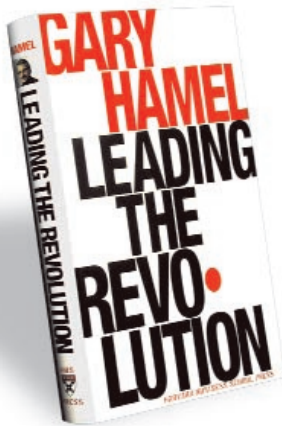




# Executive Book Summaries®



By Gary Hamel

## An Action Plan for Transforming Companies into Industry Revolutionaries

# LEADING THE REVOLUTION

### THE SUMMARY IN BRIEF

The future is indeed now. The Internet has not only provided companies with another sales channel and communications tool, it has helped restructure the very basic concepts of time and place: Businesses must anticipate and meet customer needs quickly, in any location, at any time. Unfortunately, many close-minded, entrenched organizations lack the courage to change their ways for the betterment of their employees, customers and shareholders.

These companies will falter in the coming age of revolution, according to Gary Hamel. In *Leading the Revolution*, Hamel shows why only companies that continually reinvent themselves and their industries will be able to survive in an era in which radical innovation will be the best — if not the only — source of new wealth.

Hamel has studied the “gray-haired revolutionaries” who are leading the way in innovative thinking, development and management, and has come to several key conclusions:

- The age of incremental change is over. As a result, incumbency no longer holds the protections it once did.
- The revolution is based on innovations in business concepts: radical “reconceptions” of existing business models in ways that create new value for customers, rude surprises for competitors, and new wealth for investors.
- The need for business concept innovation stems in part from the diminishing returns of old ways of doing business — reengineering, cost-cutting, cutbacks, and the like — that focused on maintaining, rather than changing, the way business was conducted.
- Activists are leading insurrections within companies struggling to adapt an old business model to someone else’s business concept innovation.
- Companies can reshape themselves into perpetually innovative organizations, by continually engaging in a cycle of idea generation, experiments, assessments and implementations.

Be the first to forge a path of innovation for your organization. Here’s how.



### CONTENTS

#### The Age of Progress Is Over

Page 2, 3

#### The Diminishing Returns of Traditional Strategies

Page 3

#### How to Innovate Your Business Model

Page 3, 4

#### How to Start an Insurrection

Page 5

#### Novelty Addicts and Heretics

Page 5

#### The “Gray-Haired Revolutionary”

Page 6

#### Ten Design Rules for Innovation

Page 6, 7

#### The New Innovation Solution

Page 7

#### The Wheel of Innovation

Page 8

# LEADING THE REVOLUTION

by Gary Hamel

## — THE COMPLETE SUMMARY

### The Age of Progress Is Over

For years, people have held the unshakable belief that progress was not only possible, it was inevitable. Life spans would increase; material comforts would multiply; knowledge would grow. There was nothing that could not be improved upon.

This progress-centered mindset entrenched itself in business, and has become a stern taskmaster. Employees around the world have been strapped to the wheel of continuous improvement. With eyes glazed, they have repeated the mantra — faster, better, cheaper. Employees have found themselves working harder and harder to achieve less and less. This version of progress has made us cynical. We were promised relief from tedium; we got a white-collar factory. We were promised autonomy; we got reams of corporate policy. We were promised a chance to contribute, to be creative; we got reengineering and meetings that beat substance to a pulp.

We now stand on the threshold of a new age — an age of revolution. It will be an age of upheaval, of fortunes made and unmade at head-snapping speed. In effect, change itself has changed. In the age of progress, change happened by degrees and seldom spawned entirely new life forms. In the age of revolution, a company that evolves slowly is already on its way to extinction. In the age of progress, the industrial giants had time to recover if they were slow to pick up on change; the advantages of incumbency (global distribution, respected brands, cash flow) granted them the luxury of time. In the new world of continuous change, a company that misses a critical bend in the road may never catch up. Here are two examples:

- Motorola, the world leader in the cellular phone business, failed to address the shift to digital wireless technology for a year or two after its introduction to the marketplace. In that time, Nokia — a little-known company making snow tires and rubber boots on the edge of the Arctic circle — jumped in with the new technology and became the world's new number one.

- SAP's R/3 system helped companies integrate internal operations like purchasing, accounting and manufacturing. They missed the boat, however, when firms started using the Web to link up with suppliers and customers. Companies like Siebel Systems and Ariba zoomed passed them to stake out leadership positions in the market.

Incumbency has never meant less; there has never been a better time to be a rebellious newcomer, eager to upend industry dogma. Nonlinear thinking rules the day, supplanting the notion of “continuous improvement” that remains the secular religion of most managers — the idea that getting better is more important than getting different. In a nonlinear world, however, only nonlinear ideas will create new wealth; such innovation requires a company to escape the shackles of precedent and imagine entirely novel solutions to customer needs.

### *Business Concept Innovation*

Such innovation is built around entire business concepts, rather than products or services. A few examples:

- Internet telephony is an entirely different business concept from dedicated voice networks, requiring different assets, technologies and pricing.

- Banks have lost nearly half their share of U.S. household financial assets to newcomers like Fidelity and Charles Schwab. Bankers thought of customers as savers; the mutual fund industry knows we're investors, too.

- The success of DirectTV is based on a business model that has no parallel in the old world of network broadcasting — hundreds of channels, programming menus, pay-per-view, and much more.

Even with these and many other examples, in most companies, management tends to interpret a call for “more innovation” as a plea for new products or added features to old products — a highly truncated view of innovation. Executives spent the '90s with such supposedly innovative enhancements to efficiency as process reengineering and enterprise resource management — hardly radical notions that had minimal effect on businesses as a whole.

*(continued on page 3)*

**The author:** Gary Hamel is a founder and the chairman of Strategos, a Visiting Professor of Strategic and International Management at the London Business School, and the Thomas S. Murphy Distinguished Research Fellow at Harvard Business School. He co-authored with C.K. Prahalad the groundbreaking strategy book *Competing for the Future*.

Copyright© 2000 by Gary Hamel. Summarized by permission of the publisher, Harvard Business School Press, 300 North Beacon Street, Watertown, MA 02472. 352 pages. \$29.95. 1-57851-189-5.

**To subscribe:** Send your name and address to the address listed below or call us at **1-800-521-1227**. (Outside the U.S. and Canada, 1-610-558-9495.)

**To subscribe to the audio edition:** Soundview now offers summaries in audio format. Call or write for details.

**To buy multiple copies of this summary:** Soundview offers discounts for quantity purchases of its summaries. Call or write for details.

**Published by Soundview Executive Book Summaries** (ISSN 0747-2196), 10 LaCrue Avenue, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corporation. Publisher, George Y. Clement. Publications Director, Maureen L. Solon. Editor-in-Chief, Christopher G. Murray. Published monthly. Subscription, \$89.50 per year in the United States and Canada; and, by airmail, \$95 in Mexico, \$139 to all other countries. Periodicals postage paid at Concordville, PA and additional offices.

**POSTMASTER:** Send address changes to **Soundview, 10 LaCrue Avenue, Concordville, PA 19331**. Copyright © 2000 by Soundview Executive Book Summaries.

### The Age of Progress is Over

(continued from page 2)

Business concept innovation (the capacity to imagine dramatically different business concepts or dramatically new ways of differentiating existing business concepts) will be the defining competitive advantage in the age of revolution. Such innovation must come from maintaining a kind of constant activism — a passion and power for innovation. Activists are changing the shape of companies around the world. Authoritarian, control-oriented companies will continue to fall as creative, authority-averse, information democrats shape the companies of the future.

Dream, create, explore, invent, pioneer, imagine — do these words describe what you do? If not, you are already irrelevant, and your organization is probably becoming so. ■

### How to Innovate Your Business Model

In the new economy, the unit of analysis for innovation is not a product or a technology — it is a business concept. Those who will have the greatest success in the age of revolution will be those who possess the capacity to reconceive existing business models (business concepts, put into action) in ways that create new value for customers, rude surprises for competitors, and new wealth for investors.

The goal of business concept innovation is to introduce strategic variety into an industry or competitive domain, going beyond incremental innovation to encompass the entire concept of a business as the focus of innovative ideas and practices. This fact makes business concept innovation more comprehensive than innovation focused solely on products or technology.

To be an industry revolutionary, you must develop the capacity to think about business models in their entirety. While there are many ways of doing this, the following framework provides a complete, yet simple view.

#### Major Components

A business model comprises four *major components*:

- **Core strategy.** How does your firm choose to compete? Your company's business mission (the objective of your strategy), its product or market scope (where you compete), and its basis for differentiation (how you compete, and how differently) are the components that comprise your core strategy.

To develop ideas for business concept innovation, ask yourself questions such as: Is our business mission as relevant to customers as it might have been in years past? Do we have a business mission that is sufficiently

### The Diminishing Returns of Traditional Strategies

The longest bull market in history produced extraordinary gains for shareholders and executives alike. But will the tactics used to deliver skyrocketing shareholder returns deliver the goods in the age of revolution? Consider the following:

- How much more cost savings and revenue growth can your company wring out of its current business model?
- How much longer can your company keep propping up its share price through share buy-backs, spin-offs, and other forms of financial engineering?
- How different are the strategies of the four or five largest competitors in your industry from your company's strategy?

If you answered “not much” and “yes” more than a couple of times, your firm and its business model may be reaching the point of diminishing returns, a condition brought about by unsustainable growth in the following areas:

**Cost cutting.** Downsizing, reengineering, restructuring — all are examples of efficiency-oriented programs that produce short-term rewards, but which eventually run dry. There's a limit to how much profit even the best-managed, most efficient company can squeeze out of any fixed amount of revenue.

**Revenue.** Profitable growth is a derivative of innovation. Focusing on growth, rather than on the challenge of business concept innovation, is more likely to destroy wealth than create it. The reason for this is simple: after a certain point, trying to squeeze more revenue growth out of a moribund business model is no easier than trying to squeeze out more costs.

**Shareholder returns.** To “unlock” shareholder wealth, you must get out of bad businesses (as Jack Welch did when he took over the reins at GE). Of course, there's a limit to how many bad businesses a company can divest and how many of its assets it can dump.

**Consolidation.** Hoping for a temporary respite from the law of diminishing returns, companies have been merging and acquiring at a record pace. Yet, in all this merger activity, the central question is: Where does business concept innovation rest in this strategy, and why could it not be achieved through more flexible means than a large-scale merger? In the age of revolution, making a deal is no substitute for radical innovation.

distinguished from the missions of other companies in our industry? Could we offer customers something closer to a “total solution” to their needs by expanding our definition of product scope?

- **Strategic resources.** Every significant competitive

(continued on page 4)

## How to Innovate Your Business Model

(continued from page 3)

advantage rests on resources specific to the company in question. Dramatically changing the resource base for competition can be a source of business concept innovation. These resources include core competencies (what you know), strategic assets (what you own), and core processes (what you actually do).

Questions that could lead to innovations in this area include the following: What are the deep benefits that our core competencies allow us to deliver to customers? How could we deploy those benefits in new ways or in new settings? Could our strategic assets be valuable in other industry settings? Can we imagine a radically different core process that would deliver the same benefit? Could we use our process expertise to transform some other industry?

- **Customer interface.** The Internet has caused a radical shift in how producers reach consumers. The channels you use to reach customers, the information you provide them, the way you manage the dynamics of and interaction within your customer relationships, and the way you structure prices — all have changed significantly in recent history, and will continue to change in the age of revolution. To innovate in this area, ask questions such as: Could we make the process of fulfillment and support substantially easier or more enjoyable for customers? Have we given our customers the information they need to make empowered and intelligent purchasing decisions?

- **Value network.** The suppliers, partners and coalitions that surround your firm, complementing and amplifying your resources, make up your company's value network. Questions that might spark business concept innovation ideas include the following: How effectively are we using suppliers as a source of innovation? What opportunities might be available to us if we could "borrow" the assets and competencies of other companies and marry them with our own?

### Bridge Components

The four major components are linked together by three "bridge" components:

- **Configuration.** Intermediating between a company's

core strategy and its strategic resources is the unique way in which competencies, assets and processes are combined and interrelated in support of a particular strategy. Ask yourself: Have we configured our assets, skills and processes in unique ways? Can we imagine very different configurations than what we have at present?

- **Customer benefits.** Intermediating between the core strategy and the customer interface is the bundle of benefits that is actually being offered to the customer — how customer-derived needs are being satisfied. Are you delivering benefits that customers don't really care about? Can you change the benefit bundle in ways that will surprise customers and frustrate competitors? These are two of the questions that business concept innovators will ask themselves.

- **Company boundaries.** Intermediating between a company's strategic resources and its value network are the decisions that have been made about what a firm does and what it contracts out to its value network. Changing the boundaries between what the firm will do for itself and what it will hire others to do is often an important contributor to business concept innovation.

### Wealth Potential

Underpinning the business model are four factors that determine its profit potential:

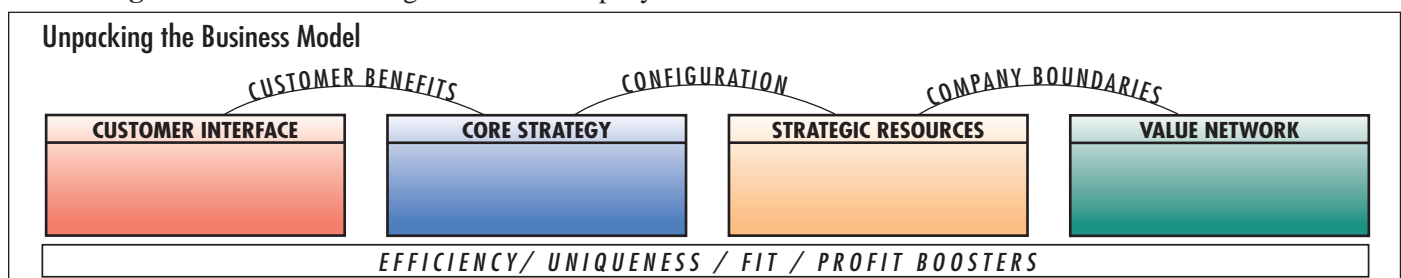
- **Efficiency.** The value customers place on the benefits your business model delivers must exceed the cost of producing those benefits. To innovate in this area, test your assumptions about customer value and understand the costs incurred in providing that value.

- **Uniqueness.** The greater the convergence among business models, the less chance for profit; you must, thus, create a business model that is unique in both conception and execution. To do so, determine the points of difference across the major components of the concept, and the benefits those points will bring to customers.

- **Fit.** A business concept must be internally consistent — with all its elements working together toward the same goal. Keep from looking anomalous to customers by ensuring that all elements of the business model positively reinforce each other.

- **Profit boosters.** You need to know whether your

(continued on page 5)



### How to Innovate Your Business Model

(continued from page 4)

business model will be really profitable. To ensure this, you must include in your business concept methods of increasing returns; locking out competitors; leveraging strategic economies of scale, focus and scope; and maintaining a strategic flexibility that allows you to address unpredictable demand cycles. ■

### How to Start an Insurrection

Every day, dozens of organizations find themselves on the defensive, struggling to adapt an old business model to someone else's business concept innovation. But the future never arrives as a surprise to everyone in an organization — the novelty addicts, heretics and activists know tomorrow's opportunities are every bit as real and inevitable as today's sunrise, they simply don't know how to build a movement to evangelize those truths to their companies at large.

Companies don't sponsor step-by-step training programs on the principles of activism. Let's end this strange omission:

**Step 1: Build a Point of View.** As an activist, you need a point of view (POV) that identifies what's changing in the world, what opportunities make those changes possible, and what business concepts will profitably exploit those changes. This POV must be credible (based on unimpeachable data), coherent (with mutually reinforcing components), compelling (speaking to the hearts and intellects of others), and commercial (wealth-generating).

**Step 2: Write a Manifesto.** You must galvanize others with a contagious manifesto that 1) convincingly demonstrates the inevitability of the cause — why it is right to take action; 2) speaks to timeless human needs and aspirations — why people should care; 3) draws clear implications for action — gives a place to start; and 4) elicits support — shows people how to contribute.

**Step 3: Create a Coalition.** Recognize that you are not the only prescient, frustrated, though ultimately loyal person in your company. Identify potential recruits, building a kind of all-volunteer army to push innovation forward, and upward.

**Step 4: Pick Your Targets and Your Moments.** Find someone in your organization who can yank the real levers of power — someone who can say “yes” and make it stick. Understand what makes them tick and carefully pick a moment to go to that individual and present your idea. Keep it simple; make it easy to say “yes.”

**Step 5: Co-Opt and Neutralize.** You will be forced to co-opt some of your company's aristocracy in order

### Novelty Addicts and Heretics

A whole lot of what's changing in the age of revolution simply can't be seen from where you're sitting; you have to get up, search for new experiences and learn new things. You must keep surprising yourself. What you don't know but could know is much more important than what you don't know and can't know. You must become a novelty addict.

It is, of course, not enough in the age of revolution to simply be a novelty addict — you must be a heretic as well. Heretics, not prophets, create revolutions. There is an enormous danger in viewing what's changing through the lens of what already is. It is virtually impossible to redesign business models without challenging the dominant business model of the moment, and the mental models that reinforce them.

The challenge ahead of you as a heretic is to break the construct of the mental model, to embrace the future not as an unknowable entity, but a different one. If you question the mental model — look for evidence that refutes its status quo ideas and methods — you will be able to challenge the very foundations of what others regard as axiomatic. Some consider it heresy; others consider it revolutionary.

to advance your cause. In these cases, create win-win scenarios, rather than confrontations; getting on a soapbox and ranting at VPs will only get you so far.

**Step 6: Find a Translator.** Get someone who is plugged into the future, who may be shopping around for an interesting point of view to sponsor — a senior staffer or newly appointed executive in search of an agenda to make their own. Have that person carry that agenda from you and your coalition to the top management echelon in your organization.

**Step 7: Win Small, Early and Often.** Demonstrate how well your ideas actually work, starting with small demonstration projects and progressing incrementally until you have a string of successes to which you can point as proofs of achievement.

**Step 8: Isolate, Infiltrate, Integrate.** Experiments that stay experiments are failures. Convince a broad cross-section of key executives that your concept is essential to the future of your company. Infiltrate your organization with papers, projects and presentations that will allow others to share in your enthusiasm and allocate resources to make the concept happen. If your opportunity involves innovations in an existing part of the business, search for projects that will aid in the development of your innovation and integrate your ideas into them. ■

### The “Gray-Haired Revolutionary”

Most visionary companies won't be visionary more than once; particularly in the new economy, success is not easily repeated. Most have no sense of how to engage in constant innovation and will, thus, likely fold when they can no longer live off their inaugural successes.

The “gray-haired revolutionaries” — the rarest of all breed of company — have managed to reinvent themselves and their industries more than once. Their gray hair comes not from years, but from the experience of having lived through several strategy “lifetimes.” They have done more than extend a legacy or enlarge a franchise — they have turned themselves and their industries inside out and upside down, repeatedly.

Charles Schwab is just such a gray-haired revolutionary. Years ago, the brokerage giant created a whole new industry — the discount brokerage industry — by undercutting the steep fees of traditional brokerage houses. They started a second revolution when they created OneSource — a mutual fund supermarket that let investors choose from over a thousand funds. But it is its status as the leading online broker that makes Schwab one of the great gray-haired revolutionaries. With 3 million Internet customers representing more than \$260 billion in online assets, Schwab recast itself as a new kind of full-service broker. The company's business concept innovation rests on a few foundations; among them are:

- Outrageously ambitious growth objectives that are unattainable without business concept innovation. From 1993 to 1998, the company's revenues grew at an average annual rate of 23 percent; its earnings a robust 24 percent. During the same period, its stock price sky-

### Playing the Target Game at Sony

Ken Kutaragi had a hard time convincing many people at Sony that his idea for a sophisticated digital video game system was a good one — most folks at the company snobbishly considered such systems to be toys. Kutaragi established a target relationship with Shigeo Maruyama, a disciple of Sony's president (and eventual CEO) Norio Ogha. Maruyama helped Kutaragi lobby the company president to approve a development group to create a new video game technology. The result was PlayStation — the first system to combine 32-bit processor technology with advanced graphics and decompression. In 1998, the “toy” system was responsible for more than 40 percent of Sony's profits.

rocketed 1,072 percent, compared to 218 percent for Merrill Lynch and 164 percent for the S&P 500.

- Working from the customer in, rather than from existing processes and offerings out. While other institutions seem to look on customer ignorance as a profit center, Schwab presumes customers are really smart; consequently, the company doesn't try to fool customers on fees or execution.

- An innovation meritocracy where great ideas win out, no matter where they come from. Champions of innovation have been consistently promoted out of rank and out of order, rewarding people who come up with ideas and do something with them. ■

### Ten Design Rules for Innovation

The intricate play of the many markets that comprise the global economy and the vibrant diversity of the Internet both show us how order can emerge in the absence of an overt, central authority. Complexity theorists have demonstrated that by creating the right set of preconditions, one can provoke the emergence of highly ordered things, using top management to design the context of innovation, rather than the content. The following 10 rules will help build habitually and perpetually innovative organizations:

- 1. Unreasonable Expectations.** The beliefs of an organization set the upper limit of what innovation is possible at that organization. If most people in your organization believe your rate of annual growth should be 5 or 10 percent, then it will be that or less. However, if your people aim higher — and set goals that reflect that higher reach — your company can do more than just aspire to outperform the mere average — it can achieve its highest expectations, time and again.

- 2. Elastic Business Definition.** If your organization is bound by a narrow self-concept, its opportunity horizon will be likewise constricted and never changing. This mind frame would never work at a company like Virgin, which spans industries as diverse as air travel, packaged holidays, retailing, banking and radio broadcasting. If, like Virgin, your organization searches for unconditional opportunities and innovative, elastic business concepts, your opportunity horizon will likewise expand.

- 3. A Cause, Not a Business.** True revolutionary innovators must draw much of their strength from their allegiance to a cause that goes beyond themselves, beyond even growth or profits. Without a transcendent purpose, individuals will lack the courage required to act like revolutionaries. Energy giant Enron's corporate mission

*(continued on page 7)*

### Ten Design Rules for Innovation

(continued from page 6)

is fueled by an outrage that so much of the energy business was a government-mandated monopoly. Their innovative expansion of their business boundaries stemmed from an effort to better address the needs of their customers.

**4. New Voices.** If senior management wants revolutionary strategies, it must learn to listen to revolutionary voices. To do so, it must:

- Let youth be heard. Do not prevent the group with the biggest emotional stake in the future — young people — from contributing to the process of strategy creation.

- Listen to the periphery. The capacity for radical innovation increases proportionally with each kilometer you move away from a company's headquarters. These people tend to have fewer resources and, thus, tend to be more creative than those in close proximity to HQ.

- Let newcomers have their say. Next time you have a meeting on strategy or innovation, make sure half the people invited to the meeting have never been invited to such a gathering before. You'll quadruple the chances of coming up with a revolutionary business concept.

**5. An Open Market for Ideas.** Free the entrepreneurial spirit inside your company by creating a dynamic internal market for ideas. Tear down physical and organizational walls that would hinder innovation from being broadcast.

**6. An Open Market for Capital.** Don't set hurdle rates for new projects, if the ideas and plans behind those projects are innovative, sustainable and will reap some financial benefit.

**7. An Open Market for Talent.** Companies pursuing innovative opportunities attract the best talent. If you give people exhilarating work and solid compensation, they will join you and stay with you.

**8. Low-Risk Experimentation.** Being a revolutionary doesn't mean being a big risk taker. Be bold, but know how to manage the downside, if a risk doesn't pan out. You can be innovative and still limit your risks.

**9. Cellular Division.** Innovative companies are not monoliths; they are big companies that have been divided into a large number of revolutionary cells. When companies stop dividing and differentiating, innovation dies and growth slows. When Virgin Records started showing signs of lethargy, the company's CEO, Richard Branson, took three deputy managing executives and made them the nucleus of a new company. While Virgin is the largest independent record label in the world, it does not feel like a large company.

**10. Personal Wealth Accumulation.** If you want to

### GE's Elasticity

After years driving home the message that a GE business must be number one or two in its industry, CEO Jack Welch has shifted the focus of his company's leaders toward looking for opportunities outside the boundaries of the businesses they manage. GE's business heads must redefine their markets so that each business has less than a 10 percent share of its market — a strategy that signals Welch's belief that only companies with expansive, elastic boundaries will grow faster than their competitors.

maintain an entrepreneurial spirit at your company, you must pay people like entrepreneurs. In 1998, SAP refused to create a stock option plan for its American management; the company subsequently endured a wave of defections. ■

### The New Innovation Solution

While the 10 design rules and the principles of activism are parts of the innovation solution, there are other parts that are equally important:

- **Skills.** Your company has virtually no chance of leading the revolution if the people in your company do not possess mind-sets and skills that have been retooled to meet the demands of the revolution. They must understand the role revolution plays in wealth creation. They must be able to invent new business concepts and reinvent old ones. They must understand how to apply the design rules for innovation in their parts of the company. And these are just a few of the skills required to lead in the age of revolution.

- **Metrics.** Your company must have in place methods and tools to measure innovation (versus optimization) and personal performance (as it relates to innovation), as well as benchmarks against which to measure competitors on innovation.

- **Information Technology.** You must have an innovation network — a corporate-wide IT system designed to support innovation. This might include information to help employees build their ideas into concepts, and a process in place to help them “edit,” or fine-tune, their efforts.

- **Process.** Companies that have reengineered their core business processes for efficiency are now going to have to reinvent their core management processes for innovation. Management processes are designed to enforce conformance, alignment, and continuity. Their purposes must be identified, their biases (toward budget or against risk) broken, and their focus shifted toward nonlinear innovation and wealth creation. ■

## The Wheel of Innovation

Since innovation is a dynamic process, it is constantly kept in motion with IDEAS:

- **Imagining new possibilities.**
- **Designing coherent business models around those ideas.**
- **Experimentation (on a small scale) that tests the viability of business concepts, creating the basis for adapting those concepts.**
- **Assessment of what is learned through the experimentation.**
- **Scaling up if the results are sound; going through another experiment cycle if more assessment must be done.**

The speed at which a company gets the wheel of innovation turning determines the amount of new wealth it creates. Potential innovators must, however, know how to support their ideas with coherent, profitable business concepts. Such is the difference between having too many ideas and having coherent strategic options.

The faster a company can go through a cycle of experimentation, assessment and adaptation of business concepts, the faster it can resolve any initial or lingering uncertainties about the concept and turn the concept into a viable, cash-generating endeavor. The company must also put customers in the role of co-developers in bringing business concepts to fruition, to help the company identify problems and opportunities alike. In the age of revolution, it's the only way to stay ahead of the innovation curve.

### The Innovation Portfolio

When top management views the company as a portfolio of businesses, it seldom applies the logic of portfolio investing (minimizing risks by diversifying investments) in business concept experiments. Every new idea or concept cannot yield a bonanza. By the same token, having a bias against anything with the slightest hint of downside ensures a company will never find anything

with an amazing upside.

There is no way to become a wealth-creating superstar without first building and then investing in an “innovation portfolio,” allowing you to scale up to the original innovative idea and create exciting, inventive new ventures. Thus, your innovation portfolio is divided into three smaller portfolios:

- **A portfolio of ideas.** The Imagine and Design phases of the Innovation Process fill a portfolio of ideas, or of possibilities — business concepts that are held, nurtured, then released when the time and resources are right.
- **A portfolio of experiments.** Ideas that have great upsides, offer the chance for increasing returns, and are sponsored by truly passionate advocates fill the portfolio of experiments — ideas that have been worked into coherent versions of a business concept. For every 1000 ideas, perhaps 1 in 10 will have enough merit to be turned into experiments; a portfolio of 1000 ideas will thus yield a portfolio of 100 experiments.
- **A portfolio of ventures.** Once you have identified and reduced market and technology risks in the experimentation stage, you must focus on the feasibility of the profit and operating models, as opposed to the business concept itself. You must also look for partners who can provide financial commitments, skills and assets required (if you can't fill them in-house), and a gauge of the size of your strategic window, to fend off preemption from competition. This is also the stage in which to decide whether to operate the new venture as a stand-alone business, license it to another company, or spin it off as an independent entity.

### The Total Innovation Solution

Your total innovation solution keeps you committed to the new innovation agenda, one that includes continuous improvement as well as nonlinear innovation, and product and process improvement as well as business concept innovation. Are you ready to start working on the new innovation solution? Either start now or wait and fight a rear-guard action. What's it going to be? ■

