that of their colleagues and businesses. This, Utley and Kiebahn believe can lead to true innovation.

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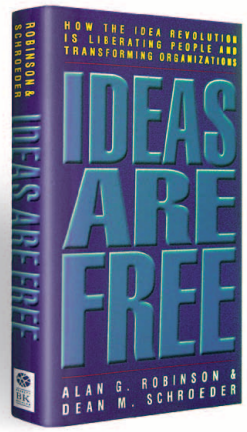
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Ideas Are Free

Alan G. Robinson and Dean M. Schroeder

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Alan G. Robinson and Dean M. Schroeder

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How the Idea Revolution Is Liberating People and Transforming Organizations

IDEAS ARE FREE

THE SUMMARY IN BRIEF

A worker in one of Europe's largest wireless communication companies stumbled across an error in his company's billing software that was costing some $26 million per year in lost revenues. He pointed out a simple way to fix it.

Simple ideas can save time, effort and money. They can also lead to entirely new ways of doing business. Even though front-line employees see many opportunities in their daily work that managers do not, most organizations are better at suppressing employee ideas than promoting them. As a result, huge amounts of money are wasted and customers are lost and disappointed. Opportunities are missed and front-line employees are often powerless to act.

Alan G. Robinson, an award-winning author, educator and consultant, and Dean M. Schroeder, the founder of two companies and a business professor, have written Ideas Are Free *to show managers how to access the many ideas of their employees and turn them into competitive advantage. Through extensive research and work with more than 300 companies in dozens of industries, the authors explore the key factors that influence the quality and quantity of employee ideas. They also describe how ideas and idea management can be fully integrated into an organization's structure and operations to create excellence and sustainable competitive advantage in every area — from productivity to responsiveness, keeping costs low, quality, and service delivery.*

What You'll Learn In This Summary

- ✓ How small ideas can create big results.
- ✓ How to make ideas part of everyone's job.
- ✓ How to set up and run an effective process for handling ideas.
- ✓ How to help people come up with more and better ideas.
- ✓ How a strong flow of ideas can have a profound impact on an organization's culture.
- ✓ How to put accountability into the process of managing ideas at all levels.

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IDEAS ARE FREE

by Alan G. Robinson and Dean M. Schroeder

— THE *COMPLETE* SUMMARY

The Idea Revolution

At a Massachusetts Department of Correction facility, a guard proposed a change in the way pictures were taken of new inmates. Instead of using film, why not use digital cameras and store the images in a database? Across the department's 16 correctional facilities, this idea saved $56,000 the first year in film alone.

When accounting for oil purchases, a staffer in a regional distribution center at Deutsche Post, the German post office, noticed that the company was paying too much for the engine oil for its trucks. Drivers were buying oil at roadside service stations, paying the equivalent of $8.50 per liter. After some research, he found that Deutsche Post could buy the oil in bulk for a quarter of the price and proposed that it do so. Today, the idea is being implemented at distribution centers across Germany. With tens of thousands of diesel trucks and vans on the road, Deutsche Post will save millions of euros every year.

A Quiet Revolution

A quiet revolution is underway — *an idea revolution* — led by managers and supervisors who, in a small but growing number of companies, have learned how to listen systematically to their employees. With each implemented idea, performance improves in some way. Some time or money is saved, someone's job becomes a little easier, the customer experience is enhanced, or the organization is improved in some other way. With large numbers of ideas coming in, performance improves dramatically. And as employees see their ideas used, they know they are having an impact on their organization and become more engaged in their work.

This quiet revolution liberates people and transforms the way that organizations are run, and it changes the nature of the relationship between managers and their employees. While still president of BIC Corp., Ray Winter observed the following about the effect of his company's idea system on the corporate culture: *"This system has taught my managers* ***real*** *respect for their employees. My managers have learned that their employees can make them look awfully good, if they only let them."*

Ideas are the engine of progress. They improve people's lives by creating better ways to do things. They build and grow successful organizations and keep them healthy and prosperous. Without the ability to get new ideas, an organization stagnates and declines, and eventually will be eliminated by competitors who *do* have fresh ideas.

An idea begins when a person becomes aware of a problem or opportunity, however small. Most ideas are common sense. They don't require particular insight or much creativity.

Leading Indicators

CEO of Wainwright Industries Don Wainwright believes that most business leaders manage from financial measures — that is, *lagging* indicators that impart mostly historical information. On the other hand, the most important indicator he uses is the number of ideas implemented in the previous week. To him, this is the best *leading* indicator of his company's future performance. If he gets this number right, a great deal will follow. Referring to the general tendency to manage predominantly by financial indicators, he said that he could beat Pete Sampras or Patrick Rafter at tennis, if they watched the scoreboard while he watched the ball.

When managers first realize the value in the ideas of their employees, it is a profoundly liberating experience. When they learn how to go after these ideas, they also learn that it is well worth the time and effort. Ideas *are* free. Employees become allies in solving problems, spotting opportunities, and moving the company forward, to the benefit of all. And when managers decide to let their employees think alongside them — and no longer seek to go it alone — they will have joined the Idea Revolution. ■

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The Power of Small Ideas

Business leaders are always looking for the next breakthrough idea — the "home run" that will put them well ahead of the competition with one swing. Because of this, the systems and policies they put in place are aimed at *big* ideas. Few managers realize how severely limiting this is. It is much smarter to go after the *small* ideas.

On one hand, the bigger an idea, the more likely that competitors will discover and counter it. If it affects the company's products and services, it is directly visible — in fact, it may well be *advertised*. If the idea involves a major process change behind the scenes, it is often copied even more rapidly. Significant internal initiatives usually require outside suppliers, contractors or consultants — people whose jobs are to sell their expertise and knowledge. These same customers might well share the exciting new development with other suppliers.

Small ideas, on the other hand, are much less likely to migrate to competitors. They are often site- and situation-specific, and therefore of little use outside the company anyway.

Small Ideas and Huge Paper Rolls

When the *Vidette Times*, a regional newspaper in Indiana, ran out of newsprint late one night owing to a strike at its Canadian supplier, the press operator was ready with a backup plan — not a great one, but one the company could limp along with. Although his presses used rolls that were 45 inches in diameter, earlier that day he had borrowed some 47-inch rolls from a sister operation, just in case. His plan was that if the new shipment of 45-inch rolls didn't arrive in time, he and his co-worker would manually unroll the larger rolls until they fit on the *Vidette Times*' printing press. They were not looking forward to this, as it would involve stripping *thousands* of feet of paper off rolls that weighed more than three tons.

When the shipment of 45-inch rolls didn't turn up, the two men brought a 47-inch roll across to the press on their forklift truck to see exactly how much paper they would have to unwind in order to squeeze it on. To their astonishment, they found that it just fit as it was. The press manufacturer's specifications had been too conservative. Their discovery had significant implications. Being able to use larger rolls of paper saved the company thousands of dollars per year, because it meant fewer roll changes, and hundreds of fewer "trial copies" needed to get the ink flowing again after each roll change. It also shaved about a half-hour per night off the press run.

When this idea came up, the *Vidette Times* was in the middle of a circulation war. Had it come up with an innovative new column or marketing approach, its archrival would have been aware of it immediately. But how would it learn about the 47-inch roll idea? And even if it had, it wouldn't have mattered, since the competitor didn't have the same model of printing press. Because most small ideas remain proprietary in this way, they accumulate into a tremendous competitive advantage that is *sustainable*, the kind of advantage managers *should* be striving for.

Small ideas also enable an organization to pay exceptional attention to detail. In many important aspects of business — such as customer service, responsiveness, quality, and managing costs — excellence means getting the details right. It is simply impossible to improve performance beyond a certain level without getting large numbers of small ideas. And a superior ability to handle details, in turn, raises the level of complexity an organization can deal with effectively. This can allow an organization to do things its competitors literally *cannot do*. ■

The Pitfalls of Rewards

Whenever managers start to think about how to promote ideas, the question of rewards almost always pops up. In the late 1990s, the British government released a white paper entitled "Modernizing Government," in which Prime Minister Tony Blair and his cabinet laid out a comprehensive and long-term plan for reforming the way the government worked. One of its key initiatives was to make the Civil Service more innovative, by giving employees an "incentive to change behavior": "We will foster innovation and continuous improvement of services in the public sector by rewarding staff who suggest ideas that lead to savings or better services. Government departments and agencies will introduce schemes which reward staff with a sliding scale percentage of any savings or improvements made as a result of their suggestions."

On the surface, offering rewards for ideas commensurate with their value seems a smart thing to do. The more generous the rewards, the more ideas will come in. So the thinking goes. The British government is far from alone in this regard. It is an easy conceptual trap to fall into. A great many managers have unwittingly sabotaged their efforts to promote employee ideas by making exactly the same mistake.

Unanticipated Problems

The problem is not in sharing the benefits of ideas with employees — this can be done very effectively — but in doing so with rewards for individual ideas based on their value. Not only do such rewards substantially increase the cost, time and effort needed to evaluate and implement ideas, but they create a host of unanticipated problems that end up acting as *disincentives* for people to offer ideas. It is ironic that so many managers have such faith in

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The Pitfalls of Rewards

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a motivational tool that actually works *against* them.

The first set of problems has to do with calculating the value of an idea. It can be very time-consuming to quantify the effect of even the simplest idea. Take, for example, the idea that the Deutsche Post employee had to buy oil in bulk for one-fourth of the cost. Deutsche Post gives employees 10 percent of the annual value of their ideas. In this case, calculating the reward seems simple enough. But someone has to spend the time figuring out how much oil Deutsche Post uses, because the company does not track it centrally. Furthermore, not only does Deutsche Post have some 83 distribution centers, but it may take years to implement the idea at all of them. Some of the centers are even resisting the idea, because they have to go through the hassle of installing the tanks and getting special environmental licenses and inspections.

Most Ideas Are Complicated

These costs, too, have to be factored into the reward. And, of course, the price of oil fluctuates, and even varies by region within Germany. What prices should the company pick to make the calculations?

From the point of view of estimating cost savings, most ideas are more complicated than this one. Having to determine the worth of every single idea means a tremendous amount of non-value-adding work. And since it is impossible to calculate the value of most ideas accurately anyway, whatever numbers are produced are often perceived as underestimates by the very people the rewards are intended to thank and motivate. In the 1980s, United Airlines abolished its suggestion system — one of the oldest in the United States at the time — because of the large number of disputes that arose in this way.

Often, rewards that are intended to promote desirable behaviors are actually encouraging undesirable behaviors. And when it comes to rewards based on the value of ideas, the list of detrimental side effects is long. For example, rewards are usually given only to the *originator* of the idea. Doing anything else would be incredibly complicated. But this undermines the teamwork necessary to bring off most ideas. The contributions of the people involved in evaluating, testing and implementing them are largely ignored, and they often resent it.

A Common Complaint

A common complaint heard from idea system managers in companies that use rewards is that it is hard to get anyone to evaluate and implement ideas. And when they can persuade someone to look at an idea, the easiest course of action for that person to take is to find a reason to *reject* it.

A poorly designed reward scheme can also give rise to unethical behavior, as managers look for ways to save money on the rewards they owe, and workers look to "game" the system for higher payouts.

People Want to See Their Ideas Used

Rewards are really not needed. People offer ideas because they *want* to see them used. Either they see a way to make their jobs easier or less frustrating, or they find an opportunity to improve the organization in some way. Employees also have a natural pride in their work; they like to feel valued and to know they are having an impact. Employees will willingly offer large numbers of ideas without the prospect of monetary rewards. The most important rewards they get are seeing their ideas used and being recognized for them.

This does not mean that organizations should avoid rewarding their people with substantial money for their ideas. Rewards *can* be given, provided they are properly structured. A number of companies with high-performing idea systems — including Wainwright Industries — give substantial rewards for ideas. On average, employees in these companies get far more money from their ideas than they would under traditional schemes that reward only the person who has an idea and ignores *everyone else* who plays a role in fulfilling the idea. ■

Making Ideas Everyone's Job

Any system, no matter how well conceived, works only if people are held accountable for the roles they have to play in it.

Organizations that are successful at getting ideas monitor which employees are turning them in, which managers are getting them, and how rapidly they are acted on. Employees and managers are given appropriate training and support, and then held accountable for their roles in the idea process. Coming up with ideas is made a central part of the employees' work.

Supervisors and middle managers are assessed on how well they do at promoting ideas. The supervisor's role is to coach, mentor and encourage employees and to champion ideas with broader implications. Middle managers need to ensure that ideas are processed rapidly and fairly and that appropriate resources are available for implementation. They often must get directly involved with ideas whose impact is more significant or cross-functional.

In addition to their oversight responsibilities, top managers should have roles that routinely bring them into direct contact with suggesters and their ideas. This not only shows that top managers support employee ideas, but it keeps them in closer touch with what is happening in the trenches. There is a huge difference between the actions of a leader who sees employees as a tremendous source of improvement ideas and one who sees them as a *cost* to be minimized. ■

Putting the Process in Place

Without some kind of systematic approach, it would be impossible to deal with large numbers of ideas. An "idea system" is a set of procedures that ensures that employee ideas are handled smoothly and fairly.

Many managers believe that structure and formality hamper the free flow of ideas. But the absence of a system makes employee ideas more of a nuisance than a help. Not only does the employee involved have to figure out who to take it to, but that person also has to figure out what to do with it. Managers who advocate completely informal idea processes often do not realize how these actually discourage people from bringing up ideas. A smoothly running system that is well integrated into the organization's daily routine makes it feasible and reasonable for ideas to become central to everyone's work.

High-Performing Idea Systems

While every organization should design its process according to its unique needs, certain characteristics are common to all high-performing idea systems. They are:

1. Ideas are encouraged and welcomed. The most effective encouragement an organization can give its employees to step forward with ideas is a track record of using ideas and giving people credit for them. Make it clear to everyone that each idea will be taken seriously.

When American Airlines started up its idea system, CEO Robert Crandall put in place a tough policy. Every idea that was not acted on within 150 days was automatically forwarded to him. Word quickly spread among managers that it was not pleasant to be called to his office and be asked to explain why they had been sitting on a potentially valuable idea. Such unambiguous and visible management commitment makes it clear to employees that their ideas will be welcomed by managers.

2. Submitting ideas is simple. The key is to design the submission process to match the kinds of ideas that employees will come up with — that is, mostly small ones. Should more information be needed, the employee can always be asked for it.

3. Evaluation of ideas is quick and effective. Evaluating ideas at the lowest possible level is what underlies the astonishing speed with which some organizations can respond to them. The global fabric and specialty chemicals company Milliken, for example, has a "24/72" policy: Every idea is acknowledged within 24 hours, and a decision about it is made within 72 hours.

4. Feedback is timely, constructive and informative. When people know the status of their ideas and get timely and informative feedback, it helps maintain their ownership and interest in the ideas as well as their trust in the process. Good feedback demonstrates that an idea was taken seriously, even if it was rejected.

How an Idea Saved Volvo Millions

In the late 1990s, an assembly line worker at Volvo's Gothenberg plant stunned engineers with the largest idea in the history of the company's suggestion system. His idea was to use advances in computerized fuel injection systems to control the fuel-air mix precisely enough so that certain pollution control equipment in each car's exhaust system could be eliminated. With his supervisor's help, the worker borrowed a vehicle to experiment with and got permission to use the maintenance shop and equipment on evenings and weekends. After he rolled out a fully functioning test vehicle, the idea saved Volvo millions of dollars.

5. Implementation is rapid and smooth. To achieve rapid and efficient implementation of ideas, managers have to ensure that the right resources are available to handle the volume and types of ideas that will come in. But until an organization has some experience with the flow of its employee ideas, it is difficult to predict what the required profile of resources will be.

In the mid-1990s, a large New England clothes maker started up an idea system. Wanting to keep tight control over the process, the CEO assigned the vice president of operations responsibility for personally responding to every idea and making certain it was implemented. Within two weeks, the 30 members of the department had submitted 130 ideas. The vice president had just been handed more than 500 hours of extra work. After implementing only a handful of suggestions, he saw to it that the idea system was quietly killed. The clothes maker's attempt failed because it was not prepared for the eagerness with which its employees responded. With its cumbersome process and lack of resources, the company's system collapsed.

6. Ideas are reviewed for additional potential. A good idea system incorporates post-implementation processing to see whether a new idea creates further problems or opportunities. The process should involve a step that moves ideas *outside* the work unit, to other units, functions or locations. The simpler this process, the more effective.

7. People are recognized, and success is celebrated. The most effective form of recognition for ideas is to use them and give people credit for them. The more personal and sincere the recognition, the more it reminds people that they are an important part of the team and that their contributions are valued.

8. Idea system performance is measured, reviewed and improved. As with any core processes, managers must be able to monitor the performance of their idea system and continually identify opportunities to improve it. The metrics necessary to do this track three things: the quantity of ideas, where they come from, and the speed at which they are processed. ■

Focusing on What Matters Most

Once a good process to handle ideas has been set up, the next step is to think about how to focus employees on problems or opportunities of real importance. Alerting employees to problems or opportunities they may not be paying attention to actually helps them come up with more ideas. When managers learn how to aim ideas at specific targets, they gain a powerful competitive weapon.

When ideas are needed on a specific topic, the most straightforward thing to do is to ask for them. This conceptually simple tactic can be extremely powerful. The challenge is to identify the right issue, and to define it in a way that is meaningful to employees.

When managers let employees know what the critical issues are, make certain they understand why these issues are important, establish clear metrics, and invite their ideas, it increases alignment between the employees' concerns and the company's needs. But take note that this "Ask, and ideas shall be given to you" approach works only when employees respect their managers. Once respect is established, employees are very willing to help out. Herb Kelleher, CEO of Southwest Airlines, found this out in early 2000, when his company was reeling from a huge increase in fuel prices.

Kelleher sent a letter to the company's employees asking for help. He wrote that if everyone could save just $5 per day, this would translate into company-wide savings of $140,000 a day. To emphasize his point, he ended his letter in this easygoing way: "Please accept this in place of your Year 2000 Valentine [an annual tradition at Southwest] which we are not sending because of high fuel prices. You are my Valentine." Within six weeks, employees had sent in ideas worth some $2 million. And that was simply because Kelleher and his management team had genuine credibility with employees, owing to their long history of listening to and acting on their concerns.

Ideas at Grapevine Canyon Ranch

A well-thought-out policy can be just as effective as a bonus program in inspiring ideas on specific topics. When Grapevine Canyon Ranch launched its idea system, some early ideas dealt with tipping inequities. Wranglers got most of the tips because they had the most contact with customers. Other employees received relatively few. After the problem came up in several idea meetings, the tipping policy was changed and guests were asked to tip only when checking out and were told that their tips would be shared equally among employees. The wranglers' resistance to this change quickly subsided when they discovered themselves earning more in tips than they did before. Because guests were now tipping as a percentage of their total bill, there was more money in the pool. Customers also liked that they no longer had to worry about when to tip or carry cash during activities.

Choosing What to Focus on

It is both a science and an art to select the right theme for employee ideas. Economist Friedrich Hayek classified knowledge into two types: knowledge of *particular circumstances of time and place* and *aggregate* knowledge. Generally speaking, front-line employees possess more of the first type of knowledge. But managers possess more aggregate knowledge — exactly the type of knowledge that is needed to identify where ideas will have the greatest impact on overall performance.

Choosing a worthy theme for employee ideas begins with identifying the primary drivers of the department's, group's or organization's performance. Generic high-level issues such as cost, quality or customer service may be places to start, but are usually too broad. To be effective, a theme should concentrate everyone's efforts on a specific actionable leverage point, perhaps a narrower dimension of the larger issue. Identifying leverage points usually requires thought, research, observation and analysis.

Coolman and Coolman

Consider what happened at Coolman and Coolman, an Indiana home builder. Since this company depended heavily on advertising to sell its homes, managers began with the question "How do we make our advertising more effective?" After some investigation, however, the company found that people who responded to advertisements required a great deal more "selling" time and effort than those who were referred by previous customers, and they were much less likely to end up buying a new home. The question then became "How do we get more referrals?" The answer? Delight *existing* customers. But this was still too broad a concept. So more research was done.

The three most important factors to customers turned out to be quality, delivery and the buying/building experience. By focusing improvement ideas on these three items, referrals were increased more than *sevenfold* over three years, and advertising and selling costs were reduced. Before this idea initiative began, the company had delivered only *one home* in *20 years* that was completely free of minor defects that had to be fixed after the customer moved in. After concentrating on such defects, Coolman and Coolman was able to deliver 70 percent of its homes without any additional work needed — a standout performance in the residential construction industry in which "call-backs" are the norm. What began as an effort to figure out how to improve advertising had ended up, after investigation and analysis, identifying three points of high leverage for employee ideas.

Focusing ideas need not be a one-time or even an occasional activity: It can be incorporated more permanently and routinely into the way an organization operates. ■

Getting More and Better Ideas

It makes little sense to waste resources stimulating *more* ideas from employees if you can't handle the ones you *already have*.

Once a healthy idea system is in place, however, it makes a lot of sense to help employees come up with more and better ideas. First, you must understand how people spot problems and opportunities, and develop ideas from them.

To increase the number of problems and opportunities their people spot, managers must provide them with appropriate training and experiences. These employee-development approaches fall into two general categories. First is direct training in idea activators — to give employees profound knowledge in areas where their ideas can have the biggest impact. Second is exposure to new situations and experiences that will broaden their perspectives.

Idea activators boost the quantity and quality of ideas in specific and predetermined areas. For example, Toyota introduced training programs to help employees come up with more ideas. Instead of showing people how to do specific tasks, these programs showed them how to improve key drivers of performance, such as quality, productivity and safety. Some of Toyota's activators include:

- **"Poka-yoke," or error-proofing.** A poka-yoke is a simple way to ensure that a mistake that people are prone to make repeatedly can no longer happen.
- **Total productive maintenance (TPM).** TPM involves a brutal measurement, "overall operational effectiveness," to highlight problems that most organizations miss.

Broaden Employee Perspectives

Broader idea-generation approaches give employees greater perspective on the organization and their work. For example, Koji Kobayashi, former chairman of NEC, believed that "Job rotation is the miracle drug of productivity." Job rotation gives employees different perspectives on how the company operates. It allows them to make connections they otherwise might not make. Furthermore, when people understand more about how the company operates, their ideas will be better and have greater impact, and they themselves will become more effective idea champions.

An MBA student from Thailand pointed out that rotating managers can also help employees come up with more ideas. Her father owned a number of hotels and resorts, and he rotated his senior management team every two years. The rotations were deliberately radical; that is, the head of accounting might become the head of housekeeping, while the head of customer service might be put in charge of food services. After each rotation, the number of ideas submitted would invariably soar. The reason was this: When an executive took over a totally unfamiliar department, he or she was unusually open to ideas about how to improve it, and the employees knew this.

Five Guerrilla Tactics

Here are five actions you can take today (without the boss' permission):

1. Train, train, train. Identify the key leverage points of performance for your group, and develop idea activator modules for them. Stay alert for possible activators as you read business books and magazines, interact with colleagues, and look over mailers from training companies.

2. Get out of the office. Attend trade shows, workshops and conferences. Take advantage of opportunities to visit other companies, including ones that do very different types of work. Bring others along.

3. Record exceptions. Ask your people to record any exceptions they see. From time to time, probe these exceptions with your group to see whether they suggest any improvement opportunities.

4. Rotate your people. Rotate your employees into different assignments, so they see as much of the organization as possible. Approach your internal customers and suppliers, and ask whether they would be interested in trading people for short periods of time.

5. Encourage diverse perspectives. Ask people who you think might have a different perspective on your department's work for their thoughts on how it might be improved.

Customer complaints are excellent sources of ideas because they identify problems. Organizations should make it *easy* for customers to complain and encourage employees to use complaints as starting points for improvement ideas.

But complaints alone represent only part of the customer perspective and happen only after a problem occurs. Being proactive in getting to know customers and their needs — through surveys, focus groups, shadowing techniques, mystery shoppers, "psychographics," or simply by talking with them — can provide a wealth of ideas. The trick is to get customer input to the employees who can use it. For example, Good Shepherd Services, a nursing home operator, has quarterly "Care-Planning" meetings with every resident and his or her family. Any complaints or special requests become fodder for ideas.

Once people have perspectives or knowledge that sensitizes them to the importance of ideas in a particular area, their ability to come up with ideas depends on how alert they are. Prolific suggesters *discipline* themselves to notice "exceptions," *record* their thoughts and observations, and are willing to *spend time* studying the problems or opportunities they spot. ■

For Additional Information on how opportunities can be hard to detect, go to: http://my.summary.com

Liberation and Transformation

Today, many organizations struggle with poor cultures. Although most managers would agree that a dysfunctional culture results in lower performance, elements of culture such as trust, respect, commitment and involvement are difficult things to manage. Because of this, many managers who have attempted to improve their organizations' cultures have met with disappointing or ambiguous results.

But organizations with effective idea systems have learned that there is a strong link between culture and the flow of employee ideas. This is why an idea system — whose performance can be measured and managed — provides such an effective way to improve corporate culture.

Good Shepherd

When Mary Ann Kehoe took over as managing director at Good Shepherd Services in 1991, the nursing home was in bad shape. Morale was extremely low, employee turnover was over 100 percent per year, and the organization was in financial trouble. In the 11 years since 14 churches in the Seymour, Wis., area had founded the not-for-profit organization, it had had *10* different managing directors. When Kehoe took over, everyone wondered how long *she* would last.

Good Shepherd had been established to provide high-quality long-term care for the local community. Kehoe realized that unless Good Shepherd changed the way it operated, it certainly could not fulfill this mission and might not even survive. She thought the answer lay in greater efficiency.

One of the industry's most serious problems is the wasteful way it delivers care. As an experienced nurse, she had seen much of this waste herself and knew that improved work practices would make people's jobs easier, save money, and enhance patient care. She also knew that many of the ideas on how to improve care would have to come from front-line staff, because they were the ones dealing with the residents.

Applying Knowledge

The problem was that the rules-driven hierarchical culture common in the long-term care field gave those on the front lines little chance to be heard. Kehoe also realized that simply asking front-line staff for their ideas wasn't going to be enough. If Good Shepherd was to apply best practices throughout its operations, direct-care staff needed more knowledge about the state of the art in long-term care. Then they could apply this knowledge, through the ideas they came up with, to improve the day-to-day care of individual residents. This was the genesis of Good Shepherd's idea activators.

As the care staff gained experience working with ideas, they began to identify impediments to efficient decision making and implementation. They approached management with suggestions on how to improve the situation. Over several years, the leadership team made a number of crucial modifications to the way the organization worked. One, for example, ended the traditional practice of continually rotating staff between the facility's four wings (a wing has about 24 residents) and the different shifts. A series of suggestions had made it clear that this practice detracted from the staff's ability to come up with, agree on, and implement improvements. Not only did they work with different people every day, but they were not with individual residents long enough to get to know them well.

Revolutionary Results

Good Shepherd created permanent care teams, one for each shift in each wing. The teams consisted of nurses, certified nurse's aides (CNAs), dietary aides, and housekeeping staff. The stable team membership allowed employees to get to know the residents better, learn their individual needs and personalities, focus ideas on improving each one's quality of life, and work together to develop and implement these ideas. Good Shepherd's idea system is so integrated into the daily routine that it has almost disappeared. In other words, ideas are not merely central to the job at Good Shepherd, they are an indistinguishable part of the work.

This modest, community-based nursing home has one of the best performance records in the United States. Although Good Shepherd takes residents who are in significantly worse shape than the nursing home average, it consistently outperforms industry averages on every major quality-of-life indicator. By 2004, Good Shepherd had never been cited for a single deficiency by state or federal inspectors in over eight years — an industry record.

This story illustrates why the term "revolution" is used to communicate what happens when managers seriously seek and act on employee ideas. Not only did they achieve results they had not thought possible, but they did it with fewer resources.

Knowing how to promote employee ideas will become a critical core competency for managers — and will become so soon. Mastery of this competency will separate effective managers from ineffective ones. To embrace the subject, do the same thing you do to sharpen your other professional skills. Keep up-to-date with the latest thinking and practices. Read, attend conferences and seminars, and network with like-minded people inside and outside your organization. Visit organizations that successfully promote ideas. But, most important, start asking your people for ideas. Remember, ideas are free, and they have the power to liberate your people and transform your organization. ■

For Additional Information on one CEO's thoughts on ideas, go to: http://my.summary.com

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Innovating Innovation

David Morey

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Innovating Innovation

Leadership Tools to Make Revolutionary Change Happen for You and Your Business



by **David Morey**

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THE SUMMARY IN BRIEF

In business, creativity is the bridge to innovation. It allows businesses to innovate and market and redefine their own success. But too many companies and leaders put themselves in a position where they're focusing exclusively on invention, which can stagnate them, or they're focusing on maintaining the status quo, which can send them on a downward spiral toward irrelevancy.

In ***Innovating Innovation***, David Morey champions the idea of taking a new approach to innovation itself. Inspired by great innovators and leaders like Thomas Edison, the eleven primary concepts of this outline are designed to help leaders understand the connection between innovation and marketing, transform their perception, take a linear approach to creativity and processes, build powerful creative environments, create a culture of urgency while making people feel comfortable with failure, and much more.

IN THIS SUMMARY, YOU WILL LEARN:

- What it means to "innovate innovation" on both a personal and organizational scale.
- How to eliminate innovation-killing habits within yourself and your organization.
- How to capitalize on both good and bad luck to propel yourself forward.
- How to empower the people you work with to be more creative and independent.

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Marketing And Innovation

Today, we are surrounded by remarkable examples of innovation, and a handful of great companies are driving innovation by the exponential dimension of their business models. In this context, everyone says they want innovation. But the truth? Innovation is broken. Most business leaders and businesses struggle to find ways to crack through their own corporate politics and bureaucratic silos, to move from defense to offense, to nurture real breakthrough, to drive bold creativity in ways that add new value to everything they do.

Innovation itself needs innovation. This book features lessons that teach, coach, and guide readers across eleven concrete and pragmatic steps that unlock and drive day-to-day innovation in business and help you take long-term competitive advantage in your marketplace.

Stop Being A Punchline

Business leaders must remember that perceptions rule. The power of using consumer perceptions as your starting point is fundamental to your strategic focus on marketing and innovation. Just as important is finding a way to be different at all costs. Sometimes executives are less interested in designing and refining a distinctive product, image, or character and more intent on making their product serve everything and everyone at once. Think of this as lazy innovation and lazy marketing, a dreary combination if there ever was one, shining a light on everything and everyone rather than focusing the spotlight on what is core to the success of your mission.

The "everything approach" may be easier, but it's doomed from the start. "He who defends everything defends nothing." A lack of focused differentiation will throttle any effort at innovative breakthrough.

It's important to innovate forward, meaning that you should aim your research and thinking toward the future rather than the past. Put to work the same level of agility in dealing with change that today's consumers bring to their everyday lives.

Meanwhile, in today's hyper-change environment, wide-angle and continual strategic transformation of your business model isn't optional, but mandatory for marketing and innovation success. You should always recognize and understand the larger context into which your product, service, brand, or company competes. Better yet, develop and drive a strategy to control the dialogue and help define this larger context.

Subdivide Light

If you want to innovate in a meaningful way and transform your business and the world, it can sometimes be effective to think in terms of linear innovation. Your first task is to commit to a way of thinking. Sometimes, our challenge is that we don't believe we belong on a bigger stage or that we can innovate any kind of breakthrough, big or small. Up to 70% of people experience imposter syndrome at some time in their lives. They believe the stage on which they stand is too big and that they have no business being on it.

Belief in your legitimacy must be steadily fueled by your imagination, the lifeblood of innovation. Preparing internally to drive innovation breakthrough means taking yourself as seriously as you want others to take you. From working with top corporate CEOs and political leaders of many countries, the lesson learned is that they each have their own affirmative self-image as a powerful drive, filter, and vision they can aim for and move toward at all times.

It's also important to ensure that we're thinking in terms of innovation, not invention. Many companies try to invent their way into success by creating the Next Big Thing. But it's more important to innovate, focusing instead on disrupting, renovating, and changing their thinking, destination, battlefield map, attitudinal segmentation, brand positioning, customer experience, core strategy, and executional campaign.

Finally, it's vital to use agility to think, act, and plan for the future. You must always be ready to adapt based on the constantly evolving and changing world.

Build Workshops, Not Laboratories

During his active period, Thomas Edison hosted a creative workshop the likes of which the world had never seen. Arguably his greatest invention, the approach to innovation at this workshop was unprecedented. It was a place, system, and ethos that disrupted traditional concepts of creativity. Gone was the mystification of genius and inspiration and luck. The replacement was a set of procedures and mandates that both required and enabled imaginative creation on demand. It was the reinvention of invention.

Meanwhile, businesses must learn by doing, not being afraid to go out and make mistakes in the real world as they try a range of methods and approaches to learn about what is most effective—and what they can't effectively do.

Edison also was a profound example of someone who

accepted every problem as a gift and was always able to capitalize on disaster. He recognized what many businesses fail to recognize, which is that failure isn't an obstacle but rather an absolutely essential tool to long-term success. Innovation begins with dissatisfaction.

To channel Edison, businesses must build a team of people you trust, be bolder, model success in all behaviors and practices, learn and take measurements of success or failure, brainstorm constantly, and train your creativity like a muscle. Eventually, you'll find it growing stronger and stronger with each day.

Create A Culture Of Urgency

Richard Branson has said that he likes to 'create panic early.' For businesses and leaders looking to innovate their innovation, it can be difficult to strike the balance between instilling a sense of urgency while still letting team members feel comfortable with failure.

That's why you should manage a culture that fosters both. Your teams and projects should always feel urgent, necessary, and immediate. If this doesn't happen right now, just right, then we've failed. However, in order to make your people feel comfortable in this culture of urgency, you must also let them know that failure will simply be part of the process. When they feel comfortable knowing that their company and team members will have their back if things don't go according to plan, they'll be much more comfortable in that culture of urgency as they strive to innovate greatness.

What happens when companies achieve a bit of success? Often, they lose the sense of urgency that leads to innovation. Leaders must never stop innovating urgently. While protecting the downside, double-down on efforts to think out of the box and innovate differently. Meanwhile, it's vital to also start thinking not just in terms of what's straight ahead, but also what's hiding in your peripheral vision.

Develop Peripheral Vision

The only way for large, established companies to innovate is to learn to act like insurgents. By behaving like the new upstarts, they're able to be more agile and innovative than their slow, cumbersome counterparts.

By the 21st century, business analysts began to understand that change is the one true constant. As the information revolution has continued to grow, instability has become the norm.

That's why developing peripheral vision regarding how the world around you is changing is so essential. To know is to change. To know infinitely more and know it instantly is to change profoundly. Unsurprisingly, the rules of change greatly favor the insurgent, who embraces and adores change.

There are seven major ways to mobilize peripheral disorganization and starting innovating again— get away from what you know, do the doable to create momentum, create your own team of outsiders and misfits to get new perspectives, continually disrupt your thinking, challenge your status quo, focus on 'new rules' and Google your future— meaning, learn about your industry's path and where it's going in the next five or ten years.

Innovate Benefits, Own the Future

In order to own the future with your business or innovation, the first thing you need to do is shape the details of your work around your innovation and strategy. Don't get so lost in the day-to-day of your work that it becomes your product. Always arrange the details around what you're most passionate about and what will have greatest impact. Everything else will begin to fall into place.

Next, complete an 'audit' of how every element of your company communicates something to your customers. Is everything about your brand communicating a message that you want your customers to hear? Where are the areas where you're communicating something off-brand or off-message? Identify these areas and adjust them.

Third, ensure that innovation is marketing. This means that every aspect of innovation, operation, administration, and communication should be adding value, or it should not be happening. Product innovation and manufacture are designed to add value. Recruiting and hiring should add value. If it doesn't add value, it's a problem.

By focusing your innovation on what truly brings value to customers, you'll begin innovating innovation in a powerful and meaningful way.

Sail West To Find East

You can't control luck. You can't harness the power of the universe such that you end up in the elevator with the exact client you most wanted to make a good impression with, and you can't force them to have seen the same movie you saw last weekend in order to strike up a great ice-breaker conversation.

What can you do? You can put yourself in a position where you're prepared to exploit luck. Not only that, but you can even find ways to exploit crisis. When you set up your business to be agile, you're always ready to turn both good luck and bad luck into a propulsion towards your ultimate goals. Companies that move slowly can only succeed when the expected happens— agile and innovative companies excel when the unexpected happens.

Be A Change Leader, Not A Business Leader

Insurgent brands and insurgent leaders are on the rise, disrupting every marketplace, every industry, every political campaign, and every part of society. Yet, stunningly, managers of incumbent organizations continue to tell their people to 'act like a leader,' by which they mean 'act like an incumbent.' They might as well say, "act like a loser."

You must transform your culture to one that sees itself as the challenger, and acts like it. Those who act like they're at the top generally find themselves back at the bottom eventually. Those who constantly scratch and claw and innovate like they're desperate to make their way up the ladder are the ones who are most likely to excel.

Empower, Don't Manage

The best leaders are those who make the people they lead feel like leaders themselves. When we micromanage every aspect of our teams and companies, we completely eliminate the opportunity for our people to innovate in ways we don't expect. If you have a team of ten, but you're dictating exactly what is to be done to each member of the team, you may have a manpower of 10, but you're only enjoying the brainpower of one.

The best approach is to empower your teams— tell them what needs to be done, but let them innovate the best ways to make it happen. You'll find that your people are happier, more innovative, and more equipped to create greatness.

Punctuate Your Equilibrium

Creativity sends a satellite to Pluto, decodes the human genome, creates more cell phones on the planet than toothbrushes, changes the economics of energy, and pulls a billion people from poverty. By 2030, creativity will build a computer that's smarter in some ways than the human brain.

In business creativity is the bridge to innovation. It allows businesses to innovate and market and redefine their own success. In politics, creativity allows future leaders to push beyond America's current famine of political and social imagination.

Across this bridge, we change leaders must march from imagination to innovation. We must do this because no one else will ever be sufficiently hungry and foolish enough to redefine what innovation means and what change means. We are the crazy ones just mad enough to change the world.



David Morey, Chairman and CEO of DMG Global and Vice Chairman of Core Strategy Group, is one of America's leading strategic consultants--and one of the most sought-after speakers, performers, and magicians. The award-winning coauthor of The Underdog Advantage, and The Leadership Campaign, Morey has advised a who's who of Fortune 500 CEOs and companies and many of the world's top political leaders, including five Nobel Peace Prize winners.

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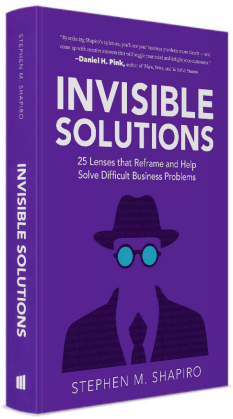
Invisible Solutions

Stephen Shapiro

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Invisible Solutions

25 Lenses that Reframe and Help Solve Difficult Business Problems



by **Stephen Shapiro**

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THE SUMMARY IN BRIEF

The word innovation is used everywhere. We have innovative $7,000 toilets with built-in Alexa voice controls, innovative cat litter boxes that send the owner a text message any time their feline poops, and a published list of innovative lawyers. The term is often used to describe anything unusual or novel, even if it is not valuable. It is one of the most overused, abused, and misunderstood words in business today.

Innovation is not about novelty or ideas; it is about defining and solving significant problems. When you view innovation through the perspective of problem-solving, you will discover that everyone can participate. It's not separate from the business—it is the business.

Stephen Shapiro, a left-brained engineer in a right-brained world, applied his systems engineering to purposeful innovation. He discovered the process for driving better results doesn't start with great ideas—it starts with better questions. He learned that innovation was not just the domain of the naturally creative. ***Invisible Solutions*** shares his secrets for problem-solving.

IN THIS SUMMARY, YOU WILL LEARN:

- How to formulate questions to open up true innovation.
- To recognize questions that deliver narrow solutions.
- To ask questions that change perspectives.
- Moving quickly with innovation maximizes results.

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Introduction

Do you want a thriving business that can grow faster than the competition? Do you want to stay relevant in the minds of your customers? Do you want a more powerful life? If so, you need to master problem-solving.

The way we formulate questions and frame issues can inadvertently put blinders on us, obscuring our view to the best solutions. The least understood step of innovation and problem-solving is problem definition.

Better Questions Lead to Better Answers

A small U.S. airport surveyed its passengers and discovered that their biggest complaint was wait times at baggage claim. Being good innovators, they took to the task of "speeding up the bags." They made a sizable investment on faster conveyors, additional baggage handlers, and newer technology. They reduced the wait time by half! When passengers were surveyed soon after that, their biggest complaint remained, "baggage claim wait time."

So, the airport approached the problem in another way. Instead of speeding up the bags, they slowed down the passengers. They reconfigured the airport so that it would take the passengers eight to ten minutes to get from the plane to the baggage carousel. As a result, when the passengers arrived at baggage claim, their luggage was waiting for them. Instead of asking, "How can we reduce the wait time?" they changed the question to "How can we improve the wait experience?"

When we don't understand something, we try hard to map it to anything we do understand from our past to make sense of it. Unfortunately, our past experiences may have nothing to do with the matter at hand.

What's the Impact of Poor Questions?

One word in a question can have a huge impact on the thought process and, therefore, on the range of solutions. For example, when NASA was addressing the challenge of dirty clothes in space, they found one word made all the difference. Asking, "How can we get clothes clean?" yielded solutions around cleaning fluids. But "How can we keep clothes clean?" provided different responses. In this case, the solution became a material science problem involving clothing with built-in antimicrobials. Questions are powerful. And the words we choose for them are critical because changing just one word can completely change your answers.

Why Do We Ask Terrible Questions?

People generally form a solution in their mind and then ask questions to validate it. Sometimes this is done to lead the witness, meaning we have an agenda, and our question is designed to get another person to agree with us. "Would you like to go to McDonald's tonight for dinner?" is a closed-ended (i.e., yes or no) question that leads to one solution: fast food. A nonleading, open-ended question like "What would you like to eat for dinner tonight?" might give rise to several possibilities.

Our questions can be powerful tools for learning, but only if they challenge our assumptions rather than confirm our beliefs. The brain says to itself, "Everything I've done in the past has kept me alive, so I must be doing something right." Therefore, it wants to perpetuate the past. Past experiences equal safety. As a result, the brain creates neural pathways—sort of like information superhighways—to things we have thought about for a long time or things we think about regularly.

Lenses for Reframing Solutions

Saying we should reframe questions is easy; actually doing it is difficult. As you practice asking great questions, avoid jumping to solutions. It is so tempting to try to find answers before you have created a great list of questions

Reduce Abstraction

The lenses designed to reduce abstraction are geared toward making questions more specific when they are too broad. When your challenge statement is overly large, broad, or abstract, narrow your question to help you bring it down to earth.

When you're asking overly abstract questions like "How can we increase revenues?" or "How can we improve productivity?" identifying the leverage points can kick-start the problem-solving process. It allows you to focus on what will return the greatest value with the least amount of investment. Then, break your challenge into multiple smaller challenges. Ask: What are the parts or components of this? What are the steps of the process?

Increase Abstraction

When the questions you are asking are overly specific, use the Increase Abstraction lens. For example, don't just look

at other businesses. Sometimes the best solutions can be found in nature and less obvious places. Consider the gas pipeline industry, which has struggled to solve the problem "How can we find and seal cracks in pipelines?" When they asked, "Who else solved a similar problem?" they realized that sealing cracks is something that the cardiovascular system's coagulation mechanisms do all of the time. Armed with this knowledge, industry experts worked on the problem "How can we create an inert coagulant ingredient that will seal small cracks?"

In another example, a company with a leadership development issue brainstormed, "How can we more effectively use 360-degree feedback?" That's a solution masquerading as a question, so they completely missed alternative methods. When the company asked, "How can we create powerful leaders?" instead, this more abstract question opened up a wider range of possible solutions. Of course, this then needed to be deconstructed into smaller and more solvable problems.

Change Perspective

Sometimes you just need to look at your challenge statement with a fresh set of eyes and consider it from a different point of view. If a problem statement implies that a particular person, department, company, or industry does the work, changing the "who" can unleash some creative solutions. Keep in mind that sometimes the "who" can be a computer or other nonhuman. This is a particularly powerful lens when considering the blurring of industries' boundaries.

Don't just ask questions that are about facts, data, and results (e.g., increase customer satisfaction)—ask questions that create emotional responses. Instead of "How can we improve morale?" ask, "How can we get 100 percent employee engagement?" or "How can we get 5 out of 5 on employee satisfaction surveys?" Instead of asking "How can we retain our customers?" ask "How can we wow our customers?" or "How can we create customer evangelists?" or "How can we make people smile when they think of our company?" or "How can we help people feel at home in our stores?"

Switch Elements

Many questions we want to solve have multiple components. We often get fixated on solving just one of them. But sometimes, other hidden factors can unleash a much simpler solution. We can do that by asking, "Instead of fixing this factor, what if we fixed or adjusted a different factor?"

Switching elements is one way to solve a common problem among the elderly. Falling is one of the leading causes of death in older people. The elderly are aware of this risk, and therefore are afraid of falling. What do they do to address their fear? They try especially hard not to fall. Ironically, trying not to fall makes them more likely to fall. By accident, an alternative solution was discovered: Teaching people to fall on purpose and then roll on the floor made them more comfortable with the idea of falling. They realized that they could indeed fall without any serious repercussions. When they lost this fear, they stopped trying not to fall. The result? They stopped falling!

Sometimes a way to crack the nut is to change the question and look for a terrible solution instead. This can be used as a starting point to find great solutions. America's flight to the moon was made possible through a terrible question: "What if the rocket ship were to fall apart after takeoff?" Proposing the destruction of the rocket ship sounds like a crazy idea. But this concept was a critical factor in the success of the Apollo missions: The rocket boosters containing the fuel fell off early during the trip to the moon, which allowed for the required lift and acceleration needed to exit the stratosphere.

Zero-In

When problem-solving, it is important that you are solving the real issue. Ask whether you are solving the right problem or whether you are just resolving the symptoms. No matter how efficiently you solve the wrong problem, the result will not matter. A consumer goods company invested a large amount of time and money trying to develop an alcohol-free mouthwash that was as effective as products containing alcohol, as they'd been told that's what customers wanted. "How can we create an alcohol-free mouthwash that is equally effective?" proved more difficult to solve for than they'd expected. Eventually, the product developers went back to the marketing department and discovered that customers did not care if the mouthwash had alcohol; they just didn't like the sting associated with alcohol-based mouthwashes. The new challenge—"How can we create a mouthwash that doesn't sting?"—proved to be much easier to solve.

It is often useful to consider your industry in broader terms than you may be used to and to consider the competition that is outside your industry. Sometimes technology can force you to reevaluate your industry. UPS is known for moving physical goods from one location to another using trucks and planes, so its investment in self-driving vehicles makes perfect sense. However, a potentially more disruptive technology could impact them in the future: 3D printing.

This technology allows products to be moved digitally rather than physically, eliminating the need for trucks and planes. Knowing this, UPS has launched an "On-Demand 3D Printing Manufacturing Network" designed to get ahead of the game while adding 3D printing capabilities to many of their stores. Their real business has shifted from just trucks and planes to other forms of delivery.

Challenge-Centered Innovation

We strive for quantity of ideas when, in fact, we really should be striving for quality of questions. Quantity drives waste; quality drives value.

Leveraging Challenges for Innovation

Although you likely have been told to think outside the box to find creative solutions, the reality is that you want to find a better box. The better box is that well-framed challenge that drives high-value innovation. If starting with ideas isn't the answer, where do we begin? We start with questions. The question is an issue, problem, challenge, or opportunity that, if solved and implemented, will provide great value to the organization.

Challenge-centered innovation starts with a specific, well-defined, and differentiated challenge. Identify and solve the opportunities that help you stand out from the competition because these opportunities are the ones that will add the most value. The next step is to set clear objective evaluation criteria that help with the selection process. By having clear and objective criteria, you know when you get a good solution and can objectively choose the best ones.

Get the money, people, sponsors, and owners upfront. This ensures that when you find a great solution, you can move forward immediately. The advantage of identifying challenges over ideas is that when you look for solutions to your well-framed challenges, you don't get inundated with thousands of useless ideas. After solutions have been identified, it's time to move into implementation. It's important to start building small, scalable experiments that allow you to test your hypothesis.

Shapiro outlines four steps in his FAST Innovation process:

Focus—Focus on differentiators

Ask—Ask better questions

Shift—Shift your perspective to find solutions

Test—Test, experiment, and implement solution

With Challenge-Centered Innovation and the FAST Innovation process, you now have the tools to start creating a high-performing innovation culture. When you get everyone collaborating around well-framed challenges, you increase ROI, drive higher levels of efficiency, and reduce overall risk.

The key to finding better solutions is to look at the problem with different eyes. We need to shine a light on our blind spots. We need to bring our assumptions to the surface. And we need to use tools (e.g., the lenses) to help us see opportunities—especially the ones that are right in front of us.



Stephen M. Shapiro started his innovation journey by founding and leading a 20,000-person process and innovation practice during his 15-year tenure at Accenture. Since leaving the consulting firm, he has authored six books on the topic, including *Best Practices Are Stupid*, and has become a regular columnist for Inc.com. He has also developed Personality Poker, a powerful card game that helps create high-performing teams. He has presented his groundbreaking innovation work to audiences in 50 countries, and in 2015, he was inducted into the Speaker Hall of Fame.

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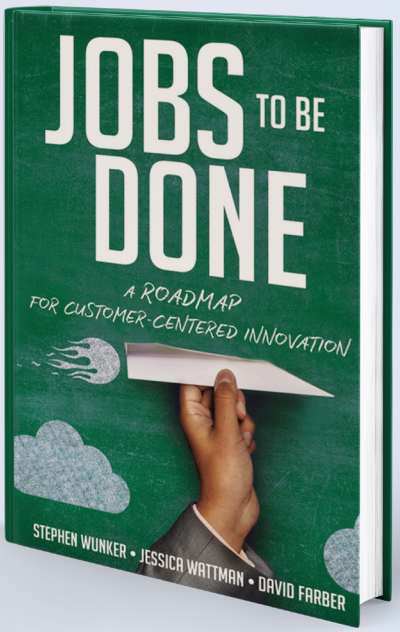
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Jobs to Be Done

Stephen Wunker, Jessica Wattman, David Farber

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Zooming In On Your Next Read



Jobs to Be Done

A Roadmap for Customer-Centered Innovation

By Stephen Wunker, Jessica Wattman, and David Farber

Stephen Wunker worked with Christensen for years, led development of one of the first smartphones, and now runs New Markets Advisors. He has written for Forbes, Harvard Business Review, and The Financial Times.

Jessica Wattman is the consultancy's Director of Social Innovation.

David Farber is a Manager at the Boston-based firm.

Who Is Your Future Self?

In their book, ***Jobs to Be Done: A Roadmap for Customer-Centered Innovation***, Stephen Wunker, Jessica Wattman, and David Farber attempt to give readers a roadmap that will help them "consistently uncover new opportunities and generate new ideas" for their companies. They have experience helping companies do just that by using their Jobs to be Done approach whereby companies focus on the jobs that consumers need performed and how the company can provide a means by which to accomplish these jobs. The authors believe that too little company time is spent truly trying to understand the needs of consumers. They believe that many product failures can be avoided by using their systemic way to approach innovation.

Understanding Jobs to Be Done: Finding High Potential Avenues for Growth

Wunker, Wattman, and Farber break their book into two main sections, the first one covering how to find opportunities for growth. They begin this section with a discussion of the importance of understanding why people perform the actions they do. They want to look for the emotional, psychological, and practical reasons that drive behavior. This is important for both business to consumer products as well as for business to business products. Traditionally, marketers focus on what solutions people use. The authors claim this is not as effective as trying to understand what jobs people are trying to do. This is because it is easier to predict what products and services will be used when the jobs to be performed are understood. This mindset change switches the focus from the "what" of consumer behavior to the "why", and it happens when companies focus on job drivers. A job driver is "the underlying context that makes certain jobs more or less important."

When considering new products, the authors claim, companies focus too much on what customers are currently buying. This can lead to tunnel-vision. The jobs people need done are independent of what they are buying. Therefore, *Jobs to Be Done* is a more customer-centered approach.

These jobs that customers have are both functional and emotional. To satisfy functional jobs, companies need to focus on actual jobs to be done; they need to focus on particular people and particular situations, and they need solutions that focus on jobs rather than on features. Once a company has found some high

priority jobs, they then need to make sure that they satisfy those jobs well. This requires companies to avoid adding too many features that sound good but that do not affect decision making. The authors believe that companies pay less attention to emotional jobs than they do functional jobs. This can be problematic because competitors may find cheaper ways to complete functional jobs. When this happens, differentiation can happen when a company is able to better satisfy emotional jobs.

Not all jobs are of equal importance. Job drivers are the elements that make particular jobs more or less important. These drivers consist of attitudes, background, and circumstances. Attitudes refer to personality traits that affect decisions. Background refers to the situation that affects decisions, and circumstances refer to the short-term factors that people take into consideration. These drivers can help companies with segmentation because it can occur along the lines of Jobs to Be Done rather than by customer type.

Wunker, Wattman, and Farber then go on to discuss success criteria. These criteria "are invaluable in telling innovators how to make their ideas into hits." The most successful companies are those that are able to satisfy the right jobs and the right pain points. The more companies try to compete asymmetrically, "by winning along previously unconsidered dimensions of performance," the harder it can be to measure success. It is important, they posit, that products help consumers in the ways that matter to them, but sometimes trade-offs will need to be made in areas that matter less in order to make the product satisfactory for the company as well.

There are two types of obstacles companies face with new products. The first obstacles are obstacles of adoption. A lack of knowledge is an obstacle to adoption that occurs when customers don't know that they need the product. Another is referred to as behavior change requirement which refers to the difficulty inherent in getting customers to change their behavior. Another impediment can be that multiple decision makers are often involved, and they are not always closely connected. Other obstacles include high cost, high risk, and an unfamiliar category whereby the product is so original that the customer does not really understand what it is.

In addition to obstacles to adoption, there are also obstacles to use which are reasons customers stop using a product or service. These include limited supporting infrastructure, pain points induced by use, and an untargeted offering. In addition, a product may be cool and innovative, but it may not actually be better than other products and services.

The authors then move on to pricing. They recommend value-based pricing that is based on how well a product satisfies the jobs customers need done. With this type of pricing, attention can also be given to the emotional jobs a product or service satisfies. An additional benefit to value-based pricing is that prices can change to reflect surges or other situations that make a product or service more valuable.

Obviously a product must be both useful to the customer and worthwhile to the organization creating it. Therefore the authors created a five step test to evaluate the viability of ideas. This process looks at attracting new customers by determining if customers can leave their current situation and whether new customers will need to be recruited. It also looks at whether add-ons or repurchases are possible. Next it looks at keeping customers by determining whether the product satisfies jobs in a unique way from competitors and if it is difficult to replicate, and finally it looks at growing the business by determining whether the profit model will change as more customers are attracted and whether the infrastructure currently in place will be satisfactory as the business scales.

Wunker, Wattman, and Farber believe that companies often fail to understand what it is that customers actually want, and as such, they have faulty views of what their industries actually sell. This also leads them to miss opportunities which leaves them vulnerable to disruptions. Unfortunately, according to the authors, companies focus narrowly on their traditional competitors, and their innovations keep them on the same narrow path they are already on. When companies focus on Jobs to Be Done, they consider their competitors to be "any offerings that satisfy the same jobs."

Similarly, the authors make the claim that many companies believe they are the first to be providing a product or service. This often isn't the case. Rather, it is likely that the company falls into one of three traps. The first is defining what the product does so narrowly that there is a superficial appearance that they are the only ones meeting a need. Second, they are doing something unique in their market, but they have not realized that it is being done in other markets. A third group refers to companies that do have new ideas. These companies face risk, and they need to discern why others are not capitalizing on this opportunity and whether or not they have the resources to overcome these factors. When considering competitors, companies must determine what their advantages are "in delivering against key jobs and success criteria," what flexibility they have to adjust their plans, and what their rival's impact will be on marketplace perceptions.

Using Jobs to Be Done to Build Great Ideas: Making Success Repeatable

After discussing their roadmap to successful product innovation in the first section, Wunker, Wattman, and Farber go on to discuss how to make this success repeatable. They believe that innovation projects often do not succeed because the company lacks a strategic compass heading; it does not help move the company in the direction they want to go. Other products fail because there was not enough investment made in understanding the customer.

To help maximize the opportunity for success, companies should create a specific strategy that explains in detail how the company will outperform competition. In this statement, the company should provide the definition of what a win would be, a decision as to how and with whom they will win, a determination of the company's competitive advantages, a statement showing how they will "defeat specific and articulable challenges," and show

> **When determining who to research, companies should focus on existing customers, competitor's customers, and those who do not consume the type of product at all."**

the development of growth options and capabilities for the future. These strategies should challenge conventional wisdom. They recommend creating a skeleton business plan that asks the questions that will need to be answered. This should include questions pertaining to market, offerings, solution adoptions, competition, capabilities, and the business model.

Research is clearly needed throughout the process, and the authors describe the importance of not simply relying on Big Data. Big Data, unfortunately, can fail to provide information about why customers make decisions and how they use products. It also fails to explain the emotional relationships customers have with products and unconventional ways products may be used. Therefore, the authors espouse the importance of primary research. There are numerous research methods available. They believe the best plan involves a mix of methods that balances breadth and cost and time. The best method will be determined by the type of insights needed. When determining who to research, companies should focus on existing customers, competitor's customers, and those who do not consume the type of product at all.

Wunker, Wattman, and Farber provide insight into how companies can better generate ideas. They believe that many times brainstorming sessions are destined to fail because of how they are conducted. One reason is the difficulties that people have coming up with new ideas while simultaneously critiquing those of others. Second, people have a tendency to focus on the first ideas they hear, limiting the scope of other thoughts they may come up with. Luckily the authors have some suggestions for overcoming these problems. One is to be clear from the beginning why the brainstorming session is happening and how ideas will be evaluated and considered. It is also important to give participants time to silently think about ideas before sharing them. Small groups can then be formed to build on some of these ideas. It is important to also be clear, at the end of the session, about next steps so participants know their time was well-spent and their ideas will be considered.

Reframing Perspective

Wunker, Wattman, and Farber then go on to discuss the importance of seeking out opportunities to change one's perspective about proposed solutions and challenges. This can be done by bringing ideas to people outside of the select field. These people can provide insight as to whether the idea is truly unique, and they can also suggest alterations that are prevalent in their field that the company never considered. Finally, explaining the idea to an outsider can help the company determine if they are able to clearly articulate their idea. In order to institutionalize the bringing in of new perspectives, companies can develop an open innovation program that provides channels for reaching out to others. Secondly, they can be open to discussion with people from diverse perspectives.

There are two sources of bias that can affect innovators. These can arise from both the availability of information and the confidence of that information. People tend to overvalue their information and to place the greatest value on both the first and latest information they come across. In regards to confidence, individuals tend to be more confident in information about concepts they have already decided upon. They also tend to place more confidence in information that supports their beliefs and ignore information that conflicts with their beliefs.

The final aspect of innovation that the authors discuss is experimentation. The authors recommend running fast and inexpensive experiments that can provide them with key answers that can help in decision-making. Companies may shy away from experiments because they prize answers over questions, but this does not negate the importance of the information to be gleaned from experiments. These can be performed in the earlier stages of development. They can test how interested customers are in the products. All of this requires careful planning to ensure the validity of results as well as their usefulness.

Stephen Wunker, Jessica Wattman, and David Farber provide a clear path that businesses and other organizations can use to create innovative and successful solutions to the jobs that people need performed. They provide ample reasons as to why businesses are better served by focusing on jobs to be done rather than product features. Focusing on jobs helps a business be more customer-centered. Interspersed throughout the book are successful ways companies have managed to carry out the tasks described in the book. These examples make the processes more understandable and the solutions more clear. There is a helpful afterward as well as an appendix that describe in a more detailed manner how one technology company and one charity was able to use these techniques to help people better perform the jobs they needed done. This book accompanies companies from the beginning stages of idea generation. Central to their approach is a mandate for clear research and a deep understanding of consumers.

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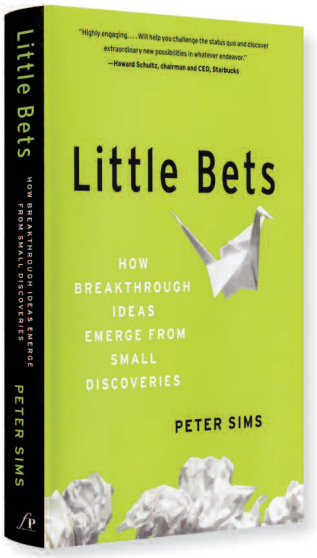
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Little Bets

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Little Bets

How Breakthrough Ideas Emerge from Small Discoveries



by Peter Sims

THE SUMMARY IN BRIEF

What do Apple CEO Steve Jobs, comedian Chris Rock, prize-winning architect Frank Gehry and the story developers at Pixar films all have in common? Best-selling author Peter Sims found that all of them have achieved remarkable results using a surprisingly similar approach: methodically taking small, experimental steps. Rather than believing they have to start with a big idea or plan a whole project out in advance, trying to foresee the final outcome, they make a methodical series of little bets about what might be a good direction, learning critical information from lots of little failures and from small but significant wins that allow them to find unexpected avenues and arrive at extraordinary outcomes.

Based on deep and extensive research, Sims discovered that productive, creative thinkers and doers, from Ludwig van Beethoven to Thomas Edison and Amazon's Jeff Bezos, practice a set of simple but often counterintuitive experimental methods — such as failing quickly to learn fast, trying imperfect ideas and engaging in highly immersed observation — that free their minds, opening them up to making unexpected connections and perceiving invaluable insights. These methods also unshackle them from the constraints of conventional planning, analytical thinking and linear problem-solving that our educational system overemphasizes at the expense of creativity.

IN THIS SUMMARY, YOU WILL LEARN:

- The method to embrace failure as a critical step toward success.
- A way to harness your curiosity using methods from Apple, Pixar and Hewlett-Packard.
- The steps to use little bets to identify possibilities and build up to better long-term outcomes.
- How to leverage small wins to power your bigger performance goals.

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THE COMPLETE SUMMARY: **LITTLE BETS**

by Peter Sims

The author: Peter Sims is the co-author with Bill George of *The Wall Street Journal* and *BusinessWeek* best-selling book *True North*. His work has appeared in the *Harvard Business Review*, *Fortune* and *TechCrunch*.

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Introduction

Chris Rock has become one of the most popular comedians in the world, and while there is no doubt he has great talent, his brilliance also comes from his approach to developing his ideas. The routines he rolls out on his global tours are the output of what he has learned from thousands of *little bets*, nearly all of which fail.

When beginning to work on a new show, Rock picks venues where he can experiment with new material in very rough fashion. In gearing up for his latest global tour, he made between 40 and 50 appearances at a small comedy club. In front of, say, 50 people, he will show up unannounced, carrying a yellow legal notepad with ideas scribbled on it. For a full routine, Rock tries hundreds (if not thousands) of preliminary ideas, out of which only a handful will make the final cut.

Most successful entrepreneurs don't begin with brilliant ideas; they discover them. Google founders Larry Page and Sergey Brin didn't set out to create one of the fastest-growing startup companies in history; they didn't even start out seeking to revolutionize the way we search for information on the web. Their first goal, as collaborators on the Stanford Digital Library Project, was to solve a much smaller problem: how to prioritize library searches online.

The pioneering bookseller Amazon.com also embraces an experimental discovery mentality. Led by founder and CEO Jeff Bezos, Amazon's culture breathes experimentation. Employees there are encouraged to constantly try things and develop new ideas. It's such an important goal of the company to provoke this that whether or not employees are doing so is a part of their performance reviews. Bezos often compares Amazon's strategy of developing ideas in new markets to "planting seeds" or "going down blind alleys." They learn and uncover opportunities as they go. Many efforts turn out to be dead ends, Bezos has said, "But every once in a while, you go down an alley and it opens up into this huge broad avenue."

Chris Rock, the Google founders, and Jeff Bezos and his team are examples of people who approach problems in a nonlinear manner using little bets, what University of Chicago economist David Galenson has dubbed "experimental innovators." Conceptual innovators, such as Mozart, tend to pursue bold new ideas and often achieve their greatest breakthroughs early in life. To be sure, there is an important place for such creative geniuses. Yet, as we all know, prodigies are exceptionally rare.

Experimental Innovation

The type of creativity that is more interesting to Galenson, and that is far more common, is experimental innovation. These creators use experimental, iterative, trial-and-error approaches to gradually build up to breakthroughs. Experimental innovators must be persistent and willing to accept failure and setbacks as they work toward their goals.

Little Bets is based on the proposition that we can use a lot of little bets and certain creative methods to identify possibilities and build up to great outcomes. At the core of this experimental approach, little bets are concrete actions taken to discover, test and develop ideas that are achievable and affordable. They begin as creative possibilities that get iterated and refined over time, and they are particularly valuable when trying to navigate amid uncertainty, create something new or attend to open-ended problems. When we can't know

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Corbin Collins**, Contributing Editor

what's going to happen, little bets help us learn about factors that can't be understood beforehand. The important thing to remember is that while prodigies are exceptionally rare, anyone can use little bets to unlock creative ideas.

Fundamental to the little bets approach is that we:

- **Experiment:** Learn by doing. Fail quickly to learn fast.
- **Play:** A playful, improvisational and humorous atmosphere quiets our inhibitions when ideas are incubating or newly hatched.
- **Immerse:** Take time to get out into the world to gather fresh ideas and insights, to understand deeper human motivations and desires.
- **Define:** Use insights gathered throughout the process to define specific problems and needs before solving them.
- **Reorient:** Be flexible in pursuit of larger goals and aspirations, making good use of small wins to make necessary pivots and chart the course to completion.
- **Iterate:** Repeat, refine and test frequently armed with better insights, information and assumptions.

In this era of ever-accelerating change, being able to create, navigate amid uncertainty and adapt using an experimental approach will increasingly be a vital advantage. The way to begin is with little bets.

Big Bets Versus Little Bets

Perhaps no story I was told while researching this book illustrates the limitations of the conventional, top-down procedural planning approach more vividly than that of Hewlett-Packard.

A creative discovery and experimental approach to innovation had been central to making Hewlett-Packard into a market-leading behemoth. According to HP veterans, co-founder Bill Hewlett loved to make what he called *small bets* to uncover unpredictable opportunities. That approach helped HP pioneer hand-held calculators. In 1972, HP's first calculator, the HP-35, would retail at $400 at a time when the market for scientific calculators did not yet exist. They hired SRI International to do some market research. SRI was then considered the premier computing research group. "They knew more about computing than anyone," recalled HP's Chuck House, "and they said, 'This thing can't sell.'" Bill Hewlett wasn't so sure. Hewlett suggested, "Why don't we build a thousand and see what happens?" It was an affordable bet. Within five months, HP was selling a thousand calculators a day and could barely keep up with demand.

Design Thinking in the Army

During the Cold War era, the Army focused so much on training highly specific, repeatable tasks and eliminating potential errors that when it faced a new style of insurgent warfare in the Middle East, many soldiers were utterly unprepared. To effectively confront the insurgent enemies of today and the future, soldiers must be able to identify and solve unfamiliar problems, rapidly adapting to the circumstances unfolding on the ground.

The counterinsurgency approach is one of discovery and experimentation, the creative approach to warfare. The cornerstone of counterinsurgency operations is what Army strategists call developing the situation through action. Central to the process is acknowledging that mistakes will be made, like violating cultural norms or initially picking the wrong partners, because soldiers are operating in an arena of uncertainty. To help facilitate this change in thinking, the Army has turned to design thinking. The revised U.S. Army's field manual reads: "Design is a methodology for applying critical and creative thinking to understand, visualize and describe complex, ill-structured problems and develop solutions to solve them."

Two fundamental advantages of the little bets approach are highlighted in the research of professor Saras Sarasvathy: that it enables us to focus on what we can afford to lose rather than make assumptions about how much we can expect to gain, and that it facilitates the development of means as we progress with an idea. Sarasvathy points to the value of what she calls the affordable loss principle. Seasoned entrepreneurs, she emphasizes, will tend to determine in advance what they're willing to lose, rather than calculating expected gains. Her work also shows that entrepreneurs tend to be highly aware of the importance of their means, which she defines as: who they are, what they know and whom they know.

Betting on Pixar

By the mid-1980s, Pixar's lead technologist and president, Ed Catmull, had long been determined to make a feature-length, computer-animated film. Catmull's bold vision helped him recruit an ever-growing cast of collaborators with complementary means, including John Lasseter, a traditional animator from Disney. Although the digital imaging technology captivated Steve Jobs, he did not anticipate that the company would produce revenues from animation when he invested. But Jobs decided to allow Catmull to develop his team's ability to

make films by green lighting a series of short films, even though Pixar could expect little or no value from them. Thinking in terms of affordable losses, Jobs' decisions made sense. Had Jobs instead based his decisions on what he could expect to gain from digital animation, he might well have shut the group down early on.

Determining what he can afford to lose is also what Chris Rock does when going before audiences with rough material. One might think that Rock would worry about letting himself bomb in front of people, lest it damage his reputation. He figures that even if some people do leave his experimental appearances disillusioned, and audience members fold their arms in disappointment or jeer, it's an affordable loss. Not only will most of the people appreciate the chance to see his creative process in action, he also knows that those "losses" are contributing to the larger payoff of a highly successful show that will be seen by millions.

In investigating what facilitates the successful practice of little bets, a certain way of thinking about failure plays an important role. Successful experimental innovators tend to view failure as both inevitable and instrumental in pursuing their goals. ●

The Growth Mindset

One of the striking characteristics of those who have learned to practice experimental innovation is that they understand (and come to accept) that failure, in the form of making mistakes or errors, and being imperfect is essential to their success. It's not that they intentionally try to fail, but rather that they know that they will make important discoveries by being willing to be imperfect, especially at the initial stages of developing their ideas.

By expecting to get things right at the start, we block ourselves psychologically and choke off a host of opportunities to learn. Some fascinating research illuminates why some people have a more resilient approach to failure than others.

Dr. Carol Dweck, a professor of social psychology at Stanford University, is one of the leading experts on why some people are more willing (and able) to learn from setbacks. Her research has demonstrated that people tend to lean toward one of two general ways of thinking about learning and failure. Those favoring a fixed mindset believe that abilities and intelligence are set in stone, that we have an innate set of talents, which creates an urgency to repeatedly prove those abilities. They perceive failures or setbacks as threatening their sense of worth or their identity. Conversely, those favoring a growth mindset believe that intelligence and abilities can be grown through effort, and tend to view failures or setbacks as opportunities for growth.

The Growth Mindset at Work

Michael Jordan is one of Dweck's oft-used examples of someone with a growth mindset. He did not start out as a player who would obviously become one of the greatest ever in his game. Rather, he exerted enormous effort to reach that level, and even after having attained it, he continued to work extremely hard. Dweck's findings suggest that people exhibiting fixed mindsets tend to gravitate to activities that confirm their abilities, whereas those with growth mindsets tend to seek activities that expand their abilities.

Pixar's top managers demonstrate a relentless desire to challenge and learn, and they ensure that this trickles throughout the rest of the company. Ed Catmull, who people describe as Pixar's spiritual leader, is even known to ask the company's janitors what they think of Pixar's work and why. Central to Pixar's success in fostering this growth mindset through the ranks is the company's attitude about failure. When Catmull sums up Pixar's creative process, he describes it as going from "suck to nonsuck." Pixar's film ideas begin on rough storyboards that suck until they work through thousands of problems throughout the process in order to take films from suck to nonsuck.

One of those I interviewed who impressed me most in exhibiting a growth mindset was the architect Frank Gehry. Gehry is best-known for the Guggenheim Museum in Bilbao, Spain, and Disney Concert Hall in Los Angeles. In 1989, he won the Pritzker Prize, considered the Nobel Prize for architecture. He said, "I don't feel like I'm at the mountaintop. That's the thing that's really interesting. I don't believe in it. I don't believe I'm there. I call it a 'healthy insecurity.' I'm still searching for something."

The growth mindset is not about not caring about failure. Not even Gehry can inoculate himself from fears of failure. The key is that we can teach ourselves to think differently about failures and mistakes, seeing them as opportunities for learning and growth.

Practicing little bets frees us from the expectation that we should know everything we need to know before we begin. By focusing on doing rather than planning, learning about the risks and pitfalls of ideas rather than trying to predict them with precision upfront, an experimental approach develops growth mindset muscles. ●

Failing Quickly to Learn Fast

Pixar director Andrew Stanton, director of *Finding Nemo* and *WALL-E*, says, "My strategy has always been: Be wrong as fast as we can. Which basically means, we're gonna screw up, let's just admit that. Let's not be afraid of that. But let's do it as fast as we can so we can get to the answer. You can't get to adulthood before you go through puberty. I won't get it right the first time, but I will get it wrong really soon, really quickly."

Howard Schultz's experience building Starbucks illustrates the point. He and his colleagues had to try hundreds of ideas, on everything from nonstop opera music to baristas wearing bow ties, to hundreds of different types of beverages, before being able to define the Starbucks experience.

Novelist Anne Lamott believes that every good writer writes what she calls "shitty first drafts." "The only way I can get anything written at all is to write really, really shitty first drafts." Just get it down on paper, she recommends. Write like a child, whatever comes to your mind. "All good writers write them. This is how they end up with good second drafts and terrific third drafts."

Frank Gehry will begin a new building design by literally cutting up, crumpling and folding pieces of paper or corrugated cardboard with colleagues. Soon a rudimentary building comes into view, perhaps standing several feet tall and wide. The initial prototype that emerges over an hour or so barely looks like a building, but it's merely a starting point. They have begun and can work quickly and inexpensively to explore dozens of initial possibilities.

In developing a film, the team at Pixar creates thousands of storyboards, a huge number of which include ideas that will not be used for the final product. Modeled after Disney's old animation techniques, storyboards are 3-by-8 inch sheets of white paper upon which Pixar's story artists sketch ideas. With each success they've had, they have challenged themselves even more, and in keeping with that, they have used more storyboards.

In a world that prizes answers and solutions, prototyping can be somewhat counterintuitive, placing the emphasis on doing it to be able to think rather than thinking in order to do. Discovery doesn't happen in a vacuum, which is why doing things, however imperfectly at first, opens us up creatively. ●

The Genius of Play

When Frank Gehry describes his process for designing and building, he emphasizes how much he values being able to play with his colleagues. "I don't think I would do buildings alone anymore," Gehry says, "I've gotten so used to the team to play with."

Dr. Charles Limb, a medical doctor and associate professor of head and neck surgery at the Johns Hopkins University, placed musicians in an MRI machine with a small piano keyboard. When the performers switched from structured music to improvised jazz, the part of their brain responsible for evaluating and censoring their behavior effectively switched off.

Improvising unlocks a far more creative state of mind. Kids don't have the self-censoring capacity of their brain well developed, which helps explain why they will say outlandish things and also why kids are often extremely creative. Scientists compare the state of mind while improvising to meditation or even to REM sleep cycles, when the mind more readily makes creative associations seemingly because it is less burdened by its evaluative side.

Throughout the Pixar creative process, they rely heavily on what they call plussing; it is likely the most-used concept around the company. The point of plussing is to build upon and improve ideas without using judgmental language. Creating an atmosphere where ideas are constantly being plussed, while maintaining a sense of humor and playfulness, is a central element of Pixar's magic. The practice of plussing draws upon those core principles from improvisation: accepting every offer and making your partner look good. Rather than criticize an idea in its entirety (even if they don't think it's good), people accept the starting point before suggesting improvements.

Finding Success in Humor

Group leaders set the tone. Successful humor breaks down power structures that tend to inhibit tighter social bonds and interactions. This is precisely the type of environment that Pixar seeks to create. They have established that, at Pixar, hierarchy and positional status are of less relevance than at most companies. The dominant hierarchical work environment supports the fallacy that the most experienced or senior person in the group will have the answers. People around Google and other corners of Silicon Valley often refer to this as the HiPPO phenomenon. That is, the highest paid person's opinion (HiPPO) usually dominates how people make decisions inside most organizations.

A playful, lighthearted and humorous environment is especially helpful when ideas are incubating and newly hatched, the phase when they are most vulnerable to being snuffed out or even suppressed because of being judged or self-censored. The possibilities become the

basis for little bets, just as comedians improvise to develop new material. Plussing then forms the basis by which to build ideas toward perfection.

Problems are the New Solutions

An outsider might assume that Disney Concert Hall's parabolic metallic structure grew out of a chaotic creative process. But no. Frank Gehry and his team make use of the constraints imposed upon them. On a typical project, the constraints, what Gehry also calls "guardrails," that define the scope of Gehry's figurative box will include a budget, time frame, materials, political or regulatory rules, and the nature of the building site itself. Those constraints not only help Gehry Partners to bound, focus, and measure their progress, they help begin and evolve the design. As Google's Marissa Mayer has put it, "Constraints shape and focus problems and provide clear challenges to overcome."

The strategy of breaking a project down into discrete, relatively small problems to be resolved is what Bing Gordon, a co-founder and the former chief creative officer of the video game company Electronic Arts, calls "smallifying." Gordon found that when software teams worked on longer-term projects, they were inefficient and took unnecessary paths. However, when job tasks were broken down into particular problems to be solved, which were manageable and could be tackled within one or two weeks, developers were more creative and effective.

This practice of smallifying problems is a common one in Silicon Valley these days, related to what executives call one of the most important recent ideas in the software industry: agile software development. Unveiled in 2001, the founders of agile development believed that software development projects should be broken into small pieces, prioritized, completed and released based on user needs. By contrast, software traditionally is developed in a way in which the solution is planned, designed and detailed before the project begins, known as the "waterfall method." Although the waterfall method has its virtues, there are several major flaws. One is that managers try to anticipate every conceivable software feature users might need at the outset. As Steve Jobs was known to say, "People don't know what they want if they haven't seen it." Many features created through waterfall methods are never used.

Given the fear or indecision we often confront when attempting to unleash our creativity, the practice of rigorously smallifying problems is liberating.

Questions are the New Answers

In 1974, Muhammad Yunus was an economics professor at Chittagong University in Bangladesh. It was in the village of Jobra where Yunus absorbed himself in the lives of some of Bangladesh's poorest people, seeking to understand poverty from what he called the worm's-eye view.

Sufiya could not afford to buy raw materials for the bamboo stools, and she could not get a conventional loan since she did not have collateral. The middlemen allowed her just enough profit to survive from day to day. Sufiya lived as a bonded laborer, essentially enslaved. Yunus asked one of the students to compile a list of people in Jobra who, like Sufiya, were dependent upon middlemen. The list came to 42 people. They needed a combined total of less than $27 to finance their work. "My god, my god. All this misery in all these families and all for the lack of $27!" Yunus exclaimed.

By immersing himself in Sufiya's life, Yunus had discovered a core problem that economists had overlooked. After making the first $27 loan personally, he secured the capital necessary to start the Grameen Bank in 1977. Grameen would provide very poor, self-employed people with tiny loans. The practice became known as "microlending" or "microfinance" and would become a global phenomenon.

Corporate Anthropology

The observational methods of anthropology are infiltrating the corporate world. Take an experience of Procter & Gamble (P&G) in Latin America. A large part of P&G's audience in Mexico are low-income people, a different demographic from its core market in the United States. There was a disconnect. Not surprisingly, the company experienced a number of failures there throughout the 1980s.

P&G responded brilliantly. Under CEO A.G. Lafley, the company launched a program to have its employees actually live with representative users, called "Living It." P&G ethnographers, and also senior managers, spend time in low-income homes around the world to better understand what matters in their lives.

Why are some people voracious questioners and others are not? Professors Hal Gregersen and Jeff Dyer gathered interesting insights about our approach to education. "If you look at 4-year-olds, they are constantly asking questions and wondering how things work. But by the time they are 6-and-a-half years old they stop asking questions because they quickly learned that teachers value the right answers more than provocative questions."

What is the purpose of education? Is it to convey knowledge, as the current system is weighted, or is it to inspire and nurture an ability to constantly learn?

For those of us who are already grown-up, acting like anthropologists is one of the most powerful ways to help us formulate the questions that will uncover invaluable insights and answers. And in so doing, it's important not only to dive deep into particular, selected environments, as Muhammad Yunus did, but also to go wide. ●

Learning a Little from a Lot

Diversity, be it of perspectives, experiences or background, fuels creativity. We see this pattern at the individual, organizational and societal levels. Dr. Richard Wiseman spent 10 years studying why some people seem to be lucky while others seem to be unlucky. Wiseman performed a series of experiments on 400 people and summarized his findings in his book *The Luck Factor.*

Wiseman and company began by surveying people about whether they perceive themselves to be lucky or unlucky. They found that 50 percent of the respondents considered themselves to be lucky and 36 percent felt they were neither lucky nor unlucky, while 14 percent said they were consistently unlucky. Over the next several years, Wiseman sought out differences between these self-described "lucky" and "unlucky" people.

The Root of Luck

In one experiment, Wiseman gave both lucky and unlucky people a newspaper and asked them to count the number of photographs it contained. He found that it took people in the unlucky group roughly two minutes to complete the task, whereas it took people in the lucky group just seconds. "Why?" Wiseman recounts, "Because the second page of the newspaper contained a message: Stop counting. There are 43 photographs in this newspaper. It was staring everyone straight in the face, but the unlucky people tended to miss it and the lucky people tended to spot it."

At social parties, unlucky people tended to talk with the same types of people, people who were like themselves. Lucky people tended to be curious and open to what can come along from chance interactions. Chance opportunities favored people who were open to them. Wiseman wrote: "Lucky people are effective at building secure, and long-lasting, attachments with the people they meet …. And time and again, this network of friends helps promote opportunity in their lives."

This was Wiseman's core finding: You can create your own luck. Lucky people increase their odds of chance encounters or experiences by interacting with a large number of people. The more people and perspectives in your sphere of reference, the more likely good insights and opportunities will combine. ●

Learning a Lot from a Little

There's an important reason that standup comedians target small comedy club audiences with their little bets, and it's backed up by decades of empirical research, including that of MIT professor Eric von Hippel. Chris Rock watches the audience body language closely, especially the diehard regulars who typically sit in the center of the room, and frequently makes notes about their reactions. Von Hippel showed how these types of cutting-edge users of ideas provide unique insight about what ideas will be valuable to a broader audience. Seeking out a small group of these active users with little bets is an astute way to tap into unique insights and desires.

In an extensive study of the sources of innovation for major scientific instruments, for instance, von Hippel found that one group, which he called active users or lead users, were responsible for developing over 75 percent of the innovations. A similar pattern ran across an array of other industries. These people not only serve as cutting-edge taste-makers, they actively tinker to push and create new ideas on their own.

Designers call these people extreme users, whose unique needs can foreshadow the needs of other people. Many creative thinkers and doers use the von Hippel strategy already, without knowing anything about von Hippel's findings. For example, singer and songwriter John Legend does so as he develops a new song. Kanye West, in particular, is a classic innovator and active user, constantly consuming and tinkering with music. Legend will bounce ideas around with West at all stages of the process, especially at the beginning.

Active users are all around us. We can all seek out the active users in our work and social sphere, and even use methods to reach out wider to find them, and begin regularly tapping into their highly valuable insights, desires and opinions. ●

Small Wins

As we begin to make use of these methods to develop new ideas, strategies and projects, they combine to facilitate what organizational psychologist Karl Weick refers to as small wins. Weick defines a small win as "a concrete, complete, implemented outcome of moderate

importance." Sometimes a Chris Rock joke will provoke a torrent of laughter, but more often, a positive reaction will come in the form of a muted chorus of chuckles. That's a small win because Rock knows that he's found a theme that has the makings of a good joke, which he can then build upon.

At Pixar, what Ed Catmull and John Lasseter did, which enabled them to impress Steve Jobs enough to continue to support their efforts, was to demonstrate the value of computer-generated animation films in a series of small wins. They proposed a series of short films and justified making them by arguing that they would help to sell Pixar's other products. Running just over a minute and a half, *Luxo Jr.* was considered a real breakthrough, especially for its emotional realism. Lasseter used the Luxo lamp sitting on his desk as inspiration for the story involving a large lamp (adult) and a small lamp (child) interacting as the small lamp plays with a ball. When the lights went up, Luxo Jr. received a standing ovation from an audience of roughly six thousand people at SIGGRAPH (a large annual computer graphics conference), an important boost for Pixar's reputation and brand.

Starbucks evolved in a similar manner. The Starbucks we know emerged by carefully adapting to customer feedback through a series of small wins. So, for example, Schultz was initially determined to avoid using nonfat milk since he didn't think it tasted as good as regular milk and because it was at odds with the Italian coffee experience. When customers kept requesting nonfat drinks, Schultz relented. The success of those drinks became an important small win: Nonfat milk would grow to account for almost half of Starbucks' lattes and cappuccinos.

Some of the benefits of small wins are easy to appreciate. They help to build momentum and can be the crucial boost to beat back the inevitable frustration of any creative endeavor. They enable the development of the means to attain goals. One element of small wins that is particularly tricky to absorb is that very often they will not emerge in a linear fashion, so they cannot reliably be predicted or planned for and may not build on one another, one step after another. Often, rather than validating a direction we've been pursuing, they will provide a signal to proceed in a different way. In this way, small wins enable a flexibility about how to attain ultimate goals. The key is to appreciate that we can't plot a series of small wins in advance; we must use experiments in order for them to emerge. ●

Conclusion

As we have seen, Chris Rock, Frank Gehry, agile software developers, Pixar animators and seasoned entrepreneurs all do things to discover what they do. At the core of this experimental approach, they use little bets to discover, test and develop ideas that are achievable and affordable. Little bets are their vehicle for discovery, whereby action produces insights that can be analyzed, as Gehry might when he builds a new prototype model, in order to identify, frame and reframe problems and ideas, so he can adapt and act using little bets again.

Experimental innovators use strikingly similar methods inside their work processes. So, for example, they use lots of experiments and inexpensive prototypes to develop their ideas. Just as Gehry uses crumpled sheets of paper to prototype rough building designs, Chris Rock scribbles joke ideas on a notepad, then reels off ideas in small clubs, not afraid to bomb with regularity. That's how he learns. Inside Pixar, the story is the same: They must use thousands of storyboards in order to develop a new film storyline of script. It's how they go from suck to nonsuck. Pixar directors understand what seasoned entrepreneurs like Jeff Bezos and agile software developers do: The faster they fail, the faster they will discover promising opportunities.

Invention and discovery emanate from being able to try seemingly wild possibilities and work in the unknown; to be comfortable being wrong before being right; to live in the world as a keen observer, with an openness to experiences and ideas; to play with ideas without censoring oneself or others; to persist through dark valleys with a growth mindset; to improvise ideas in collaboration and conversation with others; and to have a willingness to be misunderstood, sometimes for long periods of time, despite conventional wisdom.

As the noted technologist and inventor Alan Kay once said, "The best way to predict the future is to invent it." After all, life is a creative process. It all begins with one little bet. What will yours be? ●

RECOMMENDED READING LIST

If you liked *Little Bets*, you'll also like:

1. ***The 4 Disciplines of Execution* by Sean Covey, Chris McChesney and Jim Huling.** The 4 Disciplines of Execution (4DX) is a simple, repeatable formula for executing on your most important strategic priorities.
2. ***Disciplined Dreaming* by Josh Linkner.** Learn how to create profitable new ideas, empower all your employees to be creative and sustain your competitive advantage over the long term.
3. ***Adaptability* by Max McKeown.** McKeown draws on millions of years of evolution to create a practical and strategic set of rules that take adaption from an involuntary coping strategy to a deliberate winning strategy.

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Magic Words

Jonah Berger

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Magic Words

What to Say to Get Your Way



by **Jonah Berger**

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THE SUMMARY IN BRIEF

Almost everything we do involves words. But while we spend a lot of time using language, we rarely think about the specific language we use. While getting our point across is obviously important, the particular words used to do so often seem inconsequential. Natural language tools have transformed the social sciences, providing insight into all types of human behavior. The author parsed customer service scripts to uncover the words that increase customer satisfaction, dissected conversations to understand why some go better than others, and scrutinized online articles to identify writing that keeps readers engaged.

Along the way, he learned the power of magic words. Yes, what we say matters, but some words are more impactful than others. The right words, used at the right time, can change minds, engage audiences, and drive action. In ***Magic Words: What to Say to Get Your Way***, author Jonah Berger uncovers the hidden science behind how language works and more importantly, how we can use it more effectively to persuade others, deepen relationships, and be more successful at home and at work using six types of magic words.

IN THIS SUMMARY, YOU WILL LEARN:

- The power of magic words
- How to activate identity and agency
- How to ask the right questions
- The importance of harnessing similarities, and differences

Activate Identity and Agency

People can be described in various ways. Peter is old, and Scott is young. Susan is female, and Tom is male. Jessica is a morning person, Danny loves dogs, and Jill is a coffee drinker. There are many ways to say the same thing.

Someone who has left-leaning political beliefs, for example, could be described as being "liberal" or as being "a liberal." Someone who likes dogs a lot could be described as "loving dogs" or being a "dog lover."

These may seem like small variations, but in each case, the latter describes a category. If someone is described as liberal, it suggests that they hold left-leaning beliefs. But describing someone as "a liberal" suggests they fall into a particular group or type. They are a member of a specific set of people.

Category labels often imply a degree of permanence or stability. Rather than noting what someone did or does, feels or felt, category labels hint at a deeper essence: Who someone *is*. Regardless of time or situation, this is the type of person they are. That they will always be that way. Things that could be seen as temporary states often seem more enduring or fundamental when expressed using category labels. Losing is bad. Being a loser is even worse.

In all these cases, labels involve a particular part of speech: nouns. The trait "liberal" is an adjective, but the category "a liberal" is a noun. Saying that someone "runs a lot" uses "run" as a verb, while saying someone is a "runner" turns the action, a verb, into an identity, a noun. Across a variety of topics and domains, research finds that turning actions into identities can shape how others are perceived.

Want people to listen? Ask them to be a listener. Want them to lead? Ask them to be a leader. Rather than saying "Don't lie," saying, "Don't be a liar" should be more effective. Turning actions into identities is one way to apply the broader category, language of identity and agency. But there are three other ways to encourage desired actions in ourselves and in others.

Change Can'ts to Don'ts: Having trouble sticking to your goals or resisting temptation? Try saying "I don't eat sweets right now" instead of "I can't." This increases our feeling of empowerment and makes us more likely to achieve our goals.

Turn Shoulds into Coulds: Asking what we "could do" instead of what we "should do" encourages divergent thinking, helps us be more creative, and helps us get out of a rut.

Talk to Yourself: When nervous or anxious, try talking to yourself like a friend or family member would. It distances us from tough situations, reducing anxiety and increasing performance.

Pick Your Pronouns: Think carefully about using pronouns like "I" and "you." They can draw attention and take ownership, but they also suggest responsibility and blame.

Convey Confidence

Speaking with power makes people seem confident. It makes them seem more certain, self-assured, and knowledgeable, which makes audiences more likely to listen and change their minds. When one speaks with power, they lay out a perspective or ideology that seems so convincing that it's hard to disagree. They seem so confident about what they are saying that it's hard to believe things could be any other way. But speaking with power or confidence isn't something you're born with, it's something you can learn and there are four ways to do it.

Ditch the Hedges

Words like "might" or "could" are called hedges. They are used to express ambiguity, caution, or indecisiveness. We note that we *think* something will work, that a solution *could* be effective, or that an alternate approach *might* work better. But without realizing it, hedging can undermine our impact, because while we're sharing our thoughts and recommendations, by hedging, we're simultaneously undercutting them. We're suggesting that we're not sure those thoughts and recommendations are worth pursuing. To convey confidence, then, ditch the hedges.

In their place, use definites. Words like "definitely," "clearly," and "obviously" remove any shred of doubt. Definites do more than signal a lack of uncertainty. They suggest that things are 110 percent clear.

Don't Hesitate

In regular everyday speech, most of us say things like "uh," "um," and "er," a lot. It's a common verbal tic we use when we're collecting our thoughts or trying to sort out what to say next. And it's an easy crutch to lean on. But while they're fine once in a while, when used too often, these hesitations or filler words can weaken whatever is being said. Indeed, research finds that hesitations are even more detrimental than hedges. They make people seem less powerful and authoritative and less effective at getting across whatever they are trying to communicate.

Showing that we are conflicted or uncertain makes us seem less threatening and opens people up to other perspectives.

Rather than saying "um" or "uh," take a second to pause. People will perceive us more positively and be more likely to follow our suggestions.

Turn Pasts into Presents

Verbs are an indispensable part of communication and they vary in their tense, indicating when an action takes place. In many situations, tense is determined by the situation, but in others, people can choose what verb tense to use. When talking about a job candidate, for example, someone can say that the candidate "seems" or "seemed" good. A new vacuum "cleans" or "cleaned" well. Beaches at a vacation destination "are" or "were" amazing. And a shift in verb tense can influence persuasion.

Present tense boosts impact. Past tense suggests that something was true at a particular point in time and further, that what is being conveyed is subjective as well. Present tense, in contrast, suggests something more general and enduring. Turning pasts into presents will make others more likely to listen to what we have to say.

Know When to Express Doubt

While speaking with power can make us seem more certain and increase the chance people follow our suggestions, there are some situations where being more circumspect is actually more effective.

Coming face-to-face with someone with whom you strongly disagree can quickly turn into a heated argument. Expressing doubt about a contentious issue increases persuasion. Particularly among people with strong beliefs, hearing someone else isn't sure about their opinion encourages them to change their mind in that direction, too.

One reason change is so hard is that people are unwilling to even consider information that goes against their beliefs. As a result, when dealing with opposing viewpoints, being a bit more indirect can often be more effective. Showing that we are conflicted or uncertain makes us seem less threatening and opens people up to other perspectives.

Ask the Right Questions

In any social interaction, there are a seemingly infinite number of questions that could be asked. And while some questions facilitate social connection, others seem less beneficial. Ask someone an embarrassing or intrusive question, for example, and they might not be interested in talking to us again. How do we know the right types of questions to ask? There are four strategies.

Follow Up

Asking questions can signal that we're interested in someone's viewpoint, that we care about their perspective, and want to learn more. But not all types of questions lead the asker to be perceived positively. Follow-up questions encourage conversation partners to elaborate further, to say more, provide more details, and give more texture.

And no matter who they are talking to, follow-up questions are perceived more positively than other types because they demonstrate that someone listened, understood, and wants to know more. If you want someone to like you, don't just ask questions, ask the *right* questions.

Deflect Difficulty

Difficult questions come up all the time and it often feels like there is no good option for answering them. Our first instinct is to answer honestly, to respond directly and completely, and tell the truth.

Doing so, however, is often costly. In negotiations, for example, someone who discloses private information may be explored by their counterpart. Similarly, in job interviews, someone who tells the truth about their prior compensation or reason for leaving may be offered less money or be passed over for the position.

Responding to a difficult question with a related question flips the script. Rather than seeming evasive, this makes us seem interested and engaged. Rather than making us look disagreeable and untrustworthy, it makes us look like we care and want to know more. And they do all this while deflecting attention.

Avoid Assumptions

How we ask sensitive questions has a big impact on whether we actually uncover the truth. Questions like "The car doesn't have any problems, does it?" presume that there aren't any issues.

While they do directly ask about problems, they simultaneously communicate the assumption that no problems exist. Compared to a general question, one way to ask about potential problems is to flip the assumption, presuming that problems exist rather than don't. Questions like "What problems does it have?" do exactly that. This makes it much harder for the question to be evaded.

Start Safe, Then Build

Developing close relationships often involves self-disclosure. Eventual friends or partners don't start close. They start by exchanging pleasantries, making chitchat, and filling conversational space. But what often separates relationships that evolve into something more is the ability to move past that. To go beyond the small talk and get to something deeper. To reveal things about oneself, learn things about someone else, and truly connect. And questions can help.

Mutual vulnerability fosters closeness, but getting to that point is tough. Start with questions that aren't too big, but also don't stay too small. Start safe and then build, becoming increasingly probing and revealing. Reciprocal self disclosure strengthens interconnectedness and can bring two people closer together.

Leverage Concreteness

In customer service, outcomes can be quite different even when the calls themselves have similar structures. Even when controlling for what people call about, customer demographics, and dozens of other factors, how agents talk plays an important role. A certain way of speaking boosts customer satisfaction. To understand that way of speaking, we have to understand a fourth type of magic words: what's known as *linguistic concreteness*. There are three ways to apply it.

Make People Feel Heard

In many situations, the same thing can be talked about in more or less concrete ways. The more concrete the description, the more specific, vivid, and easier it is to picture or imagine. A service representative discussing a refund could say, we'll send you *something*, a *refund*, or your *money*. The latter versions use more concrete language. The words used are more specific, tangible, and real. Abstract, generic responses help save time and effort because they're applicable to almost any situation. But that wide applicability has a downside.

People, whether customers or otherwise, want to feel heard. They want to feel like someone is listening to their concerns and going to address them. But for someone to feel heard, three things have to happen. First, they have to feel like the other person *paid attention* to what they've said. Second, they have to feel like the other person *understood* what they said. And third, the other person has to *demonstrate that they listened*.

This last part is key. Imagine talking to someone who provided no response. They might have attended to everything we said, but without some sort of outward signal that indicates they listened, it's impossible to know whether or not they actually did. To make people feel heard, we have to *show* them that we listened. Concrete language provides that signal.

Make the Abstract Concrete

When estimating what others know or don't know, people often use their own knowledge as a starting point. They assume that others know just as much as them. While we have spent lots of time thinking about something, or know a lot about it, we often fail to account for the fact that others may not be in the same position. Consequently, we often talk in ways that fly right over their heads. This is called the curse of knowledge and abstractness is the cause.

The more people learn about something, the more they naturally start to think about it abstractly. They may understand the problem, but they use such abstract language to explain it that the solution is completely unintelligible. We need to make the abstract concrete, helping people understand, and act on, what we're saying.

Know When It's Better to be Abstract

There are some situations, however, in which abstract language is better. While concrete language is often useful, if our goal is to come off as powerful, or make something seem like it has growth potential, using abstract language is better. It helps things stay high level and communicate the big picture. This is relevant in pitch language, for example, when a startup is trying to convey how their idea will more broadly impact the world.

Employ Emotion

Great stories often have ingredients or guidelines that help make them more engaging. Hearing about someone's

Differences in certainty have an important impact on sustained attention. Uncertainty leads people to stick around to resolve what they don't know.

difficulties or tough times can give us inspiration or hope, believing that anything is possible. There is value in employing emotion and there are four ways to do that.

Build a Roller Coaster

Stories are an integral part of everyday life. We tell stories about everything from what we did over the weekend to why we think we're perfect for a job. And when we're not telling stories, we're consuming them, through books, movies, shows, and podcasts. Some stories, though, are better than others. They're more interesting, engaging, and captivating. They keep listeners on the edge of their proverbial seats, waiting to find out what happens next.

When it comes to stories, tension is key. Many successful stories seem to follow a predictable structure. Characters have to overcome various trials and tribulations before they reach the happy ending. Low points, or depths of despair, make the high points that much more powerful. Victories are savored more when they're snatched from the jaws of defeat.

The Value of Volatility

Highlighting the hurdles, or going from low to high, and back again, makes stories more engaging. And they are even more so when the ride is bumpy. Interrupting positive things with negative ones can actually increase enjoyment. The less positive moments make the following positive ones new again and thus more enjoyable.

Emotionally volatile stories are unpredictable. Things might generally get better, but at any moment it's hard to know whether they'll get better or worse. And this unpredictability makes the ride more stimulating and increases liking.

We can leverage this in job interviews, conversations, or in public settings. Sharing our imperfections can be an asset. Explaining how we overcame adversity is viewed as strength. Leveraging emotional volatility can help turn any story into a great one.

Consider the Context

Whenever people express an attitude or opinion, they can do so in various ways. They can say they *loved, hated, liked, or avoided* a movie. They can say a restaurant was *awesome, amazing, mediocre, or terrible*.

These words not only indicate how much someone liked something, they also suggest that the evaluation is based on emotions versus other factors. But rather than emotional language always being persuasive, whether it encourages action depends on the *type of thing* we're trying to persuade people about.

Emotionality is good for hedonic things, like movies and restaurants, but it is bad for more utilitarian ones. When marketing a product, selling an idea, or even pitching ourselves, we often use positive language. But that's not enough. We need to consider the context. If we are talking about a product, service, or experience in terms of practical functionality, less emotional words will be more persuasive.

Activate Uncertainty

Keeping an audience engaged is challenging, as anyone who has ever made a presentation or created content can attest. The distinction between attracting and holding attention is key. Senders don't just want people to open their emails, they want them to read them. Leaders don't just want employees to attend their presentations, they want them to listen to and internalize what was said.

Differences in certainty have an important impact on sustained attention. Uncertainty leads people to stick around to resolve what they don't know. If they aren't sure what will happen next or how something will end, they stay tuned to find out. This can be activated to deepen engagement, particularly around seemingly less stimulating subject matter.

Harness Similarity (and Difference)

To truly understand language, and its impact, we have to put it in context. We have to examine how the words one person uses relate to the words other people are using. Because rather than suggesting that some words are good and others are bad, it highlights the importance of *linguistic similarity*. To harness its power, we need to know three things.

When to Signal Similarity

Organizational culture has become a hot topic. Building a strong culture, maintaining it, and hiring applicants who fit. Like all groups, online or otherwise, organizations have terminology and linguistic norms. Different tribes have different lingo. Startup founders talk about "pivoting," retailers talk about "omnichannel," and Wall Street traders talk about "pikers" and being "junked up."

Similarity shapes success. Using similar language can lead to better performance evaluations, higher bonuses, and a greater likelihood of being promoted. Daters who talk similarly are more likely to go on a second date and students who write similarly are more likely to become friends. Using similar language can facilitate conversation, make people feel connected, and increase their perception that they are a part of the same tribe. All of which can increase liking, trust, and a variety of positive downstream outcomes.

When to Be Different

In analyzing thousands of songs to determine what makes a hit and what doesn't, words and how they are used in an overall theme matters. Country songs, for example, sing a lot about girls and cars but not so much about body movement. Rap songs talk a lot about street cred and not so much about love. Dance and rock songs talk more about fiery love, while pop songs talk more about uncertain love. In analyzing the link between atypicality and success, the most successful are atypical.

A country song about girls and cars, for example, tends to do pretty well, but one that is more about atypical themes like dance moves or street cred is even more likely to be a hit. The more differentiated a song's lyrics are from its genre, the more popular it tends to be. In fact, even looking at cases where the same song charts in two different genres, the song ends up being more popular on the chart where it is more atypical. Difference drives success.

When Similarity is Good and Difference is Better

Using similar language seems to pay off at the office, but using different language makes songs more successful. So when is similarity good and when is difference better? Similarity can both be good and bad. Similarity feels familiar and safe but can also be boring. Difference can be exciting and stimulating but can also be risky. Consequently, whether similarity or difference is better depends on what is valued in a particular context.

Are you working in a domain where creativity, innovation, or stimulation is valued? Linguistic differentiation may be beneficial. Are you doing a job where familiarity, fitting in, and safety are desired? Linguistic similarity may be better.

How to Plot the Right Progression

Just as atypical lyrics make songs more interesting to listen to, a faster plot progression makes a story more stimulating. Rather than just plodding along, moving faster between more differentiated topics and ideas is more exciting, which leads audiences to react more favorably.

Starting slow is key. If the plot moves too fast right off the bat, the audience may get left in the dust. Early on, speed is detrimental. But once similarity has helped lay the groundwork, setting the stage and building expectations, the story must advance. Once everyone is on board, the best stories pick up steam, building excitement, and engagement, along the way.

This translates to everything from telling a story to communicating more generally. If the goal is to entertain, speed is good. If the goal is to inform, however, a different trajectory may be better. When presenting complex ideas, slow may be the way to go.

The six types of magic words discussed in this book can help us across all areas of our lives. Words and phrases can be used to influence others and reveal things about the people and society that created them. The right words used at the right time can have immense power. They can help us persuade colleagues and customers, engage audiences and acquaintances, and connect with partners and peers.

But while the impact of these words may seem magical, we don't have to be a magician to use them. Indeed, rather than being a spell, these words work by leveraging the science of human behavior. By understanding how magic words work, anyone can harness their power.



Jonah Berger is an associate professor of marketing at the Wharton School at the University of Pennsylvania. His research has been published in top-tier academic journals and popular accounts of his work have appeared in the New York Times, the Wall Street Journal, Science, Harvard Business Review, and more. His research has also been featured in the New York Times Magazine's "Year in Ideas." Berger has been recognized with a number of awards for both scholarship and teaching. He is also the author of *Contagious and Invisible Influence*.

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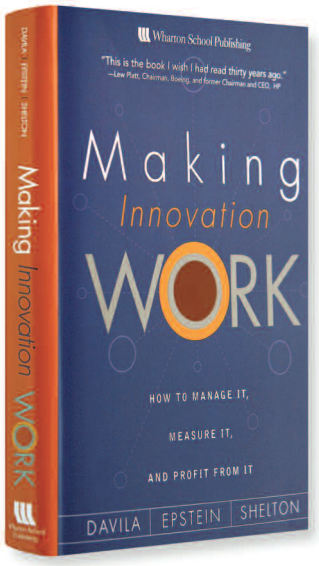
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Making Innovation Work

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Making Innovation Work

How to Manage It, Measure It and Profit From It



by Tony Davila, Marc J. Epstein and Robert Shelton

THE SUMMARY IN BRIEF

To compete effectively, you must innovate — not just once, but consistently, in all your products, services and business functions. But, profitable innovation doesn't just "happen." It must be managed, measured, executed on — and few companies do that well. *Making Innovation Work* offers the first real solution: a start-to-finish process for driving growth from innovation.

The authors draw on unsurpassed innovation consulting experience and a thorough review of innovation research. Their techniques have been proven at top companies ranging from Apple and GE to Toyota. They demonstrate what works, what doesn't and how to use all of your management tools to maximize the value of your innovation investments.

You'll learn how to define effective strategies and organizational structures for innovation, manage innovation more successfully and motivate teams to deliver and infuse metrics throughout every phase of the innovation process.

Making Innovation Work takes the mystery out of profitable innovation, showing how to lead it, track it and get more of it.

IN THIS SUMMARY, YOU WILL LEARN:

- How to define innovation strategy, design portfolios and encourage value creation.
- How to match innovation to your overall business strategy.
- How to generate successful new ideas that drive maximum ROI.
- How to make innovation truly integral to your company's business mentality.
- Ways to prevent your company from killing off its best new ideas.
- How to leverage innovation resources both inside and outside the organization.
- How to implement the right metrics and the right incentives to drive results.

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THE COMPLETE SUMMARY: **MAKING INNOVATION WORK**

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Introduction

Much that is held as common wisdom regarding how successful innovation is managed is wrong. Somewhere along the line, the correct set of rules for innovation have been misplaced, distorted or simply misinterpreted. This is not to say that organizations are not innovative — obviously many are. But how and why these companies are innovative is very different than what many managers think.

Here are three new, important perspectives for senior managers:

1. Innovation, like many business functions, is a management process that requires specific tools, rules and discipline — it is not mysterious.

2. Innovation requires measurement and incentives to deliver sustained, high yields.

3. Companies can use innovation to redefine an industry by employing combinations of business model innovation and technology innovation.

Innovation is a necessary ingredient for sustained success — it protects your tangible and intangible assets against the erosion of the market.

Innovation is an integral part of the business, and as such it has to be managed — it is not a "nice-to-have" element or something that occurs on its own. ●

Driving Success: How You Innovate Determines What You Innovate

For any organization, innovation represents not only the opportunity to grow and survive but also the opportunity to significantly influence the direction of the industry.

Innovation at Apple

Apple Computers took the industry by surprise when it launched iTunes and iPod, but not so much because these were innovations that nobody had ever thought of before in the PC arena. Instead, it was the strategy of combining technology change and business model change into a one-two innovation punch. And the iTunes/iPod combination is only starting to generate new concepts. One of the latest is an iPod special edition with U2 (the famous rock band), which opens up rich partnership opportunities with content providers. Apple has put its mark again on the direction of the PC industry.

As innovation leaders like Apple, Toyota, Dell, Nucor Steel, Sony and others have shown, making important changes to key parts of the dominant business model or the essential technology can redirect the competitive vectors of an entire industry. Innovation provides the opportunity for a company to put its mark on the evolution of business. By setting the rules of the game in their industries, these companies have taken a leadership position and play the game that favors them most.

How to Make Innovation Work

A fundamental tenet of innovation says h*ow* you innovate determines *what* you innovate. In other words, the results of innovation are not a matter of luck. Alternatively, innovation is not a commodity system that you plug into to get what you need — such as the electricity grid.

The elements of innovation: leadership, strategy, processes, resources, performance metrics, measurement and incentive rewards and how they are arranged — organizational structure and culture — have a huge effect on the quantity and quality of innovation that an organization achieves.

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The Rules of Innovation

The key to successful innovation, and something that requires the attention of the CEO, is a periodic health check to determine exactly what needs attention. Continually tinkering with all parts of innovation is unlikely to meet with success. To achieve results with limited time and resources requires the ability to focus on the parts of the innovation effort that need the most attention.

In companies where innovation produces best-in-class results, key success is tied to how well the CEO and the senior management team follow the Seven Innovation Rules:

1. Exert strong leadership on the innovation strategy and portfolio decisions. Clear direction from the top of the organization must permeate throughout the organization to motivate, support and reward the activities that encourage innovation as well as the innovations themselves.

2. Integrate innovation into the company's basic business mentality. Innovation must be an integral part of the way a company operates every day.

3. Align the amount and type of innovation to the company's business. Innovation *may* or *may not* be the key to success for your overall business strategy; you have to determine the types and amounts of innovation needed to support the business strategy — and more is not necessarily better.

4. Manage the natural tension between creativity and value capture. A company needs strength in both.

5. Neutralize organizational antibodies. Innovation necessitates change, and change stimulates explicit routines and cultural norms that act to block or negate change.

6. Recognize that the basic unit (or fundamental building block) of innovation is a *network* that includes people and knowledge, both inside and outside the organization. A successful organ-ization excels at fusing its internal resources with selected portions of the vast resources of the world's capitalist economy.

7. Create the right metrics and rewards for innovation. People react to positive and negative stimuli, and your company's innovation is no exception. You will never achieve the level of innovation that you need if people do not have the proper rewards.

These innovation rules are interdependent: Mastering one or two of them is a step in the right direction but won't take the organization far enough. ●

Mapping Innovation: What Is Innovation and How Do You Leverage It?

One of the most common misconceptions is that innovation is primarily, if not exclusively, about changing technology. However, innovation is not just about changing technologies.

eBay developed a new online business model for auctions using readily available, albeit fairly new, Internet technology. The retail giant Wal-Mart currently dominates its retail space and has used commercially available computer communication technologies to hyper-integrate its supply chain with suppliers, thereby creating a new business model with significant cost savings.

Combine Technology Change and Business Model Change

Successful organizations combine technology change and business model change to create innovation. In addition, to successfully integrate a robust model of innovation into the business mentality, the CEO and the leadership team must balance both the business and technology elements of innovation.

Business models describe how a company creates, sells and delivers value to its customers. The three areas where business model change can drive innovation are the value proposition, the supply chain and the target customer. These are the fundamental elements of every business strategy and the logical focal points for innovation.

Sometimes new technologies are a major part of an innovation, and they stand out and garner significant attention. Other times, the new technologies are hidden from view, noticed only by the technical people who service them. Either way, technology change can fuel innovations in three distinct ways, namely in product and service offerings, process technologies and enabling technologies.

Three Types of Innovation

Not all innovations are created equally. They do not entail the same risks or provide similar rewards. The generic types of innovation include incremental, semi-radical and radical.

Incremental innovation leads to small improvements to existing products and business processes. It can

be thought of as an exercise in problem-solving where the goal is clear but how to get there needs to be solved.

At the opposite end, radical innovation results in new products or services delivered in entirely new ways. It can be thought of as an exercise in exploration where there might be something relevant in a particular direction but what will be found is unknown.

Semi-radical innovation involves substantial change to either the business model or technology of an organization — but not to both. Often change in one dimension is linked to change in the other, although the concomitant change may not be as dramatic or disruptive. For example, semi-radical change in technology may require incremental improvement in the business model and vice versa.

Innovation Model and the Innovation Rules

Selecting and integrating the priorities for business model change and technology change and defining the balance between the three types of innovation in the portfolio are the basic responsibilities of senior management. These senior-level decisions are the basis that the organization will use to execute the strategy. They provide the context for the downstream decisions related to organizational design, the development of innovation networks, and the development and use of metrics and incentives to drive innovation.

Choosing Your Destiny: How to Design a Winning Innovation Strategy

One of the first rules of innovation is that you must clearly decide how your organization is going to play the innovation game. This is senior management's responsibility. There is not a menu of generic strategies from which to choose. Each company's management team has to craft its own innovation strategy, adapt to changing conditions and choose the right time to make key moves.

The innovation strategy must support the business strategy. The amount and type of innovation (radical, semi-radical and incremental) will vary depending on the strategy and the competitive environment. Like anything important, timing is everything.

It is also crucial that the people in the organization understand the innovation strategy.

Play-to-Win or Play-Not-to-Lose Strategies

There are two classes of innovation strategies: *Playing-to-Win* (PTW) and *Playing-Not-to-Lose* (PNTL).

The goal of the PTW approach is to produce significant competitive advantages that its competitors will not be able to easily match. PTW is a market-leading strategy that relies heavily on semi-radical innovation to drive transformation in the organization and create market-changing ideas and products. A PTW strategy is typical of high-technology companies. Amazon.com is a successful example of a PTW strategy.

Sometimes less-than-optimum external and internal conditions do not allow a company to adopt a PTW approach. For example, if the external competitive environment is extremely intense or uncertain, it is advisable to adopt a PNTL strategy.

PNTL is a strategy that typically includes more incremental innovation in the portfolio than a PTW strategy and aims to ensure the company can stay in the game by moving quickly, taking calculated risks — sometimes moving first or by matching or surpassing any moves by competitors.

Factors to Consider

The following internal and external factors affect the choice of the innovation strategy and the shape of the portfolio — PTW or PNTL:

- **Internal Factors.** These include technical capabilities, organizational capabilities, success of the current business model, funding and top management vision.
- **External Factors.** These include capabilities in the external network, industry structure, competition and the rate of technological change.

Updating and improving your company's innovation strategy must address these elements.

Strategy and the Innovation Rules

Defining the innovation strategy and the resulting portfolio characteristics (PTW or PNTL and the associated mix of incremental, semi-radical and radical innovations) are the first major responsibility of a company's leadership.

Senior management needs to identify its core competencies and innovate around them.

Organizing for Innovation: How to Structure a Company for Innovation

Organizing for innovation continues to be a challenge for many companies. It is not enough to craft a strategy or build innovation processes; you need to build and embed innovation into the overall organization. Successful innovation requires choosing, building and preparing the right organization and the right people for executing and scaling the innovation.

One of the main approaches to ensure that innovation is successful in your organization is to develop an internal marketplace where the ideas and functions of innovation can flourish in a supply-and-demand environment. In this innovation market, the true commercial value of every idea is reflected in the management attention and funding it receives. Truly valuable innovations are funded and advanced to commercial realities, no matter how threatening they may be to the existing business or how difficult they may appear.

Balancing Creativity and Value Creation

Critical to creating such a marketplace is balancing creativity and value capture so that both thrive. Ultimately, this internal marketplace for innovation and a balance of creative and value capture may be more important than the organizational design you select. An entrepreneurial drive for innovation brought about and supported by strong internal market forces can overcome many organizational barriers.

The best process for balancing creative and commercial processes includes five steps:

1. Develop innovation platforms for the different types of innovation you want to pursue.

2. Create portfolios of projects in each platform.

3. Form internal and external partnerships and networks.

4. Ensure that markets for creativity and commercialization are open and transparent.

5. Guard against organizational antibodies that may limit or destroy your rejuvenated creative markets and processes.

Outsourcing Innovation

Many companies are asking, "Should we outsource our innovation?" That is the wrong question. The right questions are: "In which parts of our innovation should we partner? How much should we rely on partners? And how much should we take on ourselves?"

Innovation is too important to outsource completely. Partial outsourcing, better termed *partnering*, is a solid, proven approach to enhancing innovation. Reaching outside for additional resources, ideas, expertise and different perspectives can be highly valuable when combined with the internal ability to understand and use what your partners bring.

Innovation Platforms

It is not enough to simply hire and sponsor creative individuals. To create sustained innovation excellence in your organization, it is necessary to create innovation platforms and networks of individuals within them where the selected innovative individuals can share with each other, be managed and grow.

Organization and the Innovation Rules

Partnering is a key innovation competency. Organizational issues regarding innovation always deal with the issue of what to do inside and what should be done outside.

In addition to partnering, management needs to focus its organizational improvements on creating value faster, better and cheaper than competitors. Value creation requires building networks of innovators that extend within and outside the organization. ●

Management Systems: Designing the Process of Innovation

Having examined strategy in innovation and the options for structuring your organization to best enable innovation to thrive, *systems* are the next important element to be considered. The decisions you make about strategy will guide where you focus your innovation efforts. The structure you put into place will act as a foundation for the innovation process. However, even with the proper strategy and structure in place, innovation could fail if your systems are inadequate. It is the management systems that are the mechanisms that to a great extent will make innovation happen.

Innovation systems fulfill five important roles: efficiency, communication, coordination, learning and alignment.

Different Types of Management Systems

Many different types of management systems are used in innovation — stage-gate project management, portfolio management, structured-idea management, brainstorming, project-selection processes (financial and nonfinancial), experimentation, prototyping, product and service rollout, and commercialization processes, to name a few.

Management systems vary among companies. There is no set of systems that will serve all companies. The processes selected should be determined by the innovation strategy and the balance of radical, semi-radical and incremental innovation in the portfolio.

Senior management should oversee the development and installation of the systems to ensure they match the company's needs and operating styles. Then they should monitor the systems' performance against the objectives.

Management Systems and the Innovation Rules

Companies need to use systems to achieve innovation. Management systems are the key to balancing the sometimes antagonistic aspects of innovation. Systems must be combined so that they can manage the dualities of:

- **Technology and business models.**
- **Radical and incremental innovation.**
- **Creativity and value capture.**
- **Networks and platforms.**

The unifying factor for systems is the innovation strategy and portfolio. The management systems a company chooses should flow directly from its choice of innovation strategy and the balance it seeks in its portfolio.

Consider, for example, how different Dell's innovation systems must be from Apple's — one focused almost exclusively on business model innovation and the other delivering a combination of technology and business model innovation. For Apple, one of the keys is to keep the technology and business model innovations in coordination. For Dell, improving the business model is the primary role of the systems and managing technology is secondary.

Seamless Blend

The management systems should also provide for parallel creativity and value capture in the organization. In particular, the systems should allow a seamless blend of idea generation, selection and execution by the network of innovators inside and outside of the company. Properly functioning systems provide active creation of innovations through ideation, selection, development of ideas, and efficient execution and commercialization by careful development of innovation prototypes and of commercially viable changes to the business model or technology. ●

Illuminating the Pathway: How to Measure Innovation

A fundamental rule of innovation is that linking strategy to innovation measurement with a few sharp metrics provides a clear picture of performance.

Measurement is one of the most critical elements of success in innovation. When measurement systems are not aligned with the strategy and not tailored to the portfolio's mix of incremental, semi-radical and radical innovation, managers lose a key source of information. That translates into lower performance and decreased payoffs from innovation investments.

Three Roles of a Measurement System

Management systems are managerial facilitators; they are not always solutions. They fill three roles, as follows:

- **Plan: Define and communicate strategy.** Make assumptions about the sources of value explicit and clear, select the intended strategy and clarify expectations about strategy throughout the organization.
- **Monitor.** Track the execution of innovation efforts to assess changes in the environment; intervene only if necessary and evaluate performance.
- **Learn: Identify new opportunities.** Learn about new solutions to achieve performance goals, new business or technology opportunities.

Measurement and the Innovation Rules

Managing and measuring go hand in hand. Thomas Edison managed his research team by measuring the number of innovations they developed every week. He

How to Design and Implement Innovation Measurement Systems

There are several critical things to do when you design and implement innovation measurement systems:

- **Directly link the innovation measures to the innovation strategy and the innovation business model.**
- **Don't be rigid; build in enough variability to allow valuable measurement.**
- **Know the specific purpose of each type of measurement system; trying to achieve too many objectives will get you nowhere.** Dissect measurement systems to ensure that they are providing the right mix of planning, monitoring and learning.
- **Keep it simple; too many measures can be more of a distraction than a help.**
- **Stay in charge.** Be aware of the limitations of measurement systems. They enhance but do not replace good management.

Measurement is one of the most significant factors in successful innovation. Ironically, in many organizations, it is one of the least attended to.

set the innovation target at one small innovation per week and a big one every six months.

While Edison's measures seem overly aggressive and a little simplistic, he was on the right track. Managers and teams need a small number of straightforward, effective measurements to guide and drive successful innovation. ●

Rewarding Innovation: How to Design Incentives to Support Innovation

Incentives and rewards are some of the most powerful management tools available.

People engage in an activity because of:

- The expected incentives associated with the activity.
- Their passion about the activity.
- Trust that they will be appropriately recognized.
- A vision that provides a clear sense of purpose.

Designing adequate reward systems for innovation needs to take into account these four elements.

Incentives and Recognition

Incentives are designed before an innovation effort starts, and they link performance measures and rewards.

In contrast, *recognition* is a reward that occurs after the outcomes of the project are available, even if there was no prior contract in place linking performance to rewards. Recognition rewards are based on subjective assessments of the value generated.

A Framework for Incentive Systems' Design

An incentive system should reinforce a company's innovation strategy, whether it is Play-to-Win or Play-Not-to-Lose. It is vital to design incentives so that they motivate people to work together to get where the company wants to go. Nikon, the Japanese camera manufacturer, defines very clear goals for the teams designing the cameras for the upcoming season. The goals specify the release date, product size, image quality and, most importantly, cost. Nikon uses target cost goals and incentives to ensure the profitability of the product.

Different projects need their own distinct goals. Once goals have been set, team and individual incentive contracts are defined to establish the formula link between performance and rewards. The incentive contract can be based on a formula that links performance against goals and prescribes payoffs.

The final step in the design of incentive systems is to define the actual rewards. They can include bonuses, prizes, stock options and promotions, to mention a few. Each has advantages and limitations, and there are no hard and fast rules about which to use when. Management needs to ensure that they have been combined optimally.

Incentives and Rewards, and the Innovation Rules

Incentives provide a major impetus for behavior change. Without measures and incentives, organizational antibodies are released that resist innovation and block organizational change. Incentives can also cement in place beneficial behavior, creating a solid foundation for innovation. ●

Learning Innovation: How Do Organizations Become Better at Innovating?

In fast-changing environments, the ability to learn faster, better and more cheaply than your competitors could mean the difference between retaining market leadership and barely surviving.

The key to learning is not to avoid making mistakes but to learn from them. Microsoft has made learning from mistakes a virtue. Version 1.0 of its products is "good enough," but the company improves the product relentlessly until it dominates the market. It does not have to wait to have the "best" product and knows that to improve the product it needs to listen and see how the product is used.

Enabling Systems

The key to organizational learning is to have systems in place that enable people to learn better, faster and with less associated expense.

Organizational learning and changing go hand in hand. Because innovation is all about change — incremental, semi-radical and radical change — learning is an intrinsic part of innovation. Properly conceived and executed, organizational learning can unleash powerful forces of creativity and the development of processes to focus them into successful commercial realities.

Learning and the Innovation Rules

In a healthy innovative company, leadership supports learning and puts in place the systems for it to happen. This includes quick-and-dirty diagnostics that are run to provide critical insights into problems and opportunities, as well as more complex learning systems that operate continually to provide feedback and guidance, such as planning tools. Driving innovation into the business mentality requires learning and change.

Innovation learning changes over time, as the business and industry evolve from an initial technological focus for innovation to a mature stage where efficiency is the focus of innovation. However, the importance of learning does not change — it stays a high priority throughout an organization's involvement with innovation. ●

Cultivating Innovation: How to Design a Winning Culture

Layered on top and spread throughout the organization, a company's systems and processes are a network of social interactions — the organizational culture. Culture, comprised of unwritten rules, shared beliefs and mental models of the people, affects the effectiveness of the innovation tools.

The mightiest company in the computer industry, IBM, nearly disappeared in the early 1990s. The company's culture prized homogeneity and conformance, and the company could not deal with the rate of change going on around it. Only a risky and forceful change driven by a new external CEO put IBM back on the success track.

Culture is not static; it continually evolves. New systems and processes, new symbols, and organizational values can be designed to evolve company culture.

The innovation culture provides the business mentality for innovation. That is the reason so many attempts to improve innovation focus on culture; it is the cross-cutting element that threads its way across all of the innovation rules. ●

Applying the Innovation Rules to Your Organization

The lesson from the most innovative companies is that leadership — particularly the CEO's leadership — is the crucial difference in creating and sustaining successful innovation. Marc Benioff, chairman and CEO of Salesforce.com, said that it is the CEO's role to lead the company to develop new models — business, technology and leadership models — that will drive innovation to fuel growth and profitability. He has used this approach to lead Salesforce.com to quickly become an innovative leader in the rough-and-tumble competition of the software industry.

There are three initial activities that the leadership team should undertake to set the context for any change to innovation:

• Leadership must define the innovation strategy and link it to the business strategy. The leadership team should design the innovation portfolios and identify the role of business models and technology change to lead to truly significant value creation.

• Innovation must be aligned with the company business strategy, including selection of the innovation strategy. Here again, the leadership team plays a pivotal role.

• Leadership must define who will benefit from improved innovations. It is leadership's responsibility to make it very clear to the team who are the targets for value creation from innovation. Otherwise, the company will not be aligned.

Diagnostics and Action

After these three initial steps, the leadership team should assess the company's innovation capabilities and its current situation.

Before launching an initiative to improve innovation by using preselected tools, it is important to conduct a diagnostic assessment of the innovation processes to assess the effectiveness of the key elements that maintain innovation in the business mentality: the company's understanding of the strategy, process and organizational structures that support innovation.

The P&G senior management team launched a diagnostic before establishing its plans to change and improve innovation in the company. This type of diagnostic provides leadership with fresh understanding of the current state of the components of innovation, gaps in actual versus desired performance, and priority areas for change.

Generating Innovation Value

Every senior management team knows the drill: Define a goal, identify the problem areas that limit attaining the goal, understand their root causes, develop a plan, send the signal to the company that this is important and then work out the millions of little details that comprise execution. Innovation is the same.

There is no silver bullet for innovation, no one formula or structure for innovation that will work for every organization. The Seven Innovation Rules provide the basis for executing improved innovation that creates value and growth. ●

RECOMMENDED READING LIST

If you liked *Making Innovation Work*, you'll also like:

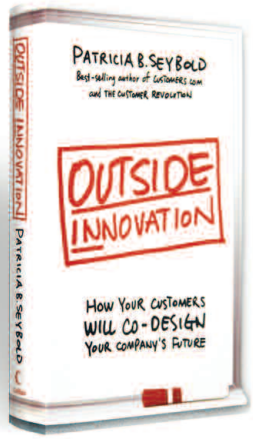
1. ***The Ten Faces of Innovation*** **by Tom Kelley with Jonathan Littman.** The authors show how a culture of continuous innovation and renewal can be nurtured and sustained.
2. ***Break from the Pack*** **by Oren Harari.** Harari explains how to break from the pack by resisting the traditional compulsions that keep you mired down.
3. ***Corporate Agility*** **by Charles E. Grantham, James P. Ware and Cory Williamson.** The Authors provide the blueprint to allow for the understanding of the evolving work force, the inception of new technologies and the reexamination of workplace structure.

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Outside Innovation

Patricia B. Seybold

SOUNDVIEW Executive Book Summaries®



By Patricia B. Seybold

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OUTSIDE INNOVATION

THE SUMMARY IN BRIEF

The Customer Revolution is in full swing. Customers have taken control. Their rampant comparison shopping is eroding your margins. Their renegade behavior is challenging your business models and endangering your intellectual property. Their demanding expectations for customized products, wonderful experiences and high service levels are draining your resources. Customers' insistence on open access is exposing your industry's policies and challenging your inflexible business processes.

Innovation is a form of creation. Like any creative endeavor, innovation emerges from the structural tension between current reality — the way things are — and a vision of what we'd like to achieve. The discrepancy between what customers can do today and what they ideally want to be able to do is the structural tension that spawns innovation.

Outside innovation is a process of engaging directly with lead users and passionate customers to harness and commercialize their ideas and to co-design solutions that will better meet their needs. Many companies already do this. What's new is the exponential growth in the ratio of outside innovation to inside innovation in many industries.

What can you do to channel this customer energy into a positive direction — one that will power your business rather than sink it? Here's the answer: Engage your customers in more ways to help you redesign your business, your products, your processes and your business models.

This summary will discuss the essential outlook that an organization must hold if it wants to be successful in fostering customer-led innovation.

In addition, you will learn:

- ✓ ***The keys to unleashing customer innovation.***
- ✓ ***The roles that you should enlist your customers to play in your organization.***
- ✓ ***How to begin building a customer-centric culture in your organization.***
- ✓ ***The benefits of promoting and leveraging open source development.***

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Outside Innovation Versus Traditional Innovation

There's an underlying assumption that drives traditional innovation: "Our experts are smarter than our customers." While it is certainly true that your company probably has deep subject-matter expertise in a certain domain, it's also true that your customers are subject-matter experts in their own right.

Traditional *inside out* approaches to innovation assume that subject-matter experts invent and design innovative new products to meet needs that customers may not realize they have. Then marketing and advertising departments make prospective customers aware of those needs, wrap a brand experience around the products, package and price those offerings and bring them to the market.

The *outside in* approach is to flip the innovation process around and assume that customers have outcomes they want to achieve, they have a deep knowledge about their own circumstances and contexts, and they are not happy with the way they have to do things today.

Customers will innovate — with or without your help — to create better ways to do things or to design products and services that meet their specific needs. If you want to harness the power of customers' organic creativity, you need to support their creative processes with tools, resources and imagination. ■

How to Harness Customer Innovation

How do you figure out what customers really want, need and will pay for? This is the fundamental question for any business. You must design solutions to help customers accomplish their desired outcomes or *Customer Scenarios*®. When designing these solutions, you must take into consideration the customers' context, the "job" they need to do (the Customer Scenario), their desired outcomes and their constraints or "conditions of satisfaction."

This concept of the Customer Scenario is subtly different from traditional customer segmentation and needs analysis. It's not enough to identify a group of customers who have certain things in common; you also need to know what scenarios these customers actually care about accomplishing. *What outcomes are they trying to achieve?*

The Relationship Between Customer Scenarios and Innovation

Innovation occurs naturally as a result of the structural or creative tension between what you ideally want and what you currently have.

The keys to unleashing customer innovation are:

1. Find and commercialize the innovations of lead users who are already closing the gap between how they do things today and what they'd ideally like to be able to do.

2. Engage with your most creative yet grounded customers — your lead customers — and work with them to achieve their ideal outcomes.

3. Empower your lead customers with co-design tools and innovation toolkits so they can design their own solutions, innovating as they go.

In all three approaches, the discrepancy between what customers can do today and what they ideally want to be able to do is the structural tension that spawns innovation.

Adopting a Customer Outcome-Focused Approach to Business Design

When you take the outside innovation approach to business, you start by developing a deep understanding of your

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How to Harness Customer Innovation

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customers: the particular audience you are serving. At the core of that understanding is an appreciation of what they want and need to accomplish — their *ideal scenarios*.

As you and your customers work together to close the gap between their ideal scenarios and their current ways of doing things, you'll be co-designing new products, new business processes and new business models. That engine of customer-driven innovation powers your business, generating organic growth.

The ideal experience that customers want to have during their scenarios becomes your *brand experience*. The desired brand experience may be different for different customer audience/customer scenario combinations. Whether your firm takes a single brand or multi-brand approach, the brand experience should be optimized for each customer audience and scenario combination.

Products should not be the focal point of your company. They aren't your customers' focal point. Customers care about the "jobs" they need to get done. They are happy to use tools and to buy and consume services that help them accomplish their scenarios. The solutions that customers need and value will change over time.

Natural Behaviors You Can Tap to Unleash Customer Innovation

You'll find that customers and users play many roles in and around your business. Your goal should be to empower your most thoughtful customers to play as many of these roles as they can and as are appropriate for them. That way, passionate customers will intersect with people in many different parts of your business.

You can measure how well you're doing in harnessing customer innovation by counting the number of roles customers are playing in co-designing your business. You can gauge your process in cultural transformation by noting how many of your employees and how many departments are engaging with customers in these various roles.

The five distinct customer roles are as follows:

1. Lead Customers innovate without being asked. Often, they aren't paying customers — yet. But whether these people pay for your products, or whether they are even using your products to create something new and amazing, they are thoughtful and passionate about the outcomes they want to achieve.

Lead users and lead customers are the people who will design your next-generation products or business model. Watch them, support them and commercialize their inventions. Engage them in co-design activities. Give them innovation toolkits that enable them to extend, modify and/or redesign your products and services. Then watch what they do and profit from it.

2. Contributors are happy to donate their work for the benefit of others. They innovate within your company's guidelines and provide value to your company by doing so. For example, contributors may create software or music or designs and offer their creations freely to others. They contribute their time as debuggers and testers of new products and concepts. They enjoy seeing their contributions and ideas used.

3. Consultants provide deep subject-matter expertise and offer valuable guidance and insights. Customer consultants serve on committees and design teams, validate marketing strategies and become advisory board members — all the time working with your employees on new ideas. Invite them to become part of your company. They'll analyze trade-offs, help you prioritize goals and recommend winning approaches.

4. Guides act as advisors to other customers, solving problems, offering insights and, most importantly, often creating "maps" that will help customers navigate complicated product lines or will explain relationships between complex concepts. Guides classify, filter, organize and review alternatives. They help others make sense out of confusion and add value by creating new knowledge.

5. Promoters are enthusiastic about your brand and your products. They are happy to spread the word and come up with innovative ideas about how to attract and delight other customers. They can help shorten time to adoption and may sell and/or promote your wares. ■

For additional information on lead users/lead customers, go to: http://my.summary.com

Powered by Customers' Inventiveness

The Lego Group is one of the world's largest toy manufacturers and is the largest in construction toys. It is estimated that the world's children spend five billion hours a year playing with Lego bricks.

Lego is making a comeback after some missteps. Engaging customers as co-designers and consultants has been part of the secret of Lego's success, in particular with regard to the development and implementation of its Mindstorms® product line, which enables families (children and parents), educators and hackers/hobbyists to build and manipulate robots.

Lego Mindstorms has been the company's most popular product for more than eight years. The new version, Mindstorms NXT, is forecast to be a best seller.

(continued on page 4)

Powered By Customers' Inventiveness

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How Lego Harnessed Customer Innovation

The Lego Mindstorms story provides a classic "how-to" for harnessing customer innovation. The company identified and sponsored lead users who were inventing new capabilities such as intelligent bricks and robotics software for kids, and later commercialized their inventions. Then, Lego commissioned one of these lead users/customers to develop the robotics software needed for the educational market.

The next step for the toymaker was to continue working closely with these lead users and end customers — teachers and students — as they took the commercial product (Lego Mindstorms) into the market. Lego also quickly identified an emerging and unexpected audience in adult hobbyists, who also enjoyed the product.

Lego executives tracked Internet Usenet groups and online discussions to monitor what lead customers cared about, then made the move to sponsor Lego's own online community, luring lead customers to join the Lego-sponsored community. The company's executives watched lead customers hack its products, and embraced and encouraged their creativity.

Following these steps, Lego sponsored competitions for innovative use of its products by customers — kids, teachers and hobbyists — to identify new product possibilities, generate excitement among the community and create awareness in the market.

The company also listened to its lead customer and decided to partner with a like-minded technology provider — National Instruments — for the software needed to drive its next-generation product, eliminating the "not invented here" mindset.

Lego recruited lead customers as consultants to co-design its next-generation product, selecting beta testers who would both promote and enhance the new products from among its lead customer base. Lego then provided customers with an open toolkit to extend the product's capabilities. ■

Lessons From Lego

Lego has thrived because the company embraced the ongoing customer community that sprang up independently around it. Now, customers are collaborating with Lego in its product design. Here are some best practices that may apply to your business:

- Watch lead users carefully. Sponsor their research with your products. Be ready to commercialize their great ideas.
- Listen carefully to what customers are trying to do with your products, and let them know you're listening.
- Identify and appreciate your different customer audiences. Gain a deep understanding of what those customers are trying to accomplish and make sure that you are supporting them in achieving their desired outcomes.
- Establish and nurture customer communities.
- Give users the tools, information and capabilities they need to extend your products.
- Be willing to relinquish control and follow where customers lead.
- Engage lead customers to co-design your products.
- Sponsor activities that enable customers to gain recognition and respect from their peers.
- Encourage your customers to be your voice in the market.

Help Customers Reach Their Goals

Whether you're launching a start-up company or redesigning your business to be more customer-centric, the basic principles are the same. No matter how far along you think your organization is "outside in," the following six design principles are essential for success.

Engage in Customer Research and Ethnography

Customer-centric businesses are not content to simply survey customers or run focus groups. Instead, they study how target customers do things *in situ*. They engage with customers in deep dialog and listening. They run discovery sessions with groups of customers, in which customers reveal their deep feelings — both negative and positive. They observe what customers are doing. They don't ask customers, "What do you want from us?" They ask, "What are you trying to do?"

Bathe Your Organization in Customer Knowledge

Customer-centric firms do not confine customer research to their market research organizations. Instead, lots of people from many different departments participate in these "deep dives" into customer context. One trend that makes this dissemination of customer knowledge easier is online customer communities.

Customer communities form the heart and soul of the company. Many customer-centric companies establish and maintain private online user communities. The customers in these communities become virtual members of the company's own cross-functional product development and marketing organizations. People from all over the

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Help Customers Reach Their Goals

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company "listen in" on these customers' dialogues and ask questions.

Discover What Customers Care About Most

The purpose of ethnography and deep customer research is, of course, to understand what customers care about deeply. What outcomes are they trying to accomplish? This is completely different from asking customers what they like or don't like about your current products and services.

You're trying to understand what things in their own lives are hard for them to do. You're seeking to learn which of these things they actually care about. In fact, the depth of passion (positive or negative) can be a good criterion in screening and recruiting lead customers to involve as customer consultants in your co-design activities.

Identify and Streamline Customer-Critical Scenarios

If you can identify what "job" customers are trying to do from their points of view, and clearly define (with the customers' help) their desired outcome, their conditions of satisfaction and how they'd ideally like to achieve their goals, you now have a framework for customer-led innovation. By contrasting how customers do something today with how they'd ideally like to accomplish their desired outcomes, you'll unleash many more creative ideas.

Engage Customers in Co-Designing

If you engage passionate customers in design activities, they'll work with you to co-design their own ideal solutions. Customers can play a variety of roles, such as acting as guides, creating new product ideas and helping to create a market for a product or service.

Build Brand Identity and Customer Experience

Your brand is your customer experience. A customer-centric company's brand-promises — and the customer experiences that are wrapped around those brand-promises — address the Customer Scenarios that its customers care about the most. ■

Let Customers Strut Their Stuff

Most people like to show off — to exhibit how smart and creative they are. A variety of organizations, from the venerable and staid American Institute of Physics to the new and sexy Flickr, have created thriving businesses out of content created completely by customers. Other companies, like Amazon and IgoUgo, complement and enhance their primary products with customer-supplied reviews and ratings. The following are important design principles for customers creating content and acting as guides for others.

Give Customers a Role in Creating and Contributing Content

Many companies make their money by providing a place for "publishing" customers' content. In fact, customers pay the American Institute of Physics for the privilege of having their articles published. Other companies, like IgoUgo and Amazon, enhance the value of their offerings with freely donated product reviews and recommendations. The people who contribute their opinions enjoy having this forum, and customers benefit greatly from this customer-supplied information.

Find Tools to Make It Easy and Safe to Create and Share Content

Almost a decade ago, Tripod recognized that not only do customers want to create and share content, they also need effective and easy-to-use tools to do so. The company, now owned by Lycos, offered the first tool for designing your own Web page.

Today, companies like Flickr (part of Yahoo!) have made it easy for photographers not only to post their pictures, but also to make their photos available to others. This involves tools to specify digital rights and categories, and to comment about their photos and others'. The result is an addictive Web site that has generated a creative community of contributors and fans.

Help Customers Find the Recognition They Crave

Humans are ego-driven, craving approval and accolades. Amazon recognizes this not only by giving people a mechanism for publishing product reviews, but also by encouraging feedback from those who rank the reviews. The American Institute of Physics has made it an honor for customers to be accepted for publication and makes it clear to the scientific community that the published articles are *the* authoritative research on the subjects.

Recruit Subject-Matter Experts to Build Expertise

The American Institute of Physics has created an editorial board that acts as a referee for the journal, vetting all submissions and thereby lending credence to their claim that published articles are the definitive research on the subject. Snap-on, a supplier of auto-repair tools and diagnostic systems, also relies on industry experts to vet its content.

Encourage Customers to Add Value to Your Content

Customer-provided reviews significantly add value to the customer experience on Web sites. Equally valuable is having customers categorize and "tag" content to

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Let Customers Strut Their Stuff

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make it easy to find and to ensure that the results are actually what other customers are looking for. Flickr allows customers to group and organize their photos in many different ways by allowing multiple tags to be assigned to each photo and adds even more value — and creativity — by allowing others to assign tags to one another's photos.

Pay Attention to New Trends in Customer-Provided Content

You never know where that next great idea for a business will come from. But a great way to start is by observing new or growing trends in people's behavior. The exploding growth of the blogosphere, and the human need to share ideas and get feedback on those ideas, proves that people want to strut their stuff and be recognized for their ideas and creativity. This free network of personalized viewpoints is impacting the world of journalism by offering new insights into world events, but also by potentially promulgating misinformation about the same events. For good or ill, this massive trend is something to watch to see how it might impact your company and your business model. ■

Promote and Leverage Open Source Development

The open source software development phenomenon has important lessons to offer anyone interested in harnessing the power of user-led innovation.

The Open Source Model Is a Creation-by-Customer-Community Model

Although the open source model can be said to have its roots in the hacker community and in the "free software" movement, it is really more about a group of people who care about creating an outcome that will benefit them and others than it is about who profits from the collaborative design and development efforts.

Unfortunately, the two concepts — open, as in open to inspect and extend, and free, as in cost-free to read, redistribute, modify and use — tend to overshadow the more profound breakthrough represented by the open source model: complex products that are co-created and evolved by a community of practitioners.

There are many people in many industries who are attempting to replicate the "success" of the open source software movement and/or to prevent a similar phenomenon from taking effect in their industries. The open source model is now spilling out into industries in which the final products are not digital in nature yet the instructions or programs that describe the intellectual property are in digital form. For example, there are open source car design projects, open source biotechnology projects and open source industrial design projects, and there are bound to be many more.

There are useful lessons to be learned by watching the practices of open source development communities: These communities are structured, organized and sustained in order to create and maintain complex toolsets and products. These communities become the ecosystems of participating players. The toolsets and products that are created by each community tend to be used, in turn, to create additional products or specialized solutions. There is no question that these co-production communities generate value. How that value is monetized is a fascinating and complex topic, and the answers are likely to vary by industry.

Fundamental Design Principles for Open Source Projects

There are a number of repeating themes and principles that have arisen in the open source software world. Many of these principles may hold true as commons-based peer production models hit additional industries. Essentially, any product category that can be digitally designed — which includes most manufactured products and many bioengineered products — is a candidate for open source. The main design principles are as follows:

1. End users usually participate in open source projects because they intend to use the resulting product; sometimes they do it for the sheer pleasure or challenge.
2. Contributors believe in symmetry: They contribute and they benefit.
3. Clear governance (who makes the decisions?) and structure (what processes do we follow?) are critical for success.
4. Meritocracy prevails: Those who produce the best work gain the most status and clout.
5. Visibility — of the source code, of the work in process, and into the decision-making process — is critical to success.
6. Few people actually design and build; many people improve, debug and test; many more provide support, offer suggestions and promote.
7. Intellectual property "belongs" to the community, with various licensing and business models available for creating open or closed derivative works.
8. Open software does not have to be free to procure. It does have to be visible to examine and extend. It must be able to be redistributed to others.
9. Successful open source projects generate surround-

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Promote and Leverage Open Source Development

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ing ecosystems. They are magnets for continuing innovation. ■

For additional information on open source development and commons–based peer production, go to: http://my.summary.com

Enabling Customer Co-Design

There are a number of different kinds of customer co-design tools that you may find of value in working with lead users (advanced users who aren't yet customers) and lead customers.

The purpose of offering co-design tools is to make it easy for customers to design their own ideal solutions by leveraging your domain knowledge, and to learn what's possible as they do so. By giving customers design tools, you shortcut the laborious and lengthy hand-offs between the customers and the producer.

Empower Your Customers

By empowering your customers to create their own solutions through the use of co-design tools, you transfer to your customers the hard part of the problem — specifying exactly what it is they want and need. Design tools allow customers to iterate many times before they hand their design to you to produce for them (often with the click of a button).

In the case of an electronic or digital solution, the final assembly and delivery may be virtually instantaneous. If the product is a physical one, the lag time from design to production typically varies from hours to days or weeks.The co-design tools you offer your customers provide a mechanism to "open up" your proprietary expertise without exposing your intellectual property or compromising the deep domain knowledge on which your business is based.

There's a wide range of end-user toolkits — software tools, manual tools and tools for the mind — and they all have one purpose: to empower the end user or customer to envision and create their own ideal solution. Some of these tools are fairly constrained. They empower customers to customize or configure a solution to meet their needs. Others are more open-ended — they provide a springboard for true creativity and innovation.

Customer Scenario Mapping — A Tool to Enable Customer Innovation

The Customer Scenario approach is designed to identify your customers' ideal scenarios and to help you engage directly with those customers. Customer Scenario Mapping will enable your customers to co-design new ways that your firm and your partners can support them in achieving their goals in the way that works best for them, makes you money and streamlines your operations.

When you're willing to design or redesign your business around your customers' ideal scenarios — the outcomes they care about — you discover loads of opportunities for innovation.

Customer Co-Design Using Customer Scenarios

Typical customer co-design sessions involve up to 24 lead customers who break into four teams and, working together with your employees, map out four ideal scenarios — how they would ideally like to accomplish their goals and all the ways you could support them in doing so.

The core design elements of customer scenario design and mapping are:

- Design from the end customers' point of view.
- Recruit your lead customers to co-design with you.
- Involve multiple stakeholders from your organization to provide subject matter-expertise and to build a

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Customization, Configuration and Build-to-Order Tools

Tools that enable customers to configure or customize their own solutions include:

- **Configurators:** Configurators are usually interactive software programs that enable the user to custom design a solution. Customers can try out different combinations and permutations until they find the optimal solution based on the constraints.
- **DIY Construction Kits:** You can provide customers with a set of parts and steps they can use for do-it-yourself projects. Customers' options are constrained based on the components/ingredients that they have selected and/or that the supplier provides. Either the customer performs both the customization and production of the final solution or the customer uses the kit to produce a prototype or mock-up that is then sent back for actual testing and production. In addition, DIY kits do not have to be collections of physical ingredients; also, they may include customer-created components.
- **DIY Workshops:** There are businesses built to support the do-it-yourself urge found in people of all ages. Build-A-Bear Workshop is a great example of a retailer that built a healthy business providing DIY workshops: Customers come to the stores to custom-build their own stuffed animals.

Enabling Customer Co-Design

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shared mental model.

- Map out the *ideal* state. Don't get bogged down in current reality.
- Capture customers' hot buttons and prioritized requirements for information resources, tools, services and technology enablers in a single session (all in the context of the things they care about the most).
- Identify the metrics that are crucial to your customers — what are their conditions of satisfaction, their moments of truth, and how do they measure them? Identify your business metrics — how will you increase profits, lower costs, reduce steps, shorten time and build customer retention and organic growth?
- Convey the results by telling the story of the map. The power of storytelling will "sell" the customers' vision to all who hear it. ■

Let Customers Co-Design and Promote Your Products

The number of businesses that are encouraging customers to play an active role in developing products, in co-designing their offerings and in actively promoting and building referral networks and ecosystems is increasing exponentially. Most (but not all) of them are young companies or newer companies.

Threadless: Selling Customers' Designs to Other Customers

What about letting customers compete to create the designs for the products you manufacture and sell? That formula has proven to be an extremely profitable one for Jake Nickell and Jacob deHart, founders of Threadless.com, a design-your-own T-shirt competition and retail Web site.

While there are many Web sites that let customers submit their designs for printing on T-shirts, mugs and posters, Threadless was one of the first to presume that customers wanted to strut their stuff by having their designs produced as commercial products that other customers could buy. Threadless was also one of the first design-your-own T-shirt sites to involve its customers in a design community, by having them vote on and comment upon each other's submissions.

What works so well about Threadless is that its customers, who are design-conscious people of all ages and from all over the world, value one-of-a-kind clothing designs. They don't want to be seen wearing mass-produced apparel. T-shirts have become a fashion statement. The cooler the shirt, the cooler the person.

So the Threadless business concept is to have a constant supply of unique, fresh designs and to produce a limited quantity of the designs that customers like the most. New designs keep these style-conscious consumers coming back for more.

In creating a T-shirt business where customers submit their own designs, which are then rated by other customers, Threadless' founders have perfected a customers-as-creators community business model. Customers' creations are acknowledged and rewarded. Customers maintain their own intellectual property and copyright, but Threadless produces and sells the designs.

Customers promote their wares, luring others to the community. The cost of goods sold is low. The profit margins are high. The overhead is in tending the community. ■

A Blueprint for Harnessing Customer-Led Innovation

Organizations that are successful in fostering and harvesting the results of customer innovation all have one thing in common: A large percentage of their employees at every level of the organization are deeply curious about what problems and issues their customers are trying to solve and what those customers' aspirations are.

The people in these organizations aren't just focused on developing, producing and delivering great products and great service. What they really love is to get into their customers' shoes, to view the world from their customers' perspectives and to appreciate what it is that each group of customers ideally wants to accomplish.

Customer-led innovation happens almost organically in organizations with this kind of culture. If everyone is focused on what their customers are trying to accomplish rather than their own internal business processes, it becomes natural to empower customers to invent new ways of achieving their outcomes. ■

Recommended Reading List

If you liked *Outside Innovation*, you'll also like:

1. ***Wikinomics*** **by Don Tapscott and Anthony D. Williams.** The authors address how the Internet's social network offers new, decentralized ways to produce content, goods, services and profit.
2. ***Made to Stick*** **by Chip Heath and Dan Heath.** The Heath brothers provide a practical guide to effective communication and explain how great ideas tend to stick around.
3. ***The Starfish and the Spider*** **by Ori Brafman and Rod Beckstrom.** The authors provide a look at the decentralized companies that are taking the business world by storm.
4. ***Mavericks at Work*** **by William C. Taylor and Polly LaBarre.** In a world where innovation is becoming more of a necessity and less of a pleasant surprise, the only way to stand out from the crowd is to stand for something truly original.
5. ***The Long Tail*** **by Chris Anderson.** Anderson offers a visionary look at the future of business and common culture.

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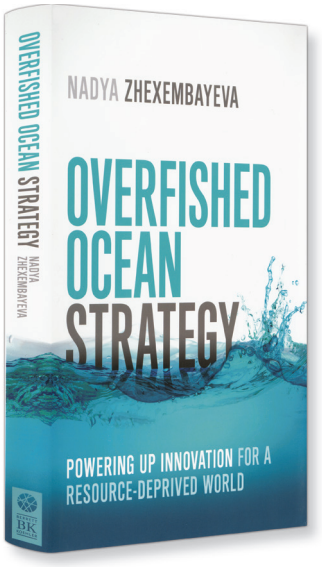
Overfished Ocean Strategy

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Overfished Ocean Strategy

Powering Up Innovation for a Resource-Deprived World



by Nadya Zhexembayeva

THE SUMMARY IN BRIEF

We all know the proverb about teaching someone to fish, but if there are no fish left, knowing how to catch them won't do you any good. And that's the position businesses are in today. Resources are being depleted at an alarming rate, and the cost of raw materials is rising dramatically. As a result, scholar and entrepreneur Nadya Zhexembayeva says, businesses need to make resource scarcity — the overfished ocean — their primary strategic consideration, not just a concern for their "green" division.

Overfished Ocean Strategy offers five essential principles for innovating in this new reality. Zhexembayeva shows how businesses can find new opportunities in what were once considered useless by-products, discover resource-conserving efficiencies up and down their value chain, transfer their expertise from physical products to services, and develop ways to rapidly try out and refine these new business models.

The linear, throwaway economy of today — in which we extract resources at one end, create products, and throw them away at the other — is rapidly coming to an end. In every industry, creative minds are learning how to make money by taking this line and turning it into a circle. *Overfished Ocean Strategy* shows how you can join them and avoid being left high and dry.

IN THIS SUMMARY, YOU WILL LEARN:

- Why the Overfished Ocean Strategy defines the new competitive reality.
- The five principles that define the Overfished Ocean Strategy.
- How businesses can innovate for a resource-deprived world.
- Why a new set of competencies is required for the challenges ahead.

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THE COMPLETE SUMMARY: **OVERFISHED OCEAN STRATEGY**

by Nadya Zhexembayeva

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Where Are the Fish? The New Competitive Reality

Like his father and grandfather before him, Al Cattone has been living off the sea for all his life. For the Gloucester fisherman who spent over 30 years braving the Atlantic's waters, fishing is "not so much a job as it is an identity." But this legacy is coming to an abrupt end.

In his struggle and sadness, Al is not alone. In the United Kingdom, the modern fishing fleet must work 17 times harder for the same catch as its sail-powered 1880s counterparts. In northern Japan, the entire fishing industry has been in "terminal decline," with the 2011 tsunami only accelerating the collapse. The *Financial Times* reports, "More than half of fisheries worldwide face shrinking stocks ... leading to yearly economic losses of $50bln." According to a Stanford University study, overfishing could take all wild seafood off our tables by 2048.

In its easy math and empty-plates impact, the story of fish serves as a perfect metaphor for the entire world of resources our economy is built on. Whether it is fish or oil, clean water or gold, vitamin C or helium, the ocean of resources is running dry, and this is creating havoc in the market worldwide. Not one, not two, but three oceans are getting overextended: the ocean of resources, the ocean of waste and the ocean of ideas. Here is how.

The Ocean of Resources

McKinsey's 2011 report *Resource Revolution* states, *"Throughout the 20th century, resource prices declined in real terms or, in the case of energy, were flat overall despite periodic supply shocks and volatility. The real price of MGI's index of the most important commodities fell by almost half. This decline is startling and impressive when we consider that, during this 100-year period, the global population quadrupled and global GDP increased by roughly 20 times. The result was strong increases in demand for resources of 600 to 2,000 percent depending on the resource."*

In essence, what the declining prices of resources told us for so long was that we could have our cake and eat it too — grow our population, increase our consumption, and keep cutting prices, all at the same time.

But that was then. The now looks drastically different. Here are a few alarm sirens for you — the general trends that are beyond striking: Since the turn of the 21st century, real commodity prices increased 147 percent. At a minimum, an additional $1 trillion annual investment in the resource system is necessary to meet future resource demands. Three billion more middle-class consumers are expected to be in the global economy by 2030, all putting new pressures on resource demand.

Whatever key aspect of business — or life — we consider, declining resources are unraveling the very foundation on which we built our economy.

The Ocean of Waste

Our throwaway economy works on the assumption that it is easier to make a new product than to reuse resources already processed. But as we enter the 21st century, "throwaway" is going away. The U.K. warned that it would run out of landfill space by 2018. Dubai already approached this limit in 2012. The garbage crises in Naples and Bangalore became so famous that they reached the pages of most major media outlets.

Most of us have heard of giant waste fields floating in our oceans. While no scientist has provided a definitive calculation of the size of any of the fields, CNN refers to

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one such field as an "enormous, amorphous, nasty soup that stretches for hundreds of miles."

So what? For an environmentalist, the answer to this question might imply activism (and pessimism). But for an entrepreneur and manager, the implication is rather different. Architect and designer William McDonough and the rest of the Cradle to Cradle crowd made it into a simple formula: "Waste equals food." In other words, hundreds of miles of plastic floating in the ocean is an environmental disaster indeed, but it is also a whole bunch of wasted petroleum that could, if approached with intelligence, be turned into a business opportunity. It all depends on the quality of your ideas.

The Ocean of Ideas

According to PWC, 2013 started with a 12 percent decline in dollars spent in venture capital investment in the United States and a 15 percent decline in the number of deals. Such a decline is projected or already manifested in a number of U.S. states and European countries and runs across many industries. What is the issue?

Slovenian entrepreneur Sandi Cesko put it this way: "We are going through a major transition. In the past, we sold *products*. Today, we are selling *services.* But the global overcapacity, coupled with resource crunch, means something new. We simply cannot possibly sell more and more stuff. Tomorrow, our capacity to sell will depend on our ability to stay relevant. We will have to sell *meaning.*"

If our ability to compete in the future depends on the ability to create new meaning, how are we to foster *this kind* of innovation?

Think of the global economy in which we are living today as one long line. The line starts with all the companies that are mining, growing or raising something — those are our only options when it comes to raw materials. The line finishes with all the companies managing a not-very-sexy but increasingly lucrative business: waste. All other businesses — large and small, products and services — are between these two poles. This is our entire global economy. One giant supply chain.

It is *linear* — there is only one straight line from the beginning to the end. It is *throwaway* — as, generally speaking, we use what we mine only once, throwing away most of the resources just the way you throw away a plastic fork after a onetime use. And it is *collapsing* — as we are running out of things to mine and places to trash.

For most businesses, this transformation is invisible. For those bearing its crushing impacts, it is disastrous. Yet some see it as the greatest opportunity of the 21st century.

Overfished Ocean Strategy: Five Principles That Make It Work

A new economy is being born, transforming the collapsing linear throwaway economy into a more lasting, more abundant, more sustainable version of itself. The transformation brings about a new economic reality, where we compete and win using a radically new set of rules. While the companies, people and projects pioneering these new rules are still rare, there are enough of them to suggest the first few essential principles that allow managers to innovate their way into a new world.

Five new rules of the trade — five essential "secrets" — appear increasingly important for individuals and companies eager to power up a new strategic direction and secure the source of a truly sustainable value:

One: From line to circle. Nature does not have waste. Waste of one process becomes food for another, in perpetual cycle. When an animal dies, its body is not thrown into a landfill; instead, it becomes a source of valuable nutrition for millions of bacteria that in turn produce waste products that are essential for the formation of soil. Soil in turn churns out vegetables, consumed by those same animals.

Similarly, the line that describes the global value chain of goods and service can be transformed into a circle, where the waste of one process becomes food for another. The "Cradle to Cradle" approach and many other potent concepts have turned companies that have discovered this secret into industry champions.

Two: From vertical to horizontal. Surely, mainstream strategic thought invites us to pay attention to the whole of five forces in business (competitors, consumers, suppliers, new entrants and substitutes), but in reality, most dig into the competition, positioning their businesses uniquely in that narrow vertical cut of a global value chain. You might have the best price or the most unique set of product features, but failure to notice changes far away at the left or the right of the value chain might cause elimination of the entire product line, company and even industry. We must learn to move *from a vertical to a horizontal* orientation, going beyond the boundaries of our company to the risks — and opportunities — hiding within the entire system.

Three: From growth to growth. Ask managers in Atlanta, Delhi or Copenhagen where their growth comes from, and they will give you a clear answer: selling more. Yet, in a world constrained by every type of resource,

including landfill space, only one type of "selling more" is possible. It is precisely in the service of creating more with less — designing a total solution, a unique experience — where growth lies. Once we put aside products and start selling relevance, the question changes. It is not "To grow or not to grow?" but "What do you want to grow?"

Four: From plan to model. For the world of overfished oceans, planning is overrated. In the face of extreme uncertainty, plans become obsolete in no time. The only way to make the new reality work is to constantly adapt your business to the new reality — treating it as a strategic priority rather than a short-lived sidekick to the core business. Unlike cumbersome, static and rigid plans, models are agile, evolving and open to change. Modeling, rather than planning, is the key to turning *line to circle* — and making money in the process.

Five: From department to mindset. Every crisis calls for a hero — a new department, a new VP, a new project manager is born. Unfortunately, when it comes to the fundamental changes in the marketplace driven by the disappearing linear economy, a few "converted" can hardly make a dent in the way that processes, products and services are developed and delivered. As a result, the hero becomes nothing more than a scapegoat — a poor soul in charge of meaningless glossy reports and pet projects.

The new market reality demands a new mindset, a new way for the entire company to look at the world, rather than a new scapegoat. As this mindset takes over all functions and all layers of the company hierarchy, you can learn how to discover value where it was previously invisible and impossible.

Principle One: Line to Circle

The circular economy is "generative by design," as the Ellen MacArthur Foundation puts it: nothing is wasted; everything is going around in a circle. The foundation, which counts major corporations such as Renault, BT and Cisco among its founding partners, suggests that this simple idea is worth more than $2 trillion to the global economy.

The Circular Economy 100 and other efforts of the Ellen MacArthur Foundation bring together companies, innovators and regions to accelerate the transition to a circular economy. The foundation shares a growing list of innovations via its 2012 and 2013 *Towards the Circular Economy* reports, collection of online cases and other publications. GameStop, the world's largest multichannel video game retailer, is among them.

Originally a "normal" software and video game retailer, GameStop quickly saw an opportunity in recircling the products that were at the end of their life. As the customers began to move to new electronics more and more quickly, abandoning fully functional products before the end of their life, few companies provided an easy, attractive process for turning wasted electronics into value for consumers.

Take Android tablets, for example — the company now accepts 42 different ones for trade-in credit and plans to refurbish and sell all of them before long, as it already sells new Android devices at 1,600 stores. For every product accepted into the refurbishing cycle, GameStop had to figure out how to reverse-engineer it in the most cost-effective way, without any guidance from the manufacturing companies. The result: a growing set of competencies for a new world. Today, GameStop has a strong skill set around buying, selling and trading. In 2012, sales of rebuilt mobile devices alone were projected at $200 million.

From Line to Circle: The Practicalities

Making the transition *from line to circle* is a daunting task, but the elephant does not need to be eaten in one bite. Three simple and well-known options are available for consideration: reuse, refurbish and recycle.

Reuse: Reuse has been around for a long time. The key to reusing your waste with a real financial bang is to explore opportunities beyond the obvious. A recent McKinsey & Company report, for example, suggests betting on the power of "cascaded use" — whereby reuse is spread across many different industries in the value chain, such as "when cotton clothing is reused first as second-hand apparel, then crosses to the furniture industry as fiber-fill in upholstery, and the fiber-fill is later reused in stone wool insulation for construction — in each case substituting for an inflow of virgin materials into the economy — before the cotton fibers are returned to the biosphere."

Refurbish: Refurbishing (replacing one or a few parts of a used or broken product) and remanufacturing (completely overhauling the used product, restoring it to a new condition) offer another opportunity for value creation — by restoring the product to nearly its original state. The key to refurbishing and remanufacturing success is finding a cost-effective and consumer-friendly process for collecting the product you wish to work with. GameStop collects its wide range of electronics to be refurbished at a handful of collection centers, but its own retail chain makes this easy.

Recycle: Recycling requires a completely different level of complexity, whereby the product is broken down

into incomprehensibly small parts, and the resulting raw material is sold into an often different industry. In the world of overfished oceans, recycling seems to be the hottest business idea around.

From line to circle is a fundamental shift in the way you do business — the most important shift needed to survive and thrive in the resource-deprived world. Yet it is not enough. You also need to go *from vertical to horizontal*.

Principle Two: Vertical to Horizontal

Growing up in business, we are taught to look downstream from our business, paying attention to our customers and consumers. We are also naturally tracking the flow upstream leading to our company — suppliers can make or break our profit margin. But more than anything, we are asked to pay our utmost attention to the *vertical* cut in this chain: our competitors. And that might just be the thing that kills you — along with the entire competitive space.

If your company is Apple, when it comes to producing computers, in addition to customer needs, you are trained to look at your direct competitors, such as Sony, Dell and many others. You are also invited to explore your strategic options by looking at substitute products and the most powerful suppliers. It is, however, very unlikely that as a part of your normal strategic thinking you are conditioned to look routinely into what is happening far and away in the global value chain — say, explore what is going on with tomato farms in Vietnam (just an illustration). Yet, it could well be one spot where future risk — and opportunity — hides.

In the world of rapidly declining resources and subsequent growing demands, the *vertical* orientation is the handicap to leave behind — fast. Companies that have mastered the Overfished Ocean Strategy made the move *from a vertical to a horizontal* orientation, going beyond the safe boundaries of the companies to the risks — and opportunities — hiding within the entire system. And that is not an easy transition.

Innovation at the Scale of the Whole

In 2005, for the first time ever, Fairmount Minerals, then a $300 million company and the third-largest producer of industrial sand in the United States, decided to bring together customers, suppliers, employees, NGOs, local community leaders and many other stakeholders to collaboratively chart out a new survival strategy.

In the face of increasing resource scarcity and growing pressures from legislators, communities and the media, mining companies faced greater challenges in winning bids for new mines — obtaining licenses to operate from the local community. When a few hundred participants at the strategic summit came face-to-face, few of them were sure that such an unconventional way to approach strategy had any merit at all. But for the company, this seemed to be the most efficient and productive way to address this big chunk of its value chain at once — and discover new value potential along the way. And it worked.

Then CEO Chuck Fowler explained it this way: "We use a Caterpillar in-loader in our quarries to get the sand through the process. When we finish with processing, we send that sand to Caterpillar, and they produce a core, which makes up the inside dimensions of the castings that are needed to make the engine blocks for a tractor. Once the castings are produced, the sand comes back as 'spent' sand in the foundry. We've got an excellent process where we take this spent sand, and it goes back to the farmers to spread on the fields, producing higher yields of corn, and that corn gets sold to a company that makes ethanol and biodiesel. We use the biodiesel at our plants for Caterpillar's in-loaders."

Without deep engagement of a wide range of stakeholders along the entire horizon of the Fairmount Minerals value chain — upstream and downstream — the idea of reselling the spent sand and closing the loop would never have come about.

From vertical to horizontal is perhaps the principle that is hardest to master. The collapse of the linear throwaway economy demands a new approach to make business work: the one where you bring down the castle walls and expand your horizons beyond the competition to include the entire value chain. *Value* is the key term here: companies that make it happen discover immense value-creation opportunities they never thought possible — opportunities that can drive new and sustainable growth.

Principle Three: Growth to Growth

We have all heard this tale: the economy does not stand still; it evolves over time. From agricultural to industrial to service economy and beyond, we are moving day after day. What is not being told as often, however, is that the shift from one type of economy to another is not as clear as it seems. More precisely, what we produce may stay the same. But what we sell changes dramatically.

In the context of the collapsing linear economy, moving from products to all-around solutions becomes the easiest way to find and secure future growth.

Mike Brown, former vice president of apparel giant Patagonia, says "The cutting edge, the thing that is getting more traction, is the effort to sell services rather than products. It's a shift in perspective that can transform a business. It's IBM selling you computer services — server space, processing capacity — rather than actual computers. A company selling computers wants to sell as many servers as possible, without much regard for the power they consume or cooling they require; a company that sells computer services wants the most efficient, cool-running servers it can make. Companies that are able to turn their business inside out this way find that addressing sustainability issues can change from a burden or cost to an opportunity for efficiency and profit."

The shift from products to services, Brown argues, requires a new way of looking at things, where a company would be driven to innovation and efficiency. If you are a chemical company that shifts from selling chlorine to selling disinfection, all of a sudden you are inspired to conserve chemicals, rather than push more of them to be used by the market; you have new reason to find ways to recover and recycle all raw materials.

The first three principles of the Overfished Ocean Strategy have focused on the factors and forces outside the company walls. But to be successful "out there," we must also get everything in order "in here," helping the company itself to start working in a new way. The last two principles aim at exactly that: figuring out how the company should organize itself.

Principle Four: Plan to Model

What do we do when we want to launch something new? How do we turn a hunch, an idea, into a true, commercially successful innovation? The "normal" decades-old path looks something like this: develop a solid, detailed plan (five years seems to be the assumption behind most business plans); get financial backing (budget approval in the existing corporation or investment/loan for a startup); develop your product to perfection; and sell as much as you can.

The reality of the overfished ocean, however, throws a serious curveball into this well-known trajectory. In the face of the collapsing linear throwaway economy, resources and expectations are becoming increasingly volatile. For the companies mastering the Overfished Ocean Strategy, business modeling, rather than strategic planning, is the name of the game. Unlike cumbersome, static and rigid plans, models are agile, evolving, and open to change.

In contrast to business strategy, which is essentially about the *way* to get from point A to point B, a business model is about the *vehicle* you use for traveling — the mechanism that allows you to create, deliver and capture value. An essential element of strategy development, a business model is a design — a unique combination of driving forces that allow you to enact a commercial opportunity.

Safechem

The American company Safechem, a subsidiary of Dow Chemical, changed its business model from selling products to selling services — providing customers with a complete cleaning service instead of selling chemical cleaning products. The service is based on a closed-loop *line-to-circle* system where solvents are delivered, used and taken back.

Customers are billed on the basis of product performance — for example, chemicals used per square foot instead of per product used. That way, Safechem's revenue depends on the volume of cleaned surface instead of the volume of solvents sold, making its business model much more resource intelligent. It is estimated that Safechem's chemical leasing service has the potential to reduce solvent usage by 63 percent — and mitigate many other environmental impacts. The company's performance — including cost savings on chemicals — was the result of business-model reinvention rather than any kind of technological breakthrough.

Companies and managers mastering the Overfished Ocean Strategy take the collapse of the linear throwaway economy as an opportunity to rethink their entire strategy and use it as a source of business-model innovation. They abandon the heavy, static, flawed plans and develop the capacity for deliberate and continuous business-model innovation, increasing their own agility and adaptability in the process. And it happens to be one of the leanest, most efficient ways of running your organization.

Transitioning from planning to modeling — like any other principle of the Overfished Ocean Strategy — is one solid way to power up innovation for a resource-deprived world. Yet, to make this strategy work, one more crucial transition must take place. Often this one is the most difficult of all.

Principle Five: Department to Mindset

Division of labor has been around for millennia. From the ancient Sumerians to Plato to Henry Ford, everyone

seems to champion the divide-and-conquer approach. Yet when a complete overhaul of strategic thinking is required, putting the transformation on the shoulders of a few is simply not good enough. The Overfished Ocean Strategy is not a department. It's a mindset.

By the time the word *department* was first used in 1735, the modern corporation had begun its slow conquest of the world, growing in size, complexity and compartmentalization. Dividing the work in the form of clearly marked departments seemed like a perfect idea — so perfect, in fact, that by 1922 the bureaucracy model was hailed as the ideal form of organization.

Until the 1990s, it all went well. Then, the magic started to give out a little. Well, a lot. The collapse of the Soviet Union and Yugoslavia signaled the beginning of a new era of globalization. Then came the Internet, the dot-com crisis, 9/11, the rise of China, the social media revolution, Generation Y, the global economic crisis of 2008 — all against the backdrop of rapidly declining resources and the collapse of our linear throwaway economy.

As a reflection of the rapid speed of change, a whole new era of business thought was developed — named, appropriately, *change management*. We did not have much change to manage before the 1990s. Now we do, and the idea of a perfectly controlled bureaucracy made up of neatly stacked departments can hardly coexist with the reality of the rapidly changing world.

Overfished Ocean Strategy: The Winning Mindset

The mindset required for development and execution of a successful Overfished Ocean Strategy is built on a range of distinct capabilities — and the particular winning cocktail of competencies depends on your company, your industry and your reality. Yes, the trusted aptitudes of the corporate world, often referred to as left-brain capabilities, are still in the game: we continue to need solid analysis, precise measurement and disciplined execution.

Yet, a new set of competencies, more often associated with the right-brain world of artists, inventors and "cultural creatives," is required for the unexpected, complex and messy challenges of navigating the path *from line to circle*. These skills deserve particular attention:

- **Systems thinking** — which focuses on how things interact within a whole — allows you and your team to manage and change at the scale of the entire value chain, rather than being stuck with dispersed, disconnected and useless pieces of your puzzle.
- **Stakeholder management** particularly comes in handy as you begin your transformation *from line to circle* and *from a vertical to a horizontal* orientation — as it is likely that you will discover yourself in relationship with people and organizations you never thought existed. Suppliers of suppliers of suppliers, community leaders halfway across the world, customers you did not know you had, competitors you can benefit from, legislators who need your help...the list is long.
- **Design thinking** has become the latest "it" tool for any respectable businessperson to conquer. Unlike the decision mindset — the most used managerial tool, which is all about making a hard choice between easy-to-identify alternatives — design thinking assumes an easy choice between difficult-to-create alternatives.

The question that remains here is where to start — or what, exactly, should your steps toward resource-intelligent innovation be? What should business do?

As a Means of Conclusion: What Should Business Do?

Modern management has a thing for putting the world in boxes. Our narrow take on the vertical slice in a long horizon of the value chain, our desire for neat controllable plans, and our obsessions with departments and functions are all part of it. Managing strategic change seems no different: we need clear, manageable steps — from plan to implementation — and no other way will do.

In essence, the Overfished Ocean Strategy breaks the expected sequence of change management. Customarily, it is assumed that you first develop the strategy and then implement it. In fact, the line between strategy and execution has become so sharp that it is taken as a sign of great wisdom to hear business leaders such as Jamie Dimon, CEO of JPMorgan Chase, assert, "I'd rather have a first-rate execution and second-rate strategy any time than a brilliant idea and mediocre management."

Yet for most of us who have lived through at least one successful strategic management process, it is rather clear that the line, if it exists at all, is less of a Great Wall of China and more of a jagged set of dots guiding the ever-changing dance between strategy and execution.

It would be entirely normal to expect (as a means of conclusion!) a clear set of tools and steps designed to guide you through the confusing and turbulent corridors of change — *from line to circle, from vertical to horizontal,* and on. Yet, no simply ready-made solutions would do you any good, as change of this magnitude is emerging, iterative and messy. It turns out you cannot analyze your way into a

new business model. You can only learn and innovate your way into it.

Powering Up (Small!) Innovation for a Resource-Deprived World

Whenever we talk about innovation, it is assumed that the product of the invention process has to be big. Breakthrough. Breathtaking. Yet the most potent and often most difficult type of innovation is the constant renewal that comes in small packages.

And it is exactly where Overfished Ocean Strategy companies start with their journey. Experimentation — packaged in small portions, focused on quick wins and low-hanging fruit — is what allows you to make a lot of mistakes (safely!), train your eye to be able to notice the hidden value, and build the managerial muscles needed for this demanding transformation. And it just happens to be exactly what Walmart started with.

The company is well known for its outstanding practices in supply-chain and inventory management, where it has invented like no other. Yet one of its most recent waves of innovation came from the place least anticipated for an international giant.

In 2005, facing the pressures of declining resources and increasing demands, all fueled by increasing transparency, Walmart made its first official sustainability commitment by setting three specific goals: to be supplied 100 percent by renewable energy, to create zero waste, and to sell products that sustain resources and the environment.

With the goals set, it was time to experiment — searching for new ways of doing business that would allow for achievement of the tightly set requirements. One of Walmart's first experiments in the domain of zero waste was an effort to "right-size" the packaging for a private-label line of children's toys. It became apparent that some of Walmart's packages had room to spare; the product fit in a loose fashion, with some space left between the product and the package.

Making the first step with just one of thousands of product lines, Walmart tested "right-sizing" for all 350 items in the product line. Shaving just about an inch from each box in the line as well as master cartons, Walmart was able to save 3,425 tons of corrugated paper materials, 1,358 barrels of oil, 5,190 harvested trees, and 727 shipping containers, while creating savings of $3,540,000 in transportation costs in one year — an ultimate "aha!" moment for the accidental innovators.

Give Me One Good Scenario

Another method that might get your inventive juices going is *scenario planning*. Ever since Shell started using different scenarios to imagine possible futures and adapt to them in the early 1970s, the practice of scenario planning has grown into a real art. The process, as Shell suggests, is deceptively simple: "Shell scenarios ask 'what if?' questions to explore alternative views of the future and create plausible stories around them. They consider long-term trends in economics, energy supply and demand, geopolitical shifts and social change, as well as the motivating factors that drive change. In doing so, they help build visions of the future."

Scenario planning allows you to (a) define the most material of the risks, (b) brainstorm possible implications, and (c) imagine proactive responses to the future that might be. Scenario planning is not forecasting, so it is not about being spot-on, but rather it is about developing a new way of looking at things. And scenario planning allows you to speak about new possibilities without stepping on anybody's toes, so that the interdepartmental or interdivisional wars can be set aside as you explore *everybody's* future. That might just be a way to create one.

The collapse of the linear throwaway economy is not a question of "if" but of "when." The change is coming, and the rapidly oscillating prices on everything from rice to gold are a first sign of the new reality. The question is, will you ride the high tides with mastery and purpose, or will you be swallowed by waves that are unexpected and unnoticed until it is too late? If the endless list of Overfished Ocean Strategy innovations is any indication, we should make it into the new world just fine.

RECOMMENDED READING LIST

If you liked *Overfished Ocean Strategy*, you'll also like:

1. ***The Triple Bottom Line* by Andrew Savitz.** Savitz looks at how businesses prosper financially while protecting and renewing the social, environmental and economic resources they need.

2. ***The Necessary Revolution* by Peter Senge, Sara Schley, Nina Kruschwitz, Bryan Smith, Joe Laur.** The authors say it is business that has the motivation, ability and resources to dramatically change the way we do things.

3. ***Good Company* by Larry Costello, Ed Frauenheim, Laurie Bassi.** The authors created the Good Company Index to look at Fortune 100 companies' records as employers, sellers and stewards of society and the planet. The results are clear: worthiness pays off.

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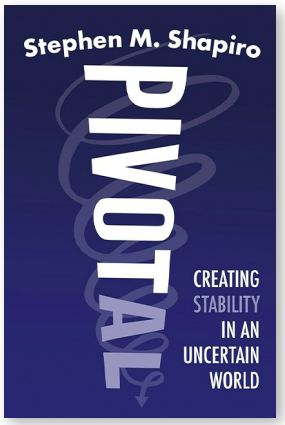
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Pivotal

Creating Stability in an Unstable World



by **Stephen Shapiro**

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THE SUMMARY IN BRIEF

We all long for stability. This is so when change arises, we know how to react and know we have what is needed to make the best choice. This doesn't just apply to our personal lives but also to our work lives. In the world of business today, the question of "Should we build upon our successes or look towards a new innovation?" is constantly being asked. There are many horizons to explore, and the decision to explore them or not can either cause major successes or have devastating consequences.

With that in mind, what is the best thing to do? When innovation is what is often demanded, it would seem that forging ahead and creating new products, offers, and more will get you where you want to be. But what happens when pivoting to the new doesn't work and staying in what some might call a place of stagnation isn't the best option? In ***Pivotal: Creating Stability in an Unstable World,*** Stephen Shapiro argues that there is a third option: being pivotal. He shares that having a firm foundation is the key to being pivotal because this will allow you to make decisions that will create innovations while knowing that you are confidently rooted in who you are. That confidence will allow you to navigate the world of change without the distractions, fads, and upheaval that plague so many.

IN THIS EXECUTIVE BOOK SUMMARY:

- Understand the importance of having a foundation.
- Learn the importance of being pivotal.
- See the impact being pivotal or not can affect your business.
- Learn to utilize your strengths to help propel you forward.

Section One: Know Where to Go Deep.

Let's begin by exploring why it is important to have one foot solidly planted before you change directions to explore something new. Otherwise, this will quickly lead to burnout, inefficiencies, and poor results. We will also look at why it is important to look through the eyes of your customers and not only your own.

How I Went Deep in My Business

During the pandemic, a fellow keynote speaker asked me, "What are you doing to pivot your business?" to which I said, "I'm not pivoting. I'm going deep." I asked myself, "What am I doing that creates the greatest value?" Instead of merely converting speeches to an online platform, I focused on digging deeper the planted foot. To be pivotal, you want to deepen relationships internally and externally, and create long-term value that makes you a strategic ally today and tomorrow. There are things you do better than anyone else that the world craves. What are they? How can you leverage them?

Going deeper doesn't necessarily mean adding products and services. Often, it means knowing what to stop doing to achieve clarity of focus. Steve Jobs went deep at Apple when he returned to the company in 1997. Instead of identifying more products to create, he simplified the line-up down to only four products: iMac, Power Mac, iBook, and PowerBook. Apple reduced the product line by 70 percent, simplifying operations, allowing it to focus on its core strengths. Of course, over time they added new products as the company grew and their resources were able to handle the added work.

Knowing what to stop doing and where to double down is key to going deep. It helps the planted foot get even deeper. Although pivoting and shifting may capture the imagination, innovation is about impact, making a difference. Constantly changing direction dissipates energies and impact. Killing off something is not the same as pivoting. Removing what is not working is so important and will show you where to drill.

Once you determine where to go deep, you can leverage this to prioritize your investments, helping you figure out where to place your bets. It will give you clarity in a way you've most likely never had before. One key to this is to determine your differentiator, why people choose to do business with you. This clarity gives your entire organization a clear sense of purpose, maximizing the impact of their efforts. When you master this process, you and your organization will have the confidence needed to take your business in the right direction.

Let's Get Pivotal

There is no universal part of any business that is most important. You need to determine what's most important to your business. In other words, innovate where you differentiate. Find and leverage your differentiator to go deep—a deeper connection to your roots and a deeper connection to your customers' needs. This is the area of your business that will yield the greatest returns. This is the planted foot and is key to how you become pivotal.

To determine what matters most to your organization, you must first determine what is most important to your customers. It's not about specific products or services but rather the capabilities that you possess create value for your customers.

When seeking stability, look no further than Radio Flyer. Their differentiator lies in their focus on high-quality products that evoke a sense of American nostalgia. It's a wholesome company with strong roots. Robert Pasin, the current CEO and grandson of the company's original founder, emphasized emotion over products when discussing their differentiator. They sell a feeling, not just a product. And that feeling is irreplaceable. No one else can replicate it. It is the ultimate differentiator.

However, identifying what's important isn't always simple, and to complicate matters, most organizations need to excel in multiple areas, and what is important today may not be as important tomorrow. Although your differentiation may not immediately be obvious, it is possible to get clarity on what matters most.

Section Two: Innovate Where You Differentiate

It is important to note that your differentiator is not a department, function, or role. Every person in every department can and should contribute to your differentiator. It was an admirable goal when field agents at a major insurance company valued their ability to provide a single point of contact to their customers but it led to internal turf wars with the claims experts. However, when they began to see the value in each other's departments and how it benefited the customer, the two departments discovered how they could each be pivotal. They learned how to leverage their unique strengths to create the most efficient claims process.

If you try to be great at everything, you'll be great at nothing. Being pivotal means focusing your energy on the activities and opportunities that will have the greatest positive impact on your organization.

The Three Levels of Capability

Your differentiator is not a department, function, or role. Every person in every department can and should contribute to your differentiator. What's equally important, your differentiator is not a product, service, or offering. It is a set of capabilities that helps you distinguish yourself in a crowded market and that will stand the test of time. There are three levels of capabilities: support, core, and differentiating. The goal is to innovate where you differentiate and to use different strategies for support and core.

Support capabilities are those that are necessary for running the business, yet they do not create direct customer value. Core activities are critical to your business but are not your source of competitive advantage. Support and core capabilities are critical because they form the foundation of your business differentiators. It is important that they operate at a high level of efficiency. However, it is not where you should focus your primary efforts. Instead, consider cost-effective strategies to ensure that these capabilities are operating optimally.

Differentiating capabilities are those that set you apart from your competition. They are the reason someone chooses to do business with you and not someone else. These are your most important capabilities and require the most attention. Ideally, you have only a few of these capabilities, as you can't be great at everything.

The Innovation Targeting Matrix

What is differentiating for one organization might only be core for another. Each company will have a unique combination. That's what makes the process so difficult—and fun. There is not a cookie-cutter, one-size-fits-all strategy. Understanding your differentiator is important. This is a critical component of any company's business strategy. And it is equally important to know how those differentiators translate into your innovation strategy. This helps cascade priorities to every level of the organization. It helps to focus investments on the areas that will create the greatest returns. And it enables you to determine which opportunities will most likely help move the needle for your organization.

When looking at your investments, ask, "Where am I investing my energies?" Most companies intuitively know that you don't want to invest heavily in developing custom solutions for support capabilities. But the waters get muddy when looking at core versus differentiating. You must look at how much you are investing on core versus differentiating. If you are like most organizations, you are spending only about 20 to 30 percent of your money, time, and energy on differentiating investments and 70 to 80 percent on core. How can you immediately double your impact in the most critical parts of the business? Use different strategies for your core, and then double down on your differentiating investments.

Section Three: The 5Ds of Differentiation

If you try to be great at everything, you'll be great at nothing. Being pivotal means focusing your energy on the activities and opportunities that will have the greatest positive impact on your organization. The planted foot. Your differentiator. Identifying differentiators requires time and guidance. It can be difficult to do on your own because you may be too close, which results in blind spots. However, there is a useful framework that will help you get started: the 5Ds of Differentiation. All good differentiators include each of these five attributes:

Distinctive: It sets you apart from the competition.

Desirable: People are willing to pay for it, and it creates internal value.

Durable: It's difficult for others to replicate.

Dynamic: It will remain relevant in a fast-changing world.

Disseminated: People inside and outside your organization know, understand, and align with your differentiator.

These Ds are organized into three different categories: today, tomorrow, and leverage and are designed to help you maximize your investments in the areas that are going to yield the greatest impact. Durable is related to Distinctive. Durable means that what you offer today will remain distinctive in the future. If it's something that someone else can copy or replicate, then it won't continue to be different. Dynamic links to Desirable. Will what you offer today be desirable tomorrow? Buyer behaviors shift over time, while technologies can disrupt incumbents. You need to adapt to meet future wants and needs of the consumer and buyer.

Mastering and implementing the 5Ds will help you create the greatest impact with the least amount of energy. As a result, you will be—and will remain—pivotal to your customers, employees, partners, and shareholders. You'll be able to firmly plant the stationary foot, providing a solid foundation on which to pivot the moving foot when necessary.

Today

Distinctiveness lies in the customer's experience, not in internal jargon. It's not about you; it's what you can do for your customers. Bose is a great example of customer focus. I can speak from personal experience that when they say, "If you buy a Bose product, you will be a fan. If your Bose product fails for any reason and you work with our customer service team, you will be a fan for life," that is true. I bought their Sleepbuds. They've been a game changer for helping me sleep in noisy hotels. But after using them for well over a year, I was no longer able to recharge the device. Soon after my product died, Bose released their new version, Sleepbuds II. I contacted them to see if I could get the new model at a discount. Instead, they had me return the old (dead) product, and they shipped me the updated one at no cost. That is service. This example demonstrates that you can and should have more than one area where you are distinctive. Often it is at the intersection where the real power is found.

So how do you find what makes you distinctive? While many companies decide to hold internal conversations, it is important to keep in mind that without an outside perspective, it's difficult to see what truly makes us distinctive or special. External conversations, sometimes with an unbiased external facilitator, are necessary. Not only should you talk to your current customers, you should talk to previous customers as well. To determine what truly makes you distinctive, you must consider the entire spectrum of current, past, and potential customers. The goal is to identify ways to add more value by going deep into what makes you distinctive and desirable.

This means creating something that your target market will appreciate and be willing to pay for. If nobody wants to buy it, there's no market for what you're doing. Being of crucial importance to your customer is about being valuable, so in addition to being distinctive, you must be desirable. The only way to be pivotal is to be truly desired by your customers. Although your differentiator must be externally desirable, it must also be internally desirable.Desirability must also be good for you and your organization. Focusing on only external needs when the needs of your employees are ignored is a recipe for disaster.

Tomorrow

Your differentiator needs to be durable. Although one definition of durable is "able to resist wear," it also implies enduring or long-lasting. It is the latter definition that I use here. Durable means that your distinctiveness stands the test of time by being non-copyable and non-duplicable.

You need to somehow protect your competitive position. Although it might be distinctive today, will it remain so tomorrow? You want a solidly planted foot that will stay there. Being durable sometimes means integrating in a way that makes it so the competition can't break in. If you can set up an ecosystem that your customers join, it makes them less likely to leave.

When you're deeply integrated into customers' lives, you become pivotal. Another way to be pivotal and distinctive in the long run is to build desirable and durable capabilities that create customer value. When your differentiator is durable, you become pivotal to your customers. No one can offer what you do the way you do. If you want to be pivotal, ensure you don't do the hard work for your competition. Create something that will be difficult for competitors to replicate.

However, there are times when it's crucial to recognize when to pivot. In essence, we must change direction to remain desirable in the future. As the world evolves, so must we. We need to be dynamic, adapting in ways that keep us desirable both today and in the future. Ideally, you first want to have a firmly planted foot before pivoting so that when you change direction, it is built on top of a stable source of differentiation.

To be dynamic, you must know when to shift to remain desirable—both externally and internally, because sometimes being pivotal means that sometimes you need to pivot. With this in mind, one aspect needs to be considered: future desirability. To stand the test of time, you need to make

To be dynamic, you must know when to shift to remain desirable—both externally and internally, because sometimes being pivotal means that sometimes you need to pivot.

sure your differentiator is Dynamic. This means that your current offerings must remain desirable in the future. To clarify, when I use the word dynamic, I am not implying the dictionary definition of "constant change"; rather, I suggest being adaptable enough to change when circumstance dictates. To be pivotal, you must know when and how to pivot from a place of power. The goal of being dynamic is for you to remain desirable in the future.

Leverage

Now it's time to disseminate your differentiator. This needs to happen both internally and externally—with employees, customers, and business partners. When you pull this together, you end up with a very powerful framework for prioritizing your investments, collaborating with customers and suppliers, and maximizing the impact of every employee.

Each employee contributes to your differentiator, and it's crucial they understand how—not just intellectually but with a profound emotional connection. Leveraging your differentiator internally is critical. Everyone needs to understand how they are pivotal to the success of your organization. Once everyone internally is playing the same music, it is time to bring it to the rest of the world and leverage it externally.

The most powerful way to be truly pivotal to your customers' business is to prioritize their investments so that they will find you even more valuable. When you handle the core or support aspects of your customers' business, you allow them to focus on what is most important; you look at how your differentiator can take those tasks off their plates.

Section Four: Beyond the Organization

If you want to be pivotal in your career, you must master the power of differentiation. If you want to create the greatest impact so you can stand out in a competitive workplace, learn where to plant your feet to get the most traction. You, the individual, need to learn, live, and breathe the concepts and apply them everywhere; then find ways of collaborating with others around their differentiators. One person can make a meaningful difference, but the biggest impact is when others are speaking the same language and there is alignment in the thinking and approach.

It's About the Individual

For your differentiator to be valuable to you as an individual, it also has to be valuable to others. This is the desirable aspect. It has to be something you love doing (internal desirability), and it must be something others need or want (external desirability). And in some cases, what makes you special needs to also be durable, dynamic, and disseminated.

Differentiation for Employees

As an employee, you want to make distinctive contributions. This doesn't mean you have to be the best in one particular area. It is the combination of various attributes that you bring to the table. You must be clear on your differentiator and how it can create value for the organization. How can you best contribute to the organization's success? And how can you communicate that to others so that team members and leaders know how to best leverage your talents?

Differentiation for Entrepreneurs

If you own your own business or work as a freelancer, you might be asking if these concepts apply to you, and if so how? Pretty much the same as for any organization. But getting clarity is even more important. By becoming crystal clear on your differentiator, concentrating your efforts there, and hiring others to handle the rest, you will unleash higher levels of productivity and bring sanity to your business.

Differentiation in Your Personal Life

Who we are in life is a function of all our past experiences. They shape and influence us. And in some cases, they can limit our ability to see the world with fresh eyes. As you learn to apply these concepts will help you uncover and utilize your innate gifts. This will enable you to identify areas where you excel and feel energized—something that truly ignites your passion and sets you apart from others. These abilities are not typically the ones you learned to be good at, as those often drain you of your energy. Rather, they are

natural talents and strengths that you were born with.

To uncover your hidden differentiators, seek out new experiences. You will often find that the best ones aren't always on your to-do list. Therefore, introduce some flexibility into your life rather than planning every detail. Look deep inside yourself. Go beyond what you think you should be doing as a responsible adult and find what you really want to do with your life.

By blending internal desirability (something you love doing), external desirability (something the world values), and what makes you distinctive (your superpower), you will find that you can be a pivotal individual–in your personal life, not just your business.



Stephen Shapiro began his journey when he founded and led a 20,000-member process and innovation practice during his fifteen-year tenure at Accenture. After leaving the consulting firm, he authored seven books on innovation, including Best Practices Are Stupid and Invisible Solutions. He also developed Personality Poker, a powerful card game that helps create high-performing teams. He has presented his provocative ideas on innovation and collaboration to audiences in fifty countries and is a Senior Fellow with The Conference Board. In 2015, he was inducted into the Speaker Hall of Fame.

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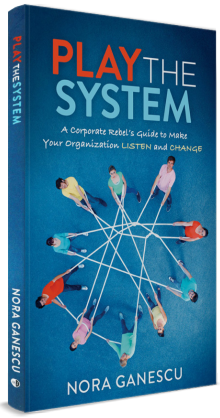
Play the System

Nora Ganescu

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Play the System

A Corporate Rebel's Guide to Make Your Organization Listen and Change



by **Nora Ganescu**

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THE SUMMARY IN BRIEF

Plenty of people dream of becoming entrepreneurs, but what about the aspiring intrapreneurs— the people who want to be creative, innovative, and game-changing in the context of their existing organizations and careers?

Play the System was written for these potential innovators, and was developed by career coach and innovation expert, Nora Ganescu. In this book summary, we'll outline some of the standout insights and identify how intrapreneurs can create the space for their inspired ideas to grow within their teams and organizations.

From tips for how to foster support for ideas to inspiring messages about staying true to the things you value most, there's something for everyone who wants to play their role more effectively— and redefine that role for the better of their career and their organization. In the end, you'll be more equipped to create spectacular innovation right from within your role in a company— and find yourself on a trajectory to increased career opportunities and chances to excel.

IN THIS SUMMARY, YOU WILL LEARN:

- How to summon "The Force," the power and strength within each of us that can push us to innovate and excel.
- How to surround yourself with a supportive team and quietly build something game-changing.
- How to develop your idea on the fly and improve it until it sparkles with potential.

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Sarah T. Dayton, Editor-in-Chief • Meghan Kozak, Director of Content • Kylie O'Connor, Graphic Designer

The Life-Draining "System"

Many of Nora's clients are people who bring talent, cool ideas, and insights to the table (and they are great fun, too). Above all, they care. It matters to them, as it matters to you, what kind of organizations they are working for and how those organizations function. They want to take pride in their workplace, and they want to be able to give their best to their colleagues and the people they serve through their work. They're engaged.

Often, they have great ideas for change and innovation: how to make the organization better for employees, eliminate waste, and serve clients better. They know how to achieve the goals of the organization better and care about its mission.

However, many companies treat engagement of their employees like some elusive Holy Grail that's nearly impossible to achieve and must be carefully measured and managed. So how come engaged and committed people are having experiences every day that drain the life and excitement out of them.

Good news—you have more resources than you think. You have your skills, your talent, and your energy. You have an important role to play, an amazing contribution to make, and your energy and creativity would be a terrible thing to waste. But on your journey to be successful, you have to unlock some treasures, resources, and superpowers. The key is to find and unlock those treasures to make your adventure easier—and a lot more fun.

Nora's Story

The author, Nora Ganescu, found herself hitting wall after wall in her quest to make meaningful contributions to her work. As time passed, she became more skillful at navigating those situations and realized some projects were dearer to her heart than others. She quickly became suspicious of any organization where employees had no voice or where change from the inside was not possible.

Now, she coaches her clients to identify the areas in their lives and careers where they can put themselves in the best possible position to excel within the existing system— and change the system in order to better improve their situation. Some of those clients have a very specific purpose; they seek to realize a specific dream, a specific project, an innovation, or a better way of doing things. They're ambitious, but not for titles or climbing the corporate ladder.

One common theme within her clients' success stories is that they're not always obvious. They go beyond somebody performing their tasks well. These are examples of people who had an idea that went beyond their job description and their formal power in the company: their idea presented challenges, sometimes to the narrow way of doing things in one particular project, and sometimes to the fundamental way the company was seeking to achieve its goals.

The people who succeed need special equipment. They need protective gear, and some metaphorical high-energy astronaut food to keep them going. They need good tools to cut through weeds, a good compass, and a good set of communication tools.

We are living in times where we can't afford to silence our collective problem-solving skills, constructive ideas, and any type of contributions that bring more life and joy. So, let's not.

Roadmap

'Intrapreneurship' is the act of behaving like an entrepreneur while working within a large organization. The first and most important step is to become the person who can actually lead this process of transformation within a company. It's easy to have an opinion and stand in opposition—but to take the lead, recognizing the power you already have, is much more difficult.

Meanwhile, it's important to realize that finding and building a team to amplify your effort and impact is absolutely essential. The team will be the cradle of lasting change that you are envisioning.

You'll need to build your movement by starting conversations with like-minded individuals, then gain sponsorship by bringing key, influential people onboard. Once they've offered their support, you'll need to keep them onboard.

Next, you need to prototype your new approach, process, project, or product. You can't assume to have it right from the beginning. Once you begin to iterate and improve your game-changing approach, you can start changing the organizational story to create something truly original.

In the coming sections of this summary, we'll discuss each of these steps in more detail when it comes to approach and methodology. You'll find useful ideas and perspectives, even if you don't follow the steps in a particular order. They're designed to work independently and provide power for your journey. At the end of the day, you yourself are the biggest

asset you have—and if you're not careful, you could be the biggest roadblock for your own success when it comes to pursuing your vision and achieving your goals.

The Jedi Art of Summoning "The Force"

Beyond luck and circumstance, we've seen quiet, unassuming people pull off amazing, transformational success in small and big organizations— sometimes even transforming oppressive political systems. What distinguishes them is indeed a level of personal development: they have mastered the art of knowing themselves and have arrived at a place of inner confidence and quiet courage of their convictions that is the source of their power and their strength.

They know how to summon 'The Force,' an inner power that's capable of changing the world around them. This is not some elite talent, granted as a birth-right to a select few. This is a set of practices that we can all do ourselves. In the words of writer, Will Durant, "We are what we repeatedly do. Excellence, then, is not an act but a habit."

Taking responsibility, tackling your limiting beliefs, and building up your sense of confidence and power is an ongoing practice. We often make the mistake of going straight out into the world before we're ready to drive our ideas to success. If you're making the internal work an integral part of the work you have to do, you will have the energy and the resilience to make a success of it.

Your Start-Up Team

We're familiar with the pop-culture image of a hero, the savior who single-handedly solves problems, wins battles, leads companies and nations to success and basically does it all. It's the idea of a rock star entrepreneur who will bootstrap their idea and then take it to dazzling success— a myth of the lonely and brilliant leader.

This myth is outdated in most circumstances, but especially when it comes to trying to achieve success in the complex and fraught environment of a company. It's a misleading and disempowering notion, and it's time to get rid of it.

Your chances of success are significantly higher if you don't go it alone. To build support for your vision, you have to have trusted colleagues. A transformational, innovative project like yours requires collective leadership, not an individual. That does not diminish your leadership one bit, but adds strength, vitality, and traction to your work.

Successful intrapreneurs often launch and try-out innovation without much fanfare, following the Nike motto: Just do it! Only when they gathered enough evidence and 'grassroots' support did they start to look for official recognition of what they were doing. Being 'in the shadows' allowed them much freedom for conversation and real creativity among their trusted circle, before bursting out with something powerful and innovative to show the world.

Building a Movement

Initiatives and ideas come and go in all organizations. Every day, people come up with solutions, brainstorm ideas, consult and propose new approaches, and lay new tracks for the future. What's the difference between the ideas that stick and the ones that are never pursued or are abandoned early? It's certainly not how good they are, as the value of many of them cannot be known in advance. What gives some ideas advantage over others is the support they get from the people who matter, the people in the organization—the leadership and stakeholders.

If they identify with an idea or a proposal, it will have a far better chance of being seriously explored, considered, funded, and pursued. As an intrapreneur, especially one that proposes innovative thinking, your path to success will not be the one of the lonely hero whose contribution and ideas will be embraced because they are so brilliant. Rather, if you really want to turn your ideas into realities you will need to create a movement inside your organization, and possibly outside, that champions them. This chapter is about how you can do that.

Wisdom Circle: Sponsorship, Mentorship, and Resources

The more transformational your vision, the more resistance it is likely to encounter. New thinking and new proposals always elicit resistance, even if they make a lot of sense, because they might mean changing the way people work and the traditional authority lines within an organization. Lateral thinking can be perceived as threatening to the established authority, and your early success can create a backlash.

You want to have support from some people in the higher hierarchy who can provide legitimacy to your request, support, and even protection if necessary—and people who can help get you the resources you need when you take your project to the next level. Not only that, but just like experienced investors, these people can provide you with a different and

valuable perspective on the company and experience and contribute to the work just as anybody would do.

Prototype

Many established companies have created a culture of risk reduction and intolerance to the unknown, or to making mistakes. Yet innovation is, by definition, the act of creating something new, and the expectation that you have to get it right and have all the answers from the beginning is not only unrealistic—it's damaging.

If you start from a position of not much power and no mandate, you might feel the pressure to have all the answers and present the perfect solution right from the beginning. But don't give into this thought—it's a dangerous and limiting belief.

Starting early and starting small, making most of the mistakes early, and learning how to mitigate them incorporating feedback from early users and practitioners is actually the least risky strategy with the highest chance of success.

Tell Your Story; Change the Culture

Some organizations are like tribes or villages, and some of them are like big cities. There are many people living there, and they have clear rules about how things work. They also have a predominant overview that will codify a lot of what is possible or likely, even if it's not written down in detail anywhere. This is the organizational culture (or worldview), a set of stories and beliefs. If you found it hard to pursue your passion and innovation, it probably was because 'things work differently around here,' or 'we don't do things that way.'

You have to shape the narrative of your organization's culture, so that your initiative and other innovations have the fertile space they need to be embraced. Ultimately, this will decide the long-term viability of the change that you are seeking. Determining whether something should be done or not is not an exact science—it becomes reality because enough people in the organization believe in an idea. So ask yourself—what is the story that you want to see alive in your system and organization? What possible story of values, if it were to be believed and adopted by most people, would be nourishing and life-giving to everyone? What story of courage do you want your organization to tell?



Nora Ganescu is a coach, consultant, and trainer. Her work is helping companies maximize their impact and become amazing workplaces. Nora started her professional journey 25 years ago as a youth activist for intercultural understanding in post-communist Romania, and she has been dedicated to building bridges between people ever since. In Nora's work, she combines personal development tools, spiritual nourishment from ancient wisdom schools, and insights gleaned from some of the most forward looking and successful companies in the world.

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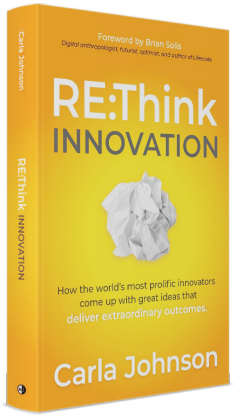
RE: Think Innocation

Carla Johnson

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RE:Think Innovation

How the World's Most Prolific Innovators Come Up with Great Ideas that Deliver Extraordinary Outcomes



by **Carla Johnson**

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THE SUMMARY IN BRIEF

RE:Think Innovation encourages us to come up with our own great ideas. Many people mistakenly believe that "innovation isn't sustainable", although there are ways to see the outcomes you want. The entire process of innovation is presented as something confusing, complex, and intimidating in our world today- but that is not truly the case. Innovation is intentionally made to be that way, so "traditional innovators" can appear more important than they actually are.

Are you struggling with applying innovation at your workplace? If you want to learn more about how to break out of this negative mindset, you should stick around. You will learn how to use a 5-step method to help everyone in the corporate world make innovative changes to their professional organizations. Anyone can follow this plan to change their perspective on the work they do. Once you start taking the first step, you'll have a more significant impact on those around you.

IN THIS SUMMARY, YOU WILL LEARN:

- What innovation actually is and how to come up with reliable ideas.
- Why people don't innovate anymore due to over complication.
- How to set objectives using a formula.
- How to observe and collect the "dots" for innovation.

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What Is Innovation?

If you were to ask 10 people to define what they understood innovation to be, you'd get 10 different definitions for the word. Innovation seems simple, but is hard to explain when pressed. In truth, we don't have a single, common definition for this word. People have a hard time explaining what innovation is because they don't understand it.

Often, we tend to confuse creativity with innovation. Many people think the two words are interchangeable- but they're not. When business leaders don't get the difference between the two words, their company will suffer.

Let's start by defining creativity. Most people tend to think of creativity as a skill relating to art. It's also essential that originality and new perspectives factor into creativity. When encouraged in the workplace, positive change comes creativity.

Now, we can get into what innovation is. Creativity and innovation can't exist without each other. If you want innovation in your company's culture, you'll also need to encourage creative thinking. Many corporate workers think of the two words as opposites. They tend to see creativity as optional or useless, while innovation is paramount to success- which is not true at all. These terms are on the same side of the same coin.

What are New Ideas?

A lot of innovation is coming up with a new idea, assuming it's good, then watching it fail. What most people don't realize is that the new idea doesn't need to be revolutionary. You can take an old idea and rework it into something completely new and useful. A new idea simply needs to go above and beyond the old thing, changing it into something fresh, but still rooted in the old idea.

New ideas can be very hard to come up with. You'll want to encourage creativity in your life and workplace. When you do, it becomes much easier to observe the world around you and come up with new, interesting ideas.

The best innovators realize that new ideas are just a part of success. You need to include the two other aspects as well. You need your new idea to also be great and reliable.

What are Great Ideas?

Great ideas make you feel good. They inspire, engage, and excite you. Great ideas are things that people want- there's a strong market demand for them. When you explain your idea to someone else, they should seem very interested.

The market is flooded with ideas that seemed revolutionary at first, but ended in failure because there was no value in them- or the value just wasn't worth the cost. There isn't a market demand for ideas like that.

To come up with a great idea, you'll want to take some inspiration from your real life. Did you know that the first fast-food drive through window was based on the race car pitstop? You can take the things that you see everyday and use them as inspiration for a new, great idea.

However, it's not enough for an idea to be great. You want to be able to rely on it. Otherwise, your idea could end up in that flooded marketplace. For an idea to be reliable, it needs to be able to last.

What are Reliable Ideas?

Reliable ideas can keep a business stable and make money. They have longevity and can withstand the changes that come with time. To come up with a reliable idea, you need to ensure it's flexible. Think about Sears- the company survived for decades but failed when it continued doing the same things that worked in the past. It was a great idea, but lost reliability over time. Will your idea still be reliable 10, 20, or even 30 years from now?

Often, people jump into the market with a new, great idea, that's just not reliable. We always hear about these successful startups, but once time passes, it's like the products disappeared off the face of the Earth! That's because the ideas just weren't reliable. They didn't offer any value to consumers, despite being new and great.

You'll want to take some time to think about how reliable your idea truly is. Ask yourself, is it useful and valuable? How interested will people be in real life? What is the actual value of this idea?

When you answer those questions, you should be able to determine if your idea is reliable. If you're unsure of the answers to those types of questions, it would be best to think and flesh out your idea some more.

If you combine all three aspects of ideas, then you get innovation. Your idea is new, great, and reliable. This means your idea surprises and delights people, inspires them, and even makes you money.

Why Don't We Innovate?

Many corporations have a definition of innovation, but

fail to execute it. There are three main reasons why people don't use innovation:

- They overcomplicate it
- They believe it's something only others can do
- They don't know how to do it

Innovation isn't impossible, but we're taught that it's a very complex process that most people won't be able to grasp. However, we often forget that the simplest answers are usually the best ones. When someone we hire points out a simple solution, you might feel as though your job is being threatened. You might think "Why didn't I think of that?"; this type of thinking stops innovation down in its tracks.

Plus, everyone makes excuses for why they can't be more creative. They might say they don't have the budget that another company has or say what they sell is too boring to be innovative. However, you want to break out of that mindset. It's only holding you back. Inspiration for creativity can come from anything!

Finally, sometimes it can just be hard to start. You might feel like you don't know "how" to be innovative. It's a frustrating situation, but you want to learn to let go. Innovation is actually much easier than you might think. There's a consistent 5-step formula that you can follow, allowing you to learn to be innovative consistently.

How to Innovate: The Perpetual Innovation Process

The best businesses have a secret- they focus on quality over quantity. While this does limit the size of your business, it's sure to do well. You'll feel closer to your customers and receive plenty of positive feedback. To do this, you'll need to become a Perpetual Innovator.

Once you start the Perpetual Innovation process, you should do your best to keep it up. Once you make the pitch and execute your idea, you can start the cycle again. You might want to come up with ways to boost your idea and innovate it even further.

The most innovative people in the world all follow the same process, whether they realize they're doing it or not. The process they use can be broken down into five small steps:

1. Observe
2. Distill
3. Relate
4. Generate
5. Pitch

The five steps flow naturally in a cycle, so you're perpetually innovating. You don't want to stop yourself because you feel you're not creative enough. Often, we're taught that we're not innovative enough- whether it be from not having the "right" degrees and education or something else. Every person is naturally creative, so don't stop yourself short.

Let's break down this five step process further.

Observe

Natural innovators are always observing the world around them. You don't want to only focus on what's right in front of you. Take a second to stop, be mindful, and observe the world from a different point of view. You'll notice plenty of opportunities for innovation where you couldn't see any in the past.

Distill

Now that you have your observations, you'll want to search for patterns. These patterns often distill into a larger theme.

Relate

Now that you have your distilled pattern, you can transplant that into your own brand. As a Perpetual Innovator, the ability to relate outside ideas into your brand should come naturally. You need to connect the dots around you and use them to work for you.

Generate

Next, you'll need to learn to generate ideas from inspiration- these are the best types of ideas. If you bring unenthusiastic ideas to the meetings, no one is going to consider them. Instead, draw on your inspiration and learn to generate ideas that go with your brand.

Pitch

Finally, bad pitches can end a great idea. You need to find support and take the pitch to the next level. A good pitch showcases your ideas and paints a story. The people at the pitch feel engaged and are taken in by your stories and ideas. This allows others to realize the potential of your ideas.

From there, as a Perpetual Innovator, the process repeats. You'll want to start again by observing and continuing the cycle. Over time, it will come naturally to you.

Setting Objectives

To set objectives you'll need to know the difference between those and goals. Goals are very broad and offer the big picture of the results you want to see in the future. They're your destination. Foals are to help you focus and help you plan ahead.

Objectives use specific steps to help you reach your goal. They're a part of the main plan and help you reach the destination. They're not as strict, so there's room for adjustment along the way.

For example, maybe you have a goal to save more money this year. As an objective, you might eat out less. You also might set aside some of your paycheck each month.

The best ideas in the world come from everyday life. Everything you go through in your day to day experience can lead to successful innovation. You'll want to filter everything you observe through this lens and determine how you want to reach your goals. Use the information that you gather to create your objectives. Once you start spending more time observing, you'll notice how natural it feels to create reachable objectives.

Overall, you want to have a specific goal with objectives that help you reach it. The goal is your destination and the objectives are how you get there. To set your objectives, you can receive inspiration from your daily life. Often, the best ideas come from our ordinary, day to day lives.

The Formula for Setting Objectives

It may seem challenging to come up with objectives for your goals, until you start using a formula. The process to create them is as follows:

1. Goals
2. Objectives
3. Results
4. Repeat

Coming up with goals using objectives is a skill that all Perpetual Innovators need to improve. You don't want to fall into the trap of doing things as they've always been done. By constantly meeting goals and creating objectives for yourself, you'll find that it's much easier to be innovative.

All you need to do is reach a creative, fresh objective that makes you stand out. In business, that's where the real money is! From there, you can meet your goals and get the results you need. The process sets itself up as a cycle, so you can easily repeat the process again and again until you've come up with everything that you need.

RE:Think Innovation and Become a Perpetual Innovator

You've already taken the first step in becoming a Perpetual Innovator by listening. Make sure to always observe the world around you- you might just come up with the next big thing! You can start innovating right now and making significant improvements to your place of work by welcoming creativity into your life.



Carla Johnson is a world-renowned storyteller, an entertaining speaker, and a prolific author. Having lived, worked, and keynote on five continents, she's partnered with top brands and conferences to train thousands of people on how to rethink the work that they do and the impact they can have. Carla's visionary expertise has inspired and equipped leaders at all levels to embrace change, welcome new ideas, and transform their business.

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Renovate Before You Innovate

Sergio Zyman with Armin A. Brott

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FILE: MARKETING



By Sergio Zyman
with Armin A. Brott

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Why Doing the *New* Thing Might *Not* Be the *Right* Thing

RENOVATE BEFORE YOU INNOVATE

THE SUMMARY IN BRIEF

Obsession with innovation is a current business fad. Many companies rely too heavily on innovation to solve their problems, and they attempt to start over with something fresh to revive old and tired businesses. Innovation sounds great. But it is often the lazy approach to marketing, and it typically doesn't work.

So what's the solution? Sergio Zyman preaches the power of renovation to accelerate and sustain top-line growth. It starts with recapturing the essence of your existing brands, products and core competencies and doing more of the things that made your business great in the first place. It includes redefining your competitive space and creating preference for your business. In the end, it provides the most compelling customer experience.

Renovate Before You Innovate *will challenge conventional business wisdom, facilitate smarter business decisions, and help companies "sell more stuff to more people more often for more money more efficiently™."*

What You'll Learn In This Summary

✓ How an obsession with innovation has caused companies to lose track of what has made them successful.

✓ Why renovation is a better alternative to innovation in driving top-line growth.

✓ How renovators can leverage their organizations' core essence to grow their business organically.

✓ How market leaders can renovate the way they think, the way they market, and the way they price their goods and services.

✓ How to clearly articulate where your company is, and where you want it to be in the short and long term.

✓ How to define your competitive space and create preference for your brand.

✓ How to more precisely segment your customers in ways that lead to actionable intelligence.

✓ What you must do to create a meaningful experience for your customers.

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RENOVATE BEFORE YOU INNOVATE

by Sergio Zyman with Armin A. Brott

— THE *COMPLETE* SUMMARY

Obsession With Innovation

While innovation and risk taking can be critically important elements of some companies' strategy, for most companies, it simply isn't the right way to drive organic growth. What should you do instead? In a word, *renovate.* This means no longer doing *different* things with existing assets and competencies, but doing *better* things with them instead. It means re-engaging with your customers by using your relationship with them to provide the products and services they truly want. Renovation is starting with what you can sell and then seeing whether you can deliver it. There is, however, a big difference between what companies should do and what they actually end up doing.

Core Competencies Vs. Core Essence

Your core competencies are not simply a list of your products or services. They are based on four distinct factors: *knowledge* (what you know and what you've learned), *experience* (what you've been through), *resources* (what you have), and *people* (what you do and how you do it). These competencies are the things you're good at; the things you know how to do better than anyone else.

Core essence is somewhat more abstract. It's who you really are as a company or brand. It's the relationship customers and noncustomers alike have with your brand; it's what your brand stands for in their hearts and minds and the promises your brand makes to consumers. Your core essence is critical in determining where you can go as a business — if you try to extend your brand beyond your core essence, customers will not cooperate.

Champions at Leveraging Core Essence

If you succeed in leveraging your core competencies, core essence, and assets and infrastructure (the three elements of the value equation), you'll be able to grow your business successfully. Consider Starbucks Coffee, whose core competencies are building stores, motivating people, and sourcing the best coffee in the world. Its core essence is providing a great coffee experience. Likewise, grilling food is the core competency of Outback Steakhouses; its essence is Australia; and its new chain of seafood restaurants, Fishbone (which is modeled on Outback), is a great success.

Businesses that pursue an innovation strategy generally identify new growth opportunities that enable them to leverage their core competencies and assets. They embrace a philosophy of "Let's start with what we can build and see if we can sell it." Companies that rely on renovation, conversely, start with their core essence and identify new growth opportunities that are consistent with what consumers have shown they're willing to buy. The philosophy of renovation is "Let's find out what we can sell and see whether we can make it."

Common Pitfalls

Most companies that consider innovation make one or more of these major mistakes:

- **They focus on leveraging their core competencies instead of their core essence.** A critical part of being able to leverage the three elements of the value equation is having a firm grasp of what they are. Getting the right competencies is easy — if you don't know how to do something, hire someone who does. Getting a new core essence, on the other hand, is virtually impossible.
- **They pursue creativity at any cost and treat all new ideas as potentially equal.** The push to "think outside the box" often masks a hidden agenda that comes from higher up in the organization: Do something — anything — with idle capacity or underused assets. Unfortunately, the side effects of this approach can be precarious. Money is often thrown at bad ideas, as well as good ones. The resulting products often confuse customers who find no real benefit in them. These questionable products wind up taking up precious shelf space that could be dedicated to more useful items.
- **They limit their innovations to only new products, forgetting that innovation is about creating new value**

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Obsession With Innovation

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for customers, consumers and the business. When it comes to identifying organic growth opportunities, an amazingly large percentage of companies are one-trick ponies, focusing only on coming up with new products, excluding anything else. Even worse, the emphasis is clearly on quantity over quality. Such a narrow approach can do more harm than good in many ways, including possible damage to existing brand equity and customer frustration.

- **They grow horizontally, rather than vertically.** Trying to grow a business through innovation means spreading resources horizontally, developing new brands, new customers, and new directions. It's a tremendously risky and expensive path to take.
- **They try to innovate by acquiring other companies, rather than growing organically.** Acquiring another company or brand is the Hail Mary pass of innovation — a desperate, last-ditch attempt to get out of trouble. As with the Hail Mary pass, there's a good chance things will go in exactly the opposite direction from the way they were supposed to go. ■

For additional information on how bad innovations can be expensive, go to: http://my.summary.com

Renovate Instead

The most important of the three elements of your value equation is your core essence. Many people confuse core essence with jingles, logos or advertising slogans. In fact, however, true core essence is the most powerful, compelling attributes of your brand. The core essence of Windows, for example, is "user-friendly"; for Crest toothpaste, it's "fights cavities"; for Pepsi, it's "revolution, choice, and change."

Core essence is expressed and supported by everything your company does — it is the seed from which your corporation evolves. Without one, you simply cannot grow, rendering you vulnerable to the impulse to flit from one idea to another, never building an organization that will be able to endure over the long haul.

Customers Decide

The most important thing to remember, however, is that what you say your core essence is, is completely irrelevant. It is what consumers and customers think that counts. In fact, there's often a big disconnect between what you think your core essence is and what is actually on the minds of consumers. This leaves you with one choice if you want to leverage your core essence — you need to hit the street and start asking people questions about three things that they perceive about your company and your brand:

New Coke: A Failed Innovation

Sergio Zyman knows the downfalls of trying to grow strictly through innovation — he was the manager of one of the great innovation busts of the 20th century — New Coke. The New Coke formula was foisted upon the market in response to Pepsi's constant repositioning of original Coke's brand through such schemes as the Pepsi Challenge taste tests. Rather than challenge Pepsi on its brand's value proposition (giving consumers a reason to drink Coke), Coke decided to make its product taste more like Pepsi.

It was a disaster. After only 77 days, Coca-Cola brought old Coke back to the market (this time as Coca-Cola Classic). It reconnected with its customers, deepened its relationship with them, and, in the process, increased sales. In that regard, Coca-Cola was lucky; corporate graveyards are littered with organizations that innovated themselves right out of business.

- **Emotional benefits** — how your product makes them feel.
- **Functional benefits** — elements in the minds of customers that make your brand superior to your competitors'.
- **Attributes** — things that affect the functional and/or emotional benefits, even though they aren't benefits themselves.

Doing this kind of research will enable you to see your company the way consumers do. Once you've determined your core essence, you will be able to use that knowledge to renovate every aspect of your business and start generating, evaluating and developing organic growth opportunities.

Is Your Company a Business or a Franchise?

Whether your business is a *franchise* depends on whether your business is truly in a position to grow beyond what you're doing now. A business can grow, but only in its defined area. A franchise, conversely, can expand far beyond its perceived area of expertise. Being a franchise enables a company to redefine its competitive frame, broaden its market, redefine its basis of competition, and leverage its unique expertise.

Being a franchise gives you some very powerful advantages that your competition doesn't have. Becoming a franchise isn't a question of just deciding to do it and flipping a switch. You must have at least one of the following:

- **Attitude.** If you want to be great, you have to want to be great, conducting your business as if you know you're great.
- **Value.** Leverage your commitment to value to move into other areas where you can provide that value.

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Renovate Instead

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- **Experience.** Do not be afraid to expand your experience beyond your perceived boundaries, if the opportunity is a good one for you and consumers.
- **Expertise.** Explore new avenues by leveraging your expertise in your existing field. (See sidebar on right.)

From Business to Franchise Through TACOS

Businesses become franchises by continually renovating. It's only by renovating that you will learn the kind of information about your customers, your company, your market and your competitors that you will need to grow and expand. You can evaluate your prospects for turning your business into a franchise by using the TACOS formula:

Trademark + Area + Customer Offer = Success

- **Trademark** is a manifestation of your core essence — your unique selling proposition, or what you offer that no one else does.
- **Area** is where you place your trademark — one of the major factors in determining the trademark's relevance.
- **Customer Offer** is your product or service. What you're able to offer your customers is going to be a function of your trademark and where you place it.
- **Success** is what results when all the TACO ingredients have fit together perfectly. Your trademark has to be properly placed in an area where it doesn't overwhelm or get lost, and you have to offer your customers something relevant that capitalizes on your expertise in other areas.

Key Components

A truly effective business renovation involves overhauling these key components of your business:

- The way you think.
- Your destination.
- Your competitive frame.
- Your segmentation, or how you think about customers.
- Your customers' brand experience. ■

Nike Leverages Its Expertise

Nike has used its expertise in athletic shoes to get into new markets and attract new customers. It started off in a relatively small sector — making shoes for runners — but expanded into offering products for sports performance, such as water bottles, running shorts, and other gear. After that, it expanded into an even bigger sector — overall performance products. Finally, it raised the bar by venturing into any area that values accomplishment — Just Do It.

Renovate Your Thinking

The process of renovating begins with renovating your mindset and the way you think about a number of basic business and marketing ideas. Developing a renovation mentality involves several steps:

- **Training yourself to think like the challenger (or aggressor) and not the champion (or leader).**
- **Committing *before you even start* to measure the results of every single dollar you spend on marketing.**
- **Getting the idea of giving price concessions out of your head right now.**

Aggressors Vs. Leaders

The leader is the big player in the market — cautious, cumbersome, and content to kick back and rest on his laurels, never changing a thing about his business or approach. The aggressor is the new kid on the block, or one who has been successful in another area and is trying to make inroads into a new market. He is fast, smart, hungry and he has nothing to lose. (See sidebar on next page, "When Leaders Are Forced to Follow.")

Big players in existing markets cannot get complacent. The only way to stay alive is to keep renovating, remain true to the business' core essence, and keep doing better and more relevant things with existing assets.

Make Marketing More Effective

Customer loyalty is one of the most perishable commodities in the world. There is a critical moment in every transaction, when the choice comes down to your brand or a competitor's, and the customer must decide whether you have provided a compelling reason to buy your product. If you have, you'll make the sale; if you haven't, you'll see the customer's back as he or she walks away from you.

Reminding people why you're great is always important, but there are two situations that nearly every company finds itself in at one point or another:

1. You're under assault by aggressors and it's getting increasingly harder to stay afloat. In this case, you must redefine your positioning against these competitors in a way that not only differentiates, but that also creates preference. You must know what your core essence is, who your customers are, why they buy from you when they do, and why they go to certain competitors when they don't.

2. You're an also-ran in a stagnant category. In this case, you must give current customers a reason to buy from you more often by offering them value instead of just a product or service.

Measurements Count

The purpose of marketing is to drive sales, and every dollar you spend on marketing should generate measur-

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Renovate Your Thinking

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able results. You must have a plan to measure the results of your marketing activities before you put them in place. In other words, you have to create control markets and build in measurement criteria up front. Ask yourself these three questions:

- **How much are we spending on marketing?**
- **What exactly are we spending it on?**
- **What are we getting in return for our investment?**

If you know the answers to these questions, you will ultimately sell more products to more people, more often and more efficiently. Your overall goal must be to maximize the returns generated by your marketing investments. Know exactly how much you're spending on each specific marketing activity. Then, when you have a handle on spending, you'll be able to determine the return each activity generates. Once you have that information, you'll be able to focus your efforts on the activities — or combination of activities — that produce the best returns, instead of wasting money on things that don't work.

The Traps of Inefficient Marketing

Most companies rarely do this; instead, they fall into one of the following traps:

- They don't track what they do, nor do they measure the amounts they invest.
- They rarely use consistent metrics to link activities, investments and sales.
- They rarely measure systematically the volume of response generated from any specific activity.
- They neglect to take a structured approach linking marketing investments with brand objectives.

What they should be doing is the following:

1. Change the way they think.

2. Break down their overall marketing budget and determine exactly how much they spend on each marketing element.

3. Calculate how much of their sales are being driven by each individual marketing element.

4. Determine the net profitability of those elements, resulting in a clear picture of the efficiency of each.

5. Focus their efforts on the things that generate the highest return.

6. Dump the things that lose money or bring in little profit.

Don't Slash Prices

Everything you do communicates something about your brand to your customers and prospective customers. Even your prices communicate something about your business, and can be an important part of your marketing strategy.

When Leaders Are Forced to Follow

The differences between leaders and aggressors are illustrated in the following examples:

- ✓ **Diet and caffeine-free soft drinks were not introduced by Coke.**
- ✓ **Overnight package delivery was not introduced by the U.S. Postal Service.**
- ✓ **Online mapping was not introduced by Rand McNally.**
- ✓ **Cell phones were not introduced by AT&T.**

Not one of these innovations was developed by an industry leader, but each one forever changed its industry. Had the leaders listed above been the ones to introduce these things, they would have been renovations — extensions of an existing brand. None of that ever happened, though, because these companies were asleep at the wheel.

Most companies, however, fail to manage their prices at all. Prices tend to go one way — down. Think long and hard about lowering them, even temporarily. Temporary price breaks tend to become permanent. Your competitors will see your lower prices and drop theirs; once they do this, you'll have to lower yours again to stay ahead of them. It's a downward spiral that leads to decreased profits. ■

Renovate Your Business Destination

Take a deep breath and think honestly about your current circumstances and everything — good and bad — that you're facing. Be honest with yourself — don't try to convince yourself that your business is headed in one direction when it is really going the opposite way. Determine, also, what obstacles you're facing. Once you have those things down, you can determine how to get where you want to be.

The Destination Statement

The first step is to come up with a destination statement, which articulates where you want to end up as a business. You need to articulate how you want the consumer to think, feel and act in relation to your company and brand. The statement must also express the outcome you want to achieve in the marketplace — where you want to be, as opposed to where you are currently.

The best destination statements address these questions:

- How do we define our business? What business do we want to be in on a long-term basis?
- Who are our target customers? Who should we sell

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Renovate Your Business Destination

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to, directly and indirectly, now and in the future?

- What do we want them to think? What attributes and benefits will customers ascribe to our brand?
- What do we want them to feel? What intangible, higher-order benefits and attributes do we deliver?
- How do we want them to act? What do we want them to do as a result of their feelings and thoughts?
- What do we want as a result? How will our company benefit from all this over the long term?

'Dimensionalizing' Your Destination

Your destination (as well as the statement that articulates it) must be specific enough to guide the decisions you make, painting a clear picture — for everyone who directly or indirectly encounters the end consumer — of who you are, what you believe, where you're going and what drives you on the journey. It must also lay out clearly — from the perspective of consumers — how they interact with you, how they think about you, how they feel about you, and the role you play in their lives.

What's in It for the Customer?

A clearly defined destination leads to more effective business objectives, guides the development of marketing strategies, and ultimately drives success in the marketplace. The real goal of destination planning and articulating a concise destination is this: Having a clear destination will clarify what your value proposition is and how to improve it.

Your value proposition is the catalyst that propels your brand and business to their destination. All that matters is what your brand means to your target customer and, in turn, how the customer acts on that meaning. What gives your brand meaning is your answer to the customer's most important question — "What's in it for me?" Your answer to that question is your value proposition.

Your value proposition must operate on the three levels of perception customers have about your company and your brand, as mentioned earlier: emotional benefits, functional benefits, and product attributes. Put another way, your value proposition must have the power to move consumers up the value chain. ■

For additional information on how Nike defines itself, go to: http://my.summary.com

Renovate Your Competitive Frame

When most people think of their competition, they think only of their industry rivals, other companies in the same category, or other companies that offer similar products and services. That, however, is only part of the story.

Your real competition is the entire set of viable alternatives to your product that compete for your customers' money and time. This is your competitive frame, and it includes many things that you might never have considered.

Coke in Russia

One great example of a competitive frame can be seen in Coke's first foray into the Russian market. The company spent much time researching its competitors, and what it found was shocking. Coke's biggest competitor wasn't Pepsi, or some regional cola, or even vodka. Coke's biggest competitor was the city bus. Many Russian consumers simply did not have enough disposable income to buy a Coke *and* take a bus home from work, so they had to choose one or the other.

Rather than being able to compete on taste and refreshment, as they had in other markets, Coke had to convince Russian consumers that it was a good value for the money, and that when it came down to a choice between a Coke and a McDonald's hamburger or a candy bar or a magazine or some other nonessential item, Coke was the best — and most satisfying — investment.

Defining Your Frame

How you define your competitive frame will have a direct impact on the size of the opportunity, the diversity of consumers and competition, and the benefits you'll need to offer in order to compete effectively. Defining a narrow competitive frame may seem safe, but it's usually a big mistake. The broader your definition (assuming it's consistent with your core essence), the more purchase occasions and the greater wallet share you will capture.

Some companies have enough equity and relevance that they can expand their franchise into completely new categories. These companies might not look like your competitors right now, but they could be back to claim your business tomorrow.

How Are You Different?

By definition, every brand is very different from a commodity (a good product or service that is perceived to be undifferentiated from other similar products or services). Typically, the only determinant of a commodity's value is price. Quality is assumed to be identical, unless you tell consumers otherwise and give them a compelling reason to pay more.

Differentiation, on the other hand, is where value is created, and is what separates you from the pack. The driving philosophy here is the belief that customers do not buy sameness. The only way to build brand equity and drive sales volume is through offering consumers relevant emotional benefits. ■

Renovate Your Segmentation

The objective of segmentation is to group markets, customers or consumers in order to maximize profit. Traditionally, it's done by dividing consumers into neat, predictable demographic, psychographic or behavior-specific groups. The assumption for each is identical: that everyone in each group will behave the same way — reading the same magazines, watching the same TV shows, eating in the same kinds of restaurants, etc. When you segment your market using these traditional methods, you get segments that are:

- **Meaningful and mutually exclusive.** Each segment should be different enough from the others that it is unique. Plus, each customer should belong to only one segment.
- **Measurable.** Each segment should be clearly definable and have a quantifiable market share.
- **Substantial.** Each segment must be able to produce enough volume and profit to justify an investment in new offerings or marketing strategies.
- **Attainable and actionable.** You must be able to design a separate value proposition for each segment, and you must be able to reach that segment in order to sell to it.

Demand-Based Segmentation

These factors are not enough to help you achieve volume growth. If you want growth, you have to allocate your resources to the segments that produce the highest profits. What you need is a completely different approach to segmentation, one that enables you to segment your market based on the values, attitudes and behaviors that shape demand, as well as the attributes and benefits that will increase that demand. Such an approach is called demand-based segmentation, and it incorporates these three steps:

1. **Identify your most valuable customers.**
2. **Segment the opportunity.**
3. **Segment the occasion.**

Identify Your Most Valuable Customers

Demand-based segmentation is about giving existing customers a reason to buy more. Roughly 80 percent of your business comes from 20 percent of your customers. You'll get that 20 percent to buy more by segmenting those existing customers based on their usage. Create an ideal customer profile and conduct the requisite research to help you segment customers by their attitude toward your company. Such attitudinal segmentation might look something like this:

- **Hard opposition** — the unconvertible loyalists of your competition. You can write these people off.
- **Soft opposition** — the consumers who are currently not in your brand franchise, but aren't loyal to any one competitor. Winning them over will be hard and expensive.
- **Undecided** — those with no allegiances to speak of. You can probably win these consumers' business with price promoting, but you cannot win their loyalty.
- **Soft support** — those who like your brand and occasionally use it, but not often enough. Moving them to greater loyalty is efficient and highly effective in building profitability.
- **Hard support** — the consumers who are your strong loyalists. They'll keep buying from you even if they have to pay a premium to do so.

Segment the Opportunity

Segment consumers based on their response to specific benefits, products, services, promotions and other inducements. Demand-based segmentation defines the marketing levers that are the most effective and that you can use to target and sell to each segment. In other words, it makes segmentation actionable, enabling you to forecast increases in usage by influencing the perceptions of the brand and products used, considering the following questions:

- ✓ What specific products and/or services will increase consumption?
- ✓ What is the probability of increased usage due to specific products?
- ✓ What amount of increased usage can be expected?

This segmentation will produce a framework of opportunities rather than a structure of the market. As such, it will guide all marketing strategies.

Segment the Occasion

There are two particular occasions that deserve special discussion:

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Small Businesses and Competitive Framing

While it might seem like a discussion of competitive framing might be applicable only to large companies, it applies to small companies, as well. If, for example, you run a neighborhood pizza restaurant, you might define your competitors as "other local pizza restaurants." However, when a chain like Domino's Pizza enters your market, you will suddenly be faced with huge competition with regard to time and convenience, even if you make a better pizza. You're also competing against cheap frozen pizzas in grocery stores; high-end pizza parlors and their frozen pies; make-your-own pizza products like Boboli pizza crusts; as well as local Chinese, Thai, and Italian restaurants. When the Super Bowl comes around, you'll be going head-to-head against chips and dip, too.

Bottom line: Run your business aggressively to take on a variety of competitors, or you'll rapidly lose sales.

Renovate Your Segmentation

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1. Purchase occasions. Growth in this area comes from penetrating additional places where the decision to make a purchase is made. Penetrating additional purchase occasions helps you differentiate from competitors.

2. Communication occasions. Many companies also miss opportunities to understand the many ways they have to communicate with customers. Thinking outside the normal methods of communication can help you reach more consumers, as well as sell more to those customers who already buy from you. ■

For additional information on what consumers say vs. what they do, go to: http://my.summary.com

Renovate Your Customers' Brand Experience

Even though you might think you're selling a product or a service, you're actually selling an experience. That experience is often the only significant thing that separates you from your competitors. In most cases, experiences have little to do with the products themselves, no matter how hard the companies that offer them try to make a connection. Harley-Davidson motorcycles, for example, are not the most comfortable or fastest, or best-designed bikes on the market. That's not what matters, though. The reason people buy a "Hog" is for the Harley experience — "ride to live, live to ride"; wind in your hair, American classic, etc.

The real reason products in and of themselves have become almost afterthoughts is because technology has advanced to the point where nearly any company can "copycat" a product and have it on store shelves in a ridiculous amount of time.

The 9/11 Factor

The big question is why experience has become the new basis of competition in so many categories. In 2001, consumer research found that after 9/11, consumers started placing much more emphasis on family and relationships. Recent research found that, although 9/11 has become a less painful memory, there are some lingering effects. Consumers indicated that, on any given day, if they had to choose between making more money and taking things a little easier, they'd go with easier. The brands and products they find most appealing are the ones that make their time more enjoyable, not the ones that save them money.

Time, it seems, has become a kind of new currency, and its scarcity has made consumers more conscious, discriminating and more aware of the "present tense" than ever before. Product benefits and attributes are simply no longer enough. Today's consumers want experiences — experiences they can feel and touch, experiences that will change their emotions, their attitudes and maybe even their lives.

Being aware of this shift is great news for your company. Being able to compete on the basis of experiences expands your competitive frame and gives you more opportunities to deliver value and differentiate yourself from competitors.

Service-Based Experience

Experiences can sometimes be service based. Any company, large or small, can provide a similar level of service-based experience. The only rule is that every single employee — from the CEO on down — must know and fully support the company's core essence and business destination, with no exceptions.

Overall, the experience you offer is likely to be a combination of product attributes, service, retail environment and every other point of contact you have with consumers — your advertising, promotion, marketing, PR and sponsorships. It also includes your Web site, packaging and employment policies; how your receptionist answers the phone; and how your top executives behave at parties.

The only way to build loyal customers is to deliver experiences that create value beyond mere satisfaction. Consumers are looking for experiences that complement their lifestyle, and brands that say something about their aspirations. ■

For additional information on how Swiffer swiftly has company, go to: http://my.summary.com

Gibson Reaches Out With *The Passion*

Churches are not usually the first locations that leap to mind when you think about places to advertise movies. Mel Gibson, however, saved millions of marketing dollars for his film *The Passion of the Christ* by doing advance screenings at churches, distributing 250,000 promotional DVDs, and conducting 300 *Passion* "summit meetings" with clergy and other religious officials and laymen. Before the movie was even released, churches had reserved $10 million worth of seats.

Thanks in part to a combination of these alternative communication occasions, *The Passion of the Christ* generated $125.2 million in its first five days, rivaled only by two other films — *The Lord of the Rings: The Return of the King* and *Star Wars Episode 1*. Both of those films spent considerably more on advertising.

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Running Lean

By Ash Maurya

Ash Maurya is the founder of USERcycle. Since bootstrapping his last company seven years ago, he has launched five products and one peer-to-web application framework. Throughout this time he has been in search of better, faster ways for building successful products. Ash has more recently been rigorously applying Customer Development and Lean Startup techniques to his products, which he frequently writes about on his blog and turned into a book: *Running Lean.*

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Iterate from Plan A to a Plan that Works

More products are being conceived and created than at any time in history but most of them see little to no success. Attempts at innovation often fail because of wasted time, funds, and effort that are put into developing "the wrong product." Startups that do manage to succeed share an interesting common factor. Two-thirds of successful startups "report having drastically changed their plans along the way." This shows us that having a great idea and a solid plan are not necessarily the right ingredients for success. The awareness that what you are doing won't work and the ability to find another way that will work before "running out of resources" is actually the biggest differentiator.

Innovators would have a much higher chance of succeeding if they had some way of "vetting product ideas" before going too far down a doomed path. In ***Running Lean***, author and serial product developer Ash Maurya delivers a "systematic process" that promises to determine "product/market fit for your fledgling venture" so that your business project is set up for success from the first step. If you are a business owner or plan to become one, manager, CEO, project-based solopreneur, or innovator, this book is for you.

Three Core Principles

Before you can understand how to apply the Running Lean process, you need to know the framework on which the process was built and be able to separate "principles from tactics." Maurya says that "principles guide what you do" while "tactics show you how." The first part of the book explains the principles while the remaining parts delve deeply into putting those principles into practice. *Running Lean* is based on the importance of three essential principles:

1. Creating and documenting your Plan A.

Entrepreneurs are generally enthusiastic and passionate about their ideas. When they land on one they feel especially excited about, they develop a very strong vision for it, which often turns into their Plan A for the idea. However, this first vision is often created in the silo of the entrepreneur's own mind and thus, it is based "largely on untested assumptions or hypotheses. The first

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principle of Running Lean is to get your initial vision out of your head and write it down. This is for the good of the entrepreneur but has a more important function. The "true purpose" of documenting your Plan A is to have something to share with other people that will facilitate conversations about your idea.

2. Identifying risks and determining which need attention.

Maurya writes, "Building a successful product is fundamentally about risk mitigation." Reducing risk, both to customers and to investors, is the real job of an entrepreneur over time. Customers will only buy your products if they believe it will solve whatever problem they are trying to solve. Investors will only fund your startup when they "trust you can build a scalable business model." You not only have to figure out what the risks are to both groups of stakeholders, you have to determine whether or not the risks warrant a solution.

3. Testing your Plan A in a systematic way.

Plan A is put through rigorous testing firmly "rooted in the scientific method." A series of experiments will either validate or invalidate your Plan A. In this process you attempt to move your hypothesis towards being a good solution to your customer's problems and a good product for a particular market. Your plan will iterate towards having both using a qualitative and quantitative scale.

Plan A

Coming up with Plan A is a necessary prerequisite to move ahead in the Running Lean process. It gets your hypothesis out of your own head so that it can be "systematically built and tested." Maurya recommends using a condensed outline over a lengthy, time-consuming business plan. Lean Canvas is a one-sheet planning tool included in the book for this purpose but this work can be done in the format of your choice. The point is to go through the steps necessary to come up with your Plan A.

One of the first sets of hurdles you will encounter in your quest is identifying your customer, the problem they are experiencing, and the solution your product brings to that problem. Start by making a list of all the potential customers segments for your product and then break those down into smaller segments. Maurya recommends working out a Plan A for the "two or three customer segments you feel you understand the best or find most promising." From there you have to determine the top two or three problems each customer segment needs solved. Fully understanding these problems, their solutions, and existing alternatives is paramount. You have to ask yourself how your product would be different from other products that attempt to solve the same problem. You have to pinpoint your product's "unique value proposition in relation to existing alternatives."

Your Unique Value Proposition or UVP is one of the most important aspects of your entire business and is one of the most difficult things "to get right." It is the first interaction new customers will have with your product and must be front and center on your website and in all of your messaging. It communicates "the essence of your product in a few words that can fit in the headline of your landing page." It must be concise, clear, and completely different, but able to be tweaked as part of the overall process.

With a UVP and set of problems, you can now turn to potential solutions. At this stage, you should only concern yourself with simple solutions that could address each of your identified customer problems. The solutions will change and evolve as you move towards your plan that works so you shouldn't spend too much time defining these. You should, however, think about pricing and revenue streams. Those inputs can be used to "calculate a break-even point and estimate how much time, money, and effort you need to get there."

Assessing Risk

A major contributor to start up waste and eventual failure is the inability to properly identity and prioritize risk. Maurya states that "not all risks are equal." They have to be assessed from a standpoint of "opportunity cost and real costs." Risk in your business model can be quantified by figuring out "the probabilities of a specific outcome along with quantifying the associated loss if you're wrong." This step is fundamental in assigning a priority to all risks, identifying the riskiest among them, and determining a business model starting point.

It is far too overwhelming to address all risks at once, so they should be categorized, prioritized, and "tackled systematically." Maurya divides risks into three basic categories of "product risk, customer risk, and market risk." Different products inherently carry different associated risks but these are a set of "initial risks" that are universal regardless of your business model or product type. When trying to prioritize how to start, your "objective is to find a model with a big enough market you can reach with customers who need your product that you can build a business around." Customers who need your product the most should be prioritized over lower-need potential customers. If a particular type of customer is easier to reach than another, this should be taken into consideration as well. The pool of potential customers or market size is important to assess. All of these risks and more need to be carefully contemplated.

Once you feel you have a good handle on the associated risks and a business model has been prioritized, it's essential that outside opinions be actively sought and considered. First turn to those you would consider advisors. They could be "prototypical customers, potential investors, or other entrepreneurs" that have some knowledge or expertise that applies to your situation. These advisors can help you see the bigger picture, identify risks you may have missed, and "help you further refine or outright eliminate some models."

When meeting with outsiders to gain their critical perspectives, prepare to ask specific questions. Ask them directly to identify the "riskiest aspect of this plan." Inquire as to whether they have faced similar risks and if so, how they managed to overcome them. Ask for referrals to other advisors that could provide valuable input. Ascertain how your advisor would "go

Experimentation is the way to determine if your product is headed in the right direction or if it needs iteration.

about testing these risks." Be completely open with your plan and, after asking some specific questions, prepare to be quiet and simply listen.

Assemble a Team and Iterate

Now that you are armed with prioritized risks and initial business models, it is time to test your product. As mentioned earlier, this entire method relies heavily on the scientific method. Experimentation is the way to determine if your product is headed in the right direction or if it needs iteration. Spoiler alert! Iteration is going to happen. Maurya lays out a process for stress testing your plan and iterating it into "a plan that works."

But first, you need a team of people who will participate in the experiments. It is possible to go it alone, but it is not recommended. Having at least one other person to "enforce periodic reality checks" is paramount. A small team of two or three people is ideal. Regardless of team size, a mix of skills and talent is needed to be able to "iterate quickly." Your team needs to be composed of people who have development, design, and marketing skills. Each team member could have all three skill sets, you could have one person for each area, or you could have people that have competencies in a couple of areas. Whatever the mix, the point is to have a pool of people who can bring these combined assets to the iteration process.

Once assembled, your iteration team is confronted with the goal of "finding a plan that works before running out of resources." That means that "speed, learning, and focus" are required to run useful experiments. What's more, all three components must be engaged at the same time, all the time. Here's why. If you are fast and focused but not learning, for example, you are like a dog chasing his tail. You are quick and that tail has all of your attention, but you aren't getting anywhere. Conversely, if you are super focused and learning but moving slowly, you risk running out of resources or getting beat to market by your competition.

Team firmly established, it's time to systematically test your plan. This happens in four stages, which are explained in great detail in the full length book. Worksheets and forms are also provided to guide you through the process. A snapshot of the four steps offers a baseline explanation of experimentation towards iteration.

Understand the problem: The best and fastest way to discover and understand the problems with your model is to get out and talk to customers. Maurya is not a fan of focus groups or surveys. He says that direct customer interaction, interviewing individuals, is the most efficient and clear way to learn your model's problems.

Define the solution: Customers have provided problems that you have gathered through a structured interview format. Your internal team should now propose a potential solution to address the problems. This solution should be worked up into a demo of your product that Maurya defines as "anything that can reasonably stand in for the actual solution." This "demo" should be placed in front of customers "for the purpose of measuring their reactions and further refinement" of your product.

Validate qualitatively: After you release the first version of your product, the real learning begins. The main idea at this stage of the process is to learn quickly what customers like and don't like about your product and how to convert potential customers to actual customers. This stage is highly detailed. It begins with the build out of a basic landing page for your product so that you can become familiar with "the path a customer takes from first landing on your website as an unaware visitor to becoming an interested prospect." Further validation occurs with a series of customer interviews about your initial product that are aimed at learning what needs to change about your product. This stage is concluded when a large majority of your early adopters have become customers.

Verify quantitatively: No that you have a product that has been validated for quality among a small set of customers, you are ready to launch. Features of your product will be fine tuned based on metrics previously designed. One strategy is to conduct a split-test where one group of customers engages with the new feature and the results are compared to an older group of customers who do not have access to that feature. A "key engine of growth" must be identified and then progress will be measured towards achievement goals. Your model must demonstrate the ability to grow and scale for long term viability.

Running Lean is highly detailed and instructional by design. It offers business managers, small business owners, developers and programmers, or anyone who is starting a business project a framework that is every bit as valuable as a graduate level course in product development. This book is a tool to be applied, not a quick read to glean a few new ideas. Readers would benefit from becoming well versed in the techniques of Lean Startup, Customer Development, and Bootstrapping, from which Maurya created his system, before diving into Maurya's methodology.

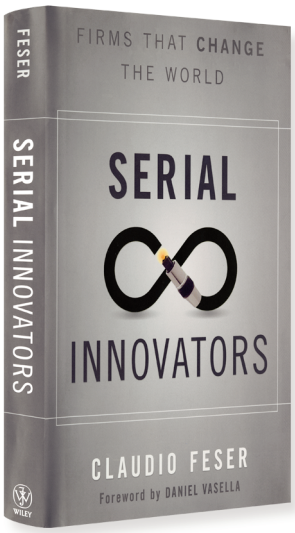
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Serial Innovators

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Serial Innovators

Firms That Change the World



by Claudio Feser

THE SUMMARY IN BRIEF

Firms are like living organisms. They're born, they grow and then they struggle to survive. In today's high-stakes, survival-of-the-fittest economy, keeping up with changing markets marks the difference between businesses that flourish and those that flounder and fold. *Serial Innovators* examines the aging process of the firm, identifying and explaining the factors that slow down its ability to adapt to an ever-evolving marketplace. Reviewing recent findings from across diverse academic fields — including economics, psychology, neuroscience, sociology and many others — *Serial Innovators* presents an exciting new understanding of how growing firms develop rigidities that prevent change — and how to resist them.

Using these findings, author and business administration expert Claudio Feser develops a model of organization that is adaptive, innovative and creates value for all stakeholders over long periods of time, forming a practical guide for building the ultimate firm that is able to withstand market changes. Feser also offers short, insightful, academically thorough reviews of recent developments in research related to company adaptation, innovation and growth, to make complex material easily accessible. To be successful, a firm must be able to adapt and thrive in dynamic markets, and continuously reinvent itself. *Serial Innovators* shows how to do this.

The average life expectancy of a firm is roughly 15 years, and only one out of 20 firms lasts longer than 50 years. *Serial Innovators* is designed for anyone with an interest in beating those odds.

IN THIS SUMMARY, YOU WILL LEARN:

- How to build an organization that can innovate continuously.
- How to capture value creation opportunities in the complexity of today's global and dynamic markets.
- How to transform your organization into a firm that can thrive and win for the long term.
- How to survive for long periods and create lasting value.

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THE COMPLETE SUMMARY: **SERIAL INNOVATORS**

by Claudio Feser

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Introduction

The performance pressure on company leaders today is enormous. It is tough to stay at the top. Leaders work hard focusing on profitability and value creation.

Yet, despite all their efforts, value creation by most firms is short-lived. In fact, the whole life cycle of most firms is not very long. The average life expectancy of a firm is roughly 15 years, and only five out of 100 live longer than 50 years. Set up on the back of an innovative idea, firms grow and develop, and sometimes they blossom into admired, world-class organizations. But eventually — as if they were biological organisms — they age and die. There is a large graveyard of defunct firms, including household names such as Texaco, Union Carbide, RCA, General Foods, British Leyland, Pan Am, Uniroyal, Bethlehem Steel, Westinghouse, Commodore, Lehman Brothers, Trans World Airlines, Digital Equipment Corp., Polaroid Corp., WorldCom and Enron.

The signs of aging vary from firm to firm. Some firms become blinded by success and begin to resist external views and challenges. Some are locked into mental modes and become driven by habits. Some lose the sense of purpose that pervaded them in the early days. Some become bureaucratic. Some have processes and incentive systems that have put them on autopilot heading in a dangerous direction. Some develop dysfunctional organizational cultures. The process of aging is subtle, silent, stealthy and pervasive. As firms age, they struggle to keep up with changing markets and, in today's dynamic markets, slow adapters often become big losers. As a consequence, firms get taken over or go bankrupt. They die. Life is ephemeral even for firms.

Sometimes, however, but only sometimes, firms resist the process of aging and rise above this. They adapt and thrive in dynamic markets, they continuously reinvent themselves and they change their industries. They become serial innovators. Sometimes — by continuously inventing new products and services that make life healthier, better, safer — they change the world. These firms create value for decades, for their customers, their shareholders and their employees. ●

PART I: THE EPHEMERAL NATURE OF FIRMS

Corporate Life Cycle

In two studies published in 2009, Claudio Loderer and his colleagues Klaus Neusser and Urs Waelchli, all of the University of Berne, hypothesized that firms go through an aging process; that like humans, firms have a life cycle. Founded on the back of an innovation, they quickly establish themselves in the marketplace. Then they learn how to grow and how to capture value. They become more efficient; they find ways to standardize their processes; they find ways to specialize roles in the organization; they learn how to better market their products to their customers. They build knowledge and skills. However, as firms age, their development slows, they lose their vitality and momentum, and their knowledge and skills become obsolete. Their profitability deteriorates and, eventually, they die.

Using a sample of nearly 11,000 firms listed on the stock market from 1978 to 2004, Loderer, Neusser and Waelchli demonstrated that performance deteriorates as firms age and that few firms, if any, survive over long

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periods of time. Most companies disappear because they are absorbed into other companies.

The life expectancy at birth of a human being in a developed economy today is roughly 80 years. The life expectancy of firms is much shorter. Defining firm age as the number of years since listing, the three economists showed that roughly half of the companies do not live longer than one decade. Only 15 percent of companies survive longer than 30 years, and only 5 percent make the 50-year mark. There are extremely few firms that make it to the millennium. Japan's Ho-shi (hotel), Italy's Marinelli (foundry) and France's Goulaine (winery) were all founded more than 1,000 years ago.

One of the reasons for the ephemeral nature of firms is that as they grow and mature — unlike biological organisms that suffer from cell death — they appear to develop two kinds of organizational rigidities that prevent them from adapting to fast-changing, dynamic markets.

First, they seem to suffer from what Dick Foster and Sarah Kaplan, the co-authors of *Creative Destruction*, have called a "cultural lock-in." Firms that have successfully survived the early years seem to be locked into *mental models* that prevent change. For example, they discontinue new products too early because of fear of cannibalizing important, existing product lines.

Second, they codify their success through *rigid organizational constructs,* such as hierarchy, processes, rules of conduct and standard operating procedures. They seem to be subject to a process of ossification, which results in inertia. ●

PART II: INDIVIDUAL RIGIDITIES

To Err Is Human

Understanding mental biases and heuristics — optimism, loss aversion, status quo and representativeness in particular — is especially relevant when discussing organizational rigidities that hinder firms in reacting to changes in the environment. Why and how can they be addressed?

First, Dan Lovallo, a professor at the Australian School of Management, and behavioral economist Daniel Kahneman believe that companies can address the *optimism bias* by regularly bringing outside views and data into the organization. Firms use different approaches to accomplish this goal. Some use the board of directors or a strategic advisory board as a source of information. Others use second opinions or critical challenges of plans and strategies by external industry experts.

Second, the *loss-aversion bias* may be reduced by making people less accountable for the losses caused by individual decisions. For example, managers can be evaluated on the basis of the performance of a portfolio of investments but not on losses on individual investments. The law of large numbers would then apply, and counterbalance the loss-aversion bias on individual investments.

Third, the *status quo bias* may be addressed by changing the default option. By making sure that the status quo is simply not among the available solutions, managers may get the members of the organization to move. Then, their response will be: "Yeah, I'll do whatever everybody else does."

Fourth, the *representativeness bias*, or mental model problem, may be addressed by fostering diversity in an organization. People with different experiences and backgrounds tend to have different mental models, and see things differently. A diverse set of mental models in an organization increases the chance that at least one person will pick up, and correctly categorize, new information. Diversity works by getting a mix of different mental models into an organization. ●

The Greatest of All Time

A number of studies have demonstrated the positive relationship between belief of self-efficacy and behavioral effectiveness in organizational settings, in areas such as adaptability to advanced technology, managerial idea generation and learning.

Evidence from numerous field studies and experiments shows that setting explicit, challenging goals significantly enhances motivation and work-related performance. Goals have more impact when combined with feedback, and even more so when combined with selected training to close performance gaps.

Developing Self-Efficacy

The three most effective approaches to developing a strong belief of self-efficacy in individuals are enactive mastery, vicarious experience and verbal persuasion.

First, and most effective, is *enactive mastery*, which is defined as repeated performance accomplishment (achieving goals and learning by doing). Mastery is facilitated when gradual accomplishments build the skills and abilities needed to perform a given activity. Leaders should set goals that are perceived by those whom they lead as ambitious, but achievable. Achieving such goals builds confidence and gradually gets people to set more ambitious goals for themselves. In contrast, by setting unrealistic targets, a leader risks reducing the engage-

ment of the people he or she leads and lowering their self-confidence.

Second, the next most effective, is *vicarious experience*, that is, learning from *role models*. This is most effective when people can relate to the role models (similar background, age and so on), and when role models succeed after overcoming difficulties, rather than when they achieve success easily. Role models who succeed in seemingly difficult and challenging situations are inspiring, produce followership, and cause followers to copy their behavior and — if they are successful — to achieve enactive mastery.

Third is *verbal persuasion*, which is aimed at convincing a person of his or her ability to perform a specific activity ("Yes, you can do it!"). Verbal persuasion is, however, believed to be less effective than enactive mastery or role modeling. ●

Rewiring Brains

How can leaders address the mental rigidities, not just of one person, but of several thousand, or at least of those in positions critical for the change required by an organization? In other words, how can management change mental routines on a large scale?

First, management may want to provide a positive frame, or context, for change. Rather than painting a doom-and-gloom picture of reality, and articulating why the firm is failing, management may need to paint a convincing, exciting and engaging picture of the journey ahead. Framing matters. To make the change story appealing, leaders need to frame it positively. This helps to reduce stress and the anxiety level, and sets the preconditions for creativity, learning and change.

Steve Jobs' turnaround at Apple shows the impact of telling a story that is simple, positive and emotional. When he returned to the company after a long exile, he reframed the image of Apple from being a marginalized player fighting for a small percentage of market share to the home of a small, but enviable, elite: the creators who dared to "Think different."

Second, management may create the organizational preconditions for people to solve problems, to generate insights from within. *Self-managed teams*, such as the kaizen at Toyota, have proven to be a good vehicle for creating the conditions for continuous learning and improvement, and to be more innovative and more adaptive than other forms of organization.

Third, management may help people's insights to develop into routines, and thus into changed behavior. *Embedding insights into processes* that are repeatedly performed (changing a form or procedure so that people are obliged to continuously repeat a changed activity) is an example.

Another approach is to use learning sessions. Lean teams involve people in developing an understanding of their processes and how to continuously improve them. In workplace sessions that occur daily — typically at the start of the day — people systematically talk about ideas for making things better. They make changes to processes and, in doing so, train their brains to make new neuronal connections. ●

PART III: ORGANIZATIONAL RIGIDITIES

Long Live Bureaucracy!

Organizational design matters a lot. If an organization is designed as a complex, multilayered matrix with several units depending on one another, it will develop a deep, dense hierarchy and will be very slow to react to changes in the environment. If the same organization can be designed to implement the same strategies equally effectively with a simpler business unit or functional organization, it will be faster and more adaptive.

Three key principles govern the creation of an effective and adaptive organization.

First, *objectives and scope of organization need to be prioritized* thoughtfully:

- *Prioritizing organizational objectives.* A thoughtful prioritization of the organization's objectives should answer questions such as "What do we want to change in terms of business focus in the next five years?" A thoughtful prioritization includes, first and foremost, the decision on the dominant axes of management — functional, product, customer or geography.
- *Clarifying scope.* Making choices and setting priorities in terms of scope (for example, business portfolio strategy, product portfolio strategy, stock strategy) should be an early consideration in any organizational redesign.
- *Using skunk works.* Organizations can keep parts of the business separate using so-called skunk works to create completely autonomous units and to separate them from the rest of the organization. This gives them the autonomy to react quickly and seize opportunities as they arise.

Second, the number of interdependencies needs to be reduced by *creating self-managed performance cells complemented by knowledge networks*. Whatever the level at which performance cells are being set up, they share

three characteristics: They are guided by performance metrics, they have the autonomy to organize themselves, and they have periodical learning cycles.

Third, *the organization needs to build on standards*. Standardization decreases the level of ambiguity, increases predictability and allows networks to function more effectively. ●

In Brain We Trust

In their report, *A Spiritual Audit of Corporate America*, Ian Mitroff, a professor at the University of Southern California, and Elizabeth A. Denton, an organizational consultant, write that employees hunger to bring their spiritual values, their whole person and not just their (left) brain to work. They also found that companies that acknowledged spiritual values and that aligned them with corporate ones, outperformed companies that didn't.

Insights on Company Ideologies

Whatever importance leaders assign to the topic, there are a few insights that may be helpful. Corporate ideologies are probably more effective when they meet three criteria: They are altruistic, they are told through stories and metaphors, and the organization is visibly committed to them.

- **Altruistic.** Firms can have very different missions or purposes. Insights from psychology and anthropology suggest that people have an altruistic bias, an innate need to help and support others, especially if these others are less healthy, as is the case for patients, or less fortunate in life. We may hypothesize that mission statements focused on helping others are powerful in providing meaning to members of organizations. For example, most statements of the core purpose of firms cited by Jim Collins and Jerry Porras in *Built to Last* are focused on helping customers.
- **Stories and Metaphors.** Company mission statements are likely to be more powerful when brought alive with inspiring stories and metaphors. Mission statements are often composed of a list of generic phrases. However, our brain has difficulty memorizing lists and blank statements. It can handle stories and metaphors better. "Narrative imaging — stories — is the fundamental instrument of our thought," writes neuroscientist Mark Turner in *The Library Mind*. Most of our thinking, our experience, our knowledge, is organized as stories.
- **Visible Commitments.** Company ideologies and mission statements will be more powerful when the organization is visibly committed to them. Commitment means that the organization is willing to devote precious time, spend money and incur financial losses or forgo gains in adhering to its mission or purpose. ●

What We Value

In recent years, numerous studies and books have discussed building so-called learning or adaptive corporate cultures. The authors often argue that organizations need to create the environment for people to exchange perspectives, to debate matters, to learn and progress. While this sounds noble, organizations are essentially set up to implement and execute strategies and business plans.

Eric Beinhocker, an economist and the author of *The Origin of Wealth*, takes a more nuanced view and believes that a good culture is able to combine these two elements.

First, the tacit assumptions, values and norms need to facilitate execution of the current strategy. High performance cultures include, among other elements, strategy execution and organizational unity. Beinhocker calls these norms *performing and collaborating norms*.

Second, a good culture contains elements that foster learning and adaptation, and that facilitate change. Beinhocker calls these *innovating norms*.

In his study, Beinhocker portrayed a good culture with 10 norms, which he called "The Ten Commandments." They are set out here:

Performing Norms

1. **Performance orientation:** Always do your best, go the extra mile, take initiative and continuously improve yourself.
2. **Honesty:** Be honest with others, be honest with yourself, be transparent and face reality.
3. **Meritocracy:** Reward people on the basis of merit.

Cooperating Norms

4. **Mutual trust:** Trust your colleagues' motivation, and trust their skills to get the job done.
5. **Reciprocity:** Live the Golden Rule: Do unto others as you would have them do unto you.
6. **Shared purpose:** Put the organization's interest ahead of your own, and behave as if everyone is in it together.

Innovating Norms

7. **Nonhierarchical:** Junior people are expected to

Transforming Culture

One of the most distinguished thinkers and academics in the area of organizational culture is Edgar Henry Schein, a professor at MIT. He is generally credited with creating the term *corporate culture*.

Changing a culture is a matter of leadership, and the most effective and efficient architect of the culture is the most senior leader of the organization, typically the CEO. Schein argues that leadership is the creation, management and, at times, the destruction and reconstruction of culture. In fact, he says that the "only thing of importance that leaders do is to create and manage culture."

challenge senior people, and what matters is the quality of an idea, not the title of the person saying it.

8. **Openness:** Be curious, open to outside thinking and willing to experiment. Seek the best wherever it is.
9. **Fact-based:** Find out the facts. It is facts, not opinions, that ultimately count.
10. **Challenge:** Feel a sense of competitive urgency. It is a race without a finishing line.

Cultural change efforts are typically most effective in situations of crisis or when the leader changes. The members of the organization are then insecure, and their attention to changes is heightened. They are sensitive to ongoing changes, including subtle ones. Importantly, leaders should frame the change story positively to reduce individual stress and anxiety, and to create the preconditions for creativity, learning and change.

What Not to Pay For

Incentives are important in steering behavior and adaptation. Ill-designed incentive schemes that focus people and organizations on short-term objectives can create disincentives to investing in the future and adapting for the long term.

Monetary incentives tend to be most appropriate when they lead to measurable, direct results that have an impact on the bottom line (profit and loss statement) or key performance indicators (KPI) clearly linked to the desired and incentivized behavior.

Money also works well when there is little room for cheating, that is, when there are no excessive rewards and when controls are rigorous. Monetary incentives typically work well with sales jobs.

Money Is Not a Great Motivator

However, money is not a great motivator. When basic factors, such as fair and sufficient pay, are in place, the additional performance boost from financial incentives is minimal and nonmonetary incentives then become better motivators. These may include achievement, meaning, recognition and advancement. As an example, 3M and Google provide free time to their employees so that they can spend work hours on special pet projects they are passionate about pursuing.

Ideally, therefore, a system will combine monetary and nonmonetary incentives. While highly effective, the use of nonmonetary incentives is more demanding — in two ways — for those, the leaders, who have to administer them.

First, the application of social recognition and performance feedback requires leadership skills. Social recognition and performance feedback are most effective when:

- Conveyed in a positive manner
- Delivered immediately after observing performance levels
- Represented visually, such as in a graph or chart form
- Specific to the behavior that is being targeted for feedback
- Leaders are trained to administer nonmonetary incentives effectively.

Second, the use of nonmonetary incentives requires a high level of integrity and ethical behavior from leaders. The administration of nonmonetary incentives is effective only when the administering leader visibly performs the expected social behavior. In other words, role modeling is essential.

Fast Learners

Companies rarely possess all the capabilities they need to succeed in new businesses and new environments. But, strategically, they can choose between four approaches for fast-forwarding the development of capabilities.

First, firms can fast-build capabilities. Engaging the front line in solving problems, having self-confident people in pivotal roles and embedding changes in organizational processes can fast-forward the building of new capabilities.

Second, firms can borrow capabilities. They can borrow them from other organizations by embarking on alliances, partnerships or licensing agreements.

Third, firms can buy capabilities. They can buy them

by hiring new people, procuring additional technologies or acquiring entire companies.

Fourth, firms can keep spare capabilities in stock. By making venture investments and by pursuing several smaller strategic moves in areas of potential interest, firms can hold a large number of capabilities, larger than those needed for the implementation of its current strategy.

Holding in stock means experimenting. It may mean running different strategies, even competing ones, in parallel. Microsoft's strategy in the late 1980s is one of the best examples of this tactic, since it simultaneously pursued six quite different strategies to gain the leadership of the market for operating systems.

Organizations that do not reward smart experimentation and smart risk-taking, even when the outcome is unsatisfactory, may risk losing valuable, courageous, innovative and creative people to other organizations. They may lose the very capabilities most needed for adaptation.

PART IV: SERIAL INNOVATORS

The Secrets of Serial Innovators

While the connotation may imply something negative, rigidities per se are neither good nor bad. They are simply necessary for human beings and organizations to function effectively and efficiently. However — sometimes, and in particular in times of change — they can become the reason for organizational failure, decay and firm death.

So the question isn't how can we prevent rigidities from developing, but rather how can we contain them and how can we complement them to maintain organizational adaptability and to cultivate innovation?

Reviews of the various academic fields have shown that informed and thoughtful interventions can interrupt or at least slow down the process of the aging of firms.

Seven interventions seem particularly relevant:

1. **Cultivating the firm's members' desire to make a difference.** The first intervention is to leverage the desire of human beings to contribute to something that matters and to make a difference in life. It is to define the purpose of the firm as being to make a difference to people, by developing new products and services that make the life of their customers safer, healthier, richer, better, more valuable.
2. **Building a team of learners at the top.** It is essential to have teams made up of people with diverse mental models, people with a strong belief in their own self-efficacy and people whose purpose is aligned with that of the firm, staffed in positions that are important for the company in adapting to changes in its environment.
3. **Framing the vision and strategy positively.** Members of an organization are more likely to engage in problem-solving and behavioral change that happens in a positively loaded emotional context. A *positively framed direction* — engaging visions of the future and convincing strategies to get there — appealing to positive emotions, helps nudge people into continuous problem-solving and learning, and makes firms adaptive.
4. **Building on self-managed performance cells.** The fourth intervention is building on self-managed performance cells, autonomous organizational units that leverage the goal orientation, drive to succeed and creativity of human beings. Self-managed performance cells have three characteristics: They are guided by *performance metrics*, they have the *ability to organize themselves,* and they have *periodic sessions for learning* and joint problem solving.
5. **Promoting the firm's members' drive to perform and grow.** The fifth intervention is to go beyond pay for performance and monetary incentives to motivate employees. The fifth intervention wants to recognize the performance of the firm members, to build their self-confidence, to foster their passion to achieve ambitious goals and to help them to grow their abilities.
6. **Investing in capabilities to quickly develop new assets and skills.** Firms may use four approaches to fast-forwarding the development of assets and skills: It can *fast-build* assets and skills; it can *borrow* capabilities; it can *buy* capabilities; or it can *experiment*.
7. **Cultivating a culture that fosters execution and promotes challenge.** Organizational culture can be leveraged to complement the organization's formal structure by reducing the need for dense hierarchies and processes. Culture can help guide the daily activities of employees in the absence of written rules or policies. It enables greater decentralization, providing general guidance, but leaving the specific *how* up to the individual, allowing more space for adaptation at the front line.

Beyond Business: The Medici, Oxford and the Catholic Church

There are institutions — families, academic institutions and religious institutions — that have lasted for centuries and fundamentally influenced the development of humanity, changed the world and seem to have implemented at least some of the interventions described earlier.

Consider the Medici family, for example. The Medici family ruled Florence, in Tuscany, between the 14th and 17th centuries. The Medicis can be considered the founders of modern banking, transforming money lending — which until then was considered usury — into a respectable profession. In 1397, they founded the Medici Bank, which became Europe's largest bank in the 15th century, and supported the family's ascent to power in Florence, where they dominated the city's government for many centuries.

The family passionately promoted a liberal and open-minded culture in Florence, where art and humanism could flourish. The Medicis were among the most prominent families inspiring and fostering the *Rinascimento*, the opening phase of the Renaissance — the period of great cultural change and achievement in Europe that spanned the period from the end of the 13th century to about 1600, and that marked the transition between the Medieval era and modern Europe.

The University of Oxford

The University of Oxford is one of the oldest surviving universities and is regarded as one of the world's leading academic institutions. Although the exact date of its foundation is unclear, there is evidence of teaching in Oxford as far back as the 11th century. Most undergraduate teaching at Oxford is organized around tutorials in self-governing cells (colleges and halls), supported by lectures and laboratory classes organized by the university's faculties and departments.

Oxford consistently ranks among the world's top 10 universities. There is a long list of notable alumni (called Oxonians) including 26 British prime ministers (among them Margaret Thatcher, Tony Blair and David Cameron), one U.S. president (Bill Clinton), two prime ministers of India, and several leading economists and philosophers, including Adam Smith and John Locke.

Finally, the Roman Catholic Church is both the largest and oldest continuously operating institution in the Western world, having existed in its current form since the fourth century. It is probably the most striking example of a large institution that provides meaning to its members and promotes a strong value system.

Despite scandals and setbacks over the many centuries, the Church is a successful and fast-growing organization. In the 1950s the Church had more than 400 million members, in the 1970s it had nearly 700 million members and today nearly 1.2 billion people are members of the Church.

If families, schools and institutions that shape societies and change the world are a possibility, can we apply our model of the firm that thrives in dynamic markets to create more of them? Can we build more great institutions in our society? The answers are obvious. ●

Legacy Through Leadership

The term *leadership legacy* is often referred to in the context of leadership transition, and many academics and scholars have published on the matter, often from different angles. They define *legacy* as what one wishes to be remembered for after one's departure.

I would like to offer another concept of leadership legacy, one that has two elements.

First, developing a legacy is building an organization that builds human passion, self-confidence, values and capabilities. Inspired by the mission statement of the Stanford Graduate School of Business, which aims to "... develop innovative, principled and insightful leaders who change the world," building a leadership legacy is building a firm that develops individuals who are individually and collectively passionate and energized to contribute to something bigger, to something that matters and to make a difference in life; it develops individuals who are motivated to achieve ambitious goals; individuals who have the self-confidence and perseverance to master difficult challenges; it develops individuals who are open to challenge and eager to learn; individuals who are principled; individuals who can change the world.

Second, developing a legacy is building an organization that has a positive impact on society. It is building an organization that — with its mission, values and scale — continuously invents new products and services that make life healthier, better, safer; an organization that can change the world. ●

RECOMMENDED READING LIST

If you liked *Serial Innovators*, you'll also like:

1. ***Beyond Performance* by Scott Keller and Colin Price.** Keller and Price describe how organizational leaders can achieve and sustain excellence.
2. ***The Progress Principle* by Teresa Amabile and Steven Kramer.** The co-authors explain how managers can foster progress and positivity every day.
3. ***The Innovator's Prescription* by Clayton M. Christensen, et al.** Christensen analyzes the strategies that will improve health care and make it affordable.

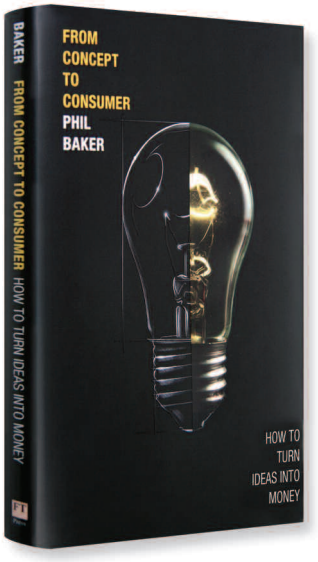
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Summary

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From Concept to Consumer

How to Turn Ideas Into Money



by Phil Baker

THE SUMMARY IN BRIEF

In *From Concept to Consumer*, renowned product developer Phil Baker explains how a great idea accounts for only 5 percent of all the factors of success and why the majority of the success is dependent upon a myriad of other factors, including the time it takes to get to market, price, marketing and distribution.

As he navigates the journey through the development process, Baker offers industry insight from his 30 years of experience about how to make critical decisions along the way that can ultimately result in getting the product onto retail shelves, in print, online and ultimately into the hands of consumers.

Baker also illustrates the sweeping changes that have overcome the development process in the past decade and is able to show how, in this new era of short development times and even shorter product life cycles, the use of OEMs, ODMs and Asian manufacturers creates an equal playing field that enable practically anyone to be able develop technologically complex products.

From Concept to Consumer not only shows readers how to take an idea and turn it into a successful product, but also prepares them for what happens after the product's introduction. It shows them how to stay one step ahead of competitors by being their own best competition.

IN THIS SUMMARY, YOU WILL LEARN:

- How to transform an idea into a successful product.
- The benefits of letting others do what they do best so you can do what you do best.
- Why a product doesn't need to be perfect before it goes to market.
- The competitive advantage of manufacturing in Asia and how to choose an Asian partner.
- Why you know your product best — but the customer knows it better.

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THE COMPLETE SUMMARY: **FROM CONCEPT TO CONSUMER**

by Phil Baker

The author: Phil Baker co-founded Think Outside and is a consultant for U.S. and Asian product, business and market development. Involved in all aspects of product development for his entire career, he has played key roles in developing flagship technologies and products for many companies, including Apple, Seiko, Polaroid and Atari. Baker also writes the technology column for the *San Diego Daily Transcript*.

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For additional information on the author, go to http://www.summary.com.

New World, New Rules

Coming up with the right idea, turning it into a product and having it succeed in the marketplace are critical to a company's growth and survival. The invention itself accounts for just 5 percent of all the factors for success. To be successful a product must also get to market at the right time, sell for the right price and still produce a profit. There must also be customers who are willing to buy and effective marketing and distribution to get the product into the right location. Most important, you need timing and just plain luck. If any of these links in the chain are broken, it can spell disaster.

Over the last decade, product development, manufacturing and marketing have undergone sweeping changes, creating new rules. Product life cycles have gone from years to months, manufacturing resources have moved from around the corner to around the world, and distribution has moved to the Internet and a handful of big-box stores. No longer can companies afford the time to follow a sequential process, passing the product from engineering to manufacturing to marketing to sales. It is now done concurrently, with all disciplines working together at the outset and contributing throughout the project.

In addition, companies no longer need to do everything themselves but instead use resources that didn't exist just a few years ago. More companies focus on doing what they do best and let other companies do for them what they do best. Worldwide resources give us huge new capabilities, whether a large or small company or even an individual. Today, competition is much more intense and products are revised and improved more frequently. Why? Because if you don't do it, your competitors will, and it's often the only way to maintain visibility in the crowded market.

For all these reasons, we're forced to work at a more frantic pace. There's little time to conduct extensive market research, go back and start over. More profits come from entering the market sooner, even with the costs of accelerated development, and outsourcing to Asia can provide a huge advantage for speeding time to market.

Just Do It

While innovation is typically confined to the product, it is beneficial to bring the same level of creativity to the development process. Finding ways to speed up time to market, reduce development costs and avoid the common bureaucratic delays that occur in large companies can provide a big competitive edge in establishing a brand and maximizing profit.

Organizing for Rapid Development

Small focused teams are much more effective than large organizations because they communicate better, there's less bureaucracy and decisions are made more quickly. An ideal team has five to 10 people who represent each of the key functional disciplines: engineering, industrial design, marketing, finance and manufacturing. That's few enough to work well and communicate together while still providing the diversity of resources needed to address almost any issue.

Leveraging Outside Resources

Leveraging is a powerful tool for accelerating product development. It means doing what you do best and letting others do what they do best. Using outside resources reduces the need for permanent ones, avoids adding fixed overhead costs, and makes it easier to expand and con-

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Christine Wright**, Senior Graphic Designer; **Toni Cannon**, Contributing Editor

tract. This applies throughout the project, including everything from the way the product is designed to how the product is manufactured, delivered and sold.

Remembering That Less Is More

One of the challenges of designing a product is deciding what features to include. Most engineers want to produce a product that does as much as possible and more than the competition. Sometimes more is less and less is more. Putting unnecessary features in a product not only complicates its usage, but also lengthens the development time and adds to design and testing requirements, not to mention increasing cost and follow-up customer support.

Don't Get Hung Up with Perfection

A product doesn't need to be perfect to go to market. It only needs to be reliable, work as expected and have a high manufacturing quality. You learn the most about the product after it gets into the hands of customers, and it's best to design and manufacture the best product within time and budget constraints and then get it out to the public.

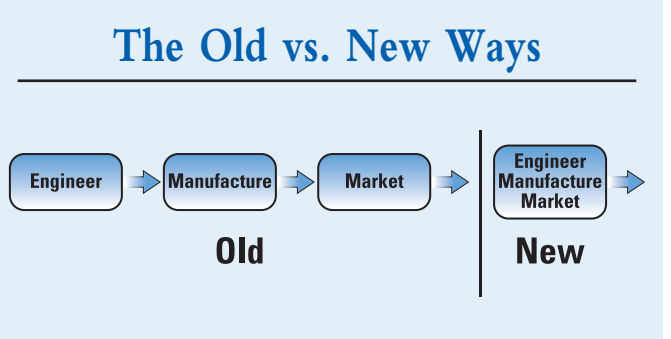
Consumers will let you know what refinements need to be made, either as revisions or follow-on products. Be sensitive to their needs by having a liberal return policy for early adopters. Offer discounts or trade-ins on future upgraded models, and give full refunds to unsatisfied customers. This way, despite any problems encountered with the product, the early adopters will be advocates and not detractors. ●

The Basics of Development

It can take as little as a few months or as long as several years to develop a product. The development process cannot be done in isolation; it needs to be done considering the market requirements, product specs, schedule and product costs. Conventional logic states that marketing and other non-engineering factors may seem to not belong to the development process, but today, it's a big mistake to develop a product without considering the who, what, when and how much of the product. There is little value in developing a product few want or can afford. No matter how well engineered, a product cannot be truly successful if it doesn't meet the needs of those willing to pay for it.

Development

The time it takes to develop a product depends on how well the product is defined at the start, the complexity of the product, the size of the development team, how many changes are made along the way and how well the product is managed. The typical development process starts with the design idea; follows it through physical development, detailed development, prototyping, and testing; and continues through the production phase. It can be rigorous and often involves reviews at the end of each phase by senior executives, and executive approval is often required before any changes can be made to the product.



Marketing

A clear and concise description of what the product is, whom it's for and what's needed to succeed in the market is critical to the development effort. Every product should have an MRD (market requirements document) that, in just a few pages, communicates the details of the product and establishes a baseline for development activity. The MRD also provides goals, sets priorities, and becomes a catalyst for discussion between marketing and development teams about what's important and what's not.

Estimating Sales

Developing an accurate sales forecast is often an educated guess and is dependent on such variables as cost, competition, and how and where a product is sold. Estimating the sales impacts how the product is designed and manufactured. High-volume products utilize more tooling and require more investments, while lower-volume products are designed to reduce the need for tooling but have more costly individual parts.

An accurate sales estimate enables planning for sufficient manufacturing capacity. The success of a new high-volume product can often create a demand that outstrips the manufacturer's or a component's capacity and plans need to be made in advance for bringing up additional assembly lines or finding additional suppliers.

Product Specs

A product specification describes details about the product from a technical perspective and communicates the product's technical requirements to the engineers and manufacturer. The specs contain information about

how the product works, the controls, physical attributes, the environmental and physical conditions it will be subjected to, quality requirements, and the regulatory agencies' requirements the product must meet. It becomes part of the manufacturing agreement and influences how the product is to be designed and built.

Schedule

When the product comes to market can make the difference between success and failure. The schedule is developed early in the process under certain assumptions of what needs to be done and how long it will take. Product introductions are often timed to important trade shows or events, as these events can result in press coverage, introductions to potential customers and marketing programs.

The most common thing that impacts a schedule is an unexpected problem, such as a design that doesn't work and needs more time to fix, a component that's late, or more time needed to get the software and hardware to work together. A more accurate production timeline uses two schedules: an aggressive one for the project team and one that's communicated outside to others that allows for some delays.

Product Cost

The product cost has a big influence on the sales volume and the success of a product, yet it is one of the areas that is often not considered until late in development. Errors in cost come less from estimation and more from not carefully understanding the markups required to get the product from the factory to the marketplace. Every design decision impacts cost. Do note that the sale price of the product has no relation to its cost. The customer will pay a price based on how desirable the product is, its uniqueness, the competition and other available ways to solve the problem. ●

Industrial Design Matters

With so many products that have similar functionality, the industrial design (ID) often makes the difference between a product's success and failure. Industrial design encompasses the appearance, aesthetics and usability of a product and is so powerful that it can impact the emotional bond between a product and its user.

Discovering ID

Good design is built in, not added on as an afterthought, and industrial design can have a much bigger impact on the product if the designers work with the manufacturers at the beginning of the design phase. Good ID can provide a "wow" factor that sparks consumer interest. While customers may not be able to describe what they want, they buy and use well-designed products more frequently.

Conflicts between engineers and industrial designers are not uncommon. The engineers want to get the product finished, placing their emphasis on functionality rather than looks, and they don't always recognize the need for extra time and the added complexity that an industrial designer may ask for. Both groups must cooperate, and without each other's support there cannot be good ID.

The Industrial Design Process

The typical ID process:

- The client first briefs the designer on all aspects of the product and provides him with supporting information, such as the MRD, specs and competitive data.
- The designer then presents any initial design ideas and illustrates design language through a number of rough sketches.
- The client reviews the ideas and sketches and then gives the designer feedback. Refinements are made to the design.
- The designer then chooses a few ideas and builds nonworking models to simulate the product's appearance.
- When there is agreement on the final ID, it's developed into CAD drawings and electronic files that describe the materials, colors and other details.

A good industrial design will increase the chances of a product's success. So don't skip it! It adds another dimension to the product that says much about the kind of company that produced it and the company's appreciation for doing things out of the ordinary. Because so few companies even try, it's not difficult to stand apart from the crowd. ●

Why Outsource?

Making sophisticated electronic consumer products was once the privileged domain of a few. Now, with the rise of OEMs and ODMs, virtually anyone can build world-class products. The advantage is now to the swift and the creative rather than the big, but to get that advantage you'll have to go to Asia.

The Rise of the OEM and ODM Model

Companies that specialize in manufacturing and designing specific types of products for their customers, who, in turn, take them to market under their own brands, are called original equipment manufacturers (OEMs) and orig-

inal design manufacturers (ODMs). OEMs manufacture the product, while ODMs both design and manufacture them. Some OEMs and ODMs have grown so large and capable that it's even common for them to make products for customers who compete with one another.

Taiwan

Taiwan has grown rapidly in its ability to design sophisticated technology products and is home to some of the most technically proficient engineers who have expertise in designing and manufacturing complex consumer electronics products in high volume. Taiwanese companies produce 90 percent of the world's notebook computers. That, in turn, has propelled the growth of related industries, such as flat-panel displays, chips, modems and GPS technologies, as well as advanced materials used for notebook enclosures. In recent years, many Taiwanese companies have moved their factories to China for cost savings and access to more engineers; these factories are still run and staffed by Taiwanese.

Mainland China

The Pearl River Delta area of the southern China province of Guangdong has grown over the past 25 years to become the manufacturing center of the world. While much of China's growth was the result of Western companies looking for lower manufacturing costs, that's no longer the primary reason for going.

China has a huge infrastructure of manufacturers and suppliers concentrated around the city of Shenzhen at the mouth of the delta, just an hour train ride from Hong Kong. With suppliers all within an hour or two of one another, time to market has improved so much that it's faster to get a product built in Asia and delivered to a customer in the United States, Europe or elsewhere than to do it all in the United States or Europe — if, in fact, that were even possible.

Is Outsourcing for All?

Outsourcing to China is not for all companies and products. China is best-suited for producing technology products that contain electronic components, have production volumes in the thousands per month, have mature designs, and are of high value and relatively small dimensions so shipping costs are not a burden. Low-volume products, such as medical devices, are best done locally; the overhead costs, primarily the cost of travel and spending time in China, can be significant. Still, many low-volume products can benefit by building the tooling and parts in Taiwan or China, where costs can be one-third to one-half of those in the U.S. or Europe. ●

Selecting and Working With an Asian Partner

Selecting a company that already does or comes closest to doing what needs to be done provides a series of advantages: faster time to market, the knowledge and equipment to build and test a product, established relationships and support with suppliers of components that will be used in the product, skilled engineers, and lower manufacturing costs. When choosing a manufacturer:

- Ensure that a manufacturer has all the skills required for your specific product; even if a company builds similar products it might not be able to do everything you need it to.
- Don't expect something for nothing.
- Avoid using agents or middlemen, who often represent one or more companies and take a commission on the product.
- Do your homework. Study the company's products to check the quality of manufacturing and parts, ask for references and visit the location to see what the company's skills really are.

After engaging a manufacturer, it's important to closely manage the relationship, using one of your own employees or a consultant to work closely with them. This individual will drive the development activities, schedule, and provide frequent and clear communications among the team members and the Asian manufacturers.

Using a Chinese manufacturer is far from risk-free. It's not uncommon to find that well-intentioned companies miss schedules, produce poor quality products, change parts and processes on their own, and fail to communicate internally and with their suppliers. The fact is, in spite of potential problems, there are few other places to get the job done.

Manufacturing Costs

Once you engage a manufacturer, substantial investments need to be made as you move toward production. The costs of production can vary depending on the complexity of the product and the manufacturing agreement. Tooling, production design, assembly fixtures, test equipment, prototypes and long lead parts are some of the manufacturing costs you can expect.

Tooling: Building the machinery that automatically replicates a large number of plastic and other parts. This is one of the costliest expenses and has the biggest impact on the schedule

Production design: This involves taking the design and having the manufacturer complete it so that it can be more easily manufactured.

Assembly fixtures: These are used to assemble the product and are specific to the product. They vary from devices that position parts to special trays that hold parts.

Test equipment: This equipment is used to measure, adjust and test the product during and after assembly.

Prototypes: At several stages during development, these are produced to verify the engineering design, test the product using parts from the tooling and then perform preproduction testing of products made on the assembly line. Volume can vary from several dozen to several hundred.

Long lead parts: Many manufacturers ask for pay in advance for parts that need to be ordered several months in advance to have them on hand when production begins.

Manufacturing Quality and Durability

One of the greatest concerns with a product is that it works as expected and has few failures once it reaches the customer. That's a function of the design, the parts and the manufacturing. A good design is easy to assemble and less dependent on the individual doing the assembly. Parts that snap together precisely are better than parts that are glued together, since how they are positioned and the amount of glue used can vary among operators. The quality of components can also affect the product, and it is the manufacturer's responsibility to inspect the parts when they arrive at the factory.

After assembly, a product needs to pass several tests designed to ensure that it continues to function even after being exposed to the extreme conditions that may occur in normal use. The tests represent extremes of temperature, humidity and handling. While the requirements vary by product, typical tests subject the product to temperatures of 160°F, -20°F, and 120°F/90% humidity for hours at a time. In addition, thermal shock tests subject the product to alternately high and low temperatures. The product is also subjected to vibrations over a wide range of frequencies and a shock and drop test, both in its packaging and by itself. ●

The Marketing Component

The role of marketing is to make a product succeed in the marketplace and realize its sale potential by using a variety of activities. These include influencing the product's design, positioning the product and company to the outside, conducting market research, promoting the product using public relations and advertising, and understanding and communicating with customers.

During the development of a product, it's beneficial to get input from potential customers, particularly if the product is unique or if design trade-offs need to be made. While those closest to the product know best, sometimes they can be too close and too wedded to the design to see things objectively. There are number of ways to gather a fresh perspective, depending on the type of information desired.

Focus groups are best used to learn the likes and dislikes of competitive products and to make comparisons between product options like colors, features and packaging. For testing product assumptions early in development, industry experts, consultants, reviewers and technology columnists can offer valuable advice. They see and use more products than most any group, and you should accept their feedback as an opinion but carefully analyze the response.

Once a product is released, the earliest market feedback can often be found on the Internet. Many companies have user discussion boards where customers can post questions or comments. These boards contain both the good and bad customer experiences without censorship, and most comments are intelligent, with a lot of detail and useful information. This can also be a great way to learn about competition.

Product Positioning

When the product is introduced to the market, it needs to be described, or positioned, in a way that's accurate, clear and concise and makes one want to buy it. A product's positioning can make or break it, and first impressions are hard to change. Many companies make the mistake of providing a description with too much information. Start with a product-positioning statement for internal use that's a description of the product, its benefits, what's different from the competition and how the customer should perceive it. Then create a short statement for public consumption that supports this.

Public Relations

Public relations is one of the most effective methods for communicating a product to the world. PR is much more effective than advertising in both the breadth and quality of the message and is much more believable. The most important role of PR is to communicate with industry journalists, who, through their writings and reporting, tell their audiences about a product.

Customer Service

Instead of considering customer support as a cost center, consider it a marketing investment. Problems are common with high-tech products, so companies should plan for dealing with them. Rates of defective units can be in the double digits in the first few months of production. The early buyers take the most risk and are

often the ones with a preponderance of problems. They need to be treated well, not only because they deserve it, but because they are the most influential; they are the first to write about their experiences.

Establishing Price

Price is dependent on the perceived value, the product's cost and how the product is distributed. With products that are more differentiable, there's less pressure on pricing and it's better to set prices on the high side, particularly in the beginning when demand is higher. Users expect the prices of high-tech products to fall over time, so if the price is reduced it, won't come as a surprise, even to those who paid the higher price.

Distribution: Getting Your Product to the Consumer

Build it and they will come. That rarely happens. Not only do you need a marketing program, but also a plan. There are four channels available for getting a product into the hands of the consumers.

Sell products through retail storefronts: Putting products into real brick-and-mortar (B-and-M) stores makes it easy for customers to see, try and buy. Having the product in stores creates awareness, promotes sales and creates legitimacy for the product. This option provides the biggest upside but also requires working with the distributors that provide products to stores.

Supply products to a marketing company: Supplying products to a company that has established distribution channels allows the product to get to market more quickly and is easier than trying to establish your own relationships with distributors and corporate buyers.

Sell over the Internet: Selling through the Web is often a good way to get started, particularly selling from your own site. Selling directly lets you get close to your customers to gain valuable information. A Web site is also a wonderful vehicle for posting press articles, reviews and awards, and a well-designed site provides a bigger-than-life presence. Retail Web sites like Buy.com and Amazon.com operate similarly to B-and-M stores and obtain their products through the same distributors and can also increase sales.

License the product to another company: This arrangement offers your invention to another company to manufacture, market and distribute and sometimes even design. In return, you receive a percentage of sales, typically up to 10 percent of the wholesale prices.

Distributors

Rather than selling directly to the stores, it's more common to sell through one or more major distributors that inventory the product and supply it to retailers, because retailers prefer to order from distributors. It's best to identify target customers and where they would go to buy such a product, then work with distribution companies that already have a relationship with these retailers.

Distributors offer many services, including warehousing and product fulfillment, billing and terms to resellers, and in some cases training and marketing for the product. However, don't expect the distributor to do the selling for you. You still need to market or promote your products directly to the key retailers to convince them to carry your product.

Distribution Costs

Each time someone touches a product, the cost increases. In the distribution model for consumer electronics, the retailer may take from 20 to 60 percent of the retail price. The distributor will take an additional few percent, up to 10 percent. Retailers often extract miscellaneous fees for shelf space and promotion. These are called *soft dollars,* and the

Top 10 Rules for Taking a Product From Concept to Consumer

- Success depends on more than having a great product.
- Manage development using a small, focused, cross-functional team.
- Be creative in the development process.
- Don't obsess over perfection. Being early to market is often more important.
- Market test the product using simple, common-sense approaches.
- Do what you do best and let other companies do what they do best.
- Plan the next product while doing the first, and then offer the best competitive response to your own product.
- Understand the sales and distribution channels and make sure product costs allow for a competitive selling price.
- Avoid building huge inventories of parts or products before knowing how well the product will sell.
- Don't believe your own hype.

creativity of the retailers to extract fees is never-ending. These fees are more important to them than direct profits from the sale of the product, and if they aren't paid, they won't play. Soft dollars can also result in excessively large orders by the distributor that are not justified by the actual sales, and then the product can be returned with little consequence to the distributor and retailer.

Selling Through

Getting a product to a distributor is just the first step, it means little if the product sits on the shelves and doesn't sell through. Regardless of the payment terms negotiated, consider the product to be on consignment; there's a real possibility that it will be returned. Close contact with the retailers is a must to carefully monitor actual sales and returns to ensure that the product isn't being overproduced. ●

Legal Advice: Knowing When to Ignore It

The value of legal agreements to Asian companies is much less important than to those of us in the U.S. and Europe. Asia has fewer lawyers and a much less litigious legal system. Sound relationships are not based on having tight legal agreements but are the result of finding a good company with the right skills and a management team with high integrity, and many Asian partners are willing to begin work on a handshake.

Patents

With respect to consumer electronics products, the best way to protect intellectual property is to keep improving the product and fight it out in the marketplace. It can take several years for a patent to be issued, during which time you can't prevent another company from copying your ideas, and with shorter development times, a company can often introduce a competing product in months. By the time a patent is issued, both you and your competitor's products may no longer even be on the market!

On the other hand, if you're developing products that are the result of years of research, such as microprocessors, software technology and biotech, that have a long life, patents may have a significant value, particularly when the company behind the product has the resources to defend it.

Development and Manufacturing Agreements

Waiting for an agreement to be signed before engaging an Asian partner can seriously impact your time to market, especially when agreements need to go through translations. Find a company you can trust, establish the details of the business relationship from the start and then move on.

The best way to enter such a relationship and begin without detailed agreements is to first execute an NDA (nondisclosure agreement) in which both parties agree that the information disclosed is confidential. Outline the relationship by defining in general terms what's expected from each side and develop two agreements: one that defines the details of the development phase and a second that defines the terms of manufacturing.

Legal agreements are particularly important when engineering consultants are hired to work on the design. It's important that there is a clear understanding of who owns the designs that result from the relationship, and this prevents those who contributed to a successful product from coming back and claiming they should receive added compensation.

Now What?

After the creation of a successful product, expect it to be copied. Keep ahead of the competition by focusing on your own products. The best defense is to develop a follow-on product while competitors are busy copying the current one, keeping you one generation ahead. Introduce a second model with more features but at a similar price, and lower the price of the original model. This is the best way to hold your price.

A dilemma that many companies face after introducing a significant new product is whether to grow the company by working in the same category or to expand into another area of expertise. There is no correct answer; it depends on what you want your business to become. Expanding in a given area is generally less risky. With more products you can increase market share and the efficiency of your operations.

Once a company has developed a successful product, there's sometimes the possibility of selling the company to another. Many companies need products to add to their own lines, and an acquisition can provide a source of new products, on an ongoing basis. It's not always easy to consider this option, but sometimes selling is the best choice; some companies don't have a second act. ●

RECOMMENDED READING LIST

If you liked *From Concept to Consumer*, you'll also like:

1. ***The Art of the Start* by Guy Kawasaki.** Kawasaki takes you through every phase of creating a business, from the very basics of raising money and designing a business model through making your way to market.
2. ***Be the Elephant* by Steve Kaplan.** Kaplan shows entrepreneurs how to grow big enough to make an impact and remain financially healthy.
3. ***Reengineering the Corporation* by Michael Hammer and James Champy.** Here's how to make quantum leaps in performance by analyzing and redesigning your work practices.

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Taking Charge of Change

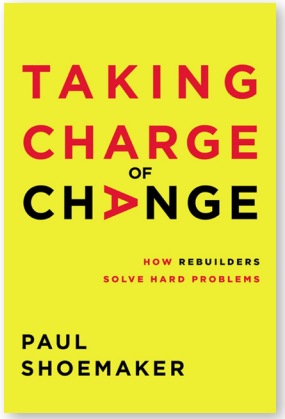
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Taking Charge of Change

How Rebuilders Solve Hard Problems



by **Paul Shoemaker**

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THE SUMMARY IN BRIEF

Bridges across the United States in 2020 are deteriorating. The state of our structurally deficient bridges in 2020 is an evocative metaphor for the nation we are living in right now. The social, economic, and health structures underlying American civil society are in a more critical condition than they have been in decades. As is and always will be the case, these times call for a new kind of leader. We need Rebuilders. Rebuilders are leaders for the 2020s that have a combination of qualities and skill sets that will enable them to effectively address the accelerating economic, social, and health disparities across an increasingly uneven, siloed America.

Paul Shoemaker wrote ***Taking Charge of Change: How Rebuilders Solve Hard Problems*** for socially conscious and civically active leaders who are starting to redefine the leader they need to be and are hungry for clarity, stories, and direction. The leadership traits of Rebuilders give you, your team, and your organization an indispensable checklist for effective leadership for the 2020s. They are directly aligned to address the megachallenges America is facing in the decade ahead.

IN THIS SUMMARY, YOU WILL LEARN:

- The five megachallenges that America will face in the next decade.
- Why Rebuilders matter in the 2020s
- Where we have been, where we are, and where we are going
- The five vital traits of Rebuilders that will matter the most

Part One: Rebuilders

Shoemaker studied dozens of leaders from a broad range of industries and causes from all three sectors: private, public, and nonprofit. They were a mix of people with different genders, ethnicities, and places in companies and communities–a mix like the collective profile of leaders America is absolutely going to need in the 2020s. These rebuilders meet an imperfect but intentional, subjective but substantiated, criteria:

- They have achieved a level of measurable success or effectiveness. There is some objective, public measure by which one can ascertain effectiveness.
- A majority of them have substantial experience in two, or all three, sectors of the American economy.
- Each clearly demonstrated and is an exemplar of a specific trait (or two) that fits the profile of a Rebuilder.

Rebuilders are leaders who don't look and sound and act the same as we are used to seeing. Qualities like hyperauthenticity, an exceptional capacity for complexity, extensive cross-sector experience, plus others are what will define the leaders we need for our future.

Part Two: Why Rebuilders Matter for the 2020s

Just like the foundations on deteriorating bridges, the economic, social, and health foundations of America are in great need of repair and rebuilding. Just like any bridge you drive or walk or bike across, our nation is only as strong as the underlying foundation.

Human beings are always trying to "build bridges" with people they might disagree with. Dozens of songs include the word "bridge" in the title. Perhaps the most poignant bridge metaphor is of providing a crossing to the hereafter. Bridges do, in fact, have to be rebuilt across American civil society in the decade ahead. Not just the physical ones. We need to:

- Rebuild economic bridges for more Americans to be able to get back to the middle class and to have a chance again at the American dream.
- Create technological bridges so that access to broadband and enhanced technology is greater and can narrow the gap between the haves and have-nots.
- Have leaders that know how to bridge from the private to the nonprofit to the public sector.
- Make real, sustained progress on many more "bridges" that need to be rebuilt across American civil society.

Many of these Rebuilders have already been leading, but we need to intentionally connect more like them together in the 2020s. Just like you can't build a fully functioning, beautiful bridge without all the parts, we can't make the change we want to see without all of the traits of these Rebuilders being brought together and working together, like the many parts of a strong, enduring bridge.

Rebuilders have a combination of qualities and skill sets that will enable them to effectively address the accelerating economic, social, and health disparities across an increasingly uneven, siloed America. Those five leadership qualities and skill sets, the five vital traits, of Rebuilders that will matter the most are:

1. 24-7 Authenticity
2. Complexity Capacity
3. Generosity Mindset
4. Data Conviction
5. Cross-Vector Fluency

For Rebuilders, the vital traits of 24-7 Authenticity and a Generosity Mindset are in balance with the tangible skill sets of Data Conviction and the Capacity for Complexity. And the trait that connects them together is Cross-Sector Fluency, which we will dive deeper into later.

Why These Five Traits

America's economic, social, and health conditions are creating a scale and scope of change unlike anything we have seen in generations. Those underlying conditions have helped create and are playing out in the context of five megachallenges America is facing in the decade ahead:

1. Significant, growing differences in the access to and use of technology combined with the hyper attention of today's media as major amplifiers of our inequities.
2. A breadth and depth of challenges greater than we've faced in the last seventy-five years, especially now in a post (?)-COVID world.
3. The reality that we are less connected and more siloed, making coming together harder today than it has perhaps ever been.

The index of income inequality for Americans started increasing in the ‘90s and the degree of inequity has accelerated ever since.

4. Slowing, less certain, more unequal progress across a broad array of social, health, and economic indicators.
5. The intersecting and blurring lines between historical norms of our private, nonprofit, and public sectors in ways we have never seen before (and it isn't going back to the way it was).

These five megachallenges directly suggest the five vital traits desperately needed in the leaders who will make a difference in the decade ahead.

Where We've Come From (1950-2000)

The story of America, from 1950 to 2000, was one of progress on a range of challenges that affect us all–childhood mortality, literacy, life expectancy, public health, women's and civil rights, per capita GDP, and the list goes on.

Progress wasn't always even, but overall, there was steadily growing economic prosperity in the second half of the twentieth century. For a long time, this progress broadened the middle class, fueled our economy, and brought a significant majority of citizens along.

There was a wave of progress–economic, health, social–that seemed inevitably, if not always evenly, positive and shared by a majority of people over the second half of the twentieth century. But then things started to change. Really, they began changing in the ‘90s, but there was sort of a "frog in the frying pan" effect that hadn't turned up the heat enough yet.

The sometimes-euphoric technological advances and economic growth of the ‘90s masked economic, social, and health fractures in America's foundation that were beginning to emerge and would widen and accelerate over the first twenty years of the new millennium.

Where We Are (2000-2020)

Let's get this out of the way. It doesn't take a rocket scientist to know how politically fractured we are in America today. Politics matters, but the disparities in our underlying foundations (economic, health, social) are much more the root causes. Many of the currents of our political divide are downstream from the economic, health, and social inequities that are more the original source of our increasingly unequal and siloed nation over the last twenty to thirty years.

In the 2000s so far, the positive economic progress of most of 1950-2000 has slowed dramatically and halted or gone backward for far too many people. The 2000s have seen that trend line of progress go flat or downward for many people while taking a steep upward, positive arc for a smaller and smaller niche of Americans.

Middle-class families today earn an average of $4000 *less* than they did in 2000, adjusted for inflation. That is a profound change from the previous fifty years, when the income of the middle class steadily *increased*. The index of income inequality for Americans started increasing in the ‘90s and the degree of inequity has accelerated ever since.

Health inequality and disparity has also steadily grown to the highest levels in decades. The devolution of social conditions and the decreasing of opportunities for all individuals to reach their potential has had perhaps an even deeper, more foundational effect than the increasing income and health disparities over the last twenty years.

We've seen how intertwined all of these disparities are and how they feed off of and more deeply embed each of its own and collectively. That's the very definition of a vicious cycle; it must be interrupted. It will take new leaders with a set of vital traits that have never been called upon this urgently.

Amplifiers

At the same time as economic, social, and health progress are becoming more disparate and unequal, we have these incredible amplifiers–technology and media–that are accelerating these destabilizing trends even more. They make it easier to create a negative domino effect.

The foundations of American civil society–economic, social, health–are as shaky these days as many of our bridges across America. Technology, media, and now COVID, are amplifying those fractures at an alarming rate. This is a complex set of accelerating changes that needs leaders that

can take charge for the good of America's economic, social, and health future.

Where Are We Going?

To rebuild, we need to leverage the strengths of American society today, namely the diversity of people, approaches, perspectives, and backgrounds. That diversity of people, place, and power is what will lead us to better and stronger leaders that will make rebuilding possible at all.

To be very clear, this is about going forward to a new future, not a return to some "glorious past" with any MAGA-type inferences. We need to rebuild, but not return to, many of the systemic weaknesses that got us here in the first place.

The equation to solve is now far more complex, multivariate, and will require new kinds and updated versions of skill sets and qualities. We will find leaders for our future in less expected places, in neighborhoods, community organizations, sports teams, and so on in addition to corporate America.

Some individual leaders are more ready than others. But leadership as a fundamental asset in our civil society–across our private, public and social sectors–has not been adapted nearly *enough*.

Part Three: The Five Vital Traits

The foundations of American civil society, like tens of thousands of bridges across America, are deteriorating. There are many connected parts of the foundation, substructure, superstructure of a bridge that need to be looked at holistically before a plan is developed to rebuild. We need to look at these leaders holistically, and the five vital, connected traits, to rebuild communities and companies across America.

24-7 Authenticity

There are, as we've discussed, significant, growing differences in the use of and access to technology. Media today creates hyper attention and analysis. Because both act as huge amplifiers (megachallenge #1), the value and importance of 24-7 Authenticity grows by the day.

No matter your politics, we all have skepticism about some news or information from some sources. What grows in value is genuine authenticity. It is very hard to build, very easy to lose if you misstep, and utterly invaluable, personally as well as professionally, if you can manifest it every day.

There's been quite a bit written about authenticity and transparency as leadership qualities. Authenticity, in the dictionary, conveys that someone is worthy of belief, is not false or an imitation, and is true to one's own personality, spirit, or character. Sometimes the dictionary definition is an awkward fit; in this case, it's very well put.

Authenticity sort of sits at the intersection of radical transparency and media-as-an-amplifier. You *need* to be authentic and open before you *have* to be. It's not as if it's optional or variable in today's world. A leader just needs to start from that as a grounding principle.

And 24-7 implies a proactive quality. Not just responsively authentic, but leaning in, pushing your comfort zone on authenticity. As with all of these attributes, it needs to become second nature. In our world of sometimes-hard-to-discern (or fake?) news, this can't be a transitory, transactional trait; it has to become a part of the essential DNA of Rebuilders for the future.

Being and leading with 24-7 Authenticity in the world of technology, especially social media, has gotten logarithmically more challenging and, hence, that much more valuable. A leader with 24-7 Authenticity can't depend only on positive information. Rampant, self-reinforcing negativity makes the job of establishing true, deep authenticity so much harder in 2020 than it was in 2010.

We all make personal and professional choices every day. Our depth and degree of authenticity is a summation of all those individual decisions and choices. You are constantly building up your account balance of authenticity or making withdrawals (or going bankrupt). While it's fairly easy to go bankrupt, it's very hard to have a full account, and even harder to keep the balance full.

Complexity Capacity

Given that the total depth and breadth of challenges future leaders need to grapple with in the decade ahead are greater than we've faced, at least in the past seventy-five years (megachallenge #2), a capacity for complexity is an absolute need in any serious organization. Especially in a post-COVID world.

The capacity means you not only have to be able to take in the many variables at play, but interpret, process, and make sense of them, and ultimately communicate effectively. This trait is very much about using both sides of your brain.

Complexity can scare many people away. This is the most innate of the five vital traits although you can increase

When you come to any setting, you are looking to see who's missing from the table and who needs to be connected.

someone's capacity in degrees through specific professional development.

Rebuilders are uniquely suited to have this innate capacity to understand and interpret the complexity around them and take on the biggest loads. Complexity Capacity benefits from an open heart and strategic mind, aka a Generosity Mindset, to put that intricate understanding to work.

Complexity Capacity is about being and thinking in a nonlinear, less sequential way. It's about knowing that past solutions may be decreasingly useful for informing future solutions, hence the need to rethink and rebuild. It's about adaptability and being able to take in new information constantly. Complexity Capacity means, metaphorically, that you are better at open-ended essay questions on the "test" than multiple choice or true-false.

Last but not least, listening as a core asset and attribute has always been a "special sauce" in the recipe for leadership. Active listening is the act of genuinely listening, not just to hear or to be ready to respond, but wholly leaning in and fully understanding what others are saying. It's not hard to understand how vital active listening is as a characteristic of leaders with a high Complexity Capacity.

Generosity Mindset

When we are less connected and more siloed and isolated, and our ability to come together is harder today than it perhaps ever has been (megachallenge #3), the openness and expansiveness of a Generosity Mindset becomes vital. This might be the hardest trait to put into practice persistently with fidelity.

The ability to be the leader that creates a commitment to unity and looks for what you can commonly share while respecting each other's differences is pivotal.

The mindset to leave room for multiple identities at just about all costs is paramount. And remember that a Generosity Mindset needs to be able to process complexity in order to know where and how opportunities arise that can be leveraged and sustained.

Just to reemphasize, the point isn't about being nicey-nice or polite. It's a strategic mindset. It's a way of working and doing business, all the time. When you come to any setting, you are looking to see who's missing from the table and who needs to be connected. You are able to keep your eyes on the ultimate prize and get past disagreements, detours, and diversions.

Generosity appears to have especially strong associations with psychological health and well-being. Generosity toward others has been shown to help smooth over "relational noise"–perceived unfairness that can arise from everyday misunderstandings–making it a critical ingredient for increasing relational trust.

One study found that generosity creates self-other overlap, a sense of "oneness" with others, and reasoned that, when we help others under this state of oneness, we feel as if we are also helping ourselves.

What that meta-research affirms is the need to keep a constantly open mind. Fewer and fewer people can do this today, so its unique value constantly increases. In a sense, a Generosity Mindset also requires you to have a sort of relentless authenticity.

Data Conviction

When there is slowing, more unequal, less certain progress across a broad array of social, health, and economic indicators (megachallenge #4), data becomes an indispensable element in trying to forge a path toward more equal progress across American civil society. With the data, progress is not assured. Without the data, progress is just about impossible.

Think constant learning and improvement. Instead of data being an afterthought to understand social and community impact at a point in time, it's more powerful to develop a relentless focus on understanding the real-world, real-time, ongoing impact of programs, practices, and policies.

Ensure that the data being used is the right, not just readily available data. It can then inform persistent, day-to-day improvement in companies and communities. And remember that Data Conviction risks being dehumanizing or too for-

mulaic without the humanizing quality of 24-7 Authenticity.

Data Conviction may seem a little dry or stale as a leadership trait, but it's not. It's the conviction about and passion for data that is an absolutely necessary mindset for Rebuilders in the 2020s.

Think about how complex the challenges are that our private, public, and nonprofit sectors are going to face in a post-COVID world. Without data to create some baseline degree of clarity, as well as a basis for bringing competing worldviews together, there is little chance for success.

Let's define this as not just understanding but being able to process and then get good at interpreting and using data. This is about a core belief that the data is an indispensable part of the answer, that data is not just a tactic or a number; it's strategic. We know that good programs are necessary, but without data, they are not sufficient.

The two biggest differences between the private versus nonprofit and public sectors are (1) the private sector has one primary bottom line, net profit, whereas nonprofit and public sectors have many and much less black-and-white outcomes; and (2) in the private sector the customer pays for the product, whereas in the nonprofit and public sectors payment often comes through third parties.

A primary function of data for social change is trying to find the best replacement, or create effective proxies, for a bottom line and paying customer. It isn't perfect, but it is way, way better than the absence of it.

Cross-Sector Fluency

When the lines between and the historical norms of our private, nonprofit, and public sectors are intersecting and overlapping as never before (megachallenge #5), Cross-Sector Fluency becomes a must-have, not a nice-to-have. This does not refer to an individual hopping into a project in another sector and then going back into their longtime professional sector silo for most of their career. This means genuine immersion in the other two sectors or at least one of the other two sectors.

Cross-Sector Fluency often provides the glue that brings everything else together. Not just because of the experience itself but because it suggests that those who have it view the world more holistically, are more willing to see the nuance, have a wider lens, make trade-offs, and create the whole solution. They aren't unicorns, but they're pretty invaluable. Cross-Sector Fluency can often allow the different players some flexibility, facilitate give-and-take, and help bring the systems and people together and keep them in balance.

In defining Cross-Sector Fluency, the dictionary definition of fluency is helpful: gracefulness and ease of movement or style. Our challenges today do not exist in silos, within one sector or another; they cut across sectors. A generation ago, all three sectors were mostly able to live in their own ecosystem, tangentially paying attention to the other two sectors around it.

Those days are long gone, but it does point out a tension point. The fact that the three sectors are running together is in contrast to the siloing of America.While individuals are more siloed, solving big challenges will require more leaders to be less siloed and have more Cross-Sector Fluency.

If a private sector company wants to be economically successful, its leaders have to understand how to navigate the public sector as well as the nonprofit sector in the community around them. If a social sector entity is trying to make progress on an intractable social problem, they cannot do it without the public sector if they want to make true, sustained progress. And the private sector is now an asset–human, financial, and intellectual–that is indispensable for tackling the community challenges nonprofits have been working on for decades. All of those interactions are positive dependencies and virtuous feedback loops.

Rebuilding America's bridges will sometimes involve repairing the deck or the superstructure, redoing part of the substructure, or replacing the piles or bridge bearings. Rebuilding America's economic, health, and social foundations will take everything we've got, because we're rebuilding not just the parts but the whole bridge.

Rebuilding is not sexy. For most people, it's way more exciting to build something new. People love to do ribbon-cutting ceremonies, but they don't congregate around a building to celebrate its repairs. It will take leaders–individuals, teams, companies, communities–with all five of these traits brought fully to bear on the problems at hand. All five work together, in part because they balance one another and because you need all of these traits and fluencies at the table of positive change.



Shoemaker is the Founding President of Social Venture Partners International—the first-of-its-kind and still-largest global network of thousands of social innovators, entrepreneurs, philanthropists, and business leaders supporting social change agents in over 40 cities and 8 countries. He is a global thought leader and consultant on activating social change agents and increasing civic impact. Shoemaker was twice named one of the "Top 50 Most Influential People in the Nonprofit Sector" by The Non Profit Times. He was named "Philanthropist of the Year" by Future in Review.

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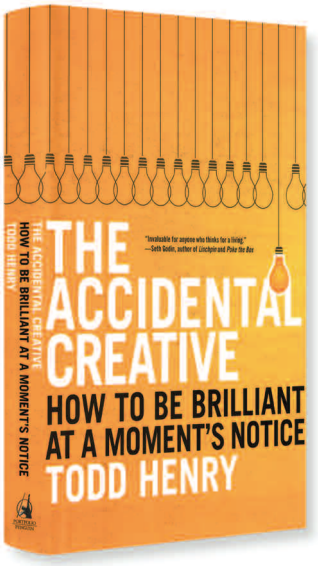
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The Accidental Creative

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The Accidental Creative

How to Be Brilliant at a Moment's Notice



by Todd Henry

THE SUMMARY IN BRIEF

You go to work each day tasked with (1) inventing brilliant solutions that (2) meet specific objectives by (3) defined deadlines. If you do this successfully you get to keep your job. If you don't, you get to work on your résumé. The moment you exchange your creative efforts for money, you enter a world where you will have to be brilliant at a moment's notice. (No pressure, right?)

Many of us assume that our creative process is beyond our ability to influence, and pay attention to it only when it isn't working properly. For the most part, we go about our daily tasks and everything just "works." Until it doesn't. We treat our creative process like a household appliance. It's just expected to work quietly in the background, and we lose sight of how much we depend on it until the day we're stuck with dirty socks.

Adding to this lack of understanding is the rapidly accelerating pace of work. Each day, we are faced with escalating expectations and a continual squeeze to do more with less. We are asked to produce ever-increasing amounts of brilliance in ever-shrinking amounts of time. There is an unspoken (or spoken!) expectation that we'll be accessible 24/7 and, as a result, we frequently feel like we're "always on."

Now business creativity expert Todd Henry explains how to unleash your creative potential. Whether you're a creative by trade or an "accidental creative," this book will help you quickly and effectively integrate new ideas into your daily life.

The Accidental Creative offers a practical method for discovering your personal creative rhythm, whether you're a manager or a consultant, a designer or a performer.

IN THIS SUMMARY, YOU WILL LEARN:

- How to begin with your end goal in mind.
- How to build stimulating relationships.
- How to manage creativity as your most valuable resource.
- How to structure the right inputs to maximize creative output.
- How to focus on effectiveness, not efficiency.

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THE COMPLETE SUMMARY: **THE ACCIDENTAL CREATIVE**

by Todd Henry

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The Accidental Creative: How to Be Brilliant at a Moment's Notice by Todd Henry. Copyright © Todd Henry, 2011. Summarized by permission of the publisher, Portfolio/Penguin, a member of Penguin Group (USA) Inc. 230 pages, $25.95.

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Introduction

In some circles, the word "creative" has recently morphed from adjective to noun. If you are one of the millions among us who make a living with your mind, you could be tagged a "creative." Every day, you solve problems, innovate, develop systems, design things, write, think and strategize. You are responsible for moving big conceptual rocks, crafting systems that form the foundations for future growth, and creating value that didn't exist before you arrived on the scene.

You may prefer the term "strategist" or "manager," or something else that feels more *concrete*. Call yourself anything you want, but if you're responsible for solving problems, developing strategies or otherwise straining your brain for new ideas, I'm going to call you a creative — even if you ended up being one accidentally.

There are tremendous benefits to doing creative work. You get to add unique value, carve out your own niche in the marketplace and watch your notions and hunches go from conception to execution; could there be any type of work more gratifying? But the flip side of this is that whether you are a designer, manager, writer, consultant or programmer, you are required to create value each and every day without reprieve. The work never ends, and as long as there is "just one more thing" to think about, finding time to rest can be difficult. Your primary tool — your mind — goes with you everywhere. If your job is to create then you are always looking for new ideas. In addition, you won't always have the option of going back to your desk to quietly brainstorm, vetting your ideas one by one. As a creative, you will regularly find yourself in situations that require you to generate brilliant ideas at a moment's notice.

This is no easy feat. If you want to deliver the right idea at the right moment, you must begin the process far upstream from when you need that idea. You need to build practices into your life that will help you focus your creative energy. These practices will help you stay engaged and productive over the long term without experiencing the rampant burnout that often plagues creative workers.

In other words, purposeful preparation and training using the tools in this book will directly increase your capacity to do brilliant work, day after day, year after year. ●

PART I: THE DYNAMICS

The Dynamics of Creative Work

No matter whether you are leading a team, developing marketing strategies, running a small business or writing copy, when you are compensated for creating value with your mind, the pressure to perform is palpable.

The always-on manner with which many creatives approach their work is arrhythmic, but the creative process is naturally rhythmic. There are peaks and troughs of productivity, an ebb and flow to idea generation. Working harder and staring more intently at the problem to achieve better ideas is like trying to control the weather by staring at the clouds. Rather, you need to incorporate practices that instill a sense of structure, rhythm and purpose into your life. You need to create space for your creative process to thrive rather than expect it to operate in the cracks of your frenetic schedule. This will not only help you generate better ideas now, but it will also ensure

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Five Areas of Creative Rhythm

- **Focus.** In order to create effectively, you need a clear and concrete understanding of your objectives.
- **Relationships.** One of the most powerful sources of creative inspiration and rejuvenation is other people.
- **Energy.** To make the most of your day, you need to establish practices around energy management.
- **Stimuli.** The quality of the output of any process is dependent on the quality of its inputs, and this holds true of the creative process.
- **Hours.** Time is the currency of productivity, and how you handle it will ultimately determine your success or failure.

that you are acting on the things that matter most instead of drifting through your days.

To *thrive* in the create-on-demand world will require you to make some real changes to the way you structure your life, and the way you think about what you do. Your best creative work will follow.

Creative Rhythm

To unleash your creative potential now and thrive over the long term, you need to establish your own rhythm — one that is independent of the pressures and expectations you face each day. This Creative Rhythm will provide you with the stability and clarity to engage your problems head-on. This rhythm is set by how you structure five elements: focus, relationships, energy, stimuli and hours.

Practices in each of these five areas *(see sidebar)* provide the foundation for a life that is prolific, brilliant and healthy.

The Dynamics of Team Work

Creative teams face two conflicting pressures: to produce timely and consistent work, and to produce unique and brilliant work. The pull between these two expectations creates a tension like that from two people pulling on a rope. When this pull — between possibilities and pragmatics — becomes too strong, the rope is taut, eliminating the peaks and troughs of productivity required to do our best creative work.

We are constantly forced to choose between striving to improve the quality of our work and driving it to completion. This dynamic manifests itself in three ways:

• **The Time-Versus-Value Tension.** The pressure to keep the momentum going on our projects can feel a bit like pushing a rock up a very steep hill. We might stop to sit and catch our breath, but we still have to exert a small amount of effort at all times to keep the rock from rolling back down the hill.

Being aware of how mental overexertion is affecting us is often difficult, until we suddenly realize that we're not creating at the level we once did or that we're just not as excited about our work as we used to be.

• **The Predictable-Versus-Rhythmic Tension.** The push toward systemized and predictable creativity can sometimes cause creatives to feel like we're expected to perform like machines. As a result, though we resent it, we often begin to behave that way.

The solution to this is to regain a sense of mastery over time and focus.

• **The Product-Versus-Process Tension.** The organization is primarily concerned with the finished product, but 99 percent of what we do as creatives is process. In fact, many creative jobs are fundamentally oriented around perpetuating processes rather than generating products.

The tension between product and process is a natural tension within any kind or organized creative work, so we can't ignore its effects. We can, however, learn to mitigate them by applying principles related to time, focus and relationships.

The Side Effects: Dealing with the Assassins of Creativity

While creative workplaces are very complex and there are many dynamics at play, there are three damaging side effects that serve as broad categories for all the others. I like to call them the "assassins" of the creative process because they are stealthy and they effectively neutralize our creative capacity. They can creep into a work environment almost unseen and begin to undo our capacity to perform at our best. Once you understand these assassins and can spot their effects, you can begin to systematically weed them out.

The three assassins of the creative process are dissonance, fear and expectation escalation.

• **Dissonance.** The most significant dissonance within organizations exists when the "why" of our work isn't lining up with the "what" of our day-to-day activity.

One of the most important responsibilities of creative leaders is to eliminate these little areas of dissonance as often as possible. They need to ensure that the "why"

and the "what" are lining up for people on their team by consistently reminding team members of the overall strategy and how it aligns with the current day-to-day work.

• **Fear.** For some of us, fear is a natural result of our environment. For the most part, our fears are largely exaggerated; few of us can point to a person who lost his or her job because of a reasonable idea that didn't pan out. More often than not, we simply don't want to stand out, whether positively or negatively, because of the fear of being ostracized by our peers or managers.

This kind of fear can be corralled into two categories: fear of failure and, even worse, fear of success.

Growth is uncomfortable, but without the discomfort our capacity doesn't remain the same, it shrinks. If we're not growing, we're dying.

• **Expectation Escalation.** The final assassin of creativity is expectation escalation. We allow comparisons to affect our current creative engagement. The moment we place concrete expectations on the end results of a project — this upgrade is going to double last year's sales figures! — we begin closing off potential executions and helpful thoughts because we deem them "not useful enough" in accomplishing our escalated expectations. Doing this too early in the creative process can seriously derail brilliant ideas and prevent them from ever seeing the light of day.

PART 2: CREATIVE RHYTHM

Focus: Zeroing in on What's Critical

If you want to thrive in the create-on-demand world, you must develop the capacity to focus deeply. Though broad and shallow engagement may feel necessary because of the number of priorities on your plate, to be truly effective you must cultivate the ability to do quick, focused dives into the depths of a project and emerge with useful ideas. More important, this must be done in spite of the increasing pressure to do things faster, better and cheaper.

The only solution is to stop living reactively and to instill a new practice of thinking deeply about your work: Lock in on the heart of the problem quickly (define), establish your game plan to center your activities around the most crucial priorities (refine), and organize your work so that you're minimizing distractions and staying on course (cluster). Developing these practices will increase the number and quality of spontaneous insights you experience.

Define: Using Challenges to Lock in on the Problem

In any project, there is the main problem we're trying to solve, but there are also many subproblems. One effective way to gain traction quickly is by positioning project objectives in the form of questions designed to surround the problem. We call this establishing "Challenges."

One of a leader's most critical roles is to identify the Challenges for each project. Setting out four to six Challenge questions for each project will help the team surround the problem and ensure that all critical aspects are given adequate attention. The more quickly you can focus your mind on what you're *really* trying to do, the faster you gain creative traction.

Refine: The Big 3

On my office whiteboard you will see "The Big 3" followed by a short list of my current creative priorities. The Big 3 refers to the three things I need to gain creative traction on right now. They aren't necessarily my biggest projects, though they often are. Rather, the Big 3 is best described as the three most important items that I'm still looking for critical insight on.

The Big 3 is a constant reminder of where I need to dedicate my creative bandwidth. When I read a book, I'm looking for connections or concepts that are relevant to my Big 3. When I have a conversation, I check it against my Big 3 for possible new insights. When I meet someone new, I stay open to how he or she may be able to help me with my Big 3.

Cluster: Chunking Similar Tasks

There is a practice in retail management known as "intelligent adjacency." It means placing complementary items next to each other, like toothbrushes and toothpaste, so that when a customer finds one item, the proximity of the complementary item makes it more likely he or she will buy both.

The practice of clustering is about finding intellectual adjacencies within your work and clustering your efforts to keep you engaged and focused more deeply and for longer periods of time. By doing this you minimize the psychological cost of switching tasks and constantly having to refocus your efforts.

Relationships: Being Brilliant Together

There are three strategies that can help you be more purposeful about your relationships: circles, head-to-

heads and core teams. Each is designed to help you achieve more interdependence, inspiration and accountability in your work. We are not wired to do life alone; the more we can network ourselves with others, the better.

Start a Circle

Many of the greatest creatives throughout history have gathered in small groups to stay focused and engaged, and the practice continues to benefit those who go to the effort to instill it. It's something that I've done for years, and it's been an immeasurable source of inspiration and accountability for the work that I'm doing. These small group meetings can stoke your passion, help you stay aligned with what matters most, inspire and give you new ideas or directions for projects, and simply feed you emotionally in ways you may be lacking.

The size of the ideal circle varies. Some people prefer a smaller circle for the increased level of intimacy it provides, while others prefer to have a larger group in order to leverage a greater diversity of thought and experience. While the composition of your circle will vary, you want to invite people whom you believe you will have the ability to connect with in a meaningful way and who also want to do better creative work.

Head-to-Heads

One way to cultivate the benefits of friendly competition in your creative life is to establish the practice of head-to-heads.

In a head-to-head meeting, two people get together, and each party is responsible for sharing new insights and new resources they've encountered since the last meeting. The discussion can be on any topic — a book you're reading, a seminar you attended, something you made — but the idea is to share something that will be both intriguing and challenging to the other person and that will stimulate discussion. In some ways, the head-to-head provides accountability for you to maintain regular times of study and purposeful experience because you know that you will be required to share something you've done since the previous meeting.

Establish a Core Team

I give quite a bit of latitude to certain people in my life to speak truth to me. Sometimes it stings, but the temporary sting of unwanted truth is much easier to bear than the harsh sting that comes after a prolonged period of living in a world of imagined vulnerability. I would much rather have friends inflict these wounds than cynics, critics or competitors, all of whom want me to fail.

There are three people in my life who have full permission to speak anything they want to me and whom I regularly meet with in order to review my goals and my progress. I consider them my core team, and they are always my first e-mail when something good happens or when I need advice.

Whom can you trust to speak the truth to you, no matter how hard it may be? Whom do you trust to say the things that no one else will say? You must have these people in your life if you want to continue improving your work. ●

Relationships Provide Stability

Your relationships provide the stability and clarity you need to do your best work, and they are also the key to staying emotionally engaged. For creatives, slipping into an overly conceptual mode and ignoring your emotional intuitions, or simply becoming emotionally numb to your environment, is a very real danger. Maintaining deep, vibrant relationships is a way to stay emotionally engaged, in tune with your environment and poised.

Energy: Your Invisible Ally

Energy management is critical to staying out of ruts. Like a gambler who falls behind and needs to wager bigger and bigger amounts to get back to even, the creative in the risky habit of ignoring energy puts himself in a seemingly impossible situation. But it's never too late to build healthy practices around energy management. We can start making wise choices now about how and where we spend our energy to ensure that we're not neglecting the important things in our lives for the sake of what's convenient. It's all too easy to waste the energy we need for important creative opportunities on unproductive or unfocused behaviors.

Whole-Life Planning

When you are planning your life, you need to account for every commitment you make in every area. This means that when you are in a busy season at work, you need to be disciplined enough to trim back the number of personal commitments you make. Similarly, when you are entering a busy season in your personal life, you need to be purposeful about the extra commitments you take on from work. While you can't always choose what you work on, you can be careful and strategic about where you focus your energy outside of those core commitments.

There are three horizons of whole-life planning that I recommend to clients: weekly, monthly and quarterly. It is critical to get ahead of your energy commitments and examine them objectively. Saying no to a new opportunity is very difficult in the moment, but if you have been strategic in your planning and know what a new commitment will truly cost you, then you can refuse new opportunities with confidence. Once you understand your limits, you will be able to manage your energy more effectively. Remember, this is about setting yourself up to have conceptual breakthroughs in the areas of your life and work that matter most.

Eliminate Less Effective Activity

A second energy-management practice closely related to whole-life planning is pruning.

In a good vineyard, the vine keeper is constantly pruning, but it's not that the pruned branches are dead or diseased in some way. Rather, the keeper removes young, unproductive branches so that much-needed nutrients can get to the older, fruit-bearing parts of the vine. If the young growth isn't pruned back, the vine will bear less fruit and eventually produce none at all.

The same principle of nature applies to the natural rhythms of your creative process. Every day there are little sprouts of growth that emerge in your life. New opportunities, new projects, new ways to expend your energy. Distractions. Temptations to divert your resources or attention.

Just as the young, fruit-bearing branches on a vine must be pruned back in order to provide needed resources to the critical sections of the whole plant, you must learn to identify the activities in your life that seem to be providing good results in the short run but will eventually decrease your effectiveness in the most critical areas of your life. ●

Stimuli: What Goes in Must Come Out

There are three practices that I've found tremendously helpful for myself and my clients in processing and assimilating information in a way that will be useful in the creative process. The practices, which are designed to instill rhythm and purpose into the stimuli we absorb, can be divided into three categories: cultivate, process and experience.

Cultivate: The Study Plan

Maintaining a study plan will help you cultivate the kinds of stimuli you allow into your life and ensure that you are putting the most important pieces in place first. I have used one for years, and it has made a tremendous difference in my exposure to great thinkers, my understanding of key issues at work, and my ability to process new and complex thoughts. I consult and revise it regularly — typically in my monthly checkpoints — as a way to make sure that I'm continuing to challenge myself with the things I choose to allow in my head.

The practice of deliberate study plays an important role in the development of your capacity to think and to process new information. When you assemble a study plan, you cultivate a queue of stimuli designed to grow your creative capacity. Your ability to synthesize new ideas is largely influenced by your depth and breadth of knowledge in diverse domains of expertise. As you study, you develop networks of understanding that connect bits of data in your life into meaningful patterns.

Process: Notation

The goal of study is not simply to absorb a lot of new information. You want to process and assimilate it, then apply it to your life and work. If you don't cultivate insights from what you take in, then the value of stimuli in your life decreases dramatically. Taking good notes on your observations, insights and experiences with a reliable thought-capture system prevents them from disappearing into the ether.

In addition to making good observations and regularly recording them, you should also make a practice of regularly reviewing your notes to see if there are any potentially applicable insights. Many creatives I've worked with take copious notes, but they're practically useless because they're always moving on to the next urgent matter, and thus never bother to review them.

Purposeful Experience: Exploring Your World

With all this emphasis on study and reflection, you don't want to neglect actual experiences. You absorb much of your understanding of the world through sensory interaction and experiment, and to ignore this would be to cut yourself off from the most significant source of inspiration. You need to regularly seek experiences that will enlighten you, help you see the world in new ways and open you to new ways of thinking.

We must deliberately build new, different and challenging experiences into our lives. This means setting aside time to put ourselves in stimulating and even purposefully uncomfortable situations so that our minds are forced to see the world in new ways. ●

Hours: They're the Currency of Productivity

Each project you take on makes demands on your time. You are forced to make priority calls about where you're going to spend your hours and, because of the pressure of scarcity, you probably frequently feel like you have one chance to get it right. What we often overlook is that one hour effectively spent can produce better results than five hours spent on a lot of frenetic activity. Breakthroughs can happen in a brief moment, but these kinds of sudden breakthroughs result from a lifestyle of structuring your time according to an effectiveness mindset rather than an efficiency one.

Establishing Idea Time

If you want to have a lot of great ideas, you need to structure formal time into your life to generate them.

It's best to spend your hour of Idea Time working on one issue. I encourage clients to begin with their Big 3. Choose one of the items on your list and dedicate one uninterrupted hour focusing on generating ideas.

This may sound almost too obvious, even silly. "Put time on your calendar to generate ideas." It's so simple that it's tempting to dismiss it. But it's the small things that make you effective. It's your attention to details that sets you apart. Knowing does nothing for you — it's doing that matters. If you want to thrive you must dedicate yourself to doing the things that few people are willing to do. You need to go beyond hacks and quick fixes, and instead develop practices. Practices not only develop skills, they increase your capacity. They form the banks that allow the river to run deep.

Unnecessary Creating

In *The Artist's Way*, creativity expert Julia Cameron shares a practice she stumbled upon while living in New Mexico and recovering from yet another in a series of career disasters. Every morning, she writes about three pages, longhand, of pure stream of consciousness. In describing her method for "morning pages," Cameron says there is no need for editing or structuring the content. The entire purpose of the exercise is to get the brain moving and to circumvent any potential barriers to creative breakthroughs.

What Cameron is advocating through the practice of morning pages is the act of Unnecessary Creating, creating for ourselves rather than for others. When we spend much of our time in on-demand creating, we can quickly lose touch with the passions that fuel our best work. We grow used to leveraging our abilities for the sole purpose of meeting others' expectations, and much of it is driven by hitting our marks rather than by exploring new possibilities. The ironic part is that this personal creative passion is the most critical thing we bring to the work we do. Creating on demand often causes us to lose the edge that fuels our best work and sometimes causes us to shrink from risk because of the potential consequences of failure.

When we create unnecessarily, we are setting our own agenda. We have permission to try new things, develop new skills and make things solely for ourselves. The main purpose is to put our ideas into fixed form and to attempt things that we might not get to try in our day job. ●

Putting It All Together: The Checkpoints

The Weekly Checkpoint is where many tactical decisions will be made regarding the practices. As your schedule is shaping up for the upcoming week, you'll have a much better sense of how and where the practices will fit most effectively into your life. Whatever works for you is fine, but be consistent.

During your Weekly Checkpoint you will think about how to implement the practices into your upcoming week:

Weekly Checkpoint Prompts

Focus

- *Challenges:* Look at, or create, a comprehensive list of your projects. Do each of them have associated Challenges? If not, create them.
- *Big 3:* What are your Big 3 for the week? Write Challenges for each of the Big 3.
- *Clustering:* Are there ways you can structure similar work this week so that there is less task switching? Block specific time on your calendar for these activities.

Relationships

- *Circles:* Do you have a circle meeting on the calendar? Do you need to prepare for it? If so, put time on your calendar.
- *Head-to-Heads:* Do you have any head-to-heads this week? Do you need to prepare? When will you do it? Put time on your calendar.
- *Core Team:* Do you need to reach out to a member of your core team for advice on something? If so, add it to your task list for the week or fire off a quick e-mail.

Energy

- *Whole-Life Planning:* Are there any potential conflicts this week between work and personal activities or expectations? How will you get ahead of them?
- *Pruning:* Is there anything that you'd planned but now realize may not be a good idea, given your upcoming schedule? How can you prune it?

Stimuli

- *Study:* When will your personal study times be this week? Put them on the calendar. What will they consist of? Take a look at your Stimuli Queue and map your week's stimuli.
- *Notation:* Take just a few minutes to glance at your notes from the previous week as well as the indexes in the front of your notebook.
- *Purposeful Experience:* Do you have one on your calendar this week? When will it happen?

Hours

- *Idea Time:* When will you structure your Idea Time this week? What will you focus on during these sessions? Put it on the calendar with the associated project name.
- *Unnecessary Creating:* What will you do for Unnecessary Creating this week? Put it on your calendar.

The Monthly Checkpoint is an hour per month, preferably at the very end of a month (to plan for the upcoming one). The goal is to recognize trends in your work and to do some strategic thinking about which types of practices will help you the most in coming weeks.

The Quarterly Checkpoint is the longest horizon planning you will do. Ideally you will be able to take an entire day for this quarterly session, but, understandably, you may not be able to break away from your life in order to do so. If this is the case, the Quarterly Checkpoint can take place an hour at a time in the mornings or evenings over the course of a week. ●

Cover Bands Don't Change the World

Because we've understood the importance and effectiveness of bringing unique passions to the creative process, we've used the tagline "Cover bands don't change the world" for as long as Accidental Creative has existed. A cover band is a band that plays other people's music. Occasionally you'll hear one of these bands rattle off something like "Now we're going to play something we wrote," and a collective protest arises from the clubgoers.

Why? Because no one came to hear the band's original music. This is the expectation. It's the "brand promise," if you will. When a cover band pulls an original tune from the repertoire, that promise is violated in a major way.

Don't Be a Cover Band

There are a lot of "cover bands" in the marketplace today. If their only goal is to make a lot of money, so be it. But the products and people who really change the game seem to be the ones who are able to stay true to a set of principles rather than being driven to quick returns. They develop a loyal audience rather than a fickle one that turns away the moment they play an original.

It's my desire to continue to strive to find my own voice and to try to weed out all the places where I'm being "cover-bandish." This can be very tricky because it often means turning down more work than I accept, but my hope is that the original value that I bring to the clients I chose to work with will create raving fans who want to continue to work with me and trust me when I develop new products or ideas.

How about you? Are you willing to bravely pursue your own voice, carve out your own niche in the marketplace and avoid the temptation to go for quick success? In looking at the long-term arc of your life and creating, are you willing to pour yourself into practices that will help you uncover hidden potential and unlock passions that have been buried beneath layers of expectations and obligations?

There is no greater reward than that of knowing that you are free from the need to be defined by pay or prestige, and are instead motivated by the very process of doing your work each day. This is how we begin to see the seeds of greatness spring up in our lives. ●

RECOMMENDED READING LIST

If you liked *The Accidental Creative*, you'll also like:

1. ***Disciplined Dreaming* by Josh Linkner.** This summary shows you how to create profitable new ideas and empower your employees' creativity.
2. ***Enchantment* by Guy Kawasaki.** Renowned entrepreneur, venture capitalist and former Apple evangelist Kawasaki provides insight into how to positively impact change and wow your audience.
3. ***Resonate* by Nancy Duarte.** Learn how to transform any presentation into an engaging journey by leveraging techniques normally reserved for cinema and literature.

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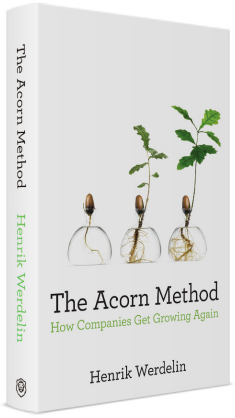
The Acorn Method

Henrik Werdelin

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The Acorn Method

How Companies Get Growing Again



by **Henrik Werdelin**

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THE SUMMARY IN BRIEF

In ***The Acorn Method***, successful entrepreneur and founder of multiple companies Henrik Werdelin reveals his revolutionary way to turn mature companies into innovation- and revenue-generating factories. He outlines the necessary structure, process, and strategies to create powerful offshoots from existing 'trees' in a way that anyone from established founders to those looking to create their first new ventures can benefit from in a range of ways.

Companies should begin the Acorn Method by setting up a new, quasi-independent organization or department within the existing corporate structure whose sole mandate is to build those new businesses. Next, they should use this venture to identify and validate opportunity-rich, original problems, and to create and vet multiple narrative solutions to those problems. Finally, Werdelin reveals how to successfully launch these solutions as successful new ventures.

IN THIS SUMMARY, YOU WILL LEARN:

- Why mature companies struggle to do anything more than maintain the status quo.
- How to set up a new internal organization within your company focused solely on new business ventures and innovations.
- How to use that new organization to generate innovative solutions and validate their potential to generate revenue.
- How to turn these innovative ideas into concrete business ventures and move towards increased, startup-style growth.

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Introduction

To survive beyond its upward growth boundary, every mature company needs to build a diversified but coherent portfolio of small, fast-growth asset companies as part of a new tree-and-forest, horizontal growth paradigm. It's called the Acorn Method.

The Acorn Method is both a philosophical stance and a practical series of steps by which companies can propose, test, build out, and eventually integrate (or spin off) new businesses. It's the growth paradigm Amazon and Apple followed to build their retail and technology forests. It's the method the author of this book used to help build and scale companies including BARK (maker of BarkBox), Ro (maker of Roman), and the Bjarke Ingels Group. The Acorn Method gets old-growth companies back into the business of building businesses and capitalizes on the significant but often unrealized advantages they have over their younger competitors.

Part One: The Structure

Companies should begin the Acorn Method by setting up a new, quasi-independent organization or department within the existing corporate structure whose sole mandate is to build those new businesses best positioned to regenerate, support, and extend their parent company's growth. How exactly to do that will be explored in the sections that follow.

The Revenue Exploration Studio

The upward growth of successful organizations slows as they mature. The structures developed to support towering businesses are necessarily more focused on maintenance than on further (slow, expensive) vertical growth. If they are to avoid stagnation and decay, such companies must find and act upon lateral growth opportunities, but the very structures that support their height can inhibit their expansion. To successfully build a portfolio of young, rapid-growth, revenue-producing new businesses, mature custodial organizations should create a Revenue Exploration Studio (RES), a quasi-independent shape-shifter structure within but insulate from the larger company.

In the same way that a keystone oak grows for decades before producing its first acorn, after years of steady—and then steadily slowing—growth, mature companies need to get back into the business of building businesses. When a keystone company wants to start growing acorn, its mindset—its approach to problems, uncertainty, and risk—make establishing a Revenue Exploration Studio (RES) under the aegis of, but separate from, the larger organization a structurally sound idea.

Establishing an RES

Establishing a Revenue Exploration Studio sponsored by, but separate from, a mature organization begins with upper management buy-in, the identification of areas of unfair advantage, and the recruitment of a stellar leadership team. It is then supplied with both an investment fund and an annual operating budget, as well as with institutional support and other resources.

Once set up, an RES draws down capital and invests in new business ventures according to an algorithm that ties an Acorn's ongoing funding to its revenue. Using a process we'll detail in the next four chapters, the RES develops, tests, and refines new business ideas approximately every three months to create a portfolio of new businesses that leverage the sponsor organization's strengths and return significant financial and cultural gains.

Find a balance between companies which are unlikely to make it at all, but could be truly transformative if they do, and those much more likely to succeed, if more modestly. A successful RES will, at worst, introduce new revenue-creating business lines for your company and, at best, do for you what the iPhone did for Apple.

Part Two: The Process

The following process is a well-tested, four-step process which a structure can use to identify and validate opportunity-rich, original problems, and to create and vet multiple narrative solutions to those problems. (This process can also be used to build new businesses without the first, structural step).

Identify Interesting Problems

With a Revenue Exploration Studio established, the Acorn Method moves from structural concerns to questions of process. With the one-time work of creating a business-building structure, your company now needs a reliable, efficient, and repeatable process tailored to the identification, articulation, presentation, and evaluation of new business ideas.

Identifying and reframing a host of interesting problems yields, almost by default, a generous number of actionable ideas. On the curve from nothing to something, you now have the first half of several possible good ideas for new

businesses. The next step is to go from an idea to a narrative solution you can vet.

The Acorn Method's four-step growth process begins by identifying interesting problems using the "It Sucks That" exercise along laterals opened up through four area-of-permission boreholes: redefinition, listening, self-disruption, and anticipation. The output is then rendered as problem statements which are reframed to create actionable new business ideas.

Most people think of problems less as things to go in search of, and more of those things which you find despite your best efforts. But imagine asking for five innovative business ideas from employees—you'll probably come up empty. But ask for business problems and you'll be flooded. That's where innovation begins.

Articulate Possible Solutions

Congratulations, you have problems! Because you've reframed them, you also have ideas. At this point, it's critical to move quickly through first developing and then eliminating possible solutions.

In the second step of the Acorn Method's process phase, multiple ideas uncovered through problem-finding and reframing are rapidly developed and articulated as narratives of possible solutions by using an eight-prompt template. The resulting Quick Pitch is then reviewed and the best two or three selected to move on to the next step.

After all the Quick Pitches have been made, only a few should be selected to move forward, after further development, to the next round of pitching. If you pitch five ideas, you end up with two, and if you pitch two, you still end up with two. Often, there will be a clear choice. The next process step involves another template and another incremental but powerful extension of possibility and validation for turning that choice into something even greater.

Create a Lean Product Plan

On the journey from nothing to something, creating a shareable account of how your concept will help solve a meaningful problem in a scalable way is one of the most impactful but undervalued exercises you can undertake. While building such a presentation isn't complex, when you get this step right, you have an easier time securing support for your project and moving it past the "I have a good idea" stage. A Lean Product Plan (LPP) is relatively quick to make, consistently delivers powerful results, and forms the third step in the Acorn Method's process.

Moving from ideation to creation in the third step of the Acorn Method's process phase represents the largest investment yet of time (and the first of cash) to create a Lean Product Plan. This professionally designed and well-research deck of approximately thirty slides compellingly presents the problem, solution, and business case of your new venture. It then spells out what resources are needed to validate the ideas and test the assumptions on which it is based, and leaves its audience feeling excited about the new venture's possibilities.

Begin Signal Mining

The odds that any given acorn will become a tree are a disheartening one in ten thousand. While a new business built with this process has much better odds than most others, innovation is still risky, and leaders are rightly cautious. If companies are going to grow a forest of offshoot businesses, they can't gamble on acorn odds, or even startup odds. New business ideas need to be tested to validate their viability. To lower the risk of innovation, reduce the cost of trying.

Signal Mining is as close as you can get to guaranteeing success. It identifies potential revenue streams, and establishes who your new business's customers will be and that they actually want what you're proposing to offer them. This is the last step of the Acorn Method's business-creation process, and with strong indication of good market fit and your LPP's assumptions validated, you're ready to transition from idea to action and go operational.

Part Three: The Strategy

Finally, the Acorn Method's strategic component provides a roadmap for developing the most viable new business opportunities on aggressive but achievable timelines, and for managing both the immediate and long-term relationship between those new businesses and their parent company.

Build a Runway

Whether developed inside a Revenue Exploration Studio or as a one-off special project of a larger organization, a company-grown new venture often finds this inflection point marks the boundary of their sponsor's comfort zone. The Process steps can feel like intellectual play, and now it's time to make it all into something real.

For the keystone organization that has grown an Acorn either as a one-off or within an RES, the shift from idea to

action can be a formidable one. As a new venture moves out into the world to start solving the problem you identified for an increasing number of people, managing the relationship between it and the keystone organization requires a strategy that can manage all three possible outcomes: shut down, spin out, and spin in. The commitment and timelines change and more distance is created to allow the Acorn to grow a startup seed. You need strategies to handle funding and governance and control, and new talent needs to be brought into the organization.

Launch Your Business

Having gone operational, an Acorn needs a solid strategy for managing its bumpy and unpredictable trek down the runway as it (hopefully) takes off. The Acorn Method's second strategy consists of the two Rs and three Ss of revenue, reporting, speed, spending, and sales. Make revenue your primary indicator of progress, report on that progress monthly, and move as quickly as possible. Spend money sparingly, particularly in the early months, and prioritize selling over any other use of your time.

A single tree has a life cycle, but a forest is a cycle of cycles. A tree generates an acorn, an acorn generates another tree, and the forest regenerates itself expanding to incorporate new products and reach new markets. It renews itself by creating new entities in exciting, expanding regenerative growth rings.

Notes from the Air

In the same way that the life cycles of products and companies are getting shorter and shorter, so are the half-lives of those skills required to be a productive team member. Learning to run experiments, adjust, adapt, and experiment again is an incredibly valuable skill. It's how you learn how to learn better.

In a professional landscape where things move so quickly that you need to be constantly learning in order to stay relevant, experimentation is a true superpower. Anything that can be taught and automated can, in theory, be replaced by a computer. Building experimentation-iteration loops is a complex skill that's difficult to learn, and even harder to master. It's also almost impossible to replace. Being an entrepreneurial person inside an organization and knowing how to build new businesses there is a very powerful position to occupy, and enjoy.

Conclusion

If you're willing to tap the deep roots of creative and entrepreneurial talent, to branch out beyond the expected and into new areas of opportunity, to grow— grounded in solid funding and governance practices—from oak to acorn, Acorn to spun-in or spun-out new venture, the Acorn Method is here to help. As a method it's both flexible and strong. Whether you head a mature organization or are just putting out your first new business offshoot, always continue to grow, regrow, and reach broadly as well as high.



Henrik Werdelin is the co-founder of America's fastest growing pet brand BARK (makers of BarkBox) and is founding partner of Prehype, an international organization that helps entrepreneurs and companies build new ventures. Henrik has been part of startups that were acquired by Facebook and Microsoft, and has advised companies like Coca-Cola, LEGO, Novozymes, CitiGroup, Intel, Carlsberg, Leo Pharma, and Verizon. His methods are taught at Stanford and other leading universities and have been featured in Harvard Business Review, Bloomberg, Fast Company and other major publications. Originally from Denmark, Henrik lives in New York with his family.

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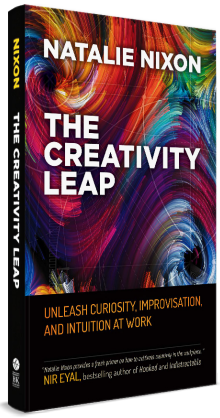
The Creativity Leap

Natalie Nixon

soundview
Executive Book Summaries®

The Creativity Leap

Unleash Curiosity, Improvisation, and Intuition at Work



by **Natalie Nixon**

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THE SUMMARY IN BRIEF

Too many people associate creativity solely with the arts, but being an incredible entrepreneur, scientist, or engineer requires immense creativity. And it's the key to developing breakthrough products and services.

In ***The Creativity Leap,*** Natalie Nixon argues that since humans are hardwired to be creative, it is a competency anyone can develop. She shows that creativity balances wonder with rigor and that inquiry, improvisation, and intuition are the key practices that increase those capacities.

Combining creativity tools and techniques with real-world stories of innovative people and businesses, Nixon offers a provocation, an inspiration, and an invitation to unleash the innate creativity that lies within each of us. She offers a more dynamic and integrative way to adapt and innovate, one that allows us the freedom to access our full human selves. Let ***The Creativity Leap*** show you how creativity can manifest in your work—and help you develop the tools to unlock creativity in yourself and your organization.

IN THIS SUMMARY, YOU WILL LEARN:

- Why creativity—and not just innovation—matters.
- The 3iCreativity™ model.
- To harness wonder and rigor in your creative process.
- To increase your creativity quotient (CQ).

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Introduction

If you've ever made a running leap, then you are aware that there are several things at work. First, there is vision. You must have your eyes on a prize, somewhere off in the not too far distance. That prize is close enough to be almost within your reach. Second, you have to leap versus just walk or even run to that desired prize, because there is some barrier or impediment that you need to span. Third, leaps often require a running start. A kinesthetic, active motion is needed for you to gather momentum and propel yourself forward. Fourth, leaping requires that you suspend judgment. After doing all the analysis, gauging, and estimating of what it will take to make that leap, faith and intuition must take over. And fifth, leaping only moves you forward. It is impossible to leap backward. You can fall backward, but you cannot leap backward. Leaping requires exorbitant amounts of energy and trust in the unknown—and it always propels us into new territory.

Why Creativity Leaps Matter

Like a physical leap, a creativity leap is essential for crossing boundaries; it is also an active, dynamic process that honors intuition. Creativity leaps are needed to bridge the gap between the churn of work and the highly sought-after prize called innovation. This holds true on both the individual and organizational levels. Creativity leaps matter because creativity is the engine for innovation.

To be human is to be hardwired to be creative. Truly innovative people in any field—lawyers, plumbers, accountants, designers—regularly practice honing their creative competency. They apply a combination of the 3 I's—inquiry, improvisation, and intuition—to the ways they think through problems and work with others to continually increase their creative competency. This is called the 3iCreativity™ model.

- **Inquiry**. Curiosity results from an information gap. You want to know more about something that you currently don't understand.
- **Improvisation**. Improvising is about building on ideas within minimal constraints. There is freedom to experiment, but there are also rules and fluid structures that help you to correct course and embrace mistakes.
- **Intuition**. There lies in all of us a visceral, internal wisdom that allows for unconscious pattern recognition and insights for decision-making. Harriet Tubman, Albert Einstein, and Steve Jobs are examples of famous innovators and leaders who relied on and valued their intuition, coupling it with their rational intellect to make decisions.

Just as IQ is an indicator of your share of intelligence and EQ connotes your share of empathy, it is also possible to have a share of creativity, or CQ. A creativity quotient is not fixed. It is dynamic and increases as you practice building it and exercising it.

Specifically, your share of creativity can increase as you expand your capacity for inquiry, become more willing to improvise, and hone your intuition. Moreover, creativity quotients can be scaled: Both individuals and organizations can have a creativity quotient. The goal is to help you to increase your CQ and your organization's CQ.

When you build these three practices into your work on a daily basis, you will discover true creativity—and its output, innovation—beginning to take place.

Create Like Your Life Depends on It

The management consultancy Capgemini published a report in 2015 stating that "Since 2000, 52 percent of companies in the Fortune 500 have either gone bankrupt, been acquired, or ceased to exist."

It is not enough to say that these firms don't innovate quickly enough. They get complacent and stuck. Michael Forman, chairman and CEO at FS Investments, states that as organizations get larger and more focused on risk management, they easily fall into what he calls "the tyranny of no." "They solve for 'no' instead of for 'yes.' Solving for 'yes' is the fulcrum of creativity." He observed that the larger reason for why successful companies fail is that they do not cultivate their capacity for human creativity.

We don't hear creativity emphasized more in the boardroom because we don't actually understand creativity. Creativity is our ability to toggle between wonder and rigor to solve problems and produce novel value. While many companies are trying to figure out innovation, most corporate cultures rarely utter the word creativity, and there is not a carved-out space in the boardroom for creativity.

Perhaps creativity feels so inaccessible because it can be such an ambiguous process. It is not formulaic. It is complex. That lack of a rote, step-by-step approach can make it really uncomfortable. A creativity leap entails our seeing and listening with wonder and rigor in order to sort through

What we begin to wonder about
brings us to the precipice of discovery.
Therein lies the magic.

the ambiguity and uncertainty of a work process.

Does your organization have a department of innovation, an innovation lab, or an innovation studio? If it does, that is great, because it indicates a desire to not continue doing things in the ways they have always been done.

But going from having an innovation center to having a culture of innovation demands a creativity leap. It requires intentionality and the integration of a new mindset at all levels of the organization. Otherwise, you have created just one more silo in your company.

What do we mean by innovation? Innovation is invention converted into financial, social, and cultural value. Furthermore, the engine for innovation is creativity. That means that if we truly want to innovate, then we must design systems, processes, and experiences in our work environments that allow us to be creative and catalyze invention.

The first step is making creativity a resource that is accessible to all the people in your organization. Defining creativity as a competency consisting of wonder and rigor, and exercised through inquiry, improvisation, and intuition, is one way to democratize it. Viewed from this lens, creativity becomes available to all of us.

Flow Between Wonder and Rigor

Daniel Levitin's ***The Organized Mind: Thinking Straight in the Age of Information Overload*** and Daniel Kahneman's ***Thinking, Fast and Slow*** demonstrate that innovation happens not during our intentional, laser-focused modes but when we are daydreaming. These psychologists offer up the science to help us value our intuitive thinking systems that allow ideas to germinate in our dreams.

Daydreaming leads to wonder. Pay attention to how many times you, your colleagues, and your teammates begin a sentence with "I wonder if . . ." or "I wonder what might happen when . . ." Observe what follows those two words, "I wonder . . ." What we begin to wonder about brings us to the precipice of discovery. Therein lies the magic.

Complex situations are grand in scale, so they deserve and require the grandiose thinking that wonder inspires.

The only way we get to make a creativity leap in the first place is by starting with wonder. Wonder is the catalyst. Then, rigor propels us forward and helps us to sustain the momentum of the leap.

Rigor and Rules

Modern dancer and choreographer Twyla Tharp has wisely advised, "Before you can think out of the box, you must start with a box." The box is the rules and the rigor. And there is no getting around it.

If wonder is the equivalent of experiencing opening night of a marvelous theatrical experience, then rigor is all of the backstage machinations. It's the cable cords holding the velvet curtains in place, the dark hallways and underground tunnels, and the rafters holding lights engineered to create surreal effects. It is the incessant practice that the actors, dancers, and singers must engage in all the way up to opening night.

If we romanticize creativity as a mystical, magical process only accessible to a select few, then we miss the point. Creativity is not something you pull willy-nilly from your armpit. Rigor is that essential feature of creativity that anchors the wonder; puts guardrails up; and requires us to do the sweaty, muscle-bound work with whatever muse we choose. The rigor is the part of creativity that is often missed—or avoided. But it is essential if we are ever to go about the work of creativity in a sustained way.

Rigor ensures that we actually complete the leap we started. It sustains the necessary momentum to create something tangible. Rigor is the grit and resilience that creativity requires for the long haul. It is the accumulation of commitment and knowledge needed to follow through, to get to value, to get to innovation.

The wonder-rigor paradigm consists of two important principles:

1. Rigor cannot be sustained without wonder. Many companies across the United States fall in love with

the business-value results of innovation instead of with the processes that will make their employees innovative. Consequently, they get caught up in procedure, rulebooks, and meetings—all elements of rigor that are necessary but, without also allowing for wonder, lead to churn and fatigue in the organization.

What is needed are intentionally designed moments and spaces for wonder: the permission to ask audacious questions; experiences at work that allow for awe; and opportunities to physically and metaphorically wander and get lost in ideas.

2. Wonder is found in the midst of rigor. The corollary to the above is that wonder can be generated from the tedium of rigor. Think back to a routine task you have set for yourself: weeding the garden, threading a needle, doing your taxes, solving a difficult math problem, or preparing the agenda for a meeting. It is often in the midst of rote labor that wonder emerges. A new idea sparks within you, or you suddenly see things from a slightly different perspective. This is because rigor requires intense and deep ways to see, observe, and listen—the same practices required for creativity.

Inquire: Ask a Better Friggin' Question

While it has become popular in organizations to say that questions are embraced, employees often feel differently. They equate asking questions mostly with ignorance, not with inquiry. They are not convinced that they should risk humiliation or, worse yet, being fired for upsetting the status quo. But you can't generate something new and novel with the status quo.

Warren Berger, author of ***A More Beautiful Question***, investigated the effectiveness of inquiry-driven leadership when he identified that the companies we think of as innovative, like Google, Apple, and Zappos, are actually quite good at leading with questions. He found that they start with asking "Why?" and then "What if?" and then land on "How?" sorts of questions. They start with divergent, big-picture, wonder-driven thinking and move to convergent, rigorous, and applied thinking.

An inquiry-led company may start by asking, "Why aren't we selling any products in the southern hemisphere?" or "Why do we recruit only from Ivy League universities?" It would then transition to some good "What if?" questions, such as "What if we started selling our products in Brazil?" or "What if we started recruiting from community colleges and sought out older adults with impressive work experience but a not-so-pedigreed formal education?"

Finally, they might land on tactical "How?" questions, such as, "How can we start establishing contacts in Brazil?" and "How will we build relationships with less traditional educational institutions?"

Normalizing Inquiry Within Your Organization

How a company sustains an inquiry-based culture is a nuanced thing. It starts with leadership, yes—but it also requires everyone to think about where opportunities are for fostering curiosity.

The educational nonprofit Leadership+Design (L+D) tries to vet for creativity and difference during the interview process. For example, they ask candidates to include a photograph of an artifact that tells L+D who they are as a person and to explain why they selected the artifact.

When we are surrounded by people who are different from us, it's like walking around with a gigantic magnifying glass projected onto ourselves. It is only through the discovery of what we don't know that we are prompted to go off course to ask different, better questions.

When Jerry Hirshberg was the president of Nissan Design International, he flipped the paradigm on friction. He emphasized the need for diverse teams that could approach problems from a range of perspectives. He insisted that colleagues from sales, marketing, manufacturing, and finance join his designers in the problem-solving process. He understood that the outcome of friction is energy. So why not convert the energy from friction into something positive? He called the messiness that resulted "creative abrasion."

Improvise: Leverage Organized Chaos

In 1960, the iconic jazz vocalist Ella Fitzgerald and her quartet (pianist Paul Smith, guitarist Jim Hall, bassist Wilfred Middlebrooks, drummer Gus Johnson) toured Europe to great acclaim. In a live performance at the Deutschlandhalle arena in Berlin, Germany, she began singing "Mack the Knife." It was a song she'd sung before, but around the second stanza, she suddenly drew a blank.

Did the great songstress freeze? Nope. She improvised—and in a self-effacing, cheerful way. You can hear her laughing at herself as she plows through making up words and scatting her way through the rest of the song, with her quartet fully supporting her all along the way. That re-

cording went on to win a Grammy Award in 1961 for Best Female Pop Vocal performance. In 1999 it was inducted into the Grammy Hall of Fame.

The Future of Work Is Jazz

Jazz is the preeminent example of a complex system: adaptive, self-organizing, and emergent. The future of work in our increasingly complex world requires us to adopt the chaordic, improvisational methods of jazz musicians.

Coined by Dee Hock, founding CEO of VISA, the credit card company, *chaord* is used to describe the chaos and order that are both present in complex systems. That's right, the VISA card that is in your wallet is part of a history that embraced organized chaos. When Hock was tasked with building VISA, a global platform for the virtual exchange of currency, he quickly realized that trying to build such a complex system at scale would require a departure from the typical organizational chart.

He observed that nature abounds with systems that thrive in the midst of some chaos and some order. Keep in mind that chaos is not anarchy; it is randomness. And order is not control; it is structure. Wonder and rigor are parallel manifestations of the chaos and order in a chaordic system.

Frank Barrett, an academic and jazz musician himself, has written at length in ***Yes to the Mess: Surprising Leadership Lessons from Jazz*** about what organizations can learn from jazz. Most helpful are his seven principles, which can be summarized in the following characteristics of jazz musicians:

- Provoke competence.
- Embrace mistakes.
- Use minimal structures to maximize flexibility.
- Distribute tasks.
- Borrow from the past.
- Value hanging out.
- Switch back and forth between following and leading.

If you can add even two of those principles to your daily work, imagine what a game changer that would be. For example, what would meetings look like if every now and then junior-level colleagues or people new to the company were invited to lead a meeting? Or if your workplace were designed to allow for more casual hanging out? Or if your manager used mistakes as a launching pad for new discoveries?

Have everyone on your team commit to incorporating into their work project every day at least two of the seven principles that Frank Barrett says we can learn from jazz. Ask them to share how it's going and if they experience any shifts. Then, decide as a group if you want to begin to incorporate their new work-around at scale and on a regular basis.

> Going with your intuition is not a luxury. It is actually a primal and strategic tool for survival.

Intuit: Put Bravery Before Mastery

Going with your intuition is not a luxury. It is actually a primal and strategic tool for survival. That is because intuition gives us an attunement to our surroundings and a real-time distillation of what we should do. It allows us to tune and align when things are subtly off, and to pay attention to emerging signals to make new choices.

Intuition is feelings that reside in the mind (brain feelings!), offering up a nice simpatico in the left brain–right brain dynamic.

Western society's trajectory since the first industrial revolution has been to prioritize the rational, the material, the machine, and the predictive over the internal realm, the intuitive, and the emotional. But in ambiguous and complex situations with limited (or overwhelming) data and clues, cultivating your intuition alongside your intellect is critical. When you can't know or make sense of everything going on around you, integrating heart and mind is the game changer.

As Albert Einstein said, "The intuitive mind is a sacred gift, and the rational mind is a faithful servant. We have created a society that honors the servant and has forgotten the gift."

Intuition As a Tool for Strategy

Think of leading with intuition as three concentric circles. Wonder is at the core because stillness and observation are required for us to hear that little voice inside. The second

circle is discernment—finding the strength to act on our intuition and speak up. Rigor often comes into play here as we dig deep to find the data to back up our intuition. The outermost circle comes from making a practice of listening to and acting on our intuition. This is the point at which intuition becomes an essential tool in our leadership tool kit.

As Kelley Black, founder and CEO of Balancing the Executive Life, put it, "The rational mind can be self-limiting. We need to normalize the intuitive in leadership. Intuition in leadership is critical because it helps you see a broader field." Intuition helps us lead with our whole selves—creatively and strategically.

Intuition Is a Data Point

What if we started acknowledging that intuition is a kind of data? Lily Fischer and Nima Etemadi, co-founders of Cake Life Bake Shop in Philadelphia, credit intuition not only for bringing them together but also for getting them out of a nerve-racking business deal that would have pushed them into growing at an uncomfortable clip.

Steve Jobs paid homage to intuition when he said, "Intuition is a very powerful thing, more powerful than intellect, in my opinion. That's had a big impact on my work." What do all of these successful leaders have in common? They take stock of intuitive moments as data points and internal alerts. They leverage their ability to unconsciously recognize patterns as a strategic tool.

Commune: Come Together to Create

A sense of community and the ability to work together toward a common goal are essential to creativity. Community is the ideal space in which wonder and rigor can thrive.

Research from the Institute for Corporate Productivity shows that profitability increases when people collaborate. That is because it is difficult to sustain a creative practice on our own. Community is a force more powerful than ourselves that can recharge and reorient us to continue the fundamentals of inquiring, improvising, and intuiting.

But as in any dynamic effort, there are both advantages and challenges in community. Community is the place and state of mind whereby, despite our differences, we are at one. But the same comfort that makes you feel so rock-solid can also inadvertently divide.

While tribes are the foundation for creative community, if we leave the creative process only to incubate in tribes, we risk falling into an echo chamber trap. Tribal thinking can be divisive.

Sustaining community is a brave balancing act. Community is messy. The challenges of community require rigor to resolve. To be in community takes effort, reconciliation, and the creative abrasion referenced above.

Even in the most well-designed community, we must be vigilant to ensure diversity, avoid groupthink, and resist settling for the status quo. This is where practicing inquiry, improvisation, and intuition is essential—so that we have the space to adapt, grow, and take creativity leaps.

Designing Community for Creativity

The software company Autodesk intentionally builds teams that span boundaries. Randy Swearer, VP of learning futures, explained, "In a world where the software is updating every few weeks, the sectors it is applied in are transforming at astonishing rates, and the associated professional roles are morphing too, then learning becomes everything."

"Our team's job is to help Autodesk imagine futures out of this complexity: What kind of research will we need? What kind of business model? What kinds of issues are our customers facing? What new values are they trying to create?"

Randy believes this work is best done by having people from totally different backgrounds jointly examine scenarios. For example, an Autodesk team might include coders, a person with a PhD in anthropology, and a former military general.

In addition to forming diverse teams internally, Randy's team hosts Summit Series, in which they reach out to strategic partners and convene diverse thought leaders and practitioners from around the world to focus on a theme that is important to Autodesk.

Autodesk's cognitively diverse internal teams and external outreach through their Summit Series are examples of creative abrasion discussed above. They also point out how dynamic and far-reaching collaborative community building needs to be to spark creativity.

Forecast: Amplify What Is Uniquely Human

The fourth industrial revolution is here. Ubiquitous cloud technology, automation of tasks in both white collar and blue collar work, artificial intelligence (AI), virtual reality,

Instead of trying to make AI creative, let's explore how we can link humans' innate creativity with AI.

and augmented reality—the preponderance of digital and soon quantum platforms are all part of daily life. History shows that rarely are we prepared for the leaps that each industrial revolution presents to us.

So what can we do to adapt to this one? How can we forecast what will be needed to survive and thrive in this new frontier of ubiquitous technology?

Perspective is a loaded oxymoron. We need it to forge ahead, yet it can only be gained from past experience. Perspective is about mining from the past in order to get insight into the future.

Forecasting is about mining those insights in order to anticipate and identify multiple possible futures so that we can adapt to bumps in the road.

To that end, forecasting requires a practice of inquiry, improvisation, and intuition; it necessitates an ability to toggle between wonder and rigor. In short, forecasting and preparing for what is to come requires creativity.

Creativity in the Fourth Industrial Revolution

Balder Onarheim, a creativity neuroscientist and president of PlatoScience, has proposed that we have been asking the wrong questions of artificial intelligence. Instead of wondering how to make AI creative, we should be asking, "How might we combine the calculating power of AI with the creative power of the human brain?"

Instead of trying to make AI creative, let's explore how we can link humans' innate creativity with AI. That, to Balder, is the more interesting and relevant question. For Balder, human creativity is at the core of what makes us unique and distinct from machines, robots, and computers—and the key to taking advantage of this ubiquitous technology is upping the ante on what makes us uniquely human.

In order to leverage our creativity in this fourth industrial revolution, Heather McGowan, a future of work strategist, has called for a shift away from learning to work and toward working to learn. In other words, the future of work is the future of learning.

Remix, Reframe, Repurpose

Originality is a steep expectation. While toggling between wonder and rigor leads to the new and the novel, originality depends on context. Being creative on an intentional basis might be a less threatening endeavor if we allowed ourselves to accept that we are regularly borrowing from one another, ourselves, our histories, and different adjacent cultures. Creativity is about the remix: repurposing, recombining, and reframing.

Originality is not the result of a purist singular production. Rather, it is the product of common memes that are consistent temporally and spatially throughout the world.

Don't make excuses about a lack of time, suboptimal staffing, or scarce funding to put off creating. Creativity loves constraints. All that you need is right within you and sitting before your eyes. You must shift your paradigm.

Take, for example, hip-hop music. Gen X is responsible for hip-hop music, currently the number one music genre in the world. But let's examine its origins. In the midst of the greatest rollback in funding for arts education in public schools in the late 1970s, black teenagers figured out a new musical instrument: the turntable.

As formal teaching in the music diminished in public schools, the scratching of the record player's needle on vinyl rose to the level of a percussion instrument. Now that's a paradigm shift! It is that level of reframing and repurposing that continues to spark hiphop artists such as DJ King Britt, who, while rooted in hip-hop, R&B, and jazz, has acquired an adept muscle for constantly remixing what is in front of him—literally.

Another example comes from Susan Jin Davis, the chief sustainability officer at Comcast. She shared how her cultural identity as a Korean-American helped her to develop novel tactics: "As a child of immigrants, there is no blueprint. I've had to be creative to figure out my own path." Susan credits her cultural identity as a marginalized minority with building her capacity to have vision and resilience in building the sustainability practice at Comcast.

Get Out of the Building: Final Thoughts on Increasing Your CQ

Dancers and musicians are experts at learning how to see in different ways. For example, when dancers learn choreography, they are mastering pattern recognition. They learn how to see movement outside of their body, incorporate it into their own, and execute it into motion that delivers meaning and story.

When we understand dancers' work process in particular, there are huge lessons to apply to our own work. Tinkering and moving in order to make and discover can spur us on to try prototyping, developing our work in iterative stages, and getting more physical with our work.

A second way to practice the lessons from dancers is to get out of our offices and visit our customers on their own terms and in their context. That movement will go miles in helping you see things from a new angle. Do not be surprised if shifting your work habits in this way compels you to revise your original plan, start over, or add in entirely new ideas, people, or direction to the mix.

LEAP!

Increasing your creativity quotient is about building on what has come before you. And that requires, well, building. Building is ambiguous and messy. While we may start with a plan, plans shift, agendas change, and assumptions are challenged. Creativity's ROI is a return on inquiry, on improvisation, and on intuition. These returns can be scaled to benefit you personally as well as organizationally. There are three leaps to make regularly in order to optimize your creativity ROI.

Leap from prioritizing deep specialization to valuing broad experience. Do not be confined to your sector, geographic location, or usual coterie of experts to get insights and advice.

Leap from deferring only to what's rational to embracing ambiguity. Murky and ambiguous contexts require the rigor to sit with ambiguity until a recognizable picture begins to emerge; they insist that you play the long game in order to get to understanding and insight.

Leap from organizational silos to networked community. Depicting our organizations with boxes and arrows and developing linear processes give us a false sense of security. In reality, our org charts are more like messy mind maps, and our products, services, and experiences exist in a macro-environment full of ambiguity and uncertainty that eschews linear thinking.

Try taking away some of the structure and leaving space for more open inquiry, improvisation, and intuition. Keep in mind that markets are unpredictable and inconsistent because they are made up of people. Embrace it—and make the creativity leap.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- ***Disciplined Dreaming: A Proven System to Drive Breakthrough Creativity*** by Josh Linkner
- ***The Innovative Sale: Unleash Your Creativity for Better Customer Solutions and Extraordinary Results*** by Mark Donnollo



Author, global speaker, and consultant, Natalie Nixon is a creativity strategist who happily integrates wonder and rigor into her life and work. She converted a 16-year career as a professor into a successful consulting practice. At Figure 8 Thinking, she emboldens leaders to apply creativity and foresight for transformative business results. She's the editor of ***Strategic Design Thinking: Innovation in Products, Services, Experiences, and Beyond*** and a regular contributor to *Inc*. magazine.

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The Heart of Innoavation

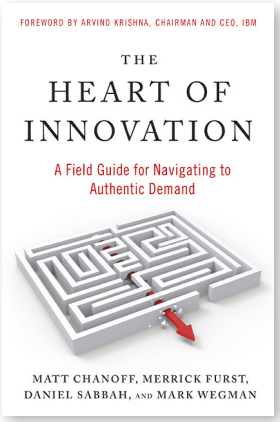
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The Heart of Innovation

A Field Guide for Navigating to Authentic Demand

by **Matt Chanoff, Merrick Furst, Mark Wegman, and Daniel Sabbah**



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THE SUMMARY IN BRIEF

Blockbusters dominate our perception of innovation. The Xerox machine. The IBM PC. Apple's iPhone. The Boeing 737. The Volkswagen Golf. But the path to innovation is more often defined by failure than by success, with around two-thirds of all market launches collapsing within a year. This leads to huge financial losses and millions of lost hours of engineering, design, and marketing work. The constraints on economic growth and development are clear and significant.

In ***The Heart of Innovation: A Field Guide for Navigating to Authentic Demand***, authors Matt Chanoff, Merrick Furst, Mark Wegman, and Daniel Sabbah tackle this urgent challenge with the novel approach of examining the demand side of innovation through the lens of a deeply layered understanding of human behavior. The result is a comprehensive guide to assessing "authentic demand" and a powerful new tool for innovators. In the same way that the emerging study of human behavior fundamentally altered economic theory, we now have insights into how blind spots, biases, and false assumptions can impact innovation. This book introduces valuable concepts anyone can use to avoid some of the thinking errors that commonly thwart the creation of new products.

IN THIS SUMMARY, YOU WILL LEARN:

- How to get unstuck with authentic demand.
- The three types of innovation.
- Four issues that get in the way of innovation.
- Why unconditional positive regard is a key to innovation.

PART ONE: ACCIDENTAL INNOVATION

Authentic demand is the motivating force behind success in innovation. In many cases, finding authentic demand is an accident. Good accidents can happen, but all too often they don't. But you can learn a deliberate methodology for uncovering it.

Getting Unstuck with Authentic Demand

An innovator's goal is a complete innovation. A complete innovation depends on other people adopting it and bringing it into their lives in some way. Innovations stand or fall not on one key question: Are the people they're intended for indifferent to them, or do those people in some way bring the innovation into their lives?

The core of sustained innovation is reciprocity. The innovator does something that leads other people to do something that enables the innovator to keep doing whatever they were doing. *Together, the two sets of behaviors support each other in a repeating cycle, and that's the mechanism of a complete innovation.*

Being stuck, as an innovator, means being unable to get the reciprocal dynamic going. There are four broad categories of sticking points:

- **Technology.** Innovators can't actually make and produce the product they have in mind.
- **Marketing and sales.** They don't know how to proceed with getting their product in front of their would-be customers and convincing them to buy.
- **Finance.** They can't raise money or produce goods and sell them profitably.
- **Leadership.** They can't put together the right team and create the right culture and work environment to make it all happen.

The premise of this book is that there's a fifth category, a kind of elephant in the room that is usually ignored or waved away or danced around. But getting unstuck in this category is the most important job of all, and doing it sheds important light on all the others.

The hidden category is usually called demand, but to distinguish it from random purchasing activity we'll call it authentic demand. The opposite of authentic demand is indifference. *Authentic demand* arises when would-be customers experience *not* buying as a problem, as something they can't be indifferent to, almost as a violation of something important.

Finding Authentic Demand

Many innovations come to be accidentally but we can work toward breakthroughs purposefully and methodically. Applying the principle of *not nots* can help.

The world is full of situations that can be better understood by seeing the not nots. People will not not pinch their fingers in closing doors. Certainly fingers end up getting pinched, but you can rely on people to move their hands to avoid it happening. People will not not go to bed without having eaten.They will not not greet a friend they pass on the street. Parents will not not see that their children get home after school.

Not nots are not musts. Sometimes they fail; sometimes people forget or circumstances intervene or more compelling not nots take precedence. But in any case, they matter.

However, not nots are often hard to notice, because people typically just take care of them in the normal course of their days. Sometimes, though, they're noticeable in the adaptations people make to new circumstances. The world is always throwing us into new situations,and we generally cope, adapting to the situation so as to keep fulfilling our not nots.

Except when we can't. Sometimes situations change in such a way that people can't find an adaptation that works. Sometimes the ways we cope with one situation come into conflict with how we cope with another. In these circumstances, a product that offers people a new adaptation, so that they can keep fulfilling their not nots, will fly off the shelves.

Three Types of Innovation: Informative, Transformative, and Formative

An *innovation* always involves a change in behavior. It's a sustainable, repeatable change that results in a new equilibrium, a change in the form of culture itself. This can happen in three different ways. We call them *informative, transformative, and formative*.

Informative. These innovations improve something for customers or companies without changing the situation they're in. Informative innovation leads to incremental improvements in products and gradual improvements in customers' lives, along recognized, established lines. An example of informative innovation is a railroad company that considers improving service by buying newer diesel engines or refrigerator cars.

Transformative. These innovations change the assumptions at the root of how customers or companies behave in

Paying attention to one type of innovation and not noticing the others is a type of blind spot.

a situation. It is called transformative because it changes the form of the situation. Transformative innovation can lead to a quantum leap in opportunities.

One example might be a railroad company that reimagines itself as a transportation company, leveraging its in-house expertise in logistics and customer relationships to address opportunities in shipping or air freight.

Formative. Formative innovations are the ones that led to forming the situation in the first place. Virtually every successful company starts by forming something new, something that isn't incremental and isn't a transformation of something else.

One example is the formation, in the 1890s, of Herman Hollerith's Computing-Tabulating-Recording Company (CTR). CTR innovated a new form: management of large-scale data. The company's name was later changed to IBM.

Understanding the differences between the three types of innovation helps with expanding opportunities and guarding against challenges.

Each type of innovation has its own problems and its own most effective tools. Often a leader who's good at one type of innovation is less effective at another. Innovators in large companies regularly fail to meet challenges because they limit themselves to informative mindsets and tools, or because they underestimate the challenges of transformative innovation, or because they underestimate the worth of formative innovation, which starts small.

Paying attention to one type of innovation and not noticing the others is a type of blind spot. To see more clearly, innovators can ask themselves, "What type of innovation might make sense here?" or remind themselves, "When I'm stuck, it might be because I'm thinking about the wrong kind of innovation."

Deliberate Innovation involves considering and choosing a type of innovation to focus on, understanding the challenges that come with the territory, and using the right tools for the job.

PART TWO: DELIBERATE INNOVATION

Two of the most striking aspects of many innovations are that (1) the not nots are hidden, and (2) figuring them out ends up being more or less an accident. If something is (1) necessary and (2) invisible and also (3) requires a series of accidents to happen, then it won't happen very often. That itself plays a major role in innovation's enormous failure rate.

You can change that equation and make innovation more deliberate, as will be illustrated with the following real case example.

Beginning to Innovate Deliberately: The Mystery of Damballa

When Matt and Merrick started their first business together, an internet security company called Damballa, they ran into a road-block they didn't expect. Learning to understand what happened set them on the path toward Deliberate Innovation.

Merrick was excited to tell Howard about a new technology some colleagues were working on at Georgia Tech to counter what they saw as the most significant looming threat to anyone doing business on the internet.

Bots were taking control of vast numbers of computers without their owners' knowledge. And the malware that these bots were running was becoming increasingly capable of causing their host machines to do more and more problematic things.

Howard, of course, understood the threat early. There was a particular way that he thought the solutions that Merrick's technical partners were working on could be applied in service of the commercial interests of eBay, and he asked Merrick out to San Jose to present.

The meeting seemed like a spectacular success. Howard and his team already knew that bots were busy ripping off eBay and its customers. The Georgia Tech team's technology appeared to be a revolutionary solution for a huge and promising market.

Howard jumped on it. His next question was "How soon can you deliver?" With eBay's apparent interest in becoming the first big customer, and other potential customers signing contracts and otherwise signaling interest, it never occurred to us (Merrick and Matt) that we were stuck.

Six months later, Damballa was ready with a product for eBay. But very strangely, there did not seem to be a lot of interest in actually having anything happen. There were polite conversations that never led anywhere. Damballa survived, but never sold a trust fraud or click fraud solution to eBay, or to anyone else, for that matter.

Everyone at Damballa believed that all the elements that made up demand were in place. We didn't feel stuck.

What was missing?

As management and the board worked to get the company on track, they addressed all the conventional issues. Some people thought that money was the issue. Others thought our customers would be afraid that their customers would be scared away or displaced by bots. Still others thought risk was the issue: customers would buy because they were otherwise vulnerable to fraud allegations.

With hindsight we can see that these just aren't effective ways to understand customer demand. The right question ought to have been, "What ever gave us the impression that eBay would be a customer?" On what basis did we believe that our preferred value proposition would actually drive sales?

We assumed that saving money is a reliable authentic demand. If our confidence in that axiom ever wavered, we could confirm it by reminding ourselves of things corporations do to save money, without recognizing that we were simply confirming a bias.

The same holds for almost all the ways people usually think of what are typically called value propositions. It was starting to dawn on Merrick that some other view of what makes a customer a customer was necessary.

In hindsight, it's arguable that Damballa did uncover an authentic demand, but because we never figured out its precise nature, we never understood the situations where it occurred. That led to financing the company unsustainably.

Damballa was a milestone for us. As we tried to make sense of the experience, the question of demand—how we should think about it, how we could go about discovering it—started to come into view.

Four Issues that Get in the Way of Innovation

Seeing through the limitations of our assumptions and biases is an important move toward more accurately perceiving real not nots and the authentic demands they entail. You can't notice what you don't notice, but if you know something about how people generally distort things, you can take steps to watch out for the blind spots.

There are four big issues that get in the way for innovators:

1. The Curse of Knowledge

Our waking moments are full to the brim with opinions and orientations and views based on inadequate information that somehow felt perfectly adequate. This is called the *curse of knowledge*.

The curse of knowledge messes with our attempting to uncover not nots mostly through our overconfidence. Innovators form opinions before they know it, and never think to question them. When they talk to customers, they're wildly overconfident that they're asking the right questions, that they're communicating to the potential customer accurately, and that they're understanding the customer's answers correctly.

Formative innovations are based on new discoveries of not nots and non indifferences, but how can you discover something new when you've already explained things to yourself, without even noticing?

2. The Lure of Feathers

In the marketing world, there are ongoing discussions of features versus benefits. Features are functionalities or attributes of a product or service. It has a handle or doesn't. Benefits are the value that the customer gets from the product or service, at least in the eyes of the marketing department.

In the innovation world, what benefits a customer is a big question, but it leads to a bigger one: Is thinking in terms of benefits the best way to predict how customers will respond? (Spoiler alert: probably not.)

What is clear, though, is that there's a psychological tendency to think in terms of features and benefits, which gets in the way of identifying authentic demand. A handle may in fact make the product easier to hold, but there may be no unmet authentic demand for "easier to hold."

3. Fundamental Attribution Bias

Fundamental attribution bias is one of the better-studied cogni-

For innovators, being able to examine can change viewpoints is paramount.

tive biases. It is in play when you see someone's behavior and mistakenly attribute it to their personality. Someone cuts you off on the road and you think,"What a jerk."But if you cut someone off on the road, you might think, "Sorry, but I'm in such a hurry." We naturally blame another person's personality for their behavior, but blame situations for ours.

Inferring personality from a given behavior and predicting behavior based on personality are both substantially less accurate than focusing on the situations people are in. For innovators, this indicates that it's problematic to rely on customer types.

If you imagine that your customer is, for example, a doctor, be aware that the type you're thinking of is probably less predictive of how they'll behave than the situation they find themselves in. Rather than thinking about a doctor, work out the details of a specific doctoring situation.

4. Confirmation Bias

Confirmation bias is the best known and best studied of any of the biases. The phrase covers lots of ways people hold on to their viewpoints and fail to examine them in a new light.

For innovators, being able to examine and change viewpoints is paramount. Without that ability, your innovations will almost certainly rest on unexamined assumptions that are likely to be mistaken.

Here are some of the biggest ways confirmation bias operates:

- Restricting attention to a favorite idea or view, not even noticing that there's a different way to see things
- Only looking for or noticing evidence that supports your view
- When you do see evidence that contradicts your belief, dismissing it or underweighting it compared to supportive evidence
- If you can't ignore contradictory evidence, adjusting your theory as little as possible to keep believing in the main parts of it

The curse of knowledge figures largely in all this. Knowing something, and being overconfident about what you think you know, feeds into confirmation bias. And it's nearly impossible to find innovators who haven't misled themselves down some confirmation bias pathway.

Diagramming Situations to Uncover Authentic Demand

Sometime around 1534, Andreas Vesalius took a hanged man down from a gibbet in Paris and examined the body carefully. That was a seminal moment in his investigations into how the human body is put together, and it helped launch Vesalius as the father of modern anatomy.

A few centuries later in Lausanne, Alexander Osterwalder wrote a seminal PhD thesis called "The Business Model Ontology," in which he set out to do something similar: pin down the anatomy not of a person but of a business. That thesis was the beginning of a journey that led Merrick to create situation diagrams, a key tool for innovators.

Osterwalder's artifact helps a firm to formally describe its value proposition, its customers, the relationship with them, the necessary intra- and inter-firm infrastructure, and its profit model. The visualization of Osterwalder's results is called the business model canvas (BMC).

Just as in anatomy, where the details of how animals are put together vary enormously but all animals share essential systems, so similar elements can be identified in businesses. According to the model, every business from a corner store to ExxonMobil will include these "organs":

- A value proposition
- A way of creating that value, including activities, partners, and resources
- A way of harvesting that value, including customers, channels to them, and relationships with them
- A financial model—for a business to be sustainable, the cost of creating the value must be lower, in the long run, than the value harvested from it

The BMC is now a template for startups.The idea is that if you iterate on and ultimately validate the parts that fit into

each area, you will end up with a template for a business that, once it's executed correctly, will be viable.

In diagramming for innovation, Merrick narrowed the model down to just four areas: actions, relationships, equipment, and channels.

The four parts of a situation that an innovator can see and test are:

1. Actions: people doing things
2. Equipment/Resources: products and services used in the performance of actions
3. Relationships: activities by people other than the person whose actions we're looking at, serving as a resource for those actions
4. Channels: pathways by which equipment or other people's actions reach and impact the situation

Diagramming situations clarifies how authentic demand arises from within them and how the components of those situations stick together. People in situations cope with them so that the situation remains in place; when gaps open, they act to fill them.

So, for example, when a person is a student, they may maintain their grip on being a student by engaging in activities such as attending classes, and they may have a piece of equipment such as a schedule that lets them know the time and place of each class.

To maintain a grip on the situation, the student will be non indifferent to that schedule. If it's on a piece of paper and they lose it, a gap will have opened up. The authentic demand is for the gap to be closed and the situation maintained, but it's expressed by the customer as demand for the object.

For an innovator, an object like a paper schedule, or any other equipment, product, or service is not what's in demand. The demand is for the gap closing that's accomplished through that object in a particular situation. It's convenient but misleading to think of the demand as demand for the object. Thinking of the demand as being for the object itself obscures both the size of the market and the risk that the gap may be closed in some other way that wouldn't be noticed as competitive until it's too late.

The World's Deep Hunger: Unconditional Positive Regard

As a main thesis of this book, we've made an argument that innovators get stuck, and innovation fails more often than it should, because innovators pay too much attention to their deep gladness and not enough to the world's deep hunger.

In our experience, uncovering these hidden "hungers," or authentic demands, can lead to innovation success. If you've got some invention in mind and you get it out in front of people, one of two things will be the case: they'll be either indifferent to it or not. If they're really indifferent to it, then you're sunk.

But if they're non indifferent, if there's an authentic demand, then you can be sure that on some level they're already coping with the problem you're attempting to solve. That's where unconditional positive regard comes in.

Part of treating potential customers and clients with unconditional positive regard is accepting that they are already experts in their own lives, skillfully coping with their situations. If their coping is inadequate in some way, that's almost certainly because the job of coping with something else is restraining them.

Strikingly, as we've interviewed people who have been involved with Deliberate Innovation, we've heard more about how it has affected their personal lives than about its impact on their work as innovators.

When you notice others succumbing to biases out of common mistakes like fundamental attribution or confirmation bias, you can start seeing these same universal human failings in yourself, leading to more tolerance and more common ground.

And when you start seeing how people's behavior is tied to their situations, opportunities to change things for the better start appearing.

We called this book *The Heart of Innovation* not only because the four of us have spent a lot of our careers trying to get to the heart of innovation but also because of our belief that innovation has a heart.

When innovators identify the gaps between who people feel they are and what they're committed to, on the one hand, and the options that are available to them, on the other, then they enable people to be more whole. Making that happen, through treating colleagues and stakeholders and customers with unconditional positive regard, is a worthwhile goal.

Deliberate Innovation doesn't promise successful innovation every time, any more than coaching promises that every

race will be won. But a world where innovators and their colleagues have a compass to use, where they have techniques to practice and get better at, where there are actually competent innovators, and where competence can be distinguished from luck, would be a world with a lot less waste and a lot more successful innovation, to the benefit of us all.



Matt Chanoff is a San Francisco-based angel investor and co-founder with Merrick of the startup studio Flashpoint. Dr. Merrick Furst is a Distinguished Professor and the Director of the Center for Deliberate Innovation at Georgia Tech. Dr. Mark Wegman is an IBM fellow, IBM's highest technical honor with more than 100 publications and over 16,000 citations. Dr. Daniel Sabbah was the CTO and General Manager, Next Generation Platform, at IBM Corp. He was responsible for creating IBM's Cloud platform.

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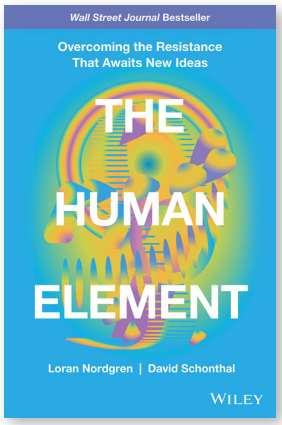
The Human Element

Loran Nordgren & David Schonthal

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The Human Element

Overcoming the Resistance That Awaits New Ideas



by **Loran Nordgren & David Schonthal**

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THE SUMMARY IN BRIEF

Have you ever tried to introduce a new idea, innovation, or product to your customers or to the world, only to find that you hit roadblock after roadblock in getting people to adopt it? What causes this lack of momentum? After all, you've poured all the fuel you can on your genuinely innovative idea.The problem isn't lack of fuel— it's that you haven't reduced the friction.

This simple yet powerful concept is at the root of ***The Human Element***, by Loran Nordgren & David Schonthal. *The Human Element* is all about recognizing that no amount of pushing an idea or innovation forward is going to lead to adoption and acceptance. You have to reduce the four major types of friction— inertia, effort, emotion, and reactance. Whether you're a business leader, entrepreneur, product or project manager, educator, or marketer, adopting a Friction-based mindset will transform the way you think about innovation and communicating that innovation to your audiences in a way that inspires adoption.

IN THIS SUMMARY, YOU WILL LEARN:

- Why your best ideas get rejected despite their undeniable value
- How to disarm the forces of friction and resistance that stand in the way of real and powerful change
- How to turn the very Friction points that stop our momentum into effective catalysts for change.

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Introduction

How do you get people to embrace a new idea? Most marketers, innovators, executives, activists, or anyone else in the business of creating change, operate on a deep assumption. It's a view of the world so deeply ingrained in our thinking that we rarely see its influence or question its value. It is called The Law of Attraction.

It is the belief that the best (and perhaps only) way to convince people to embrace a new idea is to heighten the appeal of the idea itself. We instinctively believe that if we add enough value, people will say yes. This reflex leads us down a path of adding features and benefits to the idea or increasing the sizzle of the messaging – all in the hope of propelling people to get on board. We refer to strategies designed to give an idea thrust as Fuel. Fuel is what heightens the appeal of an idea and incites our desire to change.

This book argues that people have the wrong intuitions about how to sell new ideas and create change. By focusing on Fuel to enhance attraction, innovators neglect the other half of the equation – the Friction that works against the change we seek to create. Frictions are the psychological forces that oppose change. Frictions create drag on innovation. And though they are rarely considered, overcoming these Frictions is essential for creating change.

The conventional, Fuel-based approach to innovation is necessary. Without appeal, an idea won't survive. But Fuel alone is insufficient. To create change we must first understand the forces operating against change. While we might not see them, they are there, quietly undermining our efforts to innovate. When we attempt to overcome these forces by adding more Fuel (as our instincts instruct), we inadvertently intensify the very Friction we are trying to overcome.

The Law of Attraction

This book explores the four Frictions that operate against innovation and change. The four Frictions are:

Inertia. The powerful desire to stick with what we know, despite the limitations. Inertia explains why, when attempting to change behavior, you should always give people multiple options, and why, at least when it comes to sports, Americans are socialists and Europeans are capitalists.

Effort. The energy (real and perceived) needed to make change happen. Effort explains why Beach House customers never clicked "Order," why shore crabs are such picky eaters, and why New Zealand is the best country to start a business.

Emotion. The unintended negative emotions created by the very change we seek to make. Emotional Friction is the reason why cake mix took 30 years to catch on, why Tinder surpassed Match.com as the go-to dating app, and why managers often strategically put their best employees in the least important roles.

Reactance. The impulse to resist being changed. Reactance reveals why Americans waged war against seat belts in the 1980s, why strong evidence is often worse than no evidence at all, and why manufacturing plants find it so difficult to change practices.

Thinking in Fuel

Our deep assumption is that the way to sell a new idea is to heighten its appeal. We instinctively believe that if we add enough value, people will say yes. We assume that when people say no, it's because the Fuel was insufficient. It is a belief so deeply ingrained in our thinking that we rarely consider it and would struggle to imagine any other approach to innovation. The Fuel-based mindset explains so much of what we do, from adding countless trivial features to software, to bolting a sixth blade onto a shaving razor. If our audience is not responding to our idea, our instinct tells us to puff out our chest and show off our plumage.

Let's be clear: Fuel is essential to the success of new ideas. Without Fuel there is no motivation to change. But having a compelling idea and a well-crafted message is, in our minds, table stakes. For the sake of this book summary, we will assume that you, the innovator, have these boxes checked. You have a great idea, but despite your best Efforts, you can't quite figure out why people (your investors, customers, partners, colleagues, etc.) say no. Why? Because you need to focus less on Fuel and more on Friction.

Discovering Friction requires work and patience. It requires that we not only identify what people do, but take the time to understand why they do it. Detecting Friction demands that we become more anthropologist than marketer – a role for which few organizations have a department.

Let's look at an example. Although Americans love their cars, they loathe the process of buying them. That's because people fundamentally distrust car dealers. Buying a car, perhaps more than any other major purchase, pits the dealer against the buyer. The assumption buyers make

The principal problem with Inertia (as the name implies), is that it breeds inaction. And inaction is precisely what the innovator is fighting against.

when walking into a dealership is that the dealer intends to talk you into a bad deal.

The distrust people feel when buying a car is a significant Emotional Friction. Car dealers don't just neglect this Friction, the culture of persistent sales tactics exacerbates it. It is in this context that we can understand the secret to the extraordinary performance of Ali Reda, the best car salesman on earth.

The best salesperson in American history doesn't see himself in the business of sales. He's in the business of building trusted relationships. But before we simply tip our caps to the importance of Fuel and move on to Friction, it is important to understand how and why Fuel works, as well as its inherent limitations. This chapter explores the limits of Fuel and why, despite its limitations, a Fuel-based mindset remains the default approach to innovation.

Inertia

People are often reluctant to embrace new ideas and possibilities, even when the benefits are obvious and indisputable. That's because the human mind prefers familiarity and stability to uncertainty and change. This design feature goes by different names. Psychologists call it the status quo bias. Marketing scholars call it the familiarity effect. In this summary, we call it Inertia.

For humans, familiarity breeds liking. We favor the known over the unknown. And that makes sense from an evolutionary perspective. Because things that are familiar have been tried and tested and are thus safer than things that have not. Familiarity means that we have survived contact with it in the past. Our instinctive mind recognizes this, and steers us toward the familiar option.

The instinct to favor the familiar suggests that even when we are open to new ideas, innovators and organizations don't consider all the possible opportunities and solutions, just the familiar ones – those they've tried in the past or fit with the culture.

The principal problem with Inertia (as the name implies), is that it breeds inaction. And inaction is precisely what the innovator is fighting against. Inertia leads us to choose the familiar over the potentially better but uncertain option. This instinct is a big reason why, as the old saying goes, "good enough is the enemy of great." This thinking leads to stagnation and the rejection of new ideas.

But inaction isn't the only way Inertia harms innovation. Even when people are willing to break from the status quo, Inertia limits the options we are willing to consider when pursuing opportunities or solving problems. Take investment decisions. Investors tend to favor domestic stocks (often referred to as home bias). Japanese investors, for example, put 80 percent of their money in Japan-listed companies, despite these companies accounting for only 9 percent of world capitalization. The reason? Inertia.

Overcoming Inertia

New ideas are like beer. The first time you tried beer, did you like the taste? For most people, it's not a pleasant experience. But you get used to it. And after a while, the once unpleasant flavor becomes a comfort at the end of a long day.

But imagine if after the very first time you tried beer, you had to make a binding decision about whether you would ever want to have another one. A lot of people would needlessly reject beer simply because they weren't given time to acclimate. If you were trying to promote beer drinking, it would be a terrible approach.

But this is the precise path many leaders and innovators take. Like beer, new ideas often first leave a bad taste in people's mouth. But as familiarity grows, Friction eases. All too often, the first time we announce a new idea is also the moment we ask people to decide on it. Though it's a common occurrence, it's an equally terrible approach. Instead, we want to allow people to acclimate to new ideas before we ask for buy-in.

Here's a super simplified timeline of the change process:

Step 1: Spot a problem.

Step 2: Gather potential solutions.

Step 3: Decide on the best solution (discarding the bad ones and the great-but-unrealistic options).

Step 4: Pitch the solution to your audience.

The principle of relativity shows us that our mistakes happen at Steps 3 and 4. Our habit is to cull the bad options, and at times we may even reluctantly abandon the ideal solution for fear we are ask- ing too much. What we mistakenly present to people is one path – a good (but maybe not ideal) option. You know it is a good option in part because you've considered and discarded inferior ones. You know it. But they don't. Instead, put your ideas in context. Give them a reference point. Because everything is relative.

The human mind is hardwired to favor the familiar. Yet new ideas ask people to embrace the unknown. This is an ever-present Friction for the innovator. To tame this Friction, we need to transform the unfamiliar into the familiar. Inertia tends to be greatest under two conditions: when the innovation or change represents a major break from the status-quo and when people don't have time to acclimate to change. To determine the level of Inertia that awaits your next idea, ask these three questions.

1. Does the innovation represent a major break from the status quo or is it a slight tweak on what has been done before? Radical ideas are likely to run into heavy Inertia headwinds because people inherently distrust and reject unfamiliar and untested ideas.
2. Have people had time to acclimate to the idea? If people haven't had time to adjust to new ways of thinking, expect resistance.
3. Does the proposed change happen gradually or in one big step? Big, abrupt changes of practice or thinking are the most unfamiliar and therefore produce strong resistance.

Effort

Humans are highly sensitive to energy expenditure. We are programmed to find and favor the path that brings the most rewards for the least Effort. This design feature is called The Law of Least Effort.

When we first encounter a new idea or innovation, our minds instinctively calculate the cost of implementation. The greater the Effort, the stronger the resistance. Unfortunately, innovation generally requires some form of Effort. Learning a new work procedure requires Effort. Unlearning old habits requires Effort. Navigating an unfamiliar website requires Effort. Sifting through new product options requires Effort. Setting up meetings to discuss a new proposal requires Effort. The Effort associated with innovation is a psychological Friction that undermines the appeal of new ideas.

Although Effort is one of the strongest forces operating on our behavior, people rarely account for it when leading change – a blind spot we refer to as Effort Neglect.

The human mind is hardwired to favor the familiar. Yet new ideas ask people to embrace the unknown.

After all, the primacy of Effort challenges a lot of conventional business calculations. Take customer service. What drives customer loyalty? When 100 customer service heads were asked this question, 89 of them said their main strategy was to exceed expectations. They described Efforts to "wow" customers by going above and beyond. But an in-depth study on customer loyalty defies this view. The study asked 75,000 people to identify the companies they feel the most loyalty for. And then they ask them a series of questions to determine why.

They found that Fuel-based tactics designed to exceed a customer's expectations, such as offering a refund or a small product giveaway, didn't build loyalty. Instead, they found that reducing Frictions commonly experienced during a customer service interaction (like having to explain your problem to several different people) does.

This insight should fundamentally change the way companies look at customer service. The question shouldn't be: how do we delight the customer? The question should instead be: how do we make the interaction easy for the customer?

Overcoming Effort

Before we can reduce Effort, we need to understand what

If exertion captures the amount of work that goes into achieving a goal, ambiguity reflects whether people know how to achieve the goal.

people mean by it. What attributes of an idea or initiative make it easy or difficult to perform? Effort has two dimensions, one obvious and one not. The obvious and intuitive dimension of Effort is exertion. Exertion captures how much energy goes into a task or behavior. Writing a 50-page document requires more exertion than a 5-page document.

The second dimension of Effort is ambiguity. If exertion captures the amount of work that goes into achieving a goal, ambiguity reflects whether people know how to achieve the goal. Think about the first explorer to navigate new terrain, or a rat exploring a maze for the first time. If you don't know the way, you have to discover the path yourself. That means trial-and-error. It means false leads and dead ends. Ambiguity is a critical dimension of Effort because a lot of ideas that appear easy to the innovator are shrouded in ambiguity for everyone else.

Emotion

Emotion has a profound influence over our behavior. We experience emotion as a feeling. But emotion is much more than a subjective experience. Emotion transforms our thoughts and actions. Emotion shifts our attention, changes the way we process information, and alters which ideas and memories we bring to mind.

Emotions are designed to create adaptive responses to critical situations we faced in our evolutionary past. Fear, for example, is triggered when we detect a potential threat in our environment. The experience of fear initiates the goal to avoid risk. Fear broadens our visual perception to help us detect threats (fear literally expands our peripheral vision). And it readies the body for fight-or-flight action.

Emotion has both a constructive and destructive influence on our lives. Emotion is the root of most self-control problems. Rage, pride, and fear can lead us to make regretful decisions. But emotion is also critical for proper human functioning. People who don't feel emotion (usually due to a significant brain injury) struggle to understand and interact with others and have tremendous difficulty making good decisions.

We define Emotional Friction as the unintended negative feelings that inhibit a new idea or innovation. Emotional Friction takes many forms. The anxiety and doubt associated with committing to a new product is a common Emotional Friction. The embarrassment of being a teacher's pet is an Emotional Friction that prevents many school children from displaying their academic potential. Social anxiety is a Friction that keeps introverts from attending valuable networking opportunities. We encounter Emotional Frictions every day, in decisions big and small.

Emotional Friction is the exact opposite of what we intend to do. When introducing a new idea, we hope to trigger positive emotions. We want our ideas to fill people with delight, excitement, confidence, etc. But without our realizing it, our audience often has the exact opposite emotional reaction. Even the most promising idea can unintentionally trigger negative emotions that become significant barriers to adoption. When that happens, those negative emotions are Frictions. And, just as with other frictions, the drag of Emotional Friction must be addressed before any real change can occur.

Overcoming Emotion

Addressing Emotional Friction isn't simply about removing a few hiccups from an idea to help it function a little better. Incredible opportunity awaits those who spot the frictions others have missed.

The first step to spotting Emotional Friction is to start looking for it. Our Fuel-based mindset means that Frictions aren't a natural part of our mental model. To begin seeing the Frictions that hold our ideas back, we need to start noticing them.

Unfortunately, Emotional Friction can be tricky to observe because most individuals tend to keep negative emotions hidden, especially when interacting with new ideas and new people. They rarely express their authentic feelings of worry or hesitation with clear, introspective language like, "This idea offends me," or, "Using this new product gives me anxiety," or, "Our company's newest hire makes me feel insecure." Instead of seeing the true negative emotions our ideas

provoke in others, what we often observe are the symptoms of these underlying feelings – symptoms that may confuse or even bely the true problem. Sometimes a customer's "anxiety" expresses itself as "disinterest." Sometimes a colleague's "anger" shows up as "apathy." If we were to only treat the symptoms of these Emotional Frictions, we would not be able to overcome the cause of someone's resistance.

What we need are methods that can help us spot moments of Emotional Friction in the wild so that we might reframe them as opportunities for innovation. There are a number of techniques for uncovering Emotional Friction, including increasing your focus on the 'why' of your customers, studying them in their 'natural habitats', and focusing on bringing your audience into the innovation inside your company to get a firsthand look at their needs.

> Are you asking or telling? Telling people what to do is a form of pressure. Asking removes Reactance.

Reactance

People don't like having change imposed on them. We don't like being told what to do. This is a major obstacle for the innovator, because innovation is the act of changing what people do. This means that the innovator's objective is at odds with our human nature. And when people feel they are being pressured to change, the automatic reaction is to react against change. We call this tendency Reactance. Reactance leads us to see new ideas not as opportunities, but as invaders. So we raise the drawbridge and arm the gates. If Inertia is the resistance to change, Reactance is the resistance to being changed.

The aim of innovation is to lead people to embrace new ideas. But if people feel pushed, their instinct is to push back against change. How do we possibly overcome this Friction? The answer: unlearn everything we know about influence.

Overcoming Reactance

Rather than telling people what to think, self-persuasion uses questions that lead to self-discovery. Not only does self-persuasion work against those who oppose our ideas, but self-persuasion is often the only thing that does.

The secret to overcoming Reactance is to stop pushing for change. Rather than attempting to persuade others, we should help them to persuade themselves. We call this approach to influence and innovation, self-persuasion. Self-persuasion occurs when the arguments and insights for change come from within. This section is about looking more closely at two ways that you can lead people to persuade themselves: ask yes questions and co-design.

Ask Yes Questions

1. Are you asking or telling? Telling people what to do is a form of pressure. Asking removes Reactance.
2. Are you asking a yes question? The innovator's faulty instinct is to begin the conversation at the point of tension or disagreement. New innovations and ideas will be more easily accepted if we begin with questions that reveal acceptance and common ground.
3. Can you create public commitments? Self-persuasion becomes more powerful when the commitment is made publicly.

Co-Design

1. Can your audience participate in designing the idea? The foundational principle of co-design is that by inviting people to participate in the design of a new idea, these individuals become more inclined to embrace and implement the idea once it is ready.
2. Is participation meaningful? Self-persuasion doesn't lend itself to short cuts or empty gestures. Co-design is most powerful when participation is meaningful and exceeds people's expectations.

Conclusion

"Put a bird on it!" Fans of the IFC comedy series Portlandia will recognize this famous line from an episode where two entrepreneurs decide that the way to make ordinary objects more desirable for sale in retail stores is to simply stencil a bird outline on the item – immediately transforming the ordinary object into hipster art.

The satire beautifully depicts our Fuel-based mindset and

its shortcomings. We focus our attention on adding gunpowder instead of reducing drag. The limitations of Fuel call for a new approach to innovation. It demands that we stop thinking in Fuel. It's time to start thinking about Friction, and giving the long-overdue attention that will allow us all to create products, marketing strategies, and businesses that go the distance and lead to real results.



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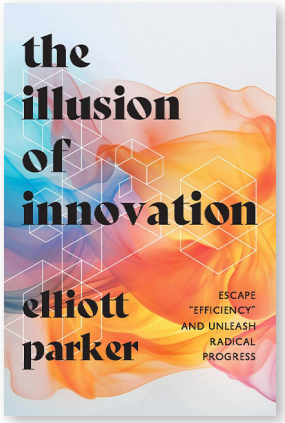
Elliott Parker

Executive Book Summaries®

The Illusion of Innovation

Escape "Efficiency" and Unleash Radical Progress

by **Elliott Parker**



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THE SUMMARY IN BRIEF

We are living in a time of innovation crisis. Corporations are better managed than ever, but they're less capable of delivering the breakthroughs that change our world for the better. They're optimized for safety and predictability, for maintenance of the status quo. Their focus on capital efficiency leads them to engage in an *illusion of innovation*: activity that feels like innovation but leads to value destruction, not progress.

The Illusion of Innovation: Escape "Efficiency" and Unleash Radical Progress is designed to allow the reader to question received ideas and to rethink their approach to innovation from scratch.

Author Elliott Parker provides a practical, how-to guide for making innovation more tangible inside of large organizations. He seeks to inspire people to see things differently, or to try to do so, and to then take the action necessary to make things better. The book relies on enduring principles, drawing from examples of the history of invention and creativity, and includes a few business stories when relevant.

IN THIS SUMMARY, YOU WILL LEARN:

- Traditional corporations are optimized for efficiency, not resilience.
- Large organizations should prioritize experimentation over efficiency.
- Collaboration with external startups is a better path for innovation than internal R&D for most large companies.
- Long-term thinking and a focus on societal benefit are essential for building enduring companies.

Part One: The Illusion of Innovation

We've spent decades optimizing our institutions to root out the kind of variability, volatility, and risk that produce surprise successes. Our institutions are too sterile. And this is a big problem.

The reality is that the innovator's dilemma is a very tricky problem to solve. To address it, companies must choose to accept some capital inefficiency in their operations. The optimal amount of capital inefficiency, contrary to popular belief, is not zero. The problem is that large corporations are organized to eradicate capital inefficiency.

There are three types of innovation that corporations can pursue:

Performance-improving innovations, or replacing old products with new models.

Efficiency innovations, or lowering operating costs.

Empowering innovations, or transforming products so radically that they create new classes of consumers, expand or create markets, and generate jobs for their originators and the economy.

Financial metrics prioritize the first two types of innovation at the expense of the third.

Managers and investors are trained to believe the efficient use of capital is a virtue because of its perceived scarcity.

All of this makes empowering innovations seem like poor investments in comparison with other forms of innovation that produce better efficiency metrics. Empowering innovations take years to pay off, if they pay off at all, while efficiency innovations can generate impact within a quarter or two.

Empowering innovations require capital investment, while efficiency innovations free up capital in the near term. Empowering innovations require bets on new customers and markets, while efficiency innovations seem safer because they address markets and customers that already exist and are well understood.

Here is the dilemma: the first two types of innovation, while necessary, do not create enduring, resilient enterprises. The pursuit of safety and efficiency at the expense of new market creation is incredibly risky over the long run. But asking executives to act in opposition to incentives, personal interest, or short-term gains is impractical.

Doing the right thing for long-term prosperity seems at odds with what investors want, according to the metrics, tools, and timelines commonly used to guide investments.

At this moment in history, capital, in aggregate, is no longer scarce, and we should be using different tools to measure success, including performance over much longer time horizons.

The question to ask of any corporation is: Is the company optimized for near-term safety and efficiency or long-term resilience? Or both?

Political scientist Francis Fukuyama coined the term "vetocracy" to describe an environment in which many more people are empowered to say no than to say yes. Corporations are—by design—vetocracies because vetocracies preserve the status quo.

Resilient organizations not only permit people to challenge the status quo; their organizational structure, incentives, and governance attract and enable innovators to thrive.

Large corporations are designed to be safe, to propagate the status quo and to make results predictable. This is why collaboration with external assets and resources in the form of nimble startups is now a more viable path for most large companies than centralization of innovation.

Over the long run, resilience beats efficiency and is therefore a more productive objective for scaled organizations. Innovation can (and should) be directed at both efficiency and resilience.

The challenge is that our scaled organizations are optimized for the preservation of what already exists, not for building the new. They are organized for seeking efficiency, for risk eradication, for removal of variance, and for enhancement of predictability.

Fortunately, there are options for dealing with the challenge of innovation. There are practical—if counterintuitive—steps that large organizations can take to innovate effectively.

Jack Welch, former CEO of General Electric, once proclaimed, "Variation is evil." The idea that variation, or volatility, must be removed from companies for effective operation is unsound because it constrains ingenuity; it seeks to turn people into machines. Companies should be efficient, but efficiency can be taken too far.

Contrast Welch's approach with the management philosophy of Reed Hastings, founder and CEO of Netflix, who declared in a podcast interview, "Most companies over-optimize for efficiency. . . . The non intuitive thing is that it is better to

Radical innovation requires learning, making mistakes, and messiness.

be managing chaotically if it's productive and fertile.

Our model is messy, chaotic, and fertile. In the long term, fertile will beat sterile." Netflix's acceptance of a degree of messiness (read: capital inefficiency to try new things) has enabled the company to thrive.

Organizations wanting to adopt a similar degree of "messiness" through process and metrics alone will find failure if culture is not part of the equation. Strong and rigid organizational designs create fewer errors, less messiness, and fewer insights.

The trick in transformative innovation is to remember that it is the magnitude of correctness that matters, not the frequency. This means you can be wrong a lot in the pursuit of transformative innovation, because on the occasion when you are right, you are likely to achieve dramatic results.

Conversely, in the operation of a scaled business, the frequency of correctness matters more than the magnitude—leaders try hard to avoid anything that looks like a mistake. That tension is what makes innovation so hard.

In the face of an unknown future, the best strategy for maximizing returns and minimizing risk is to run as many experiments as possible, at the lowest possible cost per experiment. Radical innovation requires learning, making mistakes, and messiness.

Projection models built by innovation teams operating in a realm of assumptions, not knowledge, are always wrong because prediction is not possible. In the operating business, where assumptions are low, and the level of knowledge is high, the opposite is true: financial projections can be relied upon with much more confidence. In a state of uncertainty, rapid experimentation to convert assumptions into knowledge is required. Action creates data for better decision-making. However, action taken beyond the level of confidence is more likely to result in failure at scale.

Empowering innovation—often requiring a radical departure from the core business—typically requires an "emergent strategy," which allows for agility, experimentation, and pivots. Emergent strategy works best when the future is ambiguous or hard to predict. Emergent strategy is optimized for learning, which is why startups deploy it so well.

Corporations can learn from the world of venture capital and venture-backed startups, where the fortress walls haven't been built and the processes of discovery and research are decentralized across many firms and investors. Venture capitalists are willing to be wrong a lot if they believe that when they are right, the payoff will be enormous.

By decentralizing their innovation through external startups and small teams, corporations can focus more of their innovation efforts on resilience instead of efficiency, on market creation instead of performance improvement. Corporations already know how to be efficient and how to improve performance; they are not very good at new market creation.

If the objective of innovation is resilience—not just efficiency—then innovation's success should be measured in terms of the learning and optionality it provides to the core organization. Learning can be measured by the pace at which organizational assumptions about the future are converted to knowledge.

In the 1930s, economist Ronald Coase set out to understand why corporations exist, why some transactions happen in the open market, and why other transactions are managed within corporations. He won a Nobel Prize in economics for explaining that firms exist to achieve lower transaction costs, taking advantage of inefficiencies in markets to do things better inside the corporation.

But the apex of the centralized corporation is likely over—at least the corporation as we've always conceived of it. The signs that this is true are abundant, but few seem to recognize that a shift has occurred. If it's now less expensive to access information, technology, or capital outside the corporation than within, the game completely changes. Why do corporations exist at all when transaction costs are now more likely to be lower outside the firm than within?

In 1776, Adam Smith published The Wealth of Nations, which explained that the economic pie was not actually

fixed but could expand infinitely through specialization and cooperation. This was (and still is!) a revolutionary idea. Smith believed that competition between producers was essential to spur economic development and opportunity.

Once one understands that corporations exist to seek lower transaction costs, their structures, their governance, and the processes they use to get things done all make sense. Slow decision-making, for example, can be viewed as a feature, not a bug, for protecting the status quo, which has served the corporation well and enabled it to grow.

For many decades, corporations used internal R&D to create seemingly magical product and business model innovations. However, in a world where individuals and small teams have inexpensive access to information, technology, and capital that only corporations previously could claim, the old corporate approaches are no longer as effective.

In our current era, R&D and M&A remain the primary tools for driving innovation and growth for large companies. But as primary drivers of breakthrough growth, these approaches are becoming less impactful. They are both harder to execute and less financially rewarding than they were in the past, partly because they work best in a theory of the firm that thrives on centralization.

That does not mean R&D and M&A should not be an essential part of every large company's innovation toolkit—they remain essential. It just means they should not be the only tools, and expectations about their effectiveness should be adjusted down.

Over the last three decades, the average cost of an acquisition has roughly tripled. We are seeing a trend where the number of acquisitions remains relatively flat, while valuations increase, signaling that good deals may be harder to achieve. Acquisitions are a more difficult way to unlock innovation than they once were.

Globalization was a primary driver of efficiency gains for many decades, and the era of globalization is not over—yet—but many of its cost savings have already been realized.

With these powerful headwinds, the narrative about business over the coming decades will be one of reinvention and disaggregation of the firm.

There are, of course, exceptions to the decentralization trend. The internet, while fostering access to information and expertise on an unprecedented scale, also centralizes power in some instances.

Scaled corporations need a new approach and may need to consider a redefinition of the firm itself.

Part Two: Recapturing Progress

Small teams, including small teams in the form of startups, will be the changemakers. "Startups operate on the principle you need to work with other people to get stuff done, but you also need to stay small enough so that you actually can," noted investor Peter Thiel in his book Zero to One.

For big companies, the recipe for victory has changed from centralized, hierarchical control of owned assets to coordination of decentralized, "borrowed" assets.

Nimble startups that can learn and grow quickly are poised to thrive, while traditional, scaled firms feel intense disaggregation pressure.

A growing stack of innovative economic research says startups are the key to economic revival.

The new, decentralized world order requires a faster pace. Only startups with well-incentivized entrepreneurs can reimagine the existing world and deploy resources quickly enough to learn, discover new products, and coordinate talent effectively in this environment. Corporations produce incremental returns. Startups produce exponential returns—when they are successful.

For incumbent firms in many industries, a more expansive reimagining of R&D, M&A, corporate venture capital, and even the boundaries of the firm is required.

Resilience is developed and maintained through learning, optionality, and redundancy. Resilience is never the result of top-down, hierarchical management. It is always the result of organic, messy experimentation. Resilience requires a certain degree of inefficiency, randomness, and exploration.

Fragility, on the other hand, results from too much focus on efficiency and is often the output of a top-down, hierarchical organizational structure over time.

Companies that want to limit fragility and increase their resilience must develop a means for rapid, organic, and "cheap" experimentation.

Resilient companies can withstand failure, crises, and changes in context and turn these dangers into opportunities to gather information, learn, and become smarter.

Novelty is achieved simply by moving away from where you've been already.

What lessons can we learn from resilient ecosystems about how large corporations can better adapt and thrive?

1. There are no objectives
2. Experimentation happens at the margins
3. Knowledge compounds

When it comes to innovation, variability is your friend. You can't get the gains without putting the system under tension and stress. You have to be willing to risk failure. Startups are actually optimized for both inefficiency and learning.

The primary job of the innovator is to convert assumptions into knowledge by gathering insights. The best innovators do this systematically, through rapid and cheap experiments that poke holes in status quo beliefs.

Novelty is achieved simply by moving away from where you've been already. Seeking out novelty is the fastest way to accumulate data about the future. So, take action to create data, and pursue novelty.

You can increase your variance by focusing on horizontal, not vertical, learning. Vertical learning is when you go deeper into things you already know, searching for data to confirm beliefs you already have. Horizontal learning is when you go outside your organization's sphere of knowledge to learn things that may challenge status quo beliefs.

The implications for an organization that wants to innovate are obvious: create and take more high-quality shots on goal. The solution to organizational sclerosis is more experimentation: faster, cheaper, and weirder. Experimentation, when done right, is chaotic, natural, and messy—not hierarchical, planned, or objective driven.

Innovation is unlikely to succeed if the strategic bounds are not established and agreed upon. An organization's leaders must determine where the organization will play and how it will win. All good strategies are controversial because they represent real choices. Hard choices.

When considering which experiments to pursue, it is better to consider the value of experiments as options: relative value is more important than real value. The most valuable experiments are those that are likely to create findings that lead to more experiments, that generate findings that challenge the status quo—within strategic constraints.

The level of investment in experiments and the proper forum and structure for those experiments depend on how much innovation an organization needs and how soon it needs it.

When experiments are aligned with strategy, producing sufficient insights to deliver on objectives, and being executed efficiently, an organization's experiment engine is working. Metrics can be used to monitor the effectiveness of experiments in all three dimensions: alignment, sufficiency, and efficiency. Changes can be made along all three dimensions to better tune the program.

Innovation is best funded as an operating expense when the ideas are close to the core business. On the other hand, innovation is better funded from the balance sheet when it challenges or looks very different from the core business.

If there's a single piece of advice large companies should consider when launching external ventures, it's this: Don't constrain a new venture's strategic or financial options.

The takeaway? Run more experiments: fast, cheap, and weird.

Business schools teach students that profitability, or ROIC, is the most important measure of a company's success, while underemphasizing the time dimension that must be factored into that measure to understand it correctly. Profitability is usually measured in quarterly or annual increments, for no reason other than such timing aligns with attention spans and regulatory requirements. Think how differently the world would operate if profitability were measured over ten- or one-hundred-year increments. Durability should matter when accounting for an institution's success.

Long-lived institutions create more than they consume. Contrary to popular wisdom, they don't seek to maximize profitability in the short term, and they don't pursue or achieve monopoly status. Instead, they earn "enough" to maintain their presence in a market and to remain hard to

kill as a result; they are not greedy. In fact, most of the long-lived institutions founded before the eighteenth century have never grown larger than three hundred employees.

The important lesson? If you're building a company, make sure your mission matters and has a link to societal benefit that is obvious. Companies persist at society's pleasure.

All enduring institutions are successful at preserving and retelling stories to reinforce culture, mission, and devotion. Enduring institutions do this proactively and deliberately. Every successful and enduring company has a mission that benefits the society in which it operates. Companies that endure have a clear sense of what must never change, but they are very good at reinventing everything else, all the time.

Long-term orientation is inseparable from customer obsession; it is born out of a deep care for customers.

Organizations that focus on their customers avoid crowds; they more easily move into unexplored spaces where competition is not so cutthroat. More importantly, a focus on customers enables organizations to learn to adapt through constant experimentation. Build products and a culture that people want.

Part Three: Winning the Future

There are two primary factors that determine the pace of innovation:

Prevalence of technology building blocks: access to inventions makes it easier for people to mash together ideas and create more inventions.

Ease of idea exchange: increased connectivity leads to an increased exchange of ideas and therefore more and better ideas.

Optimistic views, on average, over time, have proven more correct than pessimistic views. Civilization depends on optimism, on the hope and trust that people will generally behave in ways that are predictable. Civilization needs optimists to create the future!

The data tells us we should be optimistic. There is an amazing opportunity in front of all of us who are optimistic about the future. Optimism is understanding the good news that our capacity to solve problems can increase. In the coming age of abundance—an age that we are arguably already living in—when communications, computing, and power are free, innovation will move incredibly quickly.

Large organizations will rise and die much faster, at incredible cost, if they do not learn how to take advantage of the trends and manufacture serendipity through faster cycles of experimentation.

Large corporations are optimized for efficiency but not resilience. This stifles innovation and makes them vulnerable to disruption. The key to success lies in experimentation, adaptability, and a long-term focus on societal benefit.



Elliott Parker is founder and CEO of High Alpha Innovation, a venture builder that partners with corporations, universities, and entrepreneurs to co-create startups that solve compelling problems. He built his career in strategy consulting at Innosight, the firm founded by Clayton Christensen, in corporate venturing, and as an entrepreneur bringing new ideas to market. To date, he has launched over 40 venture-backed startups. Originally from California, Elliott currently resides with his family in Indiana. He earned a B.S. in Finance from BYU and an M.B.A. from the UCLA Anderson School of Management.

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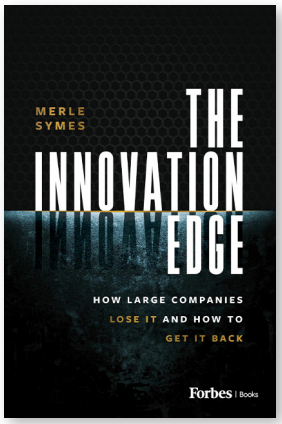
The Innovation Edge

Merle Symes

Executive Book Summaries®

The Innovation Edge

How Large Companies Lose It and How to Get It Back



by **Merle Symes**

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THE SUMMARY IN BRIEF

Innovation is at the core of successful companies. Ironically, the more successful they get, the less innovative they become. And this is the surest path to failure.

In ***The Innovation Edge: How Large Companies Lose It and How to Get It Back***, Merle Symes shares a hopeful vision: that any company can regain its spirit of innovation. As product life cycles get shorter and competition looms, even from former third-world countries, there is no option but to step out of the comfort zone and relearn how to be an innovative organization.

Symes shows how change must happen from the very core of the company management and culture, and spread out to all employees. The book teaches effective ways to become less risk-averse and create a culture where innovation is the essence of every system and business process.

IN THIS EXECUTIVE BOOK SUMMARY:

- Find out why big corporations tend to become less innovative.
- Understand the why embracing the risk mindset is essential for innovation.
- Discover the principles that promote innovation at every level of the company culture.
- Learn why innovation is the key condition for success in the 21st century.

Introduction

Large, mature corporations struggle to be the source of the next breakthrough innovation. Fundamentally, mature businesses need to find a way to rediscover that ability to create major innovation. Strategic innovation cannot be accomplished with business-as-usual methods. A full transformation takes time and significant effort. However, there will be things you can do to create immediate small successes. These smaller successes will build into larger successes. With time, your organization will begin to feel the energy that comes from seeing and experiencing innovation on an ongoing basis.

Chapter 1: The World Is Changing... Dramatically

Companies of today are facing a turbulent, rapidly changing world. Product life cycles have become highly compressed. Companies in emerging economies are now becoming dominant players in world markets.

The ultimate irony is that all large corporations began their existence being highly innovative. Something, however, happened along the way and they failed to maintain that ability to continuously innovate.

The only way that mature companies can achieve dramatic change that will propel them into these new forms of themselves is strategically oriented innovation. We will break down the elements of innovation, analyzing how it originates within entrepreneurial ventures. We will show how large corporations can regain the Innovation Edge.

Chapter 2: Innovation – The Only Sustainable Competitive Advantage

All managers strive for growth. The real difficulty is managing today's growth while simultaneously initiating those actions that will assure tomorrow's growth. Without innovation, the competitors are locked in a commodity trap where prices and margins begin to decline, and growth disappears. The essence of growth, then, is innovation. Innovation needs to become almost second nature to an organization. When that happens, it creates what we call an Innovation Organization.

Chapter 3: How Larger Companies Lose Their Ability to Innovate

Much of the evolution of large organizations took place in the twentieth century, which saw the emergence of the very large corporation. The most obvious impediment to innovation is the sheer challenge of size. This is very apparent when comparing with small entrepreneurial companies and how fast and easily they move. The meetings in those companies are often "hallway" meetings, and decisions are often made on the fly.

Allow us now to contrast this with the large corporate organization. Decision-making is a much more complex process. Managers must convince their managers, who must convince their managers and so on before pursuing any significant new opportunity.

Beyond the impediment of sheer size is the S-Curve Paradox. This paradox comes from the fact that, at the very point in time that an organization should be most attuned to looking for new opportunities, it is the point in time when they are least inclined to do so. As a result of this feeling of success, the management team is much less inclined to feel the need to innovate. As organizations become mature, highly profitable, and comfortable, a risk aversion mindset begins to creep in. As the organization reaches a certain level of success, nobody wants to be the one who screws it up by attempting something new and bold.

Chapter 4: Beginning the Journey – Ascending the Levels of Organizational Innovation

While every organization is different, they fall into one of several levels of innovation:

Level 1 – Slow Death

This type of organization has been doing things the same way for a very long time. In some areas, it may recognize that it needs to change but does not know how to begin. In many cases, it is unaware that there could be different and better ways to do things.

Level 2 – Traditional Mindset

This organization is like the Level 1 organization in that it is not innovative as an overall organization. It is different in one aspect, however, in that it actually demonstrates the ability to develop major new innovative products, at least on an occasional basis.

Level 3 – Emerging Awareness

The Level 3 organization is usually self-aware and often

Innovation and risk are essentially two sides of the same coin.

understands some innovation principles but hasn't fully developed the competencies that allow it to provide ongoing, consistent innovation. They are experimenting—often with mixed results—but with results nevertheless.

Level 4 – Innovation Organization

The Level 4 organization generates innovation in all parts of the organization from all members of the organization all the time. Innovation is at the core of everything it does. It is never fully comfortable with today's successes.

There are essentially four areas of change that must occur to create an Innovation Organization:

1. Building a New Management Mindset
2. Creating an Innovation Culture
3. Establishing the Processes, Systems, and Structures
4. Developing the Skills and Competencies

Chapter 5: Forming the Core – Building a New Management Mindset

The management team must undergo a significant change in mindset. Innovation and risk are essentially two sides of the same coin. An organization cannot successfully become a highly innovative organization without learning to manage both sides of that coin. For most organizations, the risk side is the least understood of the two.

Chapter 5A: The Risk Mindset

Strategic innovation is a move into uncharted territory. That means that managers cannot rely as heavily on previous experience.

This makes managers extremely uncomfortable. All managers prefer certainty. In many cases, managers will tend to shy away from anything that is associated with high levels of risk, no matter how attractive the longer-term potential returns.

Well-run organizations learn from failure and go on to succeed. Likewise, organizations that are enjoying long stretches of success are putting themselves in the position to eventually fail. The paradox is that failure can help create success, and success can lead to failure.

Strategic innovation projects are characterized by the fact that they are journeying into unknown areas. As a result, these types of projects can contain a number of major unknowns (risks), one or more of which can cause the project to result in total failure.

For these reasons, a different management model is needed— both for managing the organization as a whole and for specifically managing strategic innovation projects. The principles for managing strategic innovation initiatives are what we call Active Risk Management:

1. The Concept of Big Enough and Promising Enough

It describes not only the potential financial impact but also the strategic impact. It may represent the next major paradigm for the industry.

2. Intelligent Failure

Intelligent Failure is potential failure that is anticipated as part of an ongoing, methodical planning process. Failure is never desired, but if it happens, it still moves the organization another step forward.

3. Utilizing the Asymmetric Cost Curve

It is derived from the fact that all strategic innovation projects experience lower levels of cost at the beginning of the project and much higher levels of cost toward the end of the project.

4. Attacking the Biggest Risks First

This completely changes the order and the nature of the project. Many of the steps that would normally come later are moved earlier in the project, and they utilize the principle of Intelligent Failure.

5. Taking Bite-Sized Risks

When attacking the biggest risks first, it is important to break down that major area of risk into its subcomponent risks and

then determine which of those represent the most critical areas of uncertainty. You can then focus on eliminating or, at minimum, reducing that uncertainty to manageable levels.

Chapter 5B: Introducing the Proof Point Process

All these principles come together to create a new, very specific project management process that we call the Proof Point Process.

The Proof Point Process is structured around key action steps. We refer to each action as an Advancing Action. Each Advancing Action propels the project to the next Proof Point, which will lead to the next Advancing Action, etc. In an ideal world, each Advancing Action will prove what was hoped for in the next Proof Point, and the project will continue under the original assumptions. The real-world results in different types of Proof Points that may be experienced.

For example, with very early-stage initiatives in a completely new arena, the management team may not know the ultimate form of success that could result from some new thinking. In that case, the earliest and most fundamental Proof Points will be Knowledge Points. The project managers do not know for sure what to expect and don't have a clear idea as to what the next Advancing Actions should be until they get to that point, but the Knowledge Point will give them a clearer idea as to the next step.

If the Proof Point indicates that an initiative still appears to be viable but not on the pathway originally defined, the Proof Point becomes a Pivot Point. A Pivot Point represents a change in direction for the initiative. It means that some of the initial assumptions were not correct.

Occasionally, the Advancing Action is not a good indicator and doesn't provide needed insight. This becomes a Redo Point, and the process needs to be backed up, improved, and redone. We would be remiss if we did not include the Stopping Point. This occurs when the management team has gotten strong indications that the project is not viable. At this point, the management team must make the decision to shut down the project.

Chapter 5C: Managing a High-Reward, High-Risk Portfolio

Fundamentally, several key and unique principles must be acknowledged and followed when managing a strategic innovation portfolio.

1. Not all of the high-potential, high-risk projects will be successful.
2. Project management of these projects must be structured around the major risks of the project, and these must be eliminated or reduced as much as possible in the early stages of the project through a Proof Point Process.
3. Capital is allocated to these projects in stages as they reach certain Proof Points.
4. If one project starts to look much more attractive, more resources are diverted to that project and away from other projects.
5. If projects begin to look less attractive or marginal, resources are diverted away from them, and such projects may even be put on hold.
6. If major hurdles emerge and alternate pathways to success cannot be found, the project is shut down.

Using active risk management principles, the portfolio will contain more active projects than in a traditional portfolio—projects that are still at their lower cost point. They will be de-risked to the point where it becomes clearer which will succeed and which will fail. At that point, they will be converted to traditional projects, and full resources will be committed.

Some will point out that there is a cost associated with these risk management approaches. That is correct. It must be recognized that all risk management tools have a cost for managing or mitigating risk. This is why it is only used on higher-risk, higher-potential projects.

Chapter 5D: The Innovation Mindset

Several major management shifts in mindset must take place to successfully manage innovation:

1. Moving beyond "more of the Same, Harder, Better"
2. Managing value creation along with value capture
3. More probing, more experimenting, more challenging of assumptions
4. Innovation from everyone, everywhere, all the time
5. Empowerment and alignment versus command and control
6. Lower the boundaries, flex the structures, and redefine the roles
7. The four Cs – communication, cooperation, collaboration, and coordination

> Innovation has to be a mindset. It cannot be some program that is "bolted on" to the side of the organization. It has to be an integral part of every aspect of the business.

Innovation has to be a mindset. It cannot be some program that is "bolted on" to the side of the organization. It has to be an integral part of every aspect of the business.

Chapter 6: Developing the Capacity for Innovation – Creating an Innovation Culture

Innovation needs to become part of the DNA of an organization. That means that it needs to become part of the organizational culture. Once a management team has developed the mindset for innovation, it must develop the organizational culture for innovation. To change the culture, one must first become consciously aware of the elements that comprise the current culture. One can think of organizational culture as having layers. The bottom layer serves as the foundation of culture, and it forms that invisible subconscious that exists in every organization.

The values and beliefs that comprise the foundational layer of culture are manifested in the next layer— organizational behavior.

Necessary values:

1. Mutual trust and confidence
2. Diversity of thought
3. Continuous learning
4. Openness to constructive challenge (not just change for change's sake)

Necessary beliefs:

1. All people are creative
2. Roving leadership (leadership is separate from management and at specific times all members of an organization can exhibit leadership)
3. The superiority of collective vision – groups of people are almost always more successful in deciding which of many ideas generated to move forward
4. Risk is necessary, and intelligent failure serves a critical purpose
5. The fundamental nature of ideas

Changing the management mindset has to be the first step in the overall transformation, but it needs to be closely followed by changes to the culture.

Chapter 7: Setting Up the Machinery – Establishing the Processes, Systems, and Structures

For an Innovation Organization, once the management mindset has been reset and the necessary cultural changes are in progress, the third area that must be addressed is the organization's infrastructure. It serves as the very nuts and bolts of innovation.

Strategic innovation processes must be designed to do the following:

1. Generate or identify ideas and capture them within a system.
2. Evaluate and select the ideas with the greatest potential.
3. Provide the necessary resources to develop, test, and refine the ideas.
4. Provide the leadership and the means to move promising ideas through an implementation process to successful innovation.

Chapter 7A: Establishing a Total Innovation Process (TIP)

There are fundamentally three engines of innovation:

1. Spontaneous Innovation - developing a well-defined and well-designed process for capturing the ideas generated by all the minds. Its purpose is to harvest all those random ideas and assure that they are reviewed and given serious consideration.

Spontaneous Innovation requires three essential elements:

- A proper culture and environment that is conducive to creativity and innovation
- Motivated members of the organization
- A source of inspiration.

2. Innovation by Design ® - is about utilizing certain processes and techniques to stimulate creativity in areas of strategic focus and originating innovation that can help the organization become more successful.

This process typically begins with a strategic discussion within the management team - Defining the Area of Opportunity. The second step is about Seeing Differently. The remaining steps include a step for Idea Generation and Refinement, followed by methods for Evaluation and Narrowing. The last step is the Decision Making and Implementation step for choosing those ideas that are worth exploring in more depth.

3. External innovation - refers to various processes for finding and utilizing ideas that originate outside of the organization.

Chapter 7B: The Innovation Implementation Process – Converting the Ideas to Innovation

The implementation process can be generally subdivided into three subprocesses.

We refer to the first subprocess as the Incubator Phase. At this point the organization utilizes active risk management and the Proof Point Process for de-risking the biggest risks.

The Turning Point represents the beginning of a major transition from the exploratory stage to a more traditional project - the Broadening Phase.

The last phase is the launch. It is the time for that last major push to make it a reality.

Chapter 7C: Redesigning Existing Processes, Structures, and Systems for Innovation

The major shifts in new product development have to be the following:

1. A significant shift to more strategic innovation projects
2. The implementation of a Proof Point Process for managing these projects
3. The conscious management of a portfolio of such strategic innovation projects

When designing measures for innovation, there are fundamentally two types of measurements. The first is some way of measuring the progress toward transforming the organization into an Innovation Organization.

Over time, a second type of measure will become more predominant. It determines how effectively the organization is producing successful innovation. The first can be thought of as a progress measure and the second as a performance measure. There is a wide range of opinions about whether innovation needs to be incentivized and, if so, in what form.

Intrinsic rewards refer to those rewards that come from within oneself— generally in the form of satisfaction, enjoyment, or fulfilment that is derived from engaging in some activity.

Extrinsic rewards come from an external source. They are rewards that are typically received in exchange for doing something. Extrinsic rewards tend to cause people to do only what is necessary to get the reward. Even when the incentives are structured around innovation, there is a strong possibility that the incentives will work against innovation.

The selection criteria will be especially critical for hiring managers in an Innovation Organization. Beyond individual traits, we believe that an Innovation Organization in general will tend to hire differently than traditional organizations. Innovation Organizations value diversity of thought and will, as a result, try to find that diversity.

Chapter 8: Enabling the Capabilities for Innovation – Developing the Knowledge, Skills and Competencies

Most organizations simply have not developed the competencies needed to make innovation happen on a sustainable basis. The primary skills that are needed are managerial skills because they are the critical skills to guide an organization toward becoming an Innovation Organization.

Some of the most critical of these managerial skills are noted below:

- Active risk management and intelligent failure
- Project management for strategic innovation initiatives
- Managing a portfolio of strategic innovation opportunities
- Ambidextrous management – managers must learn to simultaneously manage value creation and value capture
- Empowerment
- Roving leadership

- Change management for innovation.

Divergent thinking versus convergent thinking - Business managers are so heavily trained to be convergent thinkers—to make decisive decisions quickly, to get to the end result as quickly as possible—that divergent thinking is often discouraged or squeezed out of business conversations. As a result, new ideas are not explored, and innovation does not naturally emerge.

Seeing differently, creativity tools - While a "creativity tool" can be something as simple as a mind game, it can be something as involved as a detailed analysis of a supply chain or an in-depth study of the customer. Any of these can create new thinking and creative insights.

It is time to take organizational learning to an entirely new level - the Advanced Learning Organization:

Learning as Discovery - It is about the learning that occurs when venturing into truly new territory and uncharted waters. In a sense, it represents perpetual curiosity.

Learning to Unlearn - The most challenging aspect of the Innovation by Design® process is the process of "unlearning" because previous learnings prevent us from originating and considering something totally different than what we currently know.

Chapter 9: The Coming Age of Innovation

There is one additional consideration that needs to be taken into account. Not pursuing strategic innovation opportunities presents its own risk. It is much better that your organization be the source of that change and not just reacting to someone else's innovation initiative.

The simplest paradox for managers to manage is the paradox of divergent thinking versus convergent thinking. These two ways of thinking are opposite in nature, but an organization must be skilled at using both.

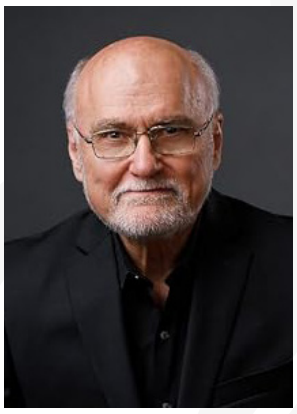
Related to divergent thinking is the need to develop diversity in thinking. The more diversity in thought that exists within an organization, the more creative, the more innovative it will be.

The ultimate paradox is that you often must fail in order to succeed. If you are never failing, you are not learning, and if you are not learning, you are not developing the knowledge that will get you to the next successful innovation. The beauty of innovation is that it creates an excitement that tends to feed on itself. It becomes sustainable.

The Final Word

The twenty-first century will be notable as a period of time when professional managers learn how to produce innovation in a consistent, repeatable manner. It will be the Age of Innovation because the knowledge, the skills, and the tools are emerging that will allow the art of innovation to become the science of innovation.

Innovation Leadership is about taking an organization to a point where it develops the repeatable ability to move to new paradigms. This becomes the ultimate form of renewal and sustainability … it becomes the Innovation Edge.



Merle Symes leads The Provenance Group, a consultancy renowned for transforming organizations to excel amid modern business turbulence. With extensive experience in executive management and strategy development, he specializes in innovation, agile and adaptive frameworks, and strategic process redesign.

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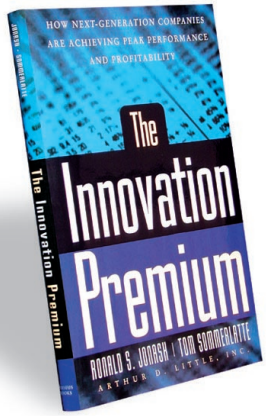
The Innovation Premium

Ronald S. Jonash and Tom Sommerlatte

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FILE: STRATEGIC MANAGEMENT



By Ronald S. Jonash and Tom Sommerlatte

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Achieving Peak Performance and Profitability

THE INNOVATION PREMIUM

THE SUMMARY IN BRIEF

Businesses that deliver earnings growth thanks to innovation have consistently been valued higher on Wall Street than those companies that maintain stodgy, outdated ideas and routines. Investors reward and pay a premium for innovation. Authors Jonash and Sommerlatte call this the Innovation Premium.

Based on studies of companies that have harnessed this concept and thus, become more flexible and quickly responsive to change, the authors present a framework for capturing the innovation premium focusing on five areas:

- **Strategy.** Next-generation companies do not merely build products; they also build platforms — innovative programs that develop key technologies and capabilities — then apply them as the basis for growth and innovation.
- **Process.** Next-generation companies manage the front and back ends of their innovation processes in such a manner that a steady stream of new concepts and ideas lead to a steady stream of innovative products.
- **Innovation resources.** Next-generation companies must be committed to putting resource muscle behind their mechanisms for innovation, making plentiful investments and eliminating barriers to innovative ideas and the people who create them.
- **Innovative organization.** The next-generation organization must be fluid, networked, partnered, global and led by devoted professionals in order to meet the challenges of an increasingly border-free business environment.
- **Innovative learning culture.** Next-generation companies must build a culture of continual change and learning, distributing the free flow of knowledge across their entire enterprises.

According to the authors, first- and second-generation companies kept innovation limited to research and development departments. In the third-generation companies of today all departments, from marketing to production to R&D, have a role to play in enhancing the company innovativeness. In next-generation companies, however, innovation is pushed beyond the boundaries of the company. Customers, suppliers, and strategic partners are all involved in making the company an innovative leader.

This summary shows you how to make your company a next-generation company.

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THE INNOVATION PREMIUM

by Ronald S. Jonash and Tom Sommerlatte

— THE *COMPLETE* SUMMARY

Meet the Next Generation

True innovation is the driving force not only for individual companies but also for entire economies. Managers must realign strategies, processes, and resources to focus directly on innovation and technology, in order to thrive in a business environment increasingly keyed to those efforts. In contrast to traditional research and development (R&D) efforts, next-generation businesses must model their operations on two fundamental principles:

- **Management must drive innovation across the entire enterprise to create value.** Just as true innovation never occurs in isolation, next-generation companies must accelerate learning, build cross-enterprise networks and expect real-time expertise. The skills and capabilities of their employees must be aligned with business goals and linked to cross-disciplined networks, which enables the enterprise as a whole to flourish encouraging teamwork and inspiring innovation.
- **Management must leverage technology and competency to drive sustainable innovation and capture competitive advantage.** Next-generation companies must construct technology and competency platforms, consisting of a powerful combination of human skills, competencies, and state-of-the-art technologies. As shown below, these platforms can then be tapped to generate improvements and innovations in growth and performance. ■

What Used to Work So Well No Longer Does

Venturing into new management territory can be daunting; many of us stay with what is familiar and safe, clinging to a routine and avoiding change. There are, thankfully, other aspects of business that counter this inclination — pride in achievement, will to succeed and a thirst for knowledge among them. These characteristics are the same things that spur next-generation companies to innovation and advantage, even in the face of several daunting obstacles:

- Intellectual property is becoming increasingly difficult to protect, preserve, measure and manage.
- Businesses and industries are no longer insulated from their competitors, making innovation leadership difficult to sustain.
- The nature of competition has shifted to cost leadership, and reengineering-driven cost reductions have overwhelmed many innovative initiatives.
- Technology advances have altered research and development, leaving some R&D departments mired in old competencies.
- Traditional R&D managers focus on internal operations, leaving the extended enterprise (suppliers, partners, etc.) unmanaged.

Strategy: Build Platforms, Not Just Products

To set the pace for innovation, companies must not only build products. They must also build technology and competency platforms — sets of key technologies and/or capabilities applied as the basis for growth and innovation in a variety of products and services. These technologies and capabilities may be slow to develop and are typically quite demanding, but, once developed, they represent a tremendous advantage over competitors that do not acquire them.

For example, sophisticated technology platforms allow Millennium Pharmaceuticals, Inc. to engage in gene mapping and produce a broad range of scientific compounds. And Canon builds competency platforms to improve digital imaging.

There are four levels of platforms, each one representing different levels of commitment of resources and

(continued on page 3)

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Strategy: Build Platforms, Not Just Products

(continued from page 2)

time expected from your company:

- **Knowledge and learning.** This exploratory, tangential platform encompasses an area about which you may know little, but which seems promising for innovations. This platform requires minimal managerial control, low investment and a loose alignment with overall strategy.
- **Excellence and leadership-building.** This platform is developed in response to a situation — a technology or trend that will have some as-yet-unidentified impact on your business. In order to stay ahead, develop competencies that will help you meet the challenges imposed by that impact.
- **Innovation and development.** You recognize an area of expertise as the center of a great deal of innovation and creativity — new products will definitely emerge from this platform, and management actively pursues growth in this area.
- **Business-performance and growth.** This platform defines an area that is already turning out successful products/services, one in which you will continue development and defend your position from competitors.

Next-generation companies are constantly searching for new platforms — at any of the four levels — for growth and innovation. Building technology and competency platforms is at the heart of innovation strategy. ■

The Chassis Innovation

Platforms originated in the auto industry when companies like General Motors, Ford, Mercedes-Benz and others countered the staggering development costs of maintaining a growing number of models and types of cars by imposing a common chassis on an entire family of autos. Development efforts could then be concentrated on improving brake systems, traction and other features, allowing the companies to broaden their competence in this development, reduce logistical costs and speed up innovations and new models.

How Do You Begin Setting A Next-Generation Innovation Strategy?

Ask yourself these questions:

- **Are continual improvement initiatives going to gain competitive advantage, or will they be enough only to keep pace with aggressive, cost-cutting competitors and erosion of prices?**
- **What is the average life span of your typical R&D effort?** How long can one continue without a successful product or service launch? How are R&D efforts funded? How are their budgets evaluated and measured?
- **Are new cost-reduction breakthroughs necessary?** Are they possible?
- **Are merger-and-acquisition initiatives sufficient to close critical gaps, or are cost and strategic synergies too few and elusive to justify such a move?** Do new partnering opportunities offer better value propositions than mergers?

Follow up with these essential moves:

1 Develop effective analytical tools to assess key strengths, weaknesses, opportunities and threats (SWOT). Conduct SWOT analysis across the breadth of your extended enterprise, identifying key gaps and ways to close them.

2 Develop roadmaps of emerging technologies and business opportunities, and forge a clear view of your subsequent alternative futures. Look for harbingers of future innovations from every imaginable source and create scenarios of what the future looks like and what it will take to establish leadership in each potential future.

3 Prepare contingency plans and set forth responses to potential scenarios. Create plans to cope with any possible exigency that could intrude on your strategies.

4 Establish a compelling innovation vision tied to a clear strategy. Develop a plan to achieve your goals and firm up your commitment to innovation.

5 Play to your strengths. Focus your firepower on core areas of expertise.

6 Manage external partners and resources. Outsource or enter into partnerships with other organizations to shore up gaps in your innovation platforms.

7 Align projects with your innovation vision and with platforms and partners. Realign activities with platforms and partners to build long-term potential while still producing short-term results.

8 Clarify everyone's roles. Make certain everyone knows their place in your new strategy. ■

Process: Move Seamlessly From Concept to Customer

There are two fundamental features of next-generation innovation process:

- **A wide-open front end in which concepts are varied and plentiful.** The initial stages of a process must drive a search for ideas among a great variety of sources, increasing the likelihood that you will find effective new developments in product and service methods, concepts, ventures or businesses.

  First-stage next-generation innovation gives "idea chiefs" the material with which to fashion new concepts, even as they monitor external activities to help clear up a sometimes foggy picture of the future. These activities may include forthcoming governmental regulations, new modifications to technology and unmet needs in the marketplace or with future customers.

- **A broad ending in which an array of products and services are rolled out to customers willing to pay a premium for strong, compelling value propositions.** The final stages of a process promote the commercialization that captures value at every conceivable point — licensing, patents, imaginative distribution channels and the like. In these stages, the innovations at the core of the process are exploited to achieve maximum value — whether you are pursuing the endeavor alone or in concert with partners.

An organization's "idea basket" must be constantly full with concepts that relate to both expected and unexpected demands. Every component of your enterprise must contribute — customers, distributors, suppliers, alliance partners and so on. The result will be an innovation process in which a steady stream of innovative ideas move seamlessly from concept to customer.

Abandoning the Product-Development Mindset

Some companies believe that they have a broad, open innovation process in place. Actually, their process is still focused on product development. The product-development process is based on screening and discarding ideas; it does not encourage as many ideas as possible.

Breaking out of product development and into innovation requires adherence to several key points:

- **Exploit the knowledge and intelligence of your entire extended enterprise.** Networking is power; you must share knowledge with your organization's allies and partners, and keep a close eye on both competitors and new trends and technologies.
- **Integrate your customers and suppliers into the process.** Deploy staff to meet customers and absorb their needs, using one-to-one meetings, focus groups and brainstorming sessions to bring customers and suppliers on board with your innovation efforts.
- **Open up the front end of your innovation pipelines.** The opening stages of any innovation process can be chaotic, something for which many managers have little use. They only want to see the "winning" ideas, not the other, discarded concepts that also inhabit your brainstorming stream. However, this process can be managed by establishing good criteria for what is being sought and using an efficient mechanism to sort and channel what is found.
- **Increase the pace with innovation networks and platforms.** Business moves at ever-increasing speeds. Be aware of the shelf life of products, services, even ideas, and create a high-velocity innovation process to address it.
- **Ask questions that lead to increased value from innovations.** As you work to expand the final, commercialization-driven end stages of your process, address these and other pertinent questions:

  Does your market position allow you to effectively and profitably introduce new products or services?

  Do you have the logistics capacity to pull it off? Can you quickly achieve the best economics of scale?

  What is the marketing potential of your innovation, both regionally, nationally and internationally? Do you have sufficient geographical reach to cover the space you need?

  Can commercialization be effected through your own means or are partners required? ■

Nokia's Innovative Telephone

In 1992, Nokia, the Finnish telecom giant, applied its entire organization to the task of creating a portable telephone that provided access to the Internet, including a World Wide Web browser, calculator, clock and built-in e-mail and fax capabilities. It was a bold move in a market still in its relative infancy; the company had to develop new technology platforms and partnerships, and a management scheme that could deliver the product on an aggressive schedule.

To do so, Nokia relied on its proven product-development process, which was driven by a fluid, flexible team drawing on a number of cross-functional resources. The key factor in its success, however, was in the way the company devoted that process to achieving maximum value from innovation, extending it from R&D all the way to users — a concept-to-customer stream that allowed it to achieve heretofore untold success.

Resources: Invest in Innovative Platforms and Partners

Strategy will set the pace of innovation in your company and next-generation innovation process maintains that pace. To accelerate the pace of innovation, you need to focus on next-generation resources.

Next-generation resources include your company's facilities and equipment and your financial support. They also include employees, suppliers, partners, customers, even competitors. Finally, these resources include your company's knowledge, competencies and technologies.

Here's a closer look at some of the above resources:

Suppliers. Next-generation suppliers help cut costs, streamline product development and perfect the design and delivery of products and services. There must be a coordinated effort between suppliers and customers, with both sides working in unison to reduce costs and save time. There are mutual rewards to be had, and an underlying recognition that survival may depend on how well each side cooperates on projects and programs with mutual benefit.

For example, Chrysler led the development of a concept car in which the brake manufacturer fully funded the brake work, while Chrysler funded all systems related to the auto's suspension. Costs for the seats were shared equally with another partner, and the costs for the exterior trim were divided 60-40 between Chrysler and yet another partner, with Chrysler assuming the larger amount.

People and Competencies. Traditional roles and occupations within next-generation organizations give way to team-based networks comprised of employees who, in addition to their usual assignments, use their expertise to pursue special innovation projects.

Partners. Next-generation companies are willing to work with others as equals, sharing information and treating one another with respect and openness, all in a relentless search for the information premium. For example,since 1996, Sun Microsystems has, teamed up with Novell, Inc. to combine networking software and Java technology for a host of quality products. Sun does not allow innovation to be confined or constrained within its own corporate walls; rather it allows innovation to extend forward and backward along the value chain, and outward, to include suppliers, partners and other key people and entities. ■

"The Iceberg Survived"

The Advanced Technology unit of the Chrysler Corporation is devoted solely to the development of concepts for Chrysler cars — a development process that is often five to ten years ahead of the time when the cars will reach the public. Company insiders often refer to the unit as "the tip of the iceberg" because its relatively small size belies the resources it marshals.

Once, a visitor asked a Chrysler executive whether the iceberg analogy was appropriate, in light of its association with the Titanic disaster. "Well," the executive responded, "the iceberg survived."

Where Do You Stand with Regard To Next-Generation Resources?

- **Can you name your intangible assets?**
- **Do you see employees as an expensive, albeit necessary, asset?** Do you recognize their worth?
- **Can you recognize the value in funding R&D projects, or does it seem like you're throwing money down a black hole?**
- **How wide is your resource net?**
- **How does your company feel about risk?**
- **Can you rely on and share resources with your partners?** How often do you meet with partners to share ideas? At what point in the product life cycle do you include them in your processes? Do you trust them?
- **When was the last time you listened to and acted upon an idea proffered by an external source?**

Developing and Maintaining Next-Generation Resources

Next-generation resources are assets that must be systematically managed. They lie fallow until they receive the investment and serious commitment that turns them into actions. The following are some of the ways that you can make the most of your next-generation resources:

- **Resist the temptation to see resources in purely budgetary terms.** Do not overlook the value of your suppliers, partners, customers and employees to your information premium. If you treat R&D as a cost center, it will behave like a cost center; if you treat it as an investment vehicle for growth, it will respond accordingly.
- **Leverage what you've got.** Assess your innovation assets and leverage what you have to what you can accept. Warning: This may require a change of attitude about control and proprietary information.
- **Eliminate barriers.** Be willing to break down walls

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Developing And Maintaining Next-Generation Resources

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or, at very least, create pathways through them, in an effort to allow suppliers, partners and customers to engage in the give-and-take of knowledge required of next-generation companies.

- **Use innovation platforms and partners to make investments in human resources and competencies.** Develop world-class competencies in areas that are most critical to your growth. Then put the best people in charge of bringing that innovation to life.
- **Get the most from your intellectual property**. Develop an understanding of your intellectual property, bundled in a variety of different ways. Then target areas for future investment, by developing explicit asset management plans around the patents, trade secrets, knowledge and other bundles of intellectual property.
- **Develop innovation, resource and asset management plans.** Combine quantitative elements from traditional valuation methods and systematic qualitative assessments, isolating the contributions that different resources make to your business. ■

Organization: Create Worldwide Networks of Innovators

Strategy, process and resources are all important elements of the next-generation company. But your company's organization is also key to capturing the innovation premium.

What Constitutes a Next-Generation Innovation Organization?

It is fluid. Ideas flow effortlessly from one part of the enterprise to another without having to pass through corporate red tape. This means that senior executives, managers, employees, partners, customers and suppliers can freely exchange ideas without having to deal with boundaries or other roadblocks.

Leadership is critical. A chief development officer (CDO) must manage the innovation process from concept to customer, and must create and capture value in both the technology and product process development pipelines. He or she must also act as a coach for senior innovation leaders and as the central point of accountability for management of resources and technology.

It is networked. Innovation networks are the arms, legs, eyes and ears of the next-generation organization. They involve people from different hierarchical levels in your company, each of whom is accountable to contribute a critical capability so that the network as a whole reflects the organization's insight and experience.

It has partners. Your partnerships with entities outside your company must outlast the specific "deal" or transaction that brought you together. Focus on aligning your organizational structure with theirs, and on managing a broad range of details and links necessary to create growth and innovation for all parties.

It reaches across borders and beyond boundaries. Consider decentralizing your R&D functions, spreading them across the breadth of your business units, closer to customers and the exchange of new innovations and technologies. ■

Alcoa's Innovation

Just as walls within organizations must be broken down to allow the free flow of innovation, geographic borders likewise mean very little in the face of companies' worldwide expansions, cross-border integrations and other international pursuits. Organizations must be able to reach into all corners of their international operations; innovation can no longer be isolated and restricted to one central location. Such was the case at Alcoa, which had to find ways to expand from its headquarters in Pittsburgh, Pennsylvania, to a global network of innovators, working together, sharing knowledge and exploring the possibilities of next-generation innovations.

To effect this change, Alcoa did three key things:

Create teams. The company created new teams to insure that the organization works as smoothly as possible. The organization's Technology Board is the forum for senior leadership to set direction, emphasize critical issues, determine high-level goals and set strategies to meet them. Alcoa also created Technology Management Review Boards (TMRB) to drive initiatives and investments across business units, and to set strategy, lead technology deployment and drive innovation.

Establish a wide range of formal and informal innovation networks and platform teams. The company fosters innovation throughout its own internal operations, as well as outward, with valued partners. Together, they leverage their technologies and competencies to great and successful effect.

Lower costs. The company embarked on an aggressive campaign to lower costs and increase the return to shareholders through continuous improvement and the introduction of the Alcoa Production System (APS), which monitors and minimizes waste and encourages efficiency across the breadth of the company's operations.

Building a Next-Generation Organization: Where Do You Stand?

- How often do you get your business unit managers together in the same place to share knowledge?
- Are your key R&D experts on the front line or in the back room?
- Is innovation ingrained in your company's culture, or is it merely a buzzword?
- Do innovative ideas get tangled in bureaucracy somewhere between conception and commercialization?
- Is your company active in pursuing its strategic vision of the future, or merely reacting to the moves of your competitors?

Build a Culture of Continual Change and Learning

Having the right organizational structure and the right culture is vital in capturing the innovation premium. To sustain the pace of innovation, your company must build a culture of continual change and next-generation learning. Learning is the key.

- **It is central and all-encompassing.** Learning must be continuous and company-wide, enabling an organization to capture a set of sustainable benefits that define the innovation premium. Intelligent strategies must be combined with innovative process and the creative use of resources and supported by an efficient organizational structure.

- **It is distributed across the enterprise.** Companies must gather ideas from every corner of its extended enterprise, while at the same time maintaining a firm commitment to finding out firsthand what customers really want. This is done by fostering a model of learning based on innovation of both product and process — each are essential to your continuous learning effort.

For example, British Petroleum was able to transform itself from a debt-ridden and divided behemoth into a sleek, flexible and innovative organization. At the heart of the transformation were cross-unit performance improvement teams (PITs) that encouraged cross-unit and enterprise-wide learning.

How BP Did IT

"Learning is at the heart of a company's ability to adapt to a rapidly changing environment," says John Browne, chief executive and managing director of the British Petroleum Company (BP). "It is the key to being able to both identify opportunities that others might not see and to exploit those opportunities rapidly and fully."

Before Browne took his position in 1995, BP was a debt-mired, confusing amalgam of divisions involved in different fields. Now, the company's debt is down almost 60 percent, it has an annual growth of over five percent, and has embarked on a series of high-profile acquisitions. Many credit Browne's stewardship for the turnaround; with him at the helm, BP has created a strong innovation-and-growth engine that extends from the company's fresh commitment to consistent, company-wide learning.

Browne instituted two critical entities within BP:

- **Performance-improvement teams (PITs).** PITs help employees recognize their individual responsibilities to the performance of the entire enterprise by putting into place quantitative performance measurements that stretch across divisions, business units, and enterprise boundaries. Since BP's business groups are, by definition, asset-based, there exists a danger that individuals may become so internally focused that they lose sight of endeavors outside their own realms of responsibilities. PITs help create a more balanced focus on the management of knowledge-based and intangible assets.

- **Peer-assist programs.** These programs encourage employees to seek out solutions to problems within a shared learning environment, simultaneously solving the problem, increasing the knowledge base of BP's internal resources and reinforcing the importance of teamwork. BP recognizes that, until an employee's acquired knowl-

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How You, Too, Can Champion Next-Generation Learning

- **Make sure your innovation leadership provides learning leadership.** Your organization's learning efforts should have a central individual to take the lead, enlisting every member of your company to buy into the program, thus accepting the challenge to achieve innovation and maximum value.
- **Reinforce the notion of organization-wide teaching and learning.** A greater emphasis on learning must be spread throughout the entire organization; innovation will wither without it.
- **Establish standing teams to foster sustainable learning.** Long-term success requires more than single-focus, ad hoc teams and one-shot projects; the growth achieved through these measures is simply not sustainable. Organizations must establish standing teams whose learning curve is not task-specific, but steady, cumulative and sustainable.
- **Set aside time to reflect on lessons learned.** Time for reflection is crucial for the sustained learning demanded by next-generation innovation. Dialogue and reflection are vital in order for you to learn from what you do.

Build a Culture of Continual Change and Learning

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edge and expertise is combined with that of his or her peers, and then is made available to others in a clear and usable form, they cannot generate the intrinsic driver of innovation: ideas. ■

Capture the Innovation Premium

True innovation is powerful enough to change the economy. It is the prime force behind the longest-running economic expansion in the history of North America. Standard business cycles are, in many cases, circumvented, thanks to the innovations brought about by next-generation companies in key business areas such as strategy, customer management, operational performance, product development, process and service creation.

One reason that innovation is such a powerful economic force is that the benefits of capturing the innovation premium are not limited to the company itself, but extend to all of the company's stakeholders, including customers, employees, partners and shareholders.

What does it mean for customers?

Creativity benefits customers by providing new products and services and high levels of customer satisfaction. With next-generation strategies in place, companies can focus on specific customers, and service their needs in innovative ways, making it exciting and worthwhile for their customers to do business with them. Organizations can focus on the core facets of doing business in our age:

- **Targeting specific segments of customers,**
- **Tailoring their offerings to each segment's buying needs and preferences,**
- **Soliciting feedback from the customer to continue the process in an efficient and productive manner.**

Next-generation companies also create differentiation strategies to help pinpoint *why* their customers buy from them. They solicit two-way communication with customers, mixing traditional options with newly emerging technologies like the Internet to give customers more ways to make their preferences known.

What does it mean for employees?

Just as the exchange of value between innovative companies and customers creates a rich and self-perpetuating cycle, next-generation companies build employee relationships on the same principles of mutual benefit and perpetuating excellence. Innovative companies attract the best and brightest work force, who turn in the best performance, which attracts more of the best employees, who further fuel the organization's innovation.

Next-generation companies lift the performance of their employees by freeing the initiative, creativity and drive inherent to each one — a far cry from the stifling confines of the traditional corporate environment. The programs these companies put in place to help employees develop individual capabilities and collective competencies lead employees to view the workplace as a place where they can attain their personal and professional goals. This, in turn, leads to increased levels of creativity and lower rates of turnover.

What does it mean for partners?

Next-generation companies recognize the fact that they cannot go it alone in the face of shrinking product development cycles, rising development costs, rapid changes in technology and increasing customer sophistication. Partnering and extending networks are crucial to the value equation that enables next-generation companies to command the innovation premium, capturing value for those very same partners.

While many companies claim to have productive external networks and partners, only the most innovative ones create value and improve earnings performance across the extended enterprise — developing and exploiting opportunities and building a sense of trust, both of which make them very attractive to investors, customers, employees and partners alike. Innovators like Chrysler and Sun Microsystems provide value to their partners, suppliers and customers by implementing programs that help build that extended enterprise.

What does it mean for shareholders?

In industry after industry, market after market, company after company, innovation that cuts across strategy, customer management, processes and products and services has earned next-generation companies greater growth in value; that value, in turn, pays off for investors. A good example of this phenomenon is Chrysler. By tending to innovations in its sourcing and partnering relationships, its customer service and customer segmentation, the company has been able to generate $3 billion of new shareholder revenue and, in the process, has changed the rules of engagement in the auto industry.

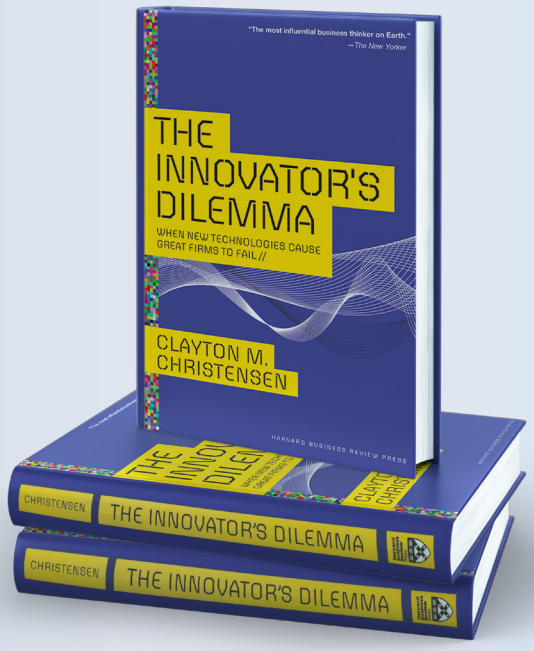
There are risks involved in investing in next-generation companies, just as there are risks in investing in any company. Innovation implies risk, and when companies set out on the pathway that leads to the innovation premium, they are, in fact, taking a risk. But to risk is to dare, and to dare is to seize the opportunity to succeed in previously unimagined ways. Properly conceived, executed and managed, innovation repays risk several times over, making seeking the information premium a risk well worth taking. ■

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The Innovator's Dilemma

Clayton M. Christensen

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The Innovator's Dilemma

by Clayton Christensen

Clayton M. Christensen is the Kim B. Clark Professor of Business Administration at the Harvard Business School. In addition to his most recent book, Competing Against Luck, he is the author of nine books, including several New York Times bestsellers — The Innovator's Dilemma, The Innovator's Solution, Disrupting Class, and and most recently How Will You Measure Your Life?. Christensen is the co-founder of Innosight, a growth-strategy consultancy; Rose Park Advisors, an investment firm; and the Christensen Institute, a non-profit think tank. In 2011 and 2013, he was named the world's most influential business thinker by Thinkers50.

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The Importance of Abandoning Traditional Business Practices

For years, two questions were keeping author and business strategist Clayton Christensen up at night. The first was, "Why is success so difficult to sustain?" The second was, "Is successful innovation really as unpredictable as the data suggests?" Unable to fully answer either, he decided to dedicate his life's work to reaching a conclusion. His research and exploration around them were the foundation of the eventual book, The Innovator's Dilemma. First published over two decades ago, this edition of the book shares some of the newer research Christensen and his colleagues have conducted since.

There are "two principles of good management" commonly taught in business higher education: "that you should always listen to and respond to the needs of your best customers, and that you should focus investments on those innovations that promise the highest returns." In practice, however, these two principles are often the root causes for a company's demise. "Doing the right thing is the wrong thing." This is what Christensen calls the innovator's dilemma and explaining it is the purpose of the book.

He aims to bring useful theories to "innovators, entrepreneurs, and the people who invest in them" that allow them to work with far higher rates of predictable success. And, Christensen assures readers, although the word theory, when applied to the business world, may sound impractical, theories are anything but. "Theories are statements of cause and effect" that help us understand "what actions yield which results, and why." Given that, "a good theory is consummately practical." Managers are unwitting "voracious consumers of theory" and those reading Christensen's book will apply his theories to get the results they seek.

Following Your Customers to Failure

"Blindly following the maxim that good managers should keep close to their customers can sometimes be a fatal mistake." Christensen uses the example of the disk drive industry as a means to understanding "when "keeping close to your customers" is good advice and when it is not." In that industry, which highlights similar mistakes in other industries, the best firms achieved success

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because they were responsive to their customers' changing needs. These same firms eventually failed for the very same reason. The patterns illuminated by Christensen's detailed study of this industry can be used to shine light on a reader's own industry. They will become "better able to recognize how similar patterns have affected their own fortunes and those of their competitors."

Beginning in the mid 1970's, the disk drive industry experienced about a dozen years of very fast growth, technological improvements, and turbulence. Seventeen firms existed in 1976. By 1995, all of them had failed or been acquired. More than 120 new firms had entered the market in that time period and more than 100 of them failed. The "nearly unfathomable pace of technological change" during that time period is often cited as the reason for the acute rate of failure. Christensen studied this hypothesis deeply and found that it was false. "Neither the pace nor the difficulty of technological change" was the root cause of the catastrophic failures. The actual key to whether or not a firm succeeded or failed, he asserts, is how they "came to lead or lag in developing and adopting new technologies."

One may assume that a new firm, entering the market at a time when a new technological development is rising, would enjoy the benefits of timing. Not so, says Christensen. In reality, only the established firms with a longer history and experience in the outdated iterations had the resources necessary for the required "sustained investment." Established firms were the "leading innovators in developing risky, complex, and expensive component technologies" that ended up being "sustained innovations." Those were not the only types of innovations, however. There were also "disruptive technologies" that industry leaders failed to survive.

In general, disruptive innovations lead to product designs that are "unimportant to the mainstream" with attributes "valued only in emerging markets." Christensen says that the size of disks dropped steadily from 14-inch diameters to only 1.8 inches in a relatively short time period and that was the most important disruptive technology in the disk drive industry. Established firms failed at a high rate when they lagged in making a change in size of the disks they were offering. They delayed in "making the strategic commitment to enter the emerging market" and were, therefore, "held captive by customers" in the mainstream who were late adopters to the smaller size disks. Their "customers were pulling them along a trajectory that would ultimately prove fatal." The very same pattern was repeated again and again as disk size continued to innovate. The firms that survived these technological disruptions were the "entrants to the industry" despite the fact that industry leaders had the "technological prowess in leading sustained innovations."

How Great Companies Fail

Christensen proposes three main theories that explain how great companies fail:

1. Inappropriate "managerial, organizational, and cultural responses to technological change." Many believe that simple explanations exist to explain how a great company can fail in the face of technological change. They blame the culture, saying it is mired in bureaucracy, too complacent, or overly risk averse. Christensen says that the problem is more complex than that. The real hang up is that organizational structure itself can stifle innovation. The way different teams work together helps the company's dominant product. When those same teams are asked to innovate, those very organizational tethers can adversely affect design, creativity, and cross-departmental cohesion.

2."The ability of established firms to deal with radically new technology." This explanation asserts that the sheer "magnitude of the technological change" is too radical for the established company to withstand. In this theory, established firms have gotten very good at making small improvements to their existing product but adjusting to a sweeping change is too great a challenge. Newer firms, conversely, are in a better position to take advantage of these wildly divergent advancements. This theory is similar to the maxim, "you can't teach an old dog new tricks."

3. A breakdown in the value network. A value network is the degree to which a company "identifies and responds to customers' needs, solves problems, procures input, reacts to competitors, and strives for profit." Christensen says that this value network plays a critical role in how both established and entrant firms fare when faced with technological change. Every organization has a strategy that, among other things, determines the markets it chooses to enter and how it perceives the "economic value of new technology." Those perceptions tend to "drive the allocation of resources toward sustaining innovations and away from disruptive ones." Established firms, therefore, consistently lead in incremental technological adjustments and fail when the changes are radical.

The Risky Business of Emerging Markets

Markets that emerge from disruptive technologies are unique in their "unknowability." Managers have to formulate plans for "learning and discovery rather than plans for execution." These emerging markets are fraught with uncertainty. Managers that believe they can predict the future of those markets will allocate funds very differently than those who understand the inherent volatility involved. Further, most managers have little training, education, or experience in "how to discover markets that do not yet exist." Most managers make decisions using an analytical process that works with sustaining innovation but that paralyzes a company when applied to disruptive technology.

The normal process requires "quantified information when none exists, accurate estimates of financial returns when neither revenues nor costs can be known, and management according to detailed plans and budgets that cannot be formulated." When these inappropriate processes are the only tool in the belt, companies are incapable of spotting opportunities and creating the new markets that emerge from disruptive technologies. When faced with a new market that does not behave in the way the manager predicted, the reaction is often to forge ahead working harder and planning smarter. This approach is destined to fail. It "denies the evidence about the nature of disruptive" innovations.

There is one constant in the realm of disruptive technologies that managers can always count on: "Experts' forecasts will always be wrong." It is not possible to predict with any degree of certainty how "disruptive products will be used or how large their markets will be." The degree to which these markets are unpredictable means that "companies' initial strategies for entering these markets will generally be wrong." The business of emerging markets is "genuinely risky."

Appraising an Organization's Capabilities

One of the critical functions of a manager is assigning the right employees to the right projects and roles. They take into account what the job requires and match someone with the right mix of skills and aptitude to the job. The employee's "knowledge, judgment, skill, perspective, energy" and even their values all come into account. This ability to make successful matches between projects and personnel is "the hallmark of a great manager."

The same rigorous assessment must be made to determine an organization's capability to execute. Most managers do not even think about this, much less apply the same scrutiny they would to an employee's capabilities. "Organizations themselves, independent of the people and other resources in them, have capabilities." To succeed, managers must be able to choose, build, and prepare their organization for the job ahead.

Christensen presents a framework that managers can use to understand "whether the organizations over which they preside are competent or incompetent of tackling the challenges that lie ahead." Within the framework, there are three factors that impact an organization's capabilities: "its resources, its processes, and its values."

"Resources are the most visible of the factors that contribute to what an organization can and cannot do." Human resources are a big part of the equation but an organization's "equipment, technology, product designs, brands, information, cash, and relationships with suppliers, distributors, and customers" are also included. Resources are things or assets that can be transferred around the company, put to use for the success of the organization.

When a company has access to an abundance of resources, they are far more likely to cope with change successfully. However, resources do not tell the whole story. When a manager is confronted with change, they often look to the resources as proof that the change can be successfully navigated. If two organizations had access to the exact same resources, they would experience very different outcomes to change. "The capabilities to transform inputs into goods and services of greater value reside in the organization's processes and values." What an organization does with resources they possess is more important than the resources themselves.

The work of a company is to transform its resources into products or services that are more valuable than the inputs of resources. The ways that the organization transforms these resources is through processes related to coordination, communication, and decision-making. Processes may be formal or informal but are always tied to the systems in place for "product development, procurement, market research, budgeting, planning, employee development, and resource allocation." Processes continue within an organization because they are proven to be beneficial. However, when we take a process designed to accomplish a capability and apply it to a new capability, they may not hold up. By their very nature, processes are meant to only be changed under very strict procedure. They are set up to be resistant to change. "These typically inflexible processes are where many organizations' most serious disabilities in coping with change reside."

The third factor that impacts an organization's capabilities are its values. Organizations prioritize how to allocate resources, set up systems, and make decisions based on their values. Values are defined in this context as "the standards by which employees make prioritization decisions—by which they judge whether an order is attractive or unattractive; whether a customer is more important or less important; whether an idea for a new product is attractive or marginal; and so on." Employees at every level of the organization make these types of decisions. Managers are measured by how their people demonstrate an understanding of these values clearly and consistently in that decision making.

In ***The Innovator's Dilemma,*** author and researcher Clayton M. Christensen provides readers with a thorough, highly detailed explanation of how established organizations can fail in the face of innovation and what managers can do to help their own companies avoid those mistakes. More dense and comprehensive than a typical management book, readers are invited to draw parallels between the information presented from cherry-picked industries with their own. Christensen's deep and detailed dives into these select industries from the past have been the source of some criticism from readers who would rather study more modern technologies and companies that have faced the litany of technological disruptions that have occurred since the timeframe Christensen discusses. The author points out, however, that all theories are created from past experience and the rich data available about those earlier disruptions lends itself to far more accurate findings than would be available otherwise.

Further, these case studies perfectly illustrate one of the key phenomena Christensen's research discovered: a company can do everything right and still fail in the end. Facing that paradox and gaining tools and understanding that will help an organization avoid that fate is one of the most valuable lessons learned from the Harvard researcher's work. Managers in any industry would do well to keep a copy of Christensen's seminal book on their shelf, regularly revisiting the theories and applying them to their pursuit of innovation and advancement.There is a succinct summary included at the back of the book that readers will find useful in synthesizing their learning and as a reference tool.

Managers who want their companies to survive the next great technological distribution will find wisdom in Christensen's timeless advice.

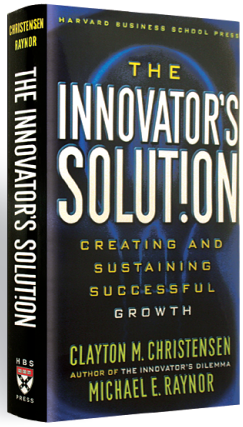
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The Innovator's Solution

Clayton M. Christensen and Michael E. Raynor

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Clayton M. Christensen and Michael E. Raynor

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Creating and Sustaining Successful Growth

THE INNOVATOR'S SOLUTION

THE SUMMARY IN BRIEF

Roughly one company in every ten is able to sustain the kind of growth that translates into an above-average increase in shareholder returns over more than a few years. Once a company's core business has matured, the pursuit of new platforms for growth entails daunting risk — to put it simply, most companies just don't know how to grow, and pursuing growth the wrong way can be worse than no growth at all.

In The Innovator's Dilemma, *Clayton Christensen showed how companies that focus on high-end products for profitable customers can be blindsided by "disruptive" innovations from new competitors — innovations that target low-end customers seeking cheaper products. In* The Innovator's Solution, *Christensen and co-author Michael Raynor show established companies how to create disruptions rather than being destroyed by them — how to turn innovative ideas into new disruptive products that will lead to long-term profitable growth.*

What You'll Learn In This Summary

✓ **How you can beat your most powerful competitors.** It all starts with disruption — if you learn the elements of disruption and practice its theories, no competitor will be able to touch you.

✓ **What products your customers will want to buy**. Learn how to accurately segment your markets (hint — it's not by demographics like age or gender), help your disruptions grow into healthy businesses, and avoid the market forces that can fool you into making bad decisions.

✓ **Who the best customers are for your products.** How do you extract growth from an audience that doesn't use your products at the moment? It's a secret that can put you over the top.

✓ **Get the scope of your business right.** Should you take care of key functions in-house, or outsource them? Should you integrate your product offerings or modularize? Find out which is right for your business.

✓ **Develop disruptive growth from the top down.** Powerful executive leadership is essential in turning disruptive innovations into successful businesses. What should your executive leadership do to get the ball rolling toward successful disruptions? How can they help foster sustained business growth?

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How Can We Beat Our Most Powerful Competitors?

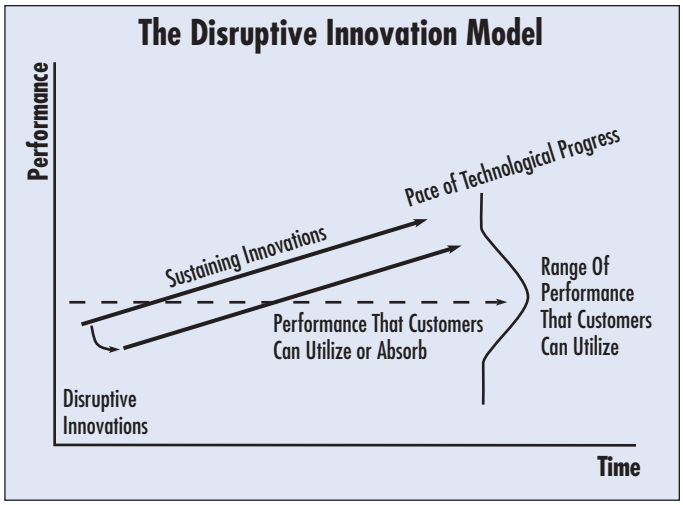
Managers have long sought ways to predict the outcome of competitive fights based around innovations, but it has, in recent years, become increasingly difficult to do so. It's not simply a matter of big companies having the resources to stomp out smaller competitors or to bring about incremental changes or innovations that enable them to outlast the competition. It is the circumstances of innovation that often determines whether incumbent industry leaders or upstart companies win a competitive fight.

Entrants are more likely to overtake entrenched leaders in disruptive circumstances — when the challenge is to commercialize a simpler, more convenient product that sells for less money and appeals to new customers. Established companies, conversely, can capture disruptive growth (rather than be defeated by it), if they are aware of the circumstances of disruptive innovations and are able to leverage them for their own benefit.

Three Elements of Disruption

There are three critical elements of disruption (these were first identified in the book, *The Innovator's Dilemma* and are illustrated in the chart at right):

- **A rate of improvement that customers can fully use or absorb.** This is represented by the dotted line.
- **A rate of improvement that goes beyond what customers can fully use or absorb.** The pace of technological progress almost always outstrips the ability of customers in any given tier of the market to use it, in part because companies keep striving to make better products that they can sell for higher profit margins to their most demanding, high-end customers. This rate of improvement is shown by the two solid lines in the chart.
- **A distinction between sustaining and disruptive innovation.** A *sustaining* innovation targets those demanding, high-end customers with *better performance* than previously available, whether that performance is an incremental improvement or a breakthrough, leapfrog-over-competitors variety.



Disruptive innovations do not attempt to bring better products to established customers in existing markets. Instead, they introduce products and services that are *not as good* as existing products, but which are simpler, more convenient, and less expensive than existing items.

Disruption often paralyzes industry-leading companies, which are more accustomed to bringing about sustaining innovations. In other words, established companies are motivated to focus on pushing innovations to meet the needs of their high-end customers (it's hard to turn away from your most profitable customers.) This leaves the door open for new entrants to target your low-end customers. Eventually, however, the new

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For Additional Information on how to know whether your idea has disruptive potential, go to: http://my.summary.com

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entrant will make improvements and move up-market — now targeting your high-end customers.

Value Networks

Disruptions create and exist in value networks—contexts within which companies respond profitably to the common needs of a class of customers through evaluating and establishing appropriate processes and channel partners. Two kinds of disruptions can create new value networks:

- **New-market disruptions.** These disruptions all but create a need in customers, by virtue of their affordability and simplicity of ownership. Canon's desktop photocopiers, for example, made photocopying in one's office (rather than shipping a job out to a print shop) easy, and, as a result, people made a lot more copies. As improvements are made in new-market disruptions, the companies that foster them are able to pull customers out of old, mainstream value networks and into new ones.
- **Low-end disruptions.** Disruptions that take root at the low end of the original, mainstream value network do not create new markets, but simply feature low-cost models that pick off an established firms' least attractive customers. ■

For Additional Information on low-end disruptions in retail, go to: http://my.summary.com

What Products Will Customers Want to Buy?

Marketers often segment markets by product type, price point, or demographics of the individuals or companies that comprise their customer base. This segmentation is often defined by the attributes of products or customers, which reveals correlations between those attributes and outcomes. It does not, however, offer plausible causality — confident assertions of what features, functions, and positioning will cause customers to buy a product.

In essence, customers "hire" products to do specific "jobs," and managers must segment their markets to mirror the way their customers experience life (see Marriott example at right).

Companies that target their products at the *circumstances* in which customers find themselves, rather than at the *customers* themselves, are those that can launch predictably successful products.

Knowing what job a product gets "hired" to do — and knowing what jobs out there that are not getting done very well — can give innovators a much clearer road map for improving their products to beat the true competition from the customer's perspective, in every dimension of the job. This segmentation can then be used to gain a disruptive foothold — the initial product or service that is the point of entry for a new-market disruption.

The first time that builders of a new-growth business need to assess what the target customers really try to get done is when they are searching for that disruptive foothold. While it may never be possible to get every dimension of a product introduction in a new-market disruption right at the outset, using the "jobs-to-be-done" lens can help innovators come to market with an initial product that is much closer to what customers ultimately discover that they value. How does one do this? By observing what people seem to be trying to achieve for themselves, then asking them about it.

Helping Disruptions Grow

Exciting growth happens when an innovation improves in ways that allow it to displace incumbent offerings. These are sustaining improvements, relative to the initial innovation—improvements that stretch to meet the needs of more and more profitable customers.

With low-end disruptions, it can be easy to determine the right sequence of product improvements in the up-market march. Target stores, for example, set out to replicate the product line, brands, and ambience previ-

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Marriott's Circumstance-Based Brands

Marriott Corporation has developed a brand architecture that is consistent with several different "jobs" its customers experience in life, thereby facilitating the creation of new disruptive businesses, while simultaneously strengthening the Marriott brand name. Marriott Hotels are positioned as the choice when the job is to host a business meeting; Courtyard by Marriott is the choice when the job is to get a clean, quiet place to work into the evening; Fairfield Inn by Marriott is the inexpensive choice for family getaways; Residence Inn by Marriott provides a home away from home.

Such a crisply defined purpose brand guides customers to hire the various hotels to do different jobs, thereby strengthening the Marriott brand and its endorsing power.

Akio Morita Helps Sony Cause Disruptions

One of the best leaders in innovative disruptions was Akio Morita, Sony's founder.

From 1950 through 1982, the company successfully built a dozen different new-market disruptive growth businesses, from the first solid-state black and white television, to the introduction of the Walkman and 3.5-inch floppy disk drives. Every new-product launch decision in this era was made by Morita himself and a trusted group of associates. They looked for ways in which their miniaturized, solid-state electronics could help a larger population of less-skilled and affluent people conveniently and cheaply accomplish jobs they already got done through awkward, unsatisfactory means. Morita observed the ways in which people accomplished these tasks and used that data to build innovation after innovation.

The end of Sony's disruptive odyssey came in 1981, when Morita began withdrawing from active management of the company in order to become more involved in Japanese politics. In his place came a team of marketers who used sophisticated, quantitative techniques for segmenting markets and assessing market potential. Although these methods have proven successful on a limited basis, the innovations that have arisen have been more sustaining in character—such products as the PlayStation video game and the Vaio notebook computer were late entrants into established markets. Time will tell if the company can ever quite return to the Morita era of disruptive innovation.

What Products Will Customers Want to Buy?

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ously only available in expensive, full-service department stores. The low-end disruptor's marketing task is to extend the lower-cost business model up toward products that do the jobs that the more profitable customers are trying to get done. New-market disruptions, conversely, challenge innovators with inventing the upward path, because no one has been up that trajectory before. ■

For Additional Information on a disruptive market on the upward path, go to: http://my.summary.com

Who Are the Best Customers For Our Products?

Which initial customers are most likely to become the solid foundation upon which we can build a successful growth business? How can we reach them? It is quite tricky to find new market customers (or "nonconsumers") in the typical model of disruptive innovation. When only a fraction of a population is using a product, some of the nonconsumption may simply reflect the fact that there just is not a job that needs to be done in the lives of nonconsumers. Thus, a product that purports to help nonconsumers do something that they hadn't already prioritized in their lives is unlikely to succeed.

Another kind of nonconsumption occurs when people try to get a job done but find themselves unable to accomplish it themselves, because the available products are too expensive or too complicated. Hence, they put up with getting it done in an inconvenient, expensive, or unsatisfying way.

This type of nonconsumption is a growth opportunity, waiting for a new-market disruption that enables these consumers to begin buying and using a product that helps them do the job for themselves.

Extracting Growth from Nonconsumption

There are four elements of a pattern of new-market disruption, which managers can use to find ideal customers and market applications for disruptive innovations. These elements are—

- The target customers are trying to get a job done, but because they lack money or skill, a simple, inexpensive solution has been beyond reach.
- These customers will compare the disruptive product to having nothing at all. As a result, they are delighted to buy it, even though it may not be as good as other products available at high prices to current users with deeper expertise in the original value network (in other words, the bar one must scale to delight these customers is quite low).
- The technology that enables the disruption might be quite sophisticated, but disruptors deploy it to make the purchase and use of the product simple, convenient, and foolproof (enabling people with less money and training to begin consuming).
- The disruptive innovation creates an entire new value network. The new consumers typically purchase the product through new channels and use the product in new venues.

Disruptions that fit this pattern succeed because established competitors view entrants in the emerging market as irrelevant. The mainstream market the established

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Who Are the Best Customers For Our Products?

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companies sustain is unaffected by the new value network for some time. Incumbents might even think they have sensed a threat and are responding, investing inordinate amounts of money in an attempt to advance the technology enough to please the customers in the existing value network, forcing the disruptive technology to compete on a sustaining basis. This, of course, is the wrong response. ■

Getting the Scope of Business Right

Decisions about what activities to handle in-house and what to procure from suppliers and partners have a powerful impact on a new-growth venture's chances for success. Most companies follow the core competency rule—if something fits your core competence, you should do it inside; if it's not your core competence and another firm can do it better, you should outsource it to that firm.

The problem with the core-competence/not-core-competence categorization is that what might seem to be a noncore activity today might become an absolutely crucial competence to have mastered in a proprietary way in the future, and vice versa. Consider, for example, IBM's decision to outsource the microprocessor for its PC business to Intel, and its operating system to Microsoft. In the 1980s, when IBM made these decisions, it did so in order to focus on what it did best—designing, assembling, and selling computers—and to keep development costs and time at bare minimum. Yet, in the process of outsourcing what was not its core or its competence, IBM helped raise the profile and business stature of the two companies that eventually captured most of the profit in the industry.

To Integrate or To Outsource—That Is The Question

The core/noncore categorization can lead to serious and even fatal mistakes. Instead of asking what their company does best today, managers should determine what they need to master today and in the future in order to excel on the trajectory of improvement that customers will define as important.

Remember the job-to-be-done approach—customers will not buy your product unless it solves a problem for them. What comprises a solution, however, differs across two circumstances — whether products are not good enough, or more than good enough. The advantage goes to integration when products are not good enough, and to outsourcing when products are more than good enough.

The Not-Good-Enough World

When product functionality and reliability are not yet good enough to address the needs of customers in a given tier of the market, companies must compete by making the best possible products. Firms that build their products around proprietary, interdependent architectures (i.e., if one part cannot be created or used independently of another part) enjoy important competitive advantage over competitors whose product architectures are modular (in which the fit and function of all elements are so connected, it doesn't matter who makes the separate components).

Companies that compete with proprietary, interdependent architectures must be integrated—they must control the design and manufacture of every critical component of the system in order to make any piece of the system.

Trajectory and Modularity

Once customers' requirements for functionality and reliability have been met, they redefine what is not good enough, changing the basis of competition in that market.

The pressure of competing along this new trajectory of improvement forces a gradual evolution in product architecture, away from the proprietary and interdependent, toward more modular designs in a period of too-good performance. Modular architectures enable companies to introduce new products faster because they can upgrade individual pieces of a product without hav-

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Why Computer "Appliances" Failed

It is difficult, if not impossible, to convince nonconsumers to make a purchase if a given product does not fall within their prioritized needs. For example, in the 1990s, a number of companies, including Oracle, thought they saw a growth opportunity in the significant number of American households that did not yet own a computer. These companies reasoned that the cause of nonconsumption was the price of a PC, and they thought they could create growth by developing an "appliance" PC that could access the Internet and perform basic PC functions at a price around $200.

Their efforts failed, in large part because expense was not the solution for opening the market — the nonconsuming households simply did not have enough "jobs" for any computers, regardless of price.

Getting the Scope of Business Right

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ing to create a brand new design. Modularity enables independent, nonintegrated organizations to sell, buy, and assemble components and subsystems. ■

Avoiding Commoditization

Many executives are resigned to the belief that, regardless of the innovation, the inevitable fate of their products is to be "commoditized." However, there is some hope for them. Research has found that whenever Commoditization is at work somewhere in a value chain, a reciprocal process—call it "de-commoditization"—is at work somewhere else in the value chain. Whereas the lack of differentiability inherent to commoditization undermines an organization's ability to capture profits, de-commoditization creates opportunities to create and capture significant wealth. The companies that position themselves at a spot in the value chain where performance is not yet good enough will capture the profit.

Six Steps of Commoditization

The natural and inescapable process of commoditization occurs in six steps:

1. As a new market coalesces, a company develops a proprietary product (complete with a proprietary architecture) that, while not good enough, comes closer to satisfying customers' needs than any of its competitors.
2. As the company strives to keep ahead of its direct competitors, it eventually overshoots the functionality and reliability that customers in lower tiers of the market can use.
3. This precipitates a change in the basis of competition in those tiers.
4. The change in basis of competition precipitates an evolution toward modular architectures.
5. That evolution facilitates the disintegration of the industry.
6. It becomes difficult to differentiate the performance or costs of the product versus those of competitors, who have access to the same components and assemble according to the same standards.

De-commoditization

Attractive profits of the future are often to be earned elsewhere in the value chain, in different stages or layers of added value. This de-commoditization occurs in places in the value chain where attractive profits were hard to maintain in the past—in the formerly modular and undifferentiable processes, components, or subsystems.

Modular disruptors can only keep profits healthy if they carry low-cost business models up-market as quickly as possible. This enables them to keep competing against higher-cost makers of proprietary products. Competitive forces compel suppliers of these modular products to create architectures that, within modular subsystems, are increasingly interdependent and proprietary. The performance-defining subsystems then become de-commoditized as the result of the end-use products becoming modular and commoditized.

The Value of Brands

Executives who seek to avoid commoditization often rely on the strength of their brands to sustain profitability, without considering that brands themselves, too, become commoditized and de-commoditized. When things aren't good enough yet in the value chain, and customers are not certain whether a product's performance will be satisfactory, a well-crafted brand can close some of the gap between what customers need and what they fear they might get if they buy from an unknown supplier.

The migration of branding power in a market that is composed of multiple tiers is a process, not an event. Brands of companies with proprietary products typically create value as they attract customers who are not satisfied with the functionality or reliability of the best available products. When one deals with more modular products and a greater emphasis on speed and convenience, the power to create profitable brands migrates more toward subsystems and the channel used. ■

IBM Loses Early Branding Power

In the early decades of the computer industry, investment in complex mainframe computer systems unnerved most managers. Because IBM's servicing capabilities were unsurpassed, the IBM brand had the power to command price premiums of 30 to 40 percent, compared with other companies' comparable equipment.

How did the brands of Intel and Microsoft Windows subsequently steal the valuable branding power from IBM in the 1990s? It happened when computers came to pack good-enough functionality and reliability for mainstream business use, and modular architectures became predominant in those tiers of the market. At that point, the microprocessor and operating system running the computer became not good enough, and the locus of the powerful brands migrated to those new locations.

Is Your Organization Capable Of Disruptive Growth?

A surprising number of innovations fail because responsibility to build these businesses is given to managers or organizations whose capabilities are not up to the task. Indeed, an organization's capabilities become disabilities when disruption is afoot. The concept of such capabilities can be unpacked into three classes or sets of factors that define what an organization can and cannot accomplish— its resources, its processes, and its values.

Resources

Resources (people, technology, information, cash, etc.) are the most tangible of the three factors, because they can be hired and fired, bought and sold, depreciated or built. They are often visible and measurable, and can be easily transported across the boundaries of an organization. Typically (and unfortunately), the wrong people are chosen to lead a disruptive venture. Why is that?

Those with the right stuff are usually the wrong people. When hiring potential managers, corporations often focus on attributes—"good communicator," "decisive," "good people skills" — that do not necessarily lend themselves to disruptive successes. Rather than focus on categories, companies should consider focusing on prior experiences that show appropriate intuition and management skills for the disruptive environment of a new-growth business venture. What sorts of problems have they wrestled with in the past? Have they learned enough to meet similar challenges head-on in a new environment? Can they learn and bounce back from failure?

Processes

Organizations create value as employees transform inputs of resources (the work of people, equipment, technology, etc.) into products and services of greater worth. The patterns through which these transformations are accomplished—the processes at work—include ways products are developed and made, and the methods by which procurement, research, budgeting, compensation, resource allocation, and more are accomplished.

Processes are defined or evolve to address specific tasks, and the efficiency of a given process is determined by how well these tasks are performed. Processes that define capabilities in executing certain tasks concurrently define disabilities in executing others. Consistency is key — processes are not as flexible as resources, and must be applied in a consistent manner, time after time. In addition, some processes are difficult to observe, and it can therefore be difficult to judge whether a process will facilitate or impede a new-growth business.

Values

An organization's values are the standards by which employees make prioritization decisions—those by which they judge whether an order is attractive or unattractive, whether a customer is more or less important than another, etc. Whereas resources and processes are often enablers that define what an organization can do, values often represent constraints that define what it cannot do.

If, for example, the structure of a company's overhead costs requires it to achieve gross profit margins of 40 percent, a powerful value will likely evolve that will nix any idea that promises gross margins below 40 percent. Such an organization would be incapable of succeeding in low-margin businesses, because one cannot succeed with an endeavor that cannot be prioritized. A different organization with a different cost structure might accord a high priority to a similar project. These differences create the asymmetries of motivation that exist between disruptors and "disruptees."

The Right Organizational Home for Disruptive Businesses

Incumbent leaders in an industry almost always emerge victorious in sustaining-technology battles, whereas historically they have almost always lost battles of disruption. Industry leaders develop and introduce sustaining technologies over and over again—they develop a capability for sustaining innovation that resides in their processes. Sustaining-technology investments also fit the values of the leading companies, because they promise improved profit margins from better or cost-reduced products.

Conversely, disruptive innovations occur so intermittently that no company has a practiced process for handling them. Disruptive products typically promise lower profit margins per unit sold and cannot be used by the best customers, rendering disruptions inconsistent with many companies' values. They have the resources required to succeed, but their processes and values are disabilities in their pursuit of disruptive innovation.

Smaller, disruptive companies are actually more capable of pursuing emerging growth markets. They might lack resources, but their values can embrace small markets and their cost structures can accommodate lower margins per unit sold. These advantages can add up to enormous opportunity for the organization whose processes will facilitate what needs to be done and whose values can prioritize those activities. ■

For Additional Information on the costs to be borne if organizations get it wrong, go to: http://my.summary.com

Disruptive Growth Starts At the Top

Senior executives of companies that repeatedly seek to create disruptive growth have three jobs:

- They must personally stand astride the interface between disruptive growth businesses and the mainstream businesses, to determine through judgment which of the corporations' resources and processes should be imposed on the new business.
- They must shepherd the creation of a process that can be called a "disruptive growth engine," which capably and repeatedly launches successful growth businesses.
- They must perpetually sense when the circumstances are changing, and keep teaching others to recognize these signals. Senior executives need to look to the horizon (the low end of the market, or in nonconsumption) for signs that the basis for competition is changing. They must then initiate projects to ensure the company properly responds to the circumstance as an opportunity, not a threat.

To succeed in disruptive business endeavors, CEOs must be intimately involved. Because the processes and values of mainstream business by their very nature are meant to manage sustaining innovation, there is no alternative at the outset to the CEO or someone with comparable power assuming oversight responsibility for disruptive growth.

Disruption as Part of the Process

Launching a single successful disruptive business can create years of profitable growth—just ask General Electric (which launched GE Capital), Johnson & Johnson (for their medical devices and diagnostics group), or Hewlett-Packard (whose disruptive ink-jet printer is now the company's primary profit driver). Launching a sequence of growth businesses requires leaders to repeatedly use sound theories to make solid key business-building decisions. From these activities, a predictable, repeatable process for identifying, shaping, and launching successful growth can coalesce. Such an engine would have four critical components.

Step 1: Start Before You Need To

The best time to invest for growth is when the company is growing. To build what will be a respectable growth business in five years' time, you must start now, adding new units to your portfolio of growth businesses as dictated by the growth needs of the corporation five years hence. This gives your businesses the opportunity to grow under the radar, away from the glare of Wall Street, giving each disruptive endeavor the time it requires to achieve viability and take off. Wal-Mart today is a $220 billion business, but it took 12 years for it to make its first billion—it was a disruption that needed a longer runway before it took off.

Step 2: Put a Senior Manager in Charge

Creating a successful disruptive growth engine requires the careful coaching of the CEO or another senior manager with the confidence and power to exempt a venture from an established corporate process, to declare when different processes need to be created, and to ensure that the criteria being used in resource allocation are appropriate to the circumstance of each venture and the needs of the company. He or she must be well versed in disruptive innovation theory, capable of discerning ideas with disruptive potential from those best deployed as sustaining endeavors, and able to maximize the success prospects of disruptive ideas by feeding them into a nurturing business process.

Step 3: Create an Expert Team of Movers and Shapers

Ideas often lose their disruptive growth potential in the shaping process that they go through in order to get funded. The challenge here is to create a separately operating process through which ideas can be shaped into high-potential disruptions. Senior management should create a core team that is responsible for collecting disruptive innovation ideas and molding them into propositions that have the greatest chance for success. This core shaping group cannot use the company's standard planning and budgeting processes when launching disruptive businesses, because they will not know, at the outset, the full dimensions of growth strategy that will ultimately prove successful.

Step 4: Train the Troops

Sales, marketing, and engineering employees are best positioned to encounter disruptive growth ideas, and thus should be among the first of the company's "troops" to be trained in the language of sustaining and disruptive innovation. It is crucial that they come to know what kinds of ideas they should channel into the sustaining processes of established business units, and which should be directed into disruptive channels. These people have direct contact with markets and technologies that can yield ideas for new-growth businesses; with training, they can develop intuition on these matters that far outstrip any kind of analyst-laden corporate strategy. ■

For Additional Information on the executives that best put forth disruptive innovations, go to: http://my.summary.com

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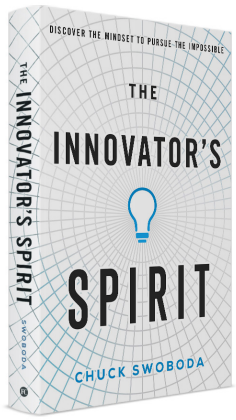
The Innovator's Spirit

Chuck Swoboda

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The Innovator's Spirit

Discover the Mindset to Pursue the Impossible



by **Chuck Swoboda**

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THE SUMMARY IN BRIEF

In ***The Innovator's Spirit,*** author Chuck Swoboda relates his own experiences with innovation and describes what he calls "the innovator's spirit": a kind of attitude and personal energy that each of us has deep down. He discusses the innovator's spirit and explains why it seems to be absent in so many modern workers and leaders. But he also shows how anyone can start to cultivate the innovator's spirit within them, starting by identifying core behaviors that block innovative energies and inspirations.

Through personal life stories and examples from real world history, Swoboda creates a full explanation of innovation, where it comes from, and how regular career professionals and managers can cultivate their own spirit for the better. Innovation, in Swoboda's eyes, is key to not only ensuring that one's company or business ventures succeed, but is also critical so that one can enjoy their work as well.

By following the advice outlined in the book, professionals will learn to innovate, become unafraid of failure, and solve the impossible problems of the world.

IN THIS SUMMARY, YOU WILL LEARN:

- How an innovative spirit sleeps within all of us, and why it is usually blocked.
- How to cultivate one's inner "innovator's spirit."
- What managers should do to innovate as leaders.
- How to identify and pursue "impossible" problems.

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Everyone Has an Innovative Spirit... But Not Everyone Uses It

Every person alive has an innovative spirit somewhere inside them. For most, however, this spirit is either never used out of choice or it's buried so far down underneath the learned behaviors from school and work that it's never brought out to be properly utilized.

This is good and bad news: the former because it means anyone looking to innovate has the opportunity and the latter because it's certainly easier for some than it is for others. Still, those looking to innovate and lead either themselves or their company into a brighter future will need to first look inward and discover their innovative spirit before they can apply it to the real world and any business ventures.

One of the key things that future entrepreneurs and innovators need to understand is that innovation is a deeply personal thing, rather than a process you can teach through rote memorization. This is why excellent innovators don't always (or even often) come from the university system: that system prioritizes predictable results, which is the antithesis of innovation.

Instead, innovation comes from personal experience, new ideas, and from having the guts to take risks and not be afraid of inevitable failure. In essence, innovation is somewhat more like a trait than it is a learned skill. The good news, as mentioned above, is that everyone has this trait. Future innovators just need to be willing to chase it and cultivate it.

To be Innovative, Change Your Core Behaviors

Because innovation is a personal thing instead of a process, any aspiring innovator must change their core behaviors before getting started. This involves identifying personality traits like:

- Risk avoidance
- Predictability
- A tendency to make the safest choice

This isn't to say that innovators must take every risk that appears before them. There is such a thing as "smart" risk-taking. But changing one's core behaviors is vital if one also wants to innovate more regularly.

Specifically, individuals looking to innovate should try to "un-train" themselves of the things they learn in school and from earlier workplaces. Don't just try to please shareholders with predictable results. Don't try to earn a safe grade by parroting what the professor tells students. Change your core behaviors so that you are riskier, bolder, and more open to new ideas from any source imaginable.

One of the great truths about the modern workplace is that it rewards many of the behaviors described above. Over time, successful professionals can and will erect personal defenses to innovation to prevent themselves from taking risks or making a leap of faith.

Any aspiring innovator must overcome those personal defenses before they can achieve any great things. You won't be able to take any risks if you're too afraid of the possibility of failure, for instance.

At the time of Bill Gates' young adult years, the computer industry was far from the major market it is today. He took a leap of faith in founding Microsoft and becoming the biggest software producer in the world… and it paid off because of his innovative Windows OS.

Embrace Change Rather than Predictability

Sometimes, expertise can act as a block for further innovation. Many workers find something that they are good at and double down on it to the point of excluding the development of other skills or experiencing new things.

"You can't teach an old dog new tricks" is a lie, full-stop. In reality, it's those with plenty of experience who need to try new things and learn new skills as often as possible to prevent becoming too predictable and mired in risk-aversiveness.

In fact, this is crucial for any innovator: there is really a path to innovation through continuous improvement, because the big breakthroughs usually come from discontinuous ideas. This means that you are more likely to innovate if you have disparate experiences and lots of mental resources to draw from.

Finding Problems to Solve is Key

Customers rarely know exactly what they want innovators to solve. That's why innovators should not listen to what customers ask for. Instead, an innovator should try to find problems to solve themselves.

Take the tale of the invention of the lightbulb. The lightbulb was a direct solution to the problem of illumination. But at the time, no one told Edison that they wanted the lightbulb. He innovated and created something that the

modern world would simply be lost without.

The smartphone is another key example. Before it was invented, no one could have imagined that everyone would spend most of their time online on a small screen in their palm as opposed to their regular computer. An innovator's spirit is best harnessed when it's used to solve problems, not respond to customer or client complaints.

If Someone Says You Can't, Do It

One of the best ways to identify the problems to solve through innovation is to look at what other people say "can't" be solved or done. At one time, people thought that sending images through radio waves was impossible, but televisions are arguably the most common electrical device in the world.

An innovator will hear someone claim that something can't be done and recognize a challenge. You should problems that are supposedly impossible – these are also great indicators that a particular field or invention doesn't have competition. In solving such a problem, you may become another of history's greatest innovators!

Failure is a Tool. Use It!

Failure is not something to be avoided. In addition to training yourself to be unafraid of failure, you must also accept failure as a critical tool for learning.

In fact, we learn better through failure than we do from our successes. Failure can show you exactly what not to do during a business or venture or offer insight to a new solution for a problem you are trying to solve. The more comfortable you get with failure, the less afraid of that you'll be.

An ancillary advantage to this is that you'll become more open to acceptable risks, further harnessing your innovator's spirit. This is crucial, as innovation thrives on new ideas and new situations, both of which are impossible to experience without some level of risk.

What if you're a manager and need to make tough decisions? The same principle applies. An innovative manager must be "directionally correct." This means that managers should not try to know everything before making a decision.

Instead, it's often better for innovation's sake to start doing something, even if there isn't perfect information. Muddling through an invention process or a development cycle is more likely to produce a breakthrough than waiting for the so-called "perfect moment."

Don't Let Yourself Retreat

Modern workers often learn to fear failure as though it's a healthy impulse, and it sometimes can be. But it can also be the death of innovation, as it isolates your mind from creativity and inspiring situations and stops you from taking the correct risks. You must seal off your ability to retreat. That's how you create focus.

In other words, anyone trying to innovate must remove the possibility of retreat from the situation. Only then can their mind focus exclusively on the problem and come up with an innovative solution no one has thought of before. The archetypical example is a young professional putting all of his or her savings into their startup company.

This may or may not be possible for everyone, but the idea is a good one. Only by letting go of fear and the attachment that comes with it can we all truly innovate.

The More You Learn, The More You Innovate

With the experience you'll gain from both being unafraid of failure (and therefore taking more risks) and from refusing to over-specialize, you'll be more likely to innovate as you work to solve problems.

The innovative mind can best be thought of as a shark: it must keep moving in order to survive and thrive. As you learn, you'll naturally start to pick up on novel solutions and ideas for existing problems. This iterative process will only become more powerful and potent as you learn more and more. Think wider, not necessarily deeper.

Managers Need to Lead Rather than Manage

Managers can be innovators at their company by focusing on leadership as opposed to management. The two practices are often diametrically opposed.

Management is concerned with predictable results and pleasing shareholders. Leadership is more about inspiring followers and cultivating innovation across a team. This involves spending time with one's workers, building a team of excellent individuals rather than hiring for numbers, and avoiding the bureaucratic weight and inertia that stifles creativity and innovation.

Don't Be Afraid to Get Your Hands Dirty

Another thing innovative managers must cultivate is a willingness to get their own hands dirty. Individual workers

would do well to remember this lesson, too.

Innovation is rarely harnessed by sitting behind a desk and looking over charts. Even if you're in tech or software, one must be willing to get deep into code (or whatever the specifics of the industry) to fully grasp the problem being solved.

Managers, especially, should not "just" be people-wranglers. Have an understanding of your company and its intricacies to both impress and inspire your team and to supercharge your own innovative spirit. Sometimes, the best ideas come from CEOs or upper management who have backgrounds in the very industry they now lead.

The "Best Practice" is Not Good Enough

Many companies end up settling for the so-called "best practice" that they or their workers came up with for a particular problem or process. To any innovator worth his or her salt, the "best practice" is nowhere near good enough.

In fact, any innovator looking to truly change the game should always chase perfection. It's important to understand that perfection is likely perpetually impossible to achieve, but in the process of chasing perfection, you will achieve excellence.

Put another way, chasing perfection demands exceptional effort and will result in only the best ideas being brought forward at any one time. Striving for as close to the perfect solution as possible for a given problem is the best way to innovate with all engines firing.

"Thinking outside the box" is an inherently caging expression. That's because it requires one to accept the very concept of a limiting box in the first place, when you actually shouldn't.

In fact, the innovator's spirit in all of us demonstrates more than anything else that there is no box and anything is possible. Less than 100 years ago, humans could not conceive of manned flight, let alone putting a man on the moon. But both of those achievements were completed within 70 years of one another, all because of the cumulative innovation of generations of engineers, big thinkers, and creatives.

The Innovative Spirit Awaits if You Can Find it

Don't think outside the box at all. Refuse to accept the concept of a box to let your innovator's spirit free. Start by working on your core behaviors and challenging yourself to always do better – you can begin innovating within your career right now.



Chuck Swoboda is the Innovator-in-Residence at Marquette University, President of Cape Point Advisors, and the retired Chairman and CEO of Cree, Inc. During his time with Cree, the company led the LED Lighting Revolution that drove the obsolescence of the Edison light bulb. He is an author, speaker, and host of the Innovators on Tap podcast and has over thirty years of experience in the technology business.

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The New Art of Ideas

Robin Landa

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The New Art of Ideas

Unlock Your Creative Potential



by **Robin Landa**

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THE SUMMARY IN BRIEF

Unlike conventional books about generating as many ideas as possible no matter how good they are, ***The New Art of Ideas: Unlock Your Creative Potential*** by Robin Landa focuses on generating good ideas that have value, ideas that can make a difference to individual's lives, to society, and our planet. The value presented in the book is this: When you identify *a goal, a gap, and a gain*, then you know your consequent idea will have value.

The Three Gs–goal, gap, and gain–unlock an idea. The Three Gs can help you understand what a worthwhile idea is, how it works, and how to generate one. Furthermore, the Three Gs yield ideas that move the needle, ideas that are not inconsequential but worthwhile, ideas that will make a difference. It is a new way of thinking, a new framework for ideation. No other framework points you in this direction–that is, on the path to ideas worth pursuing. ***The New Art of Ideas*** is a step-by-step guide to generating, crystallizing, or amplifying worthwhile ideas.

IN THIS SUMMARY, YOU WILL LEARN:

- The Three Gs Framework.
- Applying Goal, Gap, and Gain to unlock ideas.
- How to Amplify the Three Gs with DEI.
- Tools to tackle the emotional obstacles that block your path.

The Three Gs Method

To get a worthwhile idea—big or small–use ***The New Art of Ideas*** framework's Three Gs: goal, gap, and gain. Here's how it works.

A *goal* is your aim, what you want to achieve. Let's say your goal is to design a shape-shifting concept car. Direct your efforts at researching and developing the car concept. Your goal challenges you to focus your thinking, energy, and resources.

Determine if the goal will fill a *gap*. The gap could be any number of things: a type, a size, a location, a system, a product, choreography, music, art, arts fusion, marketing, design, song cycle genres, and more.

Finally, is there a benefit in there for someone, for society, or for our planet? What do they *gain* from your *goal* and filling this *gap*? This gain can apply to a community, a company, an entire industry, and so on. If there's no benefit, there's no point in filling the gap–or perhaps there was no gap to begin with.

The gap and gain aren't as clearly defined in innovations or creations in the arts as they are when someone invents a medical device or a sustainable farming system. Nonetheless, the arts are critical to people's well being and inspire thinking and creativity. All great art is transformative because it allows us to understand ourselves more deeply, as part of the greater work.

All one needs to do is think of an installation by Luis Salgado, a poem by Amanda Norma, songs by Fiona Apple, or a film by Lulu Wang to realize how to arts nourish us, inspire us, transport us, and connect us to each other, to creatures, and our planet.

The Three Gs help you generate, crystallize, or unlock ideas that are worthwhile. Societal value takes many forms. "Worthwhile" means ideas of value that make us think critically and creatively, inspire us, or move us the way the arts do; make our lives better; are for the betterment of the world; and consider the triple bottom line–people, the planet, and profit–rather than simply profit or novelty.

Often people convince themselves that good or great ideas require a golden nugget of brilliance or even genius possessed by only a fortunate few. Certainly, intelligence refined by education is a key factor. But a golden nugget of genius is not required. Just about anyone can generate an idea–a harebrained idea, a poor idea, a meh idea, or a dangerous idea. That's not to say that brilliant people don't generate poor ideas; however, they generate many ideas–some that prove worthy of pursuing.

The Three Gs remind us that there is more than one way to generate an idea and direct our energy along the way. A goal and a gap that lead to an idea worth pursuing offer a gain. They inform, educate, support, empower, elevate, inspire, enrich our creative thinking, move the needle, entertain, advance, provide a utility, or do something for the greater good.

It doesn't matter how creative or daring you are right now. What matters is whether you're open to revising your thinking. If you pursue the Three Gs–this system will accelerate your thinking–you will be on the path to truly worthwhile ideas.

And here's the true beauty of the Three Gs: you can use this framework in any order. A goal isn't always the entry point for an idea. A gap may be staring you in the face, and you move forward from there. Or you can't help but notice how something is benefiting people–a gain so apparent you can move ahead from that point.

This process is nonlinear. The goal, gap, and gain influence each other–they are synergistic and are not or should not be siloed. The Three Gs also allow you to backtrack and reassess. The Three Gs are fluid.

Goal + Gap + Gain = Worthwhile Idea

GOAL

When setting a goal, you don't need to clearly articulate the goal for your thinking process to begin. You can start by noticing an opportunity and asking questions. Ask, "what if?"

"What if" is a magical question. It invites you to speculate, to wonder. It's a helpful tool for forming a goal if you don't have one at the start. Any probing question, such as "If only.." or "I wonder.." work to seed ideas, foster a creative mindset, determine goals, and in turn raise other questions.

These types of questions foster imaginative and unconventional avenues of thought. The answers to "what if" questions are found because people set them as goals and then go out to realize them.

If you are still unsure about your goal, try to challenge the status quo. Any entrenched mindset fights finding a novel approach. Entrenchment happens when a belief or way of doing something becomes so firmly set that it becomes part of a person's identity or corporate or organizational culture.

. . . most companies and even schools expect and reward pedestrian thinking to solve problems. . .

This is where you must be brave.

When this happens, there often is resistance to changing the status quo. Resisting the status quo helps unlock creative potential. Just because something has been done one way for a long time doesn't mean it's the only or right way.

By thinking differently from prevailing conventions, you might discover a goal. Challenging the status quo usually means you're employing unconventional thinking. Your goal might go against prevailing public or professional opinion. And what's worse, most companies and even schools expect and reward pedestrian thinking to solve problems, relying on established constructs, techniques, methodologies, and practices.

This is where you must be brave.

Conventional thinkers often don't get unconventional thinking. Conventional thinking is thinking within an existing construct or model. Unconventional thinking may follow creative lines of thought that tend to generate original solutions.

Consider this. Conceiving the worst solution might inform your thinking or assessment of what people really want. For instance, instead of asking, "How can we get more people to subscribe to our evening dress rental service?" ask "How can we get people to unsubscribe?"

Illuminating pain points can lead you to ways to improve a service or product, and that improvement becomes a goal. Think of all the ways you could get it wrong–all the issues that would annoy people. This way of thinking can help you see what the right goal would be.

Another way this approach works is to set a pedestrian goal, one that has been done before or is painfully dull. Thinking of wrong or pedestrian solutions prompts you to think of a goal, and ultimately an idea, that would be more engaging and might get under people's advertising radar.

Maybe that's not the way you think, which is just fine. There are plenty of ways to pinpoint an original goal. A passion of yours might be your way in. If you love soccer, hiking with friends, or curating fashion, could you determine a goal based on one of your passions? Many people form goals out of an unbridled interest in a subject, activity, or combo of things.

When setting a goal, think small. If you want to be a game designer, start by creating one concept for one game. Why start modestly? Putting too much pressure on yourself might backfire, whereas the act of conceiving one game has just enough stress to excite you and is a finite goal, which is highly achievable. If you set too big a goal, you might hamstring yourself.

Setting more than one goal at a time can be daunting. One goal is all it takes to move toward determining a gap.

GAP

A gap is a missing piece that fills a need–an area not yet explored or underexplored, a question not yet asked, or a population not addressed or underserved. A gap can occur in any discipline; in any form; for any population or population sample of any size, type, or location; for any system, in any situation, in any location, and for any conditions.

Whether your goal is to design a new device or structure, write a story, create a digital game aimed at seniors (a definite gap), sell more product, open a restaurant, build a crowd-sourced furniture delivery app, determine if your goal will fill a gap.

Every unique and worthwhile idea must address a gap–some knowledge, information, entertainment, utility, method, system, framework, creative work, and so on that is missing in any discipline.

There is almost always something that remains to be done or learned in any field. If you're not filling a gap, then you're likely not contributing something worthwhile, interesting, inspiring, challenging, original, or creative. There are always gaps in knowledge.

You might be thinking, *How would I find a gap?* Think:

- What is needed? A product, system, device, art form, leadership method, or something else?
- In any field, what is the key question that remains to be solved or answered?

- What has been underfunded or under researched?
- What has not yet been interpreted or made clear?
- What has not yet solved issues of homelessness, hunger, or clean water for all?

A gap could be any number of things–a type, a size, a location, a category, an analysis, a system, a product, and so on. You never know what will click. Who would have imagined people could book commercial flights on rockets into outer space during the early twenty-first century or remove carbon dioxide from the air with a carbon removal factory?

A gap might not be entirely novel–it could be your unique spin, treatment, or investigation, significant or small. In 2004, when Chef David Chang opened Momofuku Noodle Bar, he changed New Yorker's minds about ramen and became part of a new food movement. The gap Chang filled is clear to everyone now. His different approach to what most of the world considers inexpensive dishes, ramen noodles and pork buns, redefined Asian cuisine.

Sometimes a goal and a gap must be in sync with the times. They might be dependent on available technology or, conversely, they can spur technology. When affordable 3D printers came on the market, creators and makers were thrilled to have this new tech at their fingertips. What if your goal were to solve the endemic crisis of homelessness using a 3D printer?

Such a home undoubtedly would fill a gap. This technology, faster and cheaper than conventional construction, could help address out-of-reach home prices for would-be buyers as well as homelessness for thousands. This confluence supports the *goal,* illuminates the *gap*, and yields a worthwhile *gain*.

To pinpoint a gap, such as the one in housing construction, train yourself to look for an insight–a human truth. Conducting research is a given for scientists, social scientists, and many other experts, whether in a lab, in a studio, or out in the field, which may be in the built or natural environment.

If you're not a scientist, you can gather information related to your goal by conducting casual or anecdotal research with an eye toward discovering an insight. Think of contemporary technology, products, services, and brands that have come to market and are doing well–rideshare, drones, meal delivery services–and reverse engineer their ideas using the Three Gs to see what gaps they filled.

Other ways to identify a gap include:

- Finding a pain point that people experience with a product, service, or sector
- Looking for incongruities that are inconsistent with how most businesses operate
- Use analogies to co-opt methods, systems, intelligence, or paths employed by others
- Do or make, such as writing or creating to experiment or articulate an idea
- Ask yourself imagination-building questions
- Think about intersections of factors like technology, demographics, trends, the economy, and social movements
- Conduct real-world observations to see how people behave

Remember that you must prepare your mind for finding an insight. Practice mindful observation, be curious, and see potential in all.

GAIN

Once you've set a goal and determined whether it fills a gap, assess whether there is a gain–a benefit or advantage for people or our planet. Disney Pixar's *goal* for its film ***Inside Out*** was to portray a range of emotions so that children could easily understand their own feelings. The film's message is that emotions are important and need to be recognized and validated.

That message filled a *gap* in children's film entertainment as well as in the emotional lives of children. The *gain*: helping children identify different emotions to help them better understand what they're feeling.

The film also can help parents recognize, accept, and validate their child's emotions. Ideas worth pursuing offer a gain–they are worthwhile, useful, or meaningful to people, creatures, or our planet. They inform, entertain, provide a utility, or do something for the greater good.

How do you determine if the goal and gap produce a gain? Think about what drives people. People respond to ideas, inventions, brands–anything really–because they want what it's offering: a better lifestyle, self-improvement, delicious food, odor-free armpits, a cooler home, more fun, something that helps a toddler sleep on a plane, and so on.

People seek a functional or emotional benefit for themselves, their families, their loved ones, their community, the rainforest, or their dog. They want to know, what's in it for me?

People seek a functional or emotional benefit for themselves. . . They want to know, what's in it for me?

Think of our atavistic urges. Beyond our basic need for air, food, and shelter, people want to belong, have friends and family (related to survival and companionship), love interests (related to sex drive and companionship), be stimulated or amused (related to play and gratification), experience things (related to curiosity and participation), and to self-actualize (related to creative growth and intellectual development).

An important consideration when coming up with a worthwhile idea is to determine the target audience; it's a crucial factor in advertising, branding, industrial design, interactive design, entertainment programming, copywriting, marketing, and even in teaching. An idea must have within it some emotional or practical functional benefit for people or someone they care about. Otherwise, they will not pay attention or will tune out. There's too much going on 24/7.

If you were to search the term "great ideas," inventions would undoubtedly pop up. People see inventions as synonymous with ideas. Inventions may be the one category people think of when they think of idea generation, but they're certainly not the only one. Not everyone is an inventor.

In fact, you might have had an idea for an invention only to realize that you don't have the engineering or technical background to make it happen. That doesn't mean you shouldn't pursue it. Many people collaborate successfully. And many inventions provide a gain by driving progress.

The arts are another segment ripe for gains. The gains from the arts include enrichment, enlightenment, insight into humanity and our world, empathy, sharing, and seeing as others see and think. The arts transport us. They transfix. They teach. Each worthwhile novel, short story, poem, song, design, building, sculpture, play, dance, and painting is based on an idea.

The field of entertainment, education, information, world issues, social good, products, and services all depend on ideas. When applying the Three Gs, you're focusing on generating worthwhile ideas and are much more likely to think of the triple bottom line–profit, people, and our planet.

Another way to look at a gain is to determine the why: Why do you have this goal? Why is the gap worth filling? Why would people gain from it? As author Simon Sinek says, it's not *what* or the *how*–it's the underlying *why* that matters. You can evaluate a gain by asking, What's the *why*?

Not every product is for everybody. That's where knowing your audience comes in. Look at it from other people's point of view. Become the audience, and see it as they see it. Take a survey. Do some research, even if it's casual. Don't assume people's points of view or needs.

Understand what your audience truly needs or wants and you will understand the *why* of the audience's behaviors.

Think about a gain you'd like to see in the world. Worthwhile ideas contribute not only to business success and the economy but to social well-being, ecological concerns, to the health and safety of communities, the advancement of disciplines and knowledge, to the arts, to the interests of individuals.

Diversity, Equity, and Inclusion: Amplifying the Three Gs

DEI is the X factor. By inviting multiple perspectives, diversity, equity, and inclusion reveal the vantage points of a wide range of people. Those diverse perspectives, which will undoubtedly be different from yours, will allow you to view your idea differently and anew. Your idea can be dramatically improved by thinking about it in a new way.

Looking at a goal, a gap, a gain, a partially realized idea, or a fully fledged idea from viewpoints different from your own helps you perceive multiple scenarios, multiple gaps, and potentially multiple gains, ultimately resulting in better ideas that appeal to more people in more meaningful ways.

Multiple perspective taking allows you to mentally walk in others' shoes, to look at a situation, an idea, a life lived, or an event from the viewpoints of people who are different from you, who have had different experiences. That shift in perspective adds a fuller dimension to the Three Gs.

DEI also combats groupthink–that is, the conformity that happens when similar people, who might be unfamiliar

with outside perspectives, work in a group. If you view the Three Gs from other perspectives, you will begin to see how age, gender identity, neurodivergence, culture, race, ethnicity, religion, or community characteristics might affect and ultimately amplify your concept.

When you augment the Three Gs with DEI, you will find valuable insights into other people that will lead you to more ideas, better ideas, more *significant* ideas.

Emotional Obstacles

There are obstacles that can get in anyone's way when trying to generate an idea–even when a terrific framework such as the Three Gs is in place. Some external obstacles might be obvious–working full-time, a family to care for, a companion who wants your time, inadequate resources, and much more.

For many people, one big internal obstacle is impatience. Please be patient with yourself. Creativity and actualizing an idea take time. Hang in there. Your present self might be frustrated but your future self will be very pleased you stuck with it.

Emotions play a great part in how we act. Internal and external obstacles can prevent us from setting a goal and eventually generating an idea. There are many tools that can be used effectively to ensure obstacles don't impede success.

Make a Deal with Yourself

For some people, establishing a time of day to work on a project, write, or ideate is important to help them keep to their schedule. Figure out what works for you, and make it non negotiable. No arguments. Make a commitment. You likely will encounter obstacles along the way but think of how satisfied you'll feel if you've made the time you need to realize your idea.

Tackle Your Doubts

Self-doubt is a very real feeling. We live in a society where there is great pressure to achieve. Not everyone is interested in the same things, nor are they capable of the same things. However, everyone can generate a worthwhile or even great idea using the Three Gs.

There's a tendency to inflate self-doubts. To combat that, jot down one thing that's bothering you–that's standing in your way of generating your idea. First determine whether it is a legitimate reason or whether it is a mental barrier you can overcome. Write down how you can overcome it. Also, try to determine what triggers self-doubt. Then you can resolve to do something about it.

Focus

When you're taking the time to work with the Three Gs or work with the idea you've generated, focus on it. Filter out distractions. Let that be the one project you work on for however long you've decided to dedicate to it for the day. Prioritize your projects. It's a good way to work on what's most urgent first and move down the priorities list from there.

But it's also good to give full attention to your idea. That doesn't mean you have to force yourself to think. Subconscious thinking happens when you're performing semi conscious activities, such as strolling in the park or folding laundry.

Change Your Thinking

Whether your hurdle relates to your own skills or talent, the project, or the circumstances–change or reframe your thinking. Ask yourself, how can I look at this in a different way? Before you reframe, jot down what you're thinking–your goal or your notions, a tentative goal, your concerns, your thoughts, your feelings and so on.

Now you've not only acknowledged not only what you're thinking but a possible goal. Reframing can help you find meaning–that is, find the gap and the gain. Reframing a problem can change outcomes.

You have what you need to use the Three Gs. ***The New Art of Ideas*** works: Set a *goal*. Determine if there's a *gap* you can fill. See if there would be a *gain*. Ideas are constructions. Ideas are seeds–your idea might inspire someone else. Ideas often connect to other ideas, and they connect us to each other. Use the Three Gs to generate your ideas. Because worthwhile ideas can alter the course of human progress.



Robin Landa is a distinguished professor of design at Kean University and one of the top authors of textbooks on graphic design and creative design. Landa has won numerous awards from organizations such as the National Society of Arts and Letters, the National League of Pen Women, and Human Rights Educators USA, and the Carnegie Foundation counts her among the "Great Teachers of Our Time." She is a chair of Design Incubation, an advocacy organization dedicated to communication design research. She has written twenty-three books, including ***Nimble***, ***Advertising by Design***, and ***Designing Brand Experiences***.

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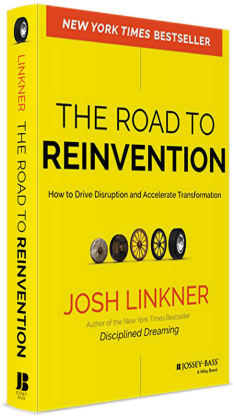
The Road to Reinvention

Josh Linkner

soundview
Executive Book Summaries®

The Road to Reinvention

How to Drive Disruption and Accelerate Transformation



by **Josh Linkner**

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THE SUMMARY IN BRIEF

Companies, communities and individuals fail for many reasons, but one of the most common — and easily avoidable — is the failure to reinvent. When people and organizations rest on prior successes rather than driving purposeful transformation, they discover too late that they have lost their market position altogether to competitors and external forces.

The most successful companies, brands and individuals make reinvention a regular part of their business strategies. Transformation demands an ongoing process of discovery and imagination, and The Road to Reinvention lays out a systematic approach for continually challenging and reinventing yourself and your business. Venture capitalist and serial entrepreneur Josh Linkner identifies six elements in any business that are ripe for reinvention, and shares examples, methods and step-by-step techniques for creating deliberate, productive disruption.

Change is inevitable. You need to decide: Will you drive that change or be driven away by it? Will you disrupt or be disrupted? By choosing to deliberately reimagine your own status quo, you can secure a strong future for both your company and your career.

IN THIS SUMMARY, YOU WILL LEARN:

- Why being comfortable with past success and resting on your laurels is a recipe for disaster.
- Guiding principles for rejecting the status quo and repeatedly reinventing your organization and career for continued success.
- Inspiring examples of reinvention by people who envisioned their futures and soared over the competition.

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Disrupt or Be Disrupted

As a leader, it's your responsibility to prioritize reinvention. If your organization has become intoxicated by its own success, your job is to infuse at every level the same creative hunger that launched it in the first place. The market no longer leaves room for me-too players, a principle that applies to both companies and individuals. Remarkable category-of-one products, services and processes are the driving force of our fist-fighting economy. The choices are clear: disrupt, or be disrupted.

Global markets and rapidly evolving technologies have turned the rules for winning upside down. Hard skills born in the Industrial Revolution, including manufacturing expertise, strong customer service skills and even accounting excellence, are now outsourced or allocated to technology.

Creativity is the new, most effectively sustainable competitive advantage; it's the one thing that no company can outsource. That makes disruptive innovation your most valuable natural resource, even though it isn't displayed on the balance sheet.

Make the Leap to Reinvention

When it comes to reinvention, getting started is the hardest part of the task, but it's also the most important. In today's warp-speed world, swiftness wins. If you wait to try a new idea until you've carefully orchestrated every possible maneuver, the world will pass you by while you're busy planning. As Rupert Murdoch said, "Big will not beat small anymore. It will be fast beating the slow."

Even after making the first leap toward innovative change, many of us get discouraged when we can't reach our goals at Internet speed. We fail to understand that reinvention isn't an event; it's a lifelong process. There are bursting moments of creative insight, but the research shows that most creative breakthroughs come by chipping away at a problem.

Reinvention Differs from Turnaround

Too often, people use the words ***reinvention*** and ***turnaround*** interchangeably. In fact, these are radically different concepts. Turnarounds are generally reactionary, desperate responses to crushing challenges. The goal in a turnaround is simply short-term survival.

There are two key problems with turnarounds. First, the reactionary, shortsighted mindset driving any turnaround is the exact opposite of the thinking needed to sustain long-term growth and innovation. Turnaround specialists slash costs, crack the whip, and generally put all innovation efforts on hold. This mindset damages the organization by stripping away its creative flair.

Second, by the time a turnaround is necessary, it is often too late. Once organizations have stumbled enough to necessitate a turnaround effort, only 10 percent ever regain their market leadership.

Your job is to make sure that your organization never gets to the point that it needs a turnaround. Executing last year's (or last decade's) game plan with precision may work for a while, but remember: decay, like growth, rarely moves in a straight line. Your organization's decay may not be noticeable until it's deeply problematic. The only way to ward off the decay of stagnation is to practice ongoing reinvention.

Change in our business is inevitable. The earlier you can drive reinvention in your organization, the better; delaying only makes your challenge more difficult.

Embrace the Reinvention Ethos

Since the 1960s, Nike has strung together a series of innovations How has Nike been able to stay relevant, continue to innovate, and remain a force that tops the most-admired lists? The simple answer is "its culture."

Eight Principles of the Reinvention Ethos

Study any supremely successful organization or individual, and you'll encounter a consistent theme: an ethos of reinvention whose principles embody the disruptive mindset. Here are eight of the most important principles of that reinvention ethos:

1. **Let go of the past.** The past is a great teacher, but it's a horrible master. Living in its clutches can shackle your imagination and relegate you to thinking small. We can't go back, and we don't need to. Your own grit and determination will become your new safety net.
2. **Encourage courage.** The best organizations focus on celebrating new ideas instead of punishing them. You'll never instill the spirit of reinvention in your team by making people afraid to express their ideas.
3. **Embrace failure.** "Every bull's eye is the result of 100 misses," the old saying goes. Yet we harshly condemn setbacks. Failure is an essential part of the discovery process. Teach your team to consider mistakes and missteps a natural part of the pathway toward reinvention.

4. **Do the opposite.** Some of the biggest breakthroughs have come from innovators implementing a contrarian approach. Doing the opposite — upending expectations, running toward the thing everyone else is running from — is critical to stand out from the crowd.
5. **Imagine the possibilities.** With eyes wide open, obstacles, barriers and roadblocks are painfully clear. But when you close your eyes, your mind can transcend reality and explore what's possible. Reinvention is born in the imagination.
6. **Put yourself out of business.** The iPhone 8 will be designed to put the iPhone 7 out of business. Successful companies put themselves out of business before the competition or market conditions do the job for them.
7. **Reject limits.** The world is filled with naysayers. Nearly every advance in civilization was met with an ice-cold reception. The path forward involves crushing supposed limits, refusing to accept the reflexive no, and unleashing an unwavering belief that you will prevail.
8. **Aim beyond.** Whether you are launching a product, opening a fashion boutique, seeking a job, or rebuilding a broken community, your focal point must be ahead of you. You need to move forward anticipating trends and changes in the competitive landscape.

Understanding the spirit of reinvention — even admiring it — won't guarantee that you can live it. Adopting a new way of thinking is a process. By practicing the principles that give form to the spirit of reinvention, you're developing the innovative muscle memory necessary to lead change.

Cannibalize Your Own Product

The sting of crushing defeat. The agony of job loss. The collapse of an iconic brand. The Polaroid Corporation, once heralded as the gold standard of innovation, had suffered all of these dismal ends when it reached the unthinkable point of filing for bankruptcy protection in 2001.

For more than 50 years, Polaroid had been the dominant player in instant photography. It prevailed in a patent battle against rival Kodak, which then abandoned its instant camera business in 1986. Instead of opening up new possibilities for innovation at Polaroid, this glorious victory seemed only to narrow the tunnel vision of the company's leadership still further.

Confident that its win over Kodak had proved that Polaroid was a bullet-proof brand, the company, which had once reinvented the photographic process, became isolated and out of touch with its marketplace. Each suggestion of product innovation, whether from internal team members or external consultants, hit the same stonewall objection: "We can't do that. We can't ***cannibalize*** our core business!"

Oriented in a mindset that sees limitations in every direction, where every marketplace, technological sphere or other essential resource is finite, the folks who cling to the cannibalization myth can't possibly imagine creating some wholly new success. In their version of the world, survival is the only goal; forget about growing and thriving.

Regardless of our industries and no matter how powerful our organizations may be, we cannot prevent disruption. Those who focus all of their energy on simply holding on to what they have will never be able to reach out for more. By clinging to the past, they are choosing to become obsolete.

In today's highly competitive world, we must sprint toward cannibalization instead of trying to hide from it. Polaroid ought to have been the company to launch a major innovation in digital photography. Instead, it left that opportunity on the table, to be snatched up by a hungry new startup called Instagram. Ironically, one of the most popular features on Instagram is making digital photos resemble old Polaroids.

Success can intoxicate even the most disciplined leaders and trick them into thinking their advantage is sustainable. Don't drink that moonshine. Deeply instill within your organization the understanding that even its most profound successes are only temporary delights.

When you are considering ways to reinvent your core product or service, don't limit your ideas to small tweaks and incremental shifts. Go deep. See through your customers' eyes. Unshackle your imagination from the past and its restrictions so you're free to explore innovations that will upend your past successes. The only thing better than creating the best offering in the marketplace is creating the one that takes its place.

Getting H.O.S.E.'d

A good litmus test to ensure you H.O.S.E. the competition by delivering a new product or service is

1. **H**igh value: Your new product must deliver exceptional value to your customer. Unless it solves a real problem in a meaningful way, forget about it.
2. **O**riginal: Keep your offering uniquely you so it always stands out.

3. **S**ignificant: Go big by breaking the mold of the past and launching something that truly matters.
4. **E**motionally charged: If your product evokes passion, customers will line up to buy.

Retool Your Operations

At the peak of their success in 2011, with a record $30 billion in loan origination, the top 25 leaders of Quicken Loans gathered for an urgent two-day, all-hands-on-deck, off-site meeting. It was a critical session in the company's evolution. Most companies have meetings with this level of importance when things have gone very, very wrong. But the leaders had cleared their busy schedules and gathered for one reason: to reinvent the company. Again.

The urgency for reinvention at Quicken Loans came from the realization that successful reinvention can make a far bigger impact when it springs from a position of strength rather than when it struggles to come from behind. The leaders of this fast-moving company brainstormed how to apply technology to serve customers better. The following year, Quicken Loans racked up over $70 billion in closed loans, representing over 130 percent growth in just 12 months.

Product and service reinvention can transform an organization, but the opportunities for disruptive change don't end there. Just as Quicken Loans crushed its competition with zero product innovation, you have the ability to drive your own organization forward through an overhaul of your processes, systems, procedures, rules and approaches. You can win by reinventing the way you do your work even if the business itself remains unchanged.

Innovate Your Operation

How did Toyota surpass GM to become the world's largest car company? How did Dell beat IBM in the computer industry? It wasn't product innovation, slick advertising or rock-star executives. It was a commitment to ***operational innovation***. Operational innovation, coined by management consultant Michael Hammer, is the concept of completely overhauling the way a company does business in an effort to create a significant competitive advantage. It in essence rewrites the rules of the game.

Here is a quick and practical five-step process to kick off your operational innovation efforts:

- **Make the case for change.** Detail both the opportunity and upside that can be seized through a successful change effort, and articulate the true cost of standing still.
- **Set an audacious goal.** Challenge yourself and your team to solve bigger problems, and you will uncover bigger innovations.
- **Do a friction audit.** Carefully examine each step of your processes and the way you do business. Where are the bottlenecks? What steps could be shortened?
- **Bypass "who" for "what."** As old ideas are discarded, egos can get bruised. Set the tone from the start that the mission is all about the "what": finding a better solution and driving the business forward.
- **Borrow ideas from other industries.** Disrupting your industry probably won't require a lightning bolt from above. Instead, look for creative approaches to similar problems in other industries.

Create Vivid Experiences

Billionaire Steve Wynn made his mark not by changing the basics of casino gaming but by reinventing the experience around them. Wynn meticulously designs even the tiniest detail as it relates to customer experience, and it's what has made him an icon in his industry.

The experience you create for customers is a key area for your business to implement reinvention. If your product or service is unchangeable, and you've already optimized the way you do business, the experience is another powerful playground for creativity and reinvention.

The Five Senses Test

A good starting point is to experience your offering from your customer's perspective — not just the product or service itself but every touch point surrounding it. Let's say you run a karate studio. The experience you must craft goes far beyond instruction on kicking and punching. To craft an ideal and competitively stronger experience, you need to examine the details of your whole company's interaction with each customer's five senses.

In your karate studio, what do students experience on entering? What does it smell like? Look like? Sound like? How does the material of the safety mats feel on bare feet?

Do a five-senses experience audit. Take a look at each possible customer experience, and deeply examine the sensory experience you deliver.

You have an opportunity to dazzle your customers by

connecting to their senses and emotions. Creating unique experiences can drive loyalty, retention, referrals and profits.

Avoid the Curse of Inconsistency

As you craft and refine customer experience, keep in mind that you'll lose a full letter grade for each conflicting message you send to your audience. Think of the experiences you create as an important component to your overall brand. In the same way that Nickelodeon would never show horror films or Ferrari wouldn't start selling discount station wagons, make sure your brand's experiences are cohesive and consistent.

The W Hotel has crafted a hotel experience that is carefully calculated at every step. Enter one of its more than 50 hotels in 24 countries, and you'll immediately sense a special experience: ultrachic, elegant, minimalistic. From the funky bathrooms to the techno music in the elevators to the staff dressed in all black, customers never confuse a W hotel with a Marriott.

Now imagine that you checked into a W Hotel, strolled past the swanky entry, and arrived at your room, only to find a floral quilt and heavy, plaid curtains. What a buzzkill. While this will never happen at a W hotel, mismatches like this occur throughout the business world with stunning regularity: a high-end apparel shop that uses cheap hangers, an American bistro that tries to peddle sushi.

Even if you do 99 percent of things perfectly, it's the 1 percent mismatch that people will most remember. To avoid this blunder and its grave repercussions, remember to think of your brand as the full 100 percent, not just 99 percent. This crucial 1 percent differentiation, achieved by creating a consistent, positive experience at every stage of customer interaction, plays a big role in your ability to grow and meet emerging competitive threats.

Think about your own organization, and contemplate every experiential element that isn't making your customers say, "Wow." Is it the outdated paperwork you require customers to complete? The dimly lit parking lot? Unleash your creativity by crafting a significant overhaul to one area of customer engagement, and the results will speak for themselves.

Tell a Memorable Story

The way you position your company, communicate to various audiences and brand your organization fall into the category of storytelling. Storytelling is more than slick marketing. Certainly ads can tell great stories, but you should use storytelling in a more profound way. Think of it as crafting the overall narrative of your organization. It's articulating what you stand for. It's capturing how you connect your team, customers, suppliers and the media to your larger mission.

Nick Morgan is a master storyteller who has written memorable and inspiring speeches for elected officials, business executives and dignitaries. He categorizes stories into five types. If your storytelling is to leave a mark, you need to reinvent your approach. Match your message up to these classic structures, and your audience will be persuaded. Of course, you want to establish a problem and solution, but you also want to drive your audience to act, using the story as the mechanism to drive this.

- **Quests**. These begin with ordinary people in an ordinary situation. Then a problem arises or an event occurs that forces the hero to leave home or depart from the status quo, to seek some goal or right some terrible wrong, reestablishing the social order. It's not logical, but we believe it. That's why it's powerful.
- **A strange land.** The heroes suddenly find themselves in a new landscape, one with unknown terrain, language or rules. Along comes a leader (that's you) to show us the way, offering a new vision, a new set of rules, or a new way of coping that enables us to survive and eventually thrive in this new landscape. We crave mastery, not bewilderment, and that's the journey our leader takes us on.
- **Love stories.** Two people meet, fall in love, fall out of love, learn a little more about each other, decide to stick together, and live happily ever after. Their true character is revealed in the way the two fall out of love and then find each other again — and that's always symptomatic of what's wrong with society today. If you're a leader with an idea about how people need to get along better, love stories are for you.
- **Rags-to-riches stories.** These help us believe that ordinary people still have a chance to succeed in a society that seems stacked against us. They're about average people who, with a little luck and hard work, manage to succeed. They're good stories for people to tell who are trying to promote economic justice.
- **Revenge stories.** There is evil in this world, and revenge stories reassert the order that society all too often fails to give us. A good villain and justice served are powerful ways for leaders to persuade their follo ers that they have the right idea about life.

By applying any of these basic patterns, you can use storytelling effectively in functional communication (both internal and external) and marketing and brand messaging. Great storytelling can be the difference maker in winning the client, securing regulatory approval, or getting that big promotion.

Reinvent Your Communication

Even if you're not a specialist in marketing and communication, there is an easy approach you can follow to reinvent your communication efforts. If you follow these six high-impact principles, you'll be well on your way to driving positive change:

1. **Keep it simple.** Make your communications dead-simple for anyone who reads it. Ditch the jargon.
2. **Make it clear.** Expunge vagueness, ambiguity and imprecision, leaving behind a crystal-clear and easy-to-follow communication.
3. **Speak to your audience, not yourself.** Speak in a language that your audience understands, and realize that they don't have the same context and point of references that you do.
4. **Keep it brief.** The lower your word count, the better your message will be understood and retained.
5. **Make it memorable.** People will remember stories and feelings far more than details and figures. Engage your audience with compelling and unique language, and make sure you're saying something with enough creativity that people can't forget it.
6. **Activate with action.** Start with the end goal in mind, and make sure your communications all lead to the desired outcome. Lead your audience down a deliberate path with a specific action in mind, and make sure that next step is completely apparent.

Overhaul Your Culture

The East LA neighborhood of Boyle Heights is a rough place, among dozens of other disenfranchised communities ignored by most leaders. Plagued by violent crime and poverty, this rundown area has a history of gangs and prison sentences.

Father Gregory Boyle set out to create radical change. He believed that people with a rough past deserved a second chance and could thrive in the right environment. Boyle realized that these hard-hit individuals needed jobs, not handouts, so he started a company to give them a shot. Homeboy Industries was born in 1992 to employ those who most needed a break. It began as a bakery and has since grown to encompass a wide variety of offerings.

The culture built by this unconventional leader is surprising. Boyle treats the team with dignity, compassion and respect, which they give right back to him and the organization as a whole. A deep sense of pride permeates the team members.

The success of Homeboy Industries illustrates how cultural norms can transform even those who seem most unlikely to change. The importance of cultivating an empowered culture and ensuring your team members are fully aligned with your vision cannot be overstated. The raw materials in this knowledge age are people, and these individuals can create art or havoc. Transforming anything without a culture of reinvention is like trying to put a new roof on a house with a crumbling foundation.

If you take the time to craft a supportive, empowering culture that fosters creativity and the highest standards of performance, that's how the company will perform.

Learn the Six Rules of Creative Cultures

Creating a culture that empowers creativity at all levels is critical for leaders who have any interest in competing. The challenge for leaders is to provide a philosophical framework that allows people to express their creativity and have the confidence to innovate. Here are the six common threads of cultural brilliance:

1. **Fuel passion.** Every great invention, breakthrough and advance of humankind began with passion: a passion for change, passion to contribute, passion to discover something new. The bigger and more important your purpose is, the more passion it can create within your team.
2. **Hunt and kill assumptions.** As organizations and industries progress, assumptions become unwritten rules. Just because something hasn't been achieved in the past does not forbid it from happening now or in the future. All great advances forge new ground.
3. **Never stand still.** One of the biggest traps is imagining that success is a permanent condition. Reinvention is not a one-time reboot but a continuous process.
4. **Embrace oddball ideas.** The creative leaps that ultimately drive the biggest gains often appear incredibly strange at first glance. Instead of shunning wacky ideas, encourage them at every opportunity.
5. **Stick it to the man.** Disruptive cultures have a healthy sense of irreverence — a chip on their shoulders and a

disdain for the old guard. If you're not creating a sense of disbelief, you're not dreaming big enough.

6. **Fight to win.** Competition is a powerful mechanism to rally the team around a common cause and then pursue victory with a vengeance. Challenging your employees to conquer competitors, ditch dogma, and sink the status quo will unleash their best performance and visceral drive to win.

Reimagine Your Customer

From 1973 to 1983, Harley-Davidson's market share fell from 78 percent to only 23 percent as Japanese competitors produced higher-quality, lower-cost alternatives. The company was days away from bankruptcy when 12 passionate employees facilitated a management buyout of the company.

Realizing there was no way to compete on price, these mavericks decided to play to the company's strength: emotion. The bike represented to America, says former Harley-Davidson CEO Richard Teerlink,"the adventurous pioneer spirit, the Wild West, having your own horse, and going where you want to go. It suggests personal freedom and independence." So, in an era when price was a big deciding factor, Harley-Davidson raised its prices.

The company also reinvented its customer base. Doctors, lawyers, accountants and bankers fell in love with Harley-Davidsons, and having a "hog" became a status symbol. The leaders at Harley-Davidson saved a troubled brand by finding a large, new set of customers and emotionally charging their existing core.

Accept the Death of One Size Fits All

Mass appeal marketers have been losing ground for years to savvy businesses that attack specific segments. Since the digital age allows content creators to speak to a very niche audience, this approach has never been more important. The three TV networks have given way to hundreds of cable channels and millions of on-demand choices.

Transforming your customer is another way for you to drive your organization forward and seize new opportunity. Look around corners and under proverbial rocks to find new places to sell your products and services. The irony is that many organizations remain deadlocked in a futile battle over a specific audience, with costs and collateral damage spinning out of control. All the while, there may be customers who are in anxious need of what you have to offer if you simply branch out and provide something special to fit their needs.

If you feel stuck, it's time to discover new customers and explore fresh ways to sell to them. Imagine that your customer base completely dried up, and your distribution practices became illegal. What new customers would you serve? Where would you find them? How could you sell and deliver in a new way? This exercise is exactly what your competitors are doing right now, so it's your job to beat them to the punch.

Transform Your Career

Now it's time to focus on you. No matter how stuck you may feel, there is almost always a way to discover new possibilities. Getting to the next level in your career means something different to each of us. For you, it could be launching a startup, landing a big promotion, improving your work/life balance, or making a bigger impact in your community. The thing all of us have in common, even the best of the best, is the opportunity to break through to a higher level of performance and achievement.

Draw Up Your Personal Reinvention Plan

Just like organizational transformation, personal reinvention can be achieved by taking a systematic approach with your career:

Set a clear vision. Map out your desired end state with incredible detail. Assemble images of what the desired state will be like for you, how you'll feel, and what your surroundings will look like. They will be a powerful weapon to keep you focused and help you fight back adversity along the way.

Do a gap assessment. As you build your reinvention plan, identify the soft spots. What areas do you need to change, improve or supplement in order to achieve your desired outcome? List all the differences from your starting point to your destination so it becomes a to-do list.

Identify costs and sacrifices. It's important to take an honest look at what costs and sacrifices will be necessary to bring your vision to life. All things worth doing require sacrifice and commitment. Make sure you know these parameters going in.

Find mentors. Getting inspired by others can be the difference maker in your reinvention efforts. Reach out to those who are in that position, and respectfully request their help.

Conduct a premortem. Think about all the ways your reinvention could fall off the tracks. Do this up front, and use the insights as guardrails throughout your transformation.

Build accountability markers. Putting a system of penalties and rewards in place will boost your ability to achieve. For optimal results, have someone else help hold you accountable.

Track, measure, refine. Tracking weekly performance in specific areas will allow you to keep yourself focused and on track. This way, you can adjust your actions without losing ground.

Forge Your Legacy

As you develop your overall reinvention plan, focusing on yourself can be the most challenging yet rewarding effort of all. Rebuilding your company and rebuilding your character are not mutually exclusive competing forces, but rather symbiotic in achieving sustainable success. Interestingly enough, the more you help the world, the more commercial success you'll likely gain. Becoming a more caring, giving, purposeful person will actually drive the economic gain you seek. It's an "and," not an "or."

Think of each of the following categories as important muscles that you must build and maintain for optimal performance and well-being:

Empathy. The best business leaders carefully manage the emotional state of those around them. They realize that people perform at their very best while feeling supported and appreciated. You'll seize your full potential only by supporting the imagination, confidence and sense of purpose in others.

Compassion. Business leaders are quick to pick favorites while admonishing the laggards. These labels seep into our souls. The good news is that labeling can work the other way too. Catch a team member in the act of delivering great work, and you'll inject her with confidence and energy.

Courage. Let go of the worry demon, and embrace the new abundance of time and energy that will come as a result of developing courage.

Positivity. Think about how different your days would be if you replaced blame with gratitude, how your confidence would skyrocket if your internal dialogue shifted from resentment to praise.

Discipline. Carving out just 5 to 10 percent of your time for focused improvement will quickly advance your performance. A training regimen will drive your character and career to the next level.

Creativity. Creativity is your most important source of sustainable competitive advantage, the core building block of all reinvention. The ones who break through the barriers look for fresh approaches to tackling the most difficult hurdles.

Grit. Good old-fashioned grit has been statistically linked to being the No. 1 indicator of high performance. Grit can be developed and harnessed. It comes from within, and none of us is precluded from building this attribute.

Conclusion

You have a decision to make. Proactive reinvention is a route that leads to success in all areas of life if you firmly commit to embracing it. You are the only one who can make that choice. Take personal responsibility for the outcomes you desire, and then proceed with passion and conviction. The destination of fulfillment and success will be well worth the effort. Your potential awaits. Retool. Reimagine. Rework. Rebuild. Recreate. Reestablish. Relaunch. Rekindle. Renew. Rejoice. — Reinvent.



Josh Linkner is the CEO of Detroit Venture Partners, playing a key role in the turnaround of Detroit, Michigan. He is also the author of the ***New York Times*** bestseller ***Disciplined Dreaming: A Proven System to Drive Breakthrough Creativity*** (Jossey-Bass, 2011). He has been honored as the Ernst & Young Entrepreneur of the Year (2003) and is a President Barack Obama Champion of Change award recipient (2011).

The Road to Reinvention: How to Drive Disruption and Accelerate Transformation by Josh Linkner.
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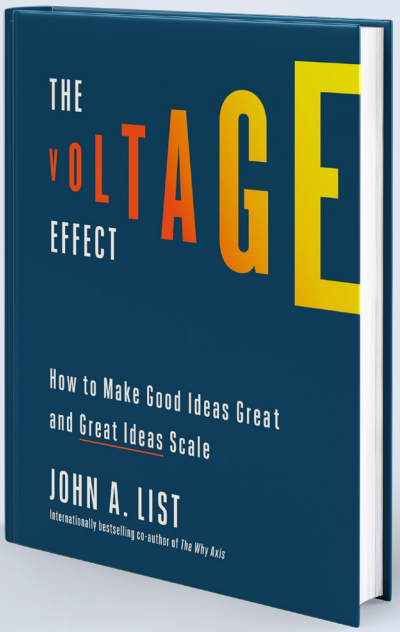
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· Book 60 of 61 ·

The Voltage Effect

John A. List

BOOK SNAPS™
Zooming In On Your Next Read



The Voltage Effect

By John A. List

Professor John A. List is the Kenneth C. Griffin Distinguished Service Professor in Economics at the University of Chicago. His research focuses on combining field experiments with economic theory to deepen our understanding of the economic science. In the early 1990s, List pioneered field experiments as a methodology for testing behavioral theories and learning about behavioral principles that are shared across different domains. He co-authored the international best seller, *The Why Axis,* in 2013.

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The Science of Scaling

A big question business owners, entrepreneurs, and dreamers all come to face at some point in their lives is, would my business/idea/program do well at scale? Will it have a high voltage or lose its spark?

Behavioral Economics professor and co-author of the international bestseller The Why Axis, John A. List, is a man that doesn't just ask the why's; he goes out into the world and finds the answers. Over the past 30 years, using the world as his lab, John has conducted fieldwork discovering the hidden, often surprising motivations behind big and small decisions we make every day.

Throughout his latest book, ***The Voltage Effect,*** John takes you on a journey of his career working for, to name but a few, Uber, Lyft, Virgin Airlines, and even The White House. In the first half of his book, John reveals the five vital signs you need to focus on to know whether your program/company/idea will scale well or lose its voltage and fail. Once your voltage is running high at scale, the book's second half tells you four proven techniques for increasing positive results at scale and designing a sustainable high-voltage culture.

In this book, John A. List has taken his new understanding of how things work and distilled it into a way that everyone everywhere can implement: from classrooms to boardrooms, nonprofit offices to research labs, and the White House to your own house. "*The Voltage Effect* is for anyone who wants to increase the likelihood of their idea or enterprise succeeding."

Can Your Idea Scale?

Picture a small soap store in sunny California. Business is going better than the owner expected, and one day, she thinks to herself, "I wonder if I should open more stores here, maybe open them around America?" So, she throws caution to the wind, gets a loan from the bank, and opens a few stores across the United States. However, a year down the line, her new stores fail, and the debt she finds herself in, forces her to sell the original shop in California.

The big question here is Why? Why did it fail at scale?

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After 30 years of working with people in the field, John A. List has discovered why things have failed and how you can avoid it all and answer the question, Is your idea built to fail or built to scale?

False Positives

In 2006, the CEO of Chrysler, Thomas LaSorda, was trying to save the company from bankruptcy. He reached out to John and two of his colleagues, Steve Levitt and Chad Syverson, hoping that they could find a way to help him improve the company's profits.

Chrysler has an absenteeism problem, and that's what John and his colleagues decided to focus on. A roughly 10 percent absenteeism problem was costing the company millions of dollars a year. The company also had a problem with high healthcare costs and "presenteeism" (employees underperforming because of health conditions). Data suggested an employee health program could solve both issues.

In a pilot study, John and his team partnered with Staywell Health Management, who handled programs at Chrysler relating to health and productivity. The idea was simple, cash incentives. As a reward for employees engaging in healthy activities, they would earn some money. The results came in, and all seemed good, greater healthier behaviors, lower medical expenditures, and employees in the pilot were less absent than the people who were not. In a short amount of time, John and his team had saved Chrysler money, and the CEO was ready to roll it out into all of his plants. However, John was more cautious. He proposed trying the program again in the same factory but with different employees. This time the results were not so exciting. The employees had no better outcomes than those who never took the program. The initial results from the first team were a statistical blip– a False Positive. The data appeared to be lying.

To ensure the early success wasn't a false positive, John and his team ran the program in two more plants, but like the second attempt, the program failed. Their program was just not as good as the data had initially suggested. By spotting this early on, John and his team saved Chrysler a lot of money and allowed them to return to the drawing board and create a new program that worked across the board.

"The whole episode was a powerful reminder that when you draw a sample of people for a study, you must understand that it is just that: a sample. And samples are sometimes not representative of an entire population, meaning that sometimes the results you get from your sample will not be true for the entire population. In this case, it turned out that the employees who participated in the first pilot at Chrysler were not representative of all the employees at that plant, much less at all of the other plants. So while the early data appeared solid, clearly they did not tell the full truth."

Statistical errors, however, are only one of the reasons false positives can be found across so many domains.

Spillovers

When John was working for Uber, an interesting thing happened. Uber founder Travis Kalanick decided to increase the drivers' wages. He did this by increasing the base fare for all rides. Higher fares would equal more money, right? Maybe not.

By increasing the base fare for all Uber rides, existing drivers offered more trips, and working as an Uber driver became more appealing to people who weren't currently working for them. How did this affect the money? The markets' supply-side became more competitive, resulting in each driver having fewer trips, which erased the intended gains from the wage bump.

The increased base fare unintentionally increased the number of drivers at scale and scuppered Uber's good intentions.

Incentives That Scale: Loss Aversion

Loss Aversion is one of the pillars of behavioral economics. As human beings, we hate losses, any losses, to the point that we would rather keep something small than try to gain something bigger and better.

"The pain of loss is more psychologically powerful than a gain of the same intensity. Which is why avoiding loss—and the psychological pain that accompanies it—is a potent incentive."

This pain of loss doesn't just apply to material resources like food or money. It applies to losses of any kind, including social losses.

In 2018, John and several of his colleagues were asked for help from The Dominican Republic's government. Their problem was that many people weren't paying their taxes. For instance, in 2017, nearly 62 percent of Dominican companies failed to pay their corporate income tax, while roughly 57 percent of people failed to pay their individual income tax.

Almost everyone who avoids paying their taxes is essentially weighing up the benefits versus the costs of that decision and concluding the possible gains. More profits Vs. financial penalty or incarceration. The government's problem was that the punishments were often challenging to enforce. John and his team's task was clear: find a way to incentivize the people of The Dominican Republic to pay their taxes.

As tax season rolled around, John had messages sent out to 28,000 self-employed Dominicans and over 56,000 Dominican companies. Half of the people received messages that reminded them about the possible jail time for avoiding their taxes. The other half received a message letting them know about a new law that made any punishments levied for tax evasion a part of the public record. This meant that anyone in The Dominican Republic could easily see who had not paid their taxes. This emphasis on public disclosure was there to incentivize people to avoid perceived damage to their social standing.

After tax season had finished, the results were in. The messages increased tax revenue by more than $100 million (more than 0.12 percent of the Dominican Republic's GDP that year). The

> Research shows that diverse groups generate better decisions and problem-solving skills..."

threat of jail time was the higher successor of the two, with nobody wanting to lose their freedom, but incarcerating so many of the public is not a good scaling idea. The threat of loss of social standing resulted in millions of dollars in additional revenue for the Dominican government. John and his team had only sent these messages out to a small population. At scale nationwide, the messages would generate a lot more money.

John knows this specific strategy won't work in every context. He's not suggesting that someone trying to scale their business, for example, should make public shaming and threats against people's reputations a part of their incentive structure for scaling. All he is suggesting is that an aversion to the loss of social standing is part of human nature—and incentivizing people to preserve their reputation by adhering to certain norms can clearly have an acute influence on behavior, often in positive ways. This type of incentive scales well because the more that violating that norm becomes stigmatized, the more incentivized they are to comply with it.

Scaling Culture: Recruiting at Scale

SODI (Science of Diversity Initiative), which John is an original board member of, partners companies with academics from a range of disciplines, is to promote a truth of organizational success that, in recent years, a robust body of scientific research has made impossible to ignore: diversity in all senses matters: ethnicity, gender, religion, sex, gender identity, and other characteristics.

"Diversity in people's backgrounds equates to cognitive diversity when they are together, which produces not just greater innovation but also greater resilience. Research shows that diverse groups generate better decisions and problem-solving skills, more complex thinking, and higher profits.17,1819 One study showed they even invest in better stocks!"

At scale, however, it can be challenging to get the level of diversity that will drive high-performing teams. John's research shows that things can go wrong even earlier in the hiring process– with recruitment.

Equal opportunities have become the norm in the workplace today, but if you don't advertise well, you can leave yourself short of the diverse people that will help your culture thrive at scale. John and his colleague Andreas posted a job opening using an existing organization for an administrative assistant position in ten different US job markets. The selected cities contained different racial compositions. They targeted several white-dominated cities and more racially diverse cities.

One group of applicants received a posting with an Equal Employment Opportunity (or EEO) statement, another without one. Roughly 2,500 people applied. They also offered potential job-seekers a $10 Amazon gift certificate to take a short survey, which would allow us to collect more qualitative data about what drew an applicant to this particular ad.

John and his team thought the racial minorities would apply more to the posting with the EEO statement, but they were wrong. The statement discouraged minorities from applying by as much as 30 percent. From the data attained, it was evident that the people worried if they worked for this company, other people working there would judge them, think they were the token employee, and possibly believe that they only got the job because of their race. The message the potential applicants received from this advertisement was that the company wasn't truly dedicated to diversity and inclusivity. They felt the company was putting a mask on to look good.

List addresses this: "It is not enough to tell applicants that you're committed to diversity. You have to show them that your declared workplace values are also the actual ones that employees will experience and contribute to if they are hired. The good news is that when you do reach a critical level, diversity is easier to scale because of the 'flywheel effect.' Once in motion, the data on the racial and ethnic composition of your workforce (very often publicly available online) will begin to tell your story and spin further gains. A person of color will simply look up a company and see what percentage of employees are people of color, where employees of color stand in the company org chart, and more."

The Voltage Effect: How to Make Good Ideas Great and Great Ideas Scale is a book filled with insightful knowledge. John A. List has gone out into the real world and spent 30 years finding answers to the questions people often have on how to become a success at scale.

The examples throughout this book, mixed in with some of John's personality, make The Voltage Effect an informative (based on facts and not opinions) and pleasant read to sit back and enjoy. This book should be in the arsenal of anyone wanting to succeed at the top.

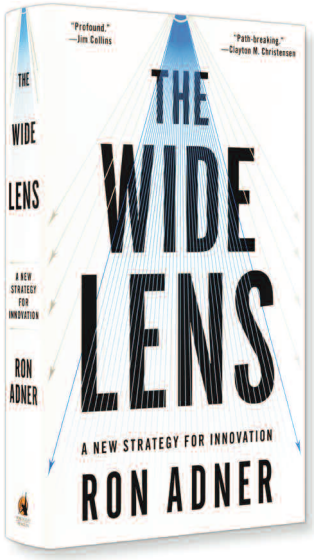
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The Wide Lens

September 2012

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Innovation



The Wide Lens

A New Strategy for Innovation

by Ron Adner

THE SUMMARY IN BRIEF

How can great companies do everything right — identify real customer needs, deliver excellent innovations, beat their competition to market — and still fail?

The truth is that many companies fail because they focus too intensely on their own innovations, while neglecting the innovation ecosystems on which their success depends. In our increasingly interdependent world, winning means more than just delivering on your own promises; it means ensuring that a host of partners — some visible, some hidden — deliver on their promises, too.

In *The Wide Lens*, innovation expert Ron Adner draws on more than a decade of research and field testing to take you on far-ranging journeys from Kenya to California, from transport to telecommunications, to reveal the hidden structure of success.

A riveting study that offers a new perspective on triumphs like Apple's path to market dominance, monumental failures like Michelin with run-flat tires and Pfizer with inhalable insulin, and still unresolved efforts like electric cars and electronic health records. *The Wide Lens* offers a powerful new set of frameworks and tools that will multiply your odds of innovation success. *The Wide Lens* will change the way you see, the way you think and the way you win.

IN THIS SUMMARY, YOU WILL LEARN:

- Why things go wrong when you do everything right.
- How to see yourself as part of an innovation ecosystem.
- How to manage your ecosystem's roles and relationships.
- How to reconfigure the ecosystem to work for you.

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THE COMPLETE SUMMARY: **THE WIDE LENS**

by Ron Adner

The author: Ron Adner has spent the past decade studying the root causes of innovation success and failure. An award-winning professor of strategy at the Tuck School of Business at Dartmouth College, and previously at INSEAD, he is a speaker and consultant to companies around the world. His writing has appeared in the *Wall Street Journal,* the *Financial Times*, *Forbes* and the *Harvard Business Review*.

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Why Things Go Wrong When You Do Everything Right

More and more, managers and executives are being pushed into a world of greater collaboration. The upside is that, by working in concert with others within and across organizations, you can accomplish greater things with greater efficiency than you could ever accomplish alone. The downside is that your success now depends not just on your own efforts, but on your collaborators' efforts as well. You are now an actor within a broader innovation ecosystem. Success in a connected world requires that you manage your dependence. But before you can manage your dependence, you need to see it and understand it. Even the greatest companies can be blindsided by this shift.

Michelin: The Run-Flat Saga

In 1992, a small group of Michelin executives conducted a breakout session. The goal? To come up with the next big innovation, one that would spur sales, grow profits, and redefine the way consumers would think about tires. The result — the PAX System — launched Michelin on an ambitious path to transform the entire tire industry.

The PAX System was a run-flat tire that would continue to "run flat" and not sacrifice performance even if punctured. If you suffered a blowout with run-flat tires, you could continue to drive as if nothing had happened. No need for an emergency pull over. Instead, a light on your dashboard would let you know a puncture had occurred and that you could drive for another 125 miles, at up to 55 mph, before pulling into a garage to get the tire repaired.

In June 2000, Michelin unveiled its masterstroke: an unprecedented alliance with Goodyear, the world's second-largest tire maker. Widespread adoption of the PAX System technology no longer seemed a question of *if,* but *when*.

By the end of 2004, J.D. Power & Associates had come out with a new survey predicting that by 2010 more than 80 percent of cars would be fitted with run-flats.

Honda announced that, beginning in 2005, it would equip its best-selling Odyssey minivan with PAX tires. To ensure a successful launch, Michelin and Honda embarked on unprecedented coordination. Michelin boosted the standard PAX warranty to cover the first two years of driving or 50 percent of tread wear and began training and certifying Honda dealers and tire dealerships with PAX.

Confronting Failure

In the rush to market, however, many Honda dealers were not ready. Problems surrounding PAX were mounting and eroding carmakers' initial enthusiasm. Most pressing was growing consumer frustration with the difficulty of finding service centers that could repair the tires. Unable to repair flats, many drivers were forced instead to purchase brand-new tires. At around $300 per tire, the run-flat value proposition was rapidly eroding.

Several class-action lawsuits were filed alleging that Michelin, Honda, and Nissan had "never disclosed that neither they nor any third parties maintained sufficient repair or replacement facilities." In November 2007, Michelin formally announced an end to further development of PAX.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Corbin Collins**, Contributing Editor

The very nature of the PAX system required a different path to market, one which would add new actors and new interactions to the system. First, it required automakers to provide a very different level of support than was necessary for traditional new tires. Second, it required new car dealers to enter the picture. Now sales also depended on whether the salesperson was incentivized to guide customers to buy the PAX package option versus, say, a GPS or satellite radio package. Finally, and most critically, PAX required service garages to enter the picture in an entirely new way. For garages, repairing innovative tires had never required any major change to their activities, equipment or capabilities. But repairing a PAX tire was different: the garage needed completely new equipment to clamp and unclamp the tire, new tools to calibrate the tire pressure monitoring system and new training for its repair staff. What's more, Michelin required technicians to undergo a rigorous certification process.

Is There a Better Way?

Ecosystem reconfiguration is at the heart of every new value proposition that breaks from the existing industry mold. Any organization that aspires to transition from stand-alone products to integrated solutions, from insulated projects to collaborative systems, is signing on to a transformation of this sort.

For many companies, managing innovation ecosystems is problematic because the tools and systems they have honed over years of managing successful stand-alone innovations are ill suited to address the interdependence challenges that are inherent in the transition to ecosystems. The failure of PAX was such a surprising defeat because, from a traditional perspective, Michelin did everything right. The company's mistake was its failure to understand the innovation ecosystem on which its success depended. Michelin's failure was rooted in its inability to bring enough service stations on board with the PAX system. ●

Co-Innovation Risk: Seeing the Real Odds When You Don't Innovate Alone

Competent managers know that success requires obsessive focus on capabilities, customers and the competition. But too often they fall victim to the blind spot of co-innovation risk. While managers have rich processes in place to assess and manage their own execution challenges ("What do I need to do to deliver my project on time, to spec, ahead of the competition?"), they do not fully understand their dependence on their partners' co-innovation challenges ("What are the hurdles facing the other innovations that must come about for my project to succeed?"). Regardless of the nature of the complementary innovation — technological, procedural or organizational — co-innovation risk transforms the odds of success.

Nokia: Building a 3G Phone Too Soon

Nokia had been working on 3G prototypes since the early 1990s, but even with deep expertise in the handset market, the challenges kept growing. As one observer noted, "The 3G handsets, on which Europe has wagered much of its tech future, are by far the most complex consumer electronics devices ever designed. To succeed, they must combine the wealth of applications available on a computer with the roving versatility of a mobile phone."

It was a huge execution challenge, but, in the end, Nokia did it. They had beaten Ericsson. But the euphoric welcome for the 3G handset innovation would prove to be out of step with the new world that 3G represented. Nokia had forecasted that, by 2002, more than 300 million handsets would be connected to the mobile Internet. The actual number was closer to 3 million. The 300 million target was eventually reached, but not until 2008.

At the root of Nokia's mistake was a fundamental misunderstanding of co-innovation risk. The 3G vision was a vision of an entire mobile lifestyle — personalized videos streamed to your phone, location-based services, automated payment systems, applications to empower a mobile workforce. Until these other partners delivered on their innovations, Nokia's 3G handset would create about as much value as a $400 paperweight.

Collaboration = Dependence

The extent of your co-innovation risk depends on the joint probability that each of your partners will be able to satisfy their innovation commitments within a specific time frame.

The real question is not *if* it can be done, but *when*. Not just when will we be able to complete the project, but when will we be able to align the necessary ecosystem for the complete value proposition to become a reality? Once we understand co-innovation risk, the ways in which we prioritize opportunities and threats, the ways we think about market timing and positioning, and the ways we think about designing our offers and mitigating our risks all shift. This is the good news: By

seeing what is actually driving the odds of success, we improve our odds of success. ●

Adoption Chain Risk: Seeing All the Customers Before Your End Consumer

A range of intermediaries stand between you and your end customer: the distributor to bring your product to market, the retailer to showcase it, and the salesperson to sell it. Your success depends on each of these partners adopting your innovation and seeing the value it will create for them. If any one is not on board, you will never reach your end customer. When does the best product lose? When the consumer doesn't have a chance to choose it.

From Adoption to Adoption Chains

In today's interdependent world, the successful innovator must treat each partner as a customer — even if they are not in a direct business relationship. Whereas the logic of co-innovation is one of multiplication (not averages), adoption chains follow a logic of minimums (not net surplus).

Consider two innovation proposals, A and B. Both require that your innovation pass through two intermediaries before reaching the end customer: the distributor who sells the product to a retailer, who then sells to the end customer. Innovation A creates high value for the innovator (highly profitable, with a surplus of +4), high value for the distributor (+3), slightly negative value for the retailer (higher up-front costs, retraining and service headaches, despite slightly higher margins, a deficit of -1), and very high value for the end customer (+5). Innovation B creates positive, but low, surplus for everyone (+1 for each actor). The net system surplus created by innovation A is 11 (4+3-1+5). The net system surplus created by innovation B is 4 (1+1+1+1). Which would you bet on?

Each and every intermediary needs to see surplus from adopting the innovation. Innovation A will fail because the end customer will never have the chance to choose it. As long as the retailer is worse off with innovation A than with its current alternative, it will be a broken link in the adoption chain. Despite its lower value creation, innovation B will sail through the adoption chain.

The Digital Cinema Challenge

As analog formats throughout the media world were falling away, the transition to digital cinema seemed a certainty. The value proposition was unambiguous: higher-resolution picture quality, better protection from piracy, flexibility of programming, the potential for 3-D screening, and — for the studios — the elimination of costly film prints.

The big movie studios certainly saw value in supporting and advancing digital cinema. The distribution arm of the studios, as well as independent distributors, would also benefit from greater flexibility of tailoring the movie to a specific audience.

So if everyone saw the benefit of adopting digital cinema, where was the problem? The answer lies with one player for whom the benefits were high, but not high enough to offset their total cost: the movie theaters.

Digital cinema promised big net benefits not just to the movie studios, but to the aggregate ecosystem as well. The challenge was to find a win-win-win-win proposition — some way to share enough surplus with theaters to make them *want to* come on board.

In order for mass adoption of digital cinema to take place, leadership was required from the only party with enough economic incentive and resources to matter: the movie studios. Neither the independent distributors nor the equipment suppliers were in a position to lead due to fragmentation, limited bargaining power over exhibitors, and a lack of financial sway. The integrators made a great leap for digital cinema by launching the VPF (virtual print fee) program, a financing innovation that allows studios to subsidize the high cost of digital cinema adoption in theaters. But without the participation of the studios, the financing framework would have fallen flat. It was the studios that, by initially moving away from celluloid film, setting digital standards, and later collaborating with digital theater integrators, cleared the path for widespread adoption of digital cinema. With VPF, the studios stepped into a new role, creating a new set of links into the ecosystem. They found a brilliant solution to induce the digital changeover. ●

Mapping the Ecosystem: Identifying Pieces and Places

A world of ecosystems is a world of permutations — A, B, C, and D all need to work together simultaneously. The challenge is usually not that partners openly disagree about what must happen first or who is responsible for what; it's that these questions are not sufficiently explored. Instead, having agreed on the end vision, the partners assume that they also agree on the best path to get there. When the value proposition requires multiple

elements to converge, you need an approach that will allow you to assess alternative configurations, and generate shared understanding and agreement among the partners as to how these elements should come together.

The Value Blueprint

The value blueprint is a mapping tool that makes your ecosystem and dependencies explicit. The steps to construct a value blueprint are straightforward:

1. Identify your end customer. Ask: Who is the final target of the value proposition? Who ultimately needs to adopt our innovation for us to claim success?
2. Identify your own project. Ask: What is it that we need to deliver?
3. Identify your suppliers. Ask: What inputs will we need to build our offer?
4. Identify your intermediaries. Ask: Who stands between us and the end customer? Who touches our innovation after us, and to whom do they pass it on the way to the end customer?
5. Identify your complementors. For each intermediary ask: Does anything else need to happen before this intermediary can adopt the offer and move it forward to the end customer?
6. Identify the risks in the ecosystem. For every element on the map ask: a) What is the level of co-innovation risk this element presents — how able are they to undertake the required activity? b) What is the level of adoption risk this element presents — how willing are they to undertake the required activity?

It is often most productive to characterize the status of each element along a green-yellow-red traffic light continuum.

7. For every partner whose status is *not* green, work to understand the cause of the problem and identify a viable solution.
8. Update the blueprint on a regular basis. As conditions change over time, the blueprint will need to be modified accordingly.

It is rare for a significant innovation to start life with an all-green-light blueprint. It is also not necessary. Yellow lights are signs of delays to come, but they need not be showstoppers. Red lights, however, are a major problem. Any red light that appears on your map must be addressed.

Pfizer: The Promise of Inhalable Insulin

In 1998, the race to market for pulmonary insulin began in earnest. Expectations were high, but developing inhalable insulin was a monumental task. Pfizer's U.S. head of pharmaceutical business stated: "Pfizer had to create the means to manufacture inhalable insulin, a substance that had never existed before … Exubera is as much a manufacturing innovation as it is a breakthrough medical advance."

In its approval, the FDA posed a requirement that all patients have a pulmonary function test to make sure their lungs were able to absorb the insulin. Pfizer's strategy called for an initial rollout targeting experienced endocrinologists and diabetologists who had "a wealth of experience … with this patient population." Its plan was to get this critical opinion-leading segment on board and only then, four to six months later, start rolling out the drug to general practitioners (GPs).

By the end of 2006, Exubera sales were "negligible." By July 2007, Pfizer reported that sales "continued to be disappointing." In October of 2007, Pfizer pulled the plug; Exubera was dead.

Pfizer's plan (which followed the tried-and-true industry norm) hinged on specialists adopting the new product first. While spirometers are standard equipment in a GPs office, used to test for asthma, they have no natural place in an endocrinology practice. Thus, the specialist would need to refer the patient to another doctor and then set up a second patient visit before treatment. Consider that there is an acute shortage of endocrinologists in the United States. Waiting times for an appointment can be three, even nine months.

Had they used a wider lens, Pfizer would have seen the one piece of the puzzle they didn't account for — the blind spot that was so easy to miss unless you were actively looking for breakdowns. The moment the lung function test became a regulatory requirement, success required a plan to solve the endocrinologist's "lung-test loop." In the absence of such a plan, failure was virtually guaranteed. ●

Roles and Relationships: To Lead or Follow in the Innovation Ecosystem?

The leader is not the one who says, "I'm the leader." He's the one about whom everyone else says, "He's the leader." This is the litmus test of leadership. Creating followership among partnering firms entails more than just having a sound strategic vision or a great preexisting brand. In most cases, creating followership entails first making the up-front investments and taking the up-front risks required to get the system working, and only later reaping the rewards.

The Case for Followership

By definition, any successful ecosystem is filled with followers who win. Their piece of the pie may be smaller than the leader's, but they bear a much smaller risk.

The litmus test for leadership is that everyone else agrees to follow — which only happens when everyone else wins, too. An effective leader creates the ecosystem's structure, establishes fair standards and consistency, and convinces potential followers that there is value in it for them.

Ultimately, in a successful ecosystem, leaders and followers both prosper. It falls on you to prioritize where you want to lead, whom you want to follow, and — if neither choice is appealing — when to opt out and wait for a better opportunity. ●

The Right Place and the Right Time: When Does the Early Bird Get the Worm?

Although conventional wisdom applauds the pursuit of early-mover advantage, the complexity of innovation ecosystems can overturn this logic. The usual focus on getting products to market creates a dangerous blind spot when it comes to timing entry: the early bird may get the worm, but the second mouse gets the cheese.

The iPod Wins, Three Years Late

In 1979, the Walkman was introduced in the Japanese market. Consumers, already accustomed to playing cassettes on boom boxes and car stereos, were eager to emulate the happy youths of Sony's ads — roller-skating, picnicking and jogging, all while listening to their favorite music. Soon Sanyo, Panasonic, Sharp, Philips, and other electronics leaders joined the fray.

Jump ahead to the late 1990s. Which MP3 player would get there first and become the next Walkman? In 1998, South Korea's SaeHan Information Systems created the world's first portable digital audio player, MPMan. SaeHan saw the market, delivered the product, embraced the right file format, and did it all before the competition. But it did not enjoy a first-mover advantage. Without the extensive access to MP3s and broadband, the value proposition could not come together.

In 1997, Steve Jobs returned to Apple. Jobs was a pioneer of digital and media. It is inconceivable that digital music was not on his radar. In 1998, as MPMan and others launched, he didn't budge. In 1999, as Shawn Fanning introduced Napster (illegally), unleashing a vast catalog of free MP3 content to the world, Jobs still didn't move. Jobs understood that, in order for the device to have value, other co-innovators in the MP3 player ecosystem first needed to be aligned. In October 2001, when Apple announced the iPod, those pieces were solidly in place: both MP3s and broadband were finally available.

Why is it that this technology succeeded to such a great extent where others barely made any progress at all? In 1998, Jobs said, "These waves of technology, you can see them way before they happen, and you just have to choose wisely which ones you're going to surf. If you choose unwisely, then you can waste a lot of energy, but if you choose wisely, it actually unfolds fairly slowly. It takes years."

Early-Mover Advantage and Disadvantage

Because early movers, by definition, pioneer new market space, they are exposed to greater uncertainties than laggards. There is no prize for those who get it wrong first. While early movers flail about trying to find the right product architecture to position in the right market segment, it is the latecomers that reap benefits of pioneering failures. The relevant question for managers is not whether early movers can be advantaged, but, rather, under what conditions they will be advantaged.

If you allow yourself to look beyond your own innovation challenges at the entirety of the value proposition, timing clues abound. It shouldn't take a visionary to see that demand for MP3 players won't take off until users have easy access to the actual product. Nevertheless, it does take willpower to resist the natural urge to rush forward. Self-imposed delays go against the grain of most leaders and organizations.

The ecosystem is a puzzle that needs to be assembled. The prize does not go to the first player to put down the first piece — because nothing happens till the puzzle is complete. The prize is only awarded after someone puts down the last piece. ●

Changing the Game: Reconfiguring the Ecosystem to Work for You

For digital cinema and Apple's iPod, the shift from red to green was not just a matter of working harder, or of incentivizing and cajoling partners to ensure that each piece of the ecosystem puzzle fell into place. Rather, in each case, success came from first recognizing the key constraints that held back value creation and then taking bold steps to reconfigure the blueprint to work around those constraints.

Innovating in ecosystems demands not just innovation in the discrete elements, but also innovation in the way in which the elements come together — innovation in the blueprint itself. The Five Levers of Ecosystem Reconfiguration can be used to modify your value blueprint to eliminate the adoption and co-innovation bottlenecks to your value creation.

The Five Levers of Ecosystem Reconfiguration

Reconfiguring an ecosystem entails changing the pattern of interaction among the elements in the system. Taking any value blueprint as a starting point, we can ask five fundamental questions to uncover a new configuration that can eliminate the problematic bottlenecks:

1. What can be separated? Is there an opportunity to decouple elements in a way that can create new value?
2. What can be combined? Is there an opportunity to bundle elements that are currently uncoupled?
3. What can be relocated? Is there an opportunity to shift existing elements to new positions in the ecosystem?
4. What can be added? Are there elements that are currently absent but whose introduction to the ecosystem can create new value?
5. What can be subtracted? Are there elements whose elimination from the ecosystem could be accommodated in a way that would allow for the creation of new value?

Employing the levers, alone or in combination, can be helpful in revealing the path to a viable solution.

Challenges in the Electric Vehicle Ecosystem

From the start, the electric vehicle (EV) has been perceived as an ecosystem problem. Looking at the EV proposition through a wide lens reveals a list of challenges that goes beyond simply building an electric car that goes the distance. The core hurdles have to do with the general problems surrounding electricity: generating it, storing it, delivering it, and — for drivers — paying for it. Consider the six EV problems:

Problem A: purchase price premium

Problem B: limited driving range

Problem C: charging infrastructure

Problem D: battery resale value

Problem E: limited driving range limits savings

Problem F: electric grid capacity.

Better Place is attempting to reconfigure the EV ecosystem. The company's starting premises: For economic attractiveness, consumers should not own the battery (problems A and D). For both functional and economic attractiveness, range and convenience cannot be limited (problems B, C, and E). For scalable success, the existing electric grid cannot be disturbed (problem F).

Better Place's approach is not to innovate the electric car, but, rather, to innovate the ecosystem around the car.

1. *Separate.* The central modification of the Better Place offer is the separation of the battery, a move that goes far in solving the stubborn problem of battery economics from the consumer's perspective.
2. *Combine.* By linking the battery, charging infrastructure, and the purchase of electricity through the grid, Better Place gives the utilities the opportunity to serve more demand (and sell more power) without new investment in capacity or distribution.
3. *Relocate.* In the traditional EV model, the burden of paying for electricity falls on the consumer. In the Better Place model, it is the company that manages the transaction with the power providers.
4. *Add.* With its overarching operating system, Better Place adds a key component that facilitates energy management throughout the ecosystem. And because it has relieved the consumer from ownership of a specific battery, Better Place is able to introduce a battery switch station as a solution to the problem of driving range.
5. *Subtract.* With its operating system tying together the electric distribution system, the charging infrastructure, and the actual charging schedule of the batteries, Better Place is able to eliminate the need for a smart-grid infrastructure to solve the grid overload problem.

The goal is not to eliminate risk. The goal is to shift risk to locations in which it can be managed effectively. At the very least, Better Place's efforts will be instructive. At the most, they will be truly transformative. ●

Sequencing Success and Multiplying Your Odds of Success

Constructing an ecosystem takes both time and direction. But it also requires a clear plan for the sequence in which the structure will be built. In the world of product innovation, the standard development sequence transitions from prototype to pilot to rollout. This approach is well-suited to the world of stand-alone innovations in which the construction of the offer itself is under your

control. In the world of innovation ecosystems, the challenge is that delivering your value proposition requires multiple partners to agree, align and commit. There are three guiding principles for sequencing the successful construction of ecosystems:

1. Minimum Viable Footprint (MVF): the smallest configuration of elements that can be brought together and still create unique commercial value.

2. Staged Expansion: the order in which additional elements can be added so that each new element benefits and increases the value creation potential.

3. Ecosystem Carryover: the process of leveraging elements developed in the construction of one ecosystem to enable the construction of a second ecosystem.

A Choice of Paths: Pilots vs. Footprints

Rather than the piloting approach of scaling up a fully developed value proposition, the MVF approach means that the innovator first rolls out a basic value proposition at commercial scale and only then moves to enhance the value proposition to its full potential in a series of staged expansions. The difference — in terms of leadership clarity, blueprint cohesion and partner management — is staggering.

By establishing a base of consumers, the MVF reduces (but does not eliminate) demand uncertainty for partners and lowers the hurdles to bringing them onboard. And the organization that drives the MVF establishes itself as the de facto ecosystem leader — both because it has clear ownership of the customer base and because it is in control of the order in which additional partners will be invited to come onboard.

Driving staged expansion from an MVF is a powerful pathway to success. And continued expansion within the ecosystem is a compelling avenue to continued growth. Building a successful ecosystem, however, offers an additional strategy lever: ecosystem carryover, leveraging your success in constructing one ecosystem to create advantage in constructing a new ecosystem.

We can see the principle of ecosystem carryover underlying many successful transformations. FedEx's growth from overnight shipping to orchestrating a range of supply chain and inventory management services, eBay's extension from online auction house (its original MVF) to virtual shopping mall to e-payment broker (PayPal) to creditor (Bill Me Later), Facebook's expansion from social network to media platform, and Amazon's creation of business-to-business service offers alongside its retail operations were all driven by the same fundamental principles of MVF, staged expansion, and ecosystem carryover. Beyond a clear focus on their own capabilities, these firms were meticulous in their approach to configuring external elements *around* those capabilities.

Multiplying Your Odds

Before diving too deeply into a new initiative, make sure you understand the ecosystem into which you will need to integrate. If you begin the innovation process by looking at the innovation ecosystem, and your place in it, it is possible to avoid investing time and resources in endeavors that were doomed from the beginning. Developing a better understanding of the odds is the key to making better bets.

With firms putting out their best efforts, doing their traditional due diligence and focusing on execution, 10 of 100 innovation efforts meet their expectations and succeed. Ninety out of 100 fail. When we use a wide lens to examine initiatives and take their ecosystems into consideration, an amazing thing happens. We still cannot see which 10 will succeed, but we can make some pretty strong predictions about which 50 will lose. Making only half the bets means freeing up resources that we can now allocate to the top 50. With twice the resources on every initiative, we don't need a miracle to double the wins. *This is the path: eliminate avoidable failure; strategize more robust success.*

A Closing Wish

Each of us is an investor, responsible for allocating our own time and effort across multiple opportunities and competing demands. Many of us are further responsible for allocating other people's resources as well — their labor, their capital and their attention. Our goal is to make the best possible choices across a portfolio of opportunities that leave us — and those who depend on us — better off. By applying the wide-lens principles, you will be better able to expose the hidden sources of dependence that lurk beneath the surface of a strategy and be better equipped to manage them proactively and productively. ●

RECOMMENDED READING LIST

If you liked *The Wide Lens*, you'll also like:

1. ***Escape Velocity* by Geoffrey A. Moore.** A pragmatic plan to drive established enterprises beyond past successes to next-generation growth.
2. ***Flash Foresight* by Daniel Burrus.** Burrus shares seven radical "triggers" that can enable your company to see the invisible and do the impossible.
3. ***Serial Innovators* by Claudio Feser.** A company must be able to continuously reinvent itself to stay relevant. Feser offers a guide for how it can be done.