Bass Clusker Consulting

Innovation Culture

Start With What You Have:

Your fastest track to profitable growth

By Andrew Bass PhD

In the race to stay relevant to their customers, businesses often look for silver bullets from the outside. They rush to pursue expensive and risky new acquisitions, system implementations and hires, while overlooking unexploited potential they already have. In contrast, many of the longest-lived companies have refreshed themselves from within, starting what they had to more safely and dependably refresh the engine of profitable growth.

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3. Organizational Diagnostic: How good is your organization at discovering and exploiting under-utilised potential?
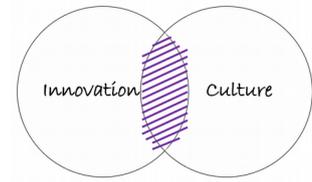
The Idea in a Nutshell

Resilient businesses such as IBM, Wipro, Haier, Western Union and Intel have managed to successfully evolve and reinvent themselves, often multiple times. Others, such as Kodak, Woolworths, Digital Equipment Corporation and ICI failed to do so and fell by the wayside.

Faced with the need to innovate, managers often look for silver bullets from the outside, but the longest-lived companies have learned to refresh themselves from within.

The successful companies discussed in the article excel both at identifying their under-appreciated resources, and in applying them. The article provides examples of seven approaches leaders can use, and ends with a diagnostic for provoking discussion about an organization's ability to start with what it has to refresh its engine of profitable growth. (see page 9).
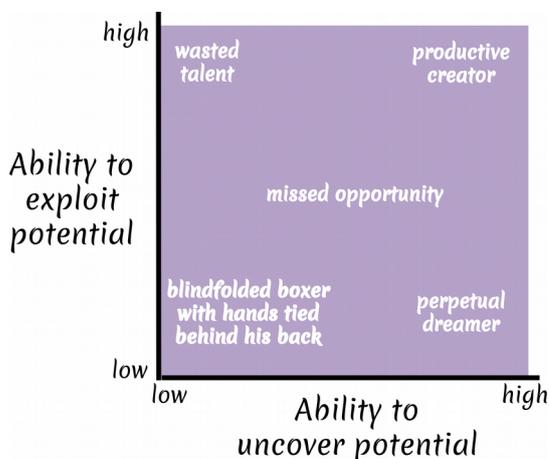
The Idea in Practice

1. **Start with what you have.** Many people think innovation involves dramatic 'moonshots'. But 'moonshot' projects are often shots in the dark. If you are an established company, take inspiration from Silicon Valley by all means, but then, like Daimler, ask: "What customer problem can we solve in a new way, using what we already have?"

2. **Break down barriers between customers and employees.** Your customers know more about what they will buy than you do. Companies as different as McCain and Lego have benefited from bringing customer insights into the very centre of their businesses.

3. **Find and meet surrounding needs.** Understand what your customers are doing before, during and after they use your products and services. Like Cardinal Health, you can very often meet these surrounding needs in a way which has favourable economics both for the customer and for you.

4. **Force yourself to be frugal.** Experts build products and design services based on their own view of what is required. Companies like GE are working to avoid such over-engineering. They ask: "Where are we working hard to deliver things that the customer isn't noticing, or simply doesn't care about? Could we do better on the 'less is more' principle?"

5. **Prioritize observable behaviour over words.** Customers are often unable to articulate their needs or predict their buying behaviour in imagined scenarios – a fact which limits the value of traditional market research. When Disney launched their stores, they created realistic situations and watched how people actually responded. This provided much better information than interview responses.

6. **Test your assumptions in the real world before you waste money.** Mike Tyson famously said that everyone has a plan until they get punched in the mouth. In this fast-moving world, beware of assumption-laden traditional business planning. Like Zappos and others using lean startup approaches, identify the key assumptions which could sink a business idea and test them in the real world as early and cheaply as possible.

7. **Unify your power barons—or else.** Many CEOs have failed because they wouldn't confront recalcitrant power barons. As Kodak and Digital Equipment Corporation show, it never goes well for the leader if their direct reports aren't supporting strategy. Give people a reasonable opportunity to get on board. But beware of kicking the can down the road!
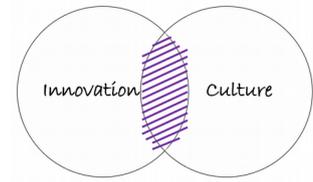
Start With What You Have

Your fastest track to profitable growth

By Andrew Bass, PhD

Did you know that the word 'Wipro'—the name of the Indian IT outsourcing giant—originally stood for 'Western Indian Vegetable Products'?

You may well know that IBM is a mnemonic for International Business Machines, a name that hardly captures that company's modern dominance in technology consulting, but you may be surprised to learn that Shell takes its name from a business in the East End of London that actually did sell decorative shells imported from the Far East.

These companies, together with other resilient businesses such as Haier, Western Union, Intel and Whitbread, have managed to successfully evolve and reinvent themselves, often multiple times, while other once-dominant companies such as Kodak, Woolworths, Digital Equipment Corporation and ICI failed to do so and fell by the wayside.

How do companies keep refreshing themselves? This question is more relevant than ever as the digital world we live in speeds up competitive cycles, and means that companies have to keep reinventing themselves far more quickly.

It's not always a matter of change-or-die, of course: the large number of Zombie companies blamed in part for low UK productivity are stumbling along—tying up capital and talent—when they really need to reinvent themselves or give up the ghost.

Too many managers are only really good at managing the efficiency of their current businesses. Fewer managers know how to evolve in order to create the new sources of revenue that will keep the company thriving as the world around them changes. I think they simply don't know how to get started.

In my own work with both private and public-sector organizations, I've found that those who address both innovation and culture at the same time are the ones who succeed the most in refreshing or, when required, reinventing their revenue growth engines. Here are seven of the lessons I have found to apply across the widest range of situations, in sectors as diverse as manufacturing, media, technology, universities, construction and financial services.
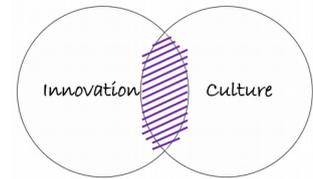
Seven key points for success

1. Start with what you have

Many people seem to think of entrepreneurial behaviour as magical, and requiring huge amounts of risky investment. They think entrepreneurship involves 'moonshots' – dramatic leaps that are only for Google or Elon Musk.

But consider what Daimler has been doing. They've produced automated (not autonomous) versions of their trucks, fitted them with snow ploughs, and programmed them to keep the runways at Frankfurt airport clear this winter.

Daimler's Mercedes Benz trucks are driverless, but not fully self-driving. They don't have all the sensors and intelligent decision making to adapt to any road traffic situation. But they are out there now, and in this restricted but very useful case, they are:

- Operating without drivers in the cab (so the airport, which has been spending €23M per annum on snow clearing and de-icing, doesn't need a bunch of drivers sitting around on standby all winter).

- Moving Daimler into services: recognising that many customers just want to get jobs done, rather than to own products.

- Getting Daimler a reputation for high-uptime driverless solutions that are available now.

- Learning in real-world situations.

- Opening up a new market: 40 other airports are potential customers for just this solution—there may be many other specialist applications that they can then move into in other industries.

While Google Waymo, Tesla and the rest sink huge resources into high-profile, high-risk developments, Daimler have done all this using what they already had or could incrementally develop.

Andy's Advice: 'Moonshot' projects are often shots in the dark. If you are an established company, take inspiration from Silicon Valley headlines by all means, but then ask: "What customer problem can we solve in a new way, using what we have or can develop?"
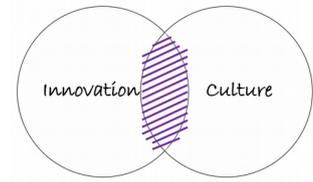
2. Break down barriers between customers and employees

McCain Foods faced a tough innovation challenge: how do you come up with anything new in the area of "frozen products made of potato that you can buy in a supermarket"? On the face of it, this was not an area ripe for new ideas. Internal people thought they knew all the angles in this business, and weren't particularly open to hearing anything new (it wasn't arrogance, they just didn't think there was anything new to hear). Aided by, among others, my colleague Jack Martin Leith, McCain held large-group meetings with consumers, which key internal people were invited to 'witness'. To their surprise, they gained all kinds of insights about how their products were viewed, and they came up with a range of new ideas, two of which became high-selling profitable new products for McCain. Some of the most resistant internal people were highly enthused by the approach and became vociferous champions for these new initiatives. We've had fantastic results using similar approaches in both B2B and B2C situations.

Tapping into customer insights is a hugely underutilized approach. Lego went even further and actually recruited customers, thereby fixing a fundamental problem. Previously the company had gone to great lengths to hire the best designers it could find. The problem was, as good as they were at design, these people didn't "get" Lego. They designed brilliant things that Lego users weren't interested in. CEO Jorgen Vig Knudstorp's push to understand the essence of Lego led them to a realization: they had a sophisticated adult user community. Maybe some of them were designers? Some were, and they were recruited, designing winning products.

Andy's Advice: Your customers know more about what they will buy than you do. How can you get them to share that knowledge as widely as possible in your company?

3. Find and meet surrounding needs

Cardinal Health as in the commodity business of surgical supplies: gloves, sutures, syringes, that sort of thing. As commodities, prices were under extreme pressure, and Cardinal was thinking of getting out of the business. But then they hit on an extremely powerful idea: bundling supplies into kits that were perfectly matched to specific surgical procedures. So for example, for a hernia operation, they would deliver a kit on the day of the operation, with all the supplies sequenced correctly, simplifying setup, minimising risks of error, and of stock outages, and so reducing hospital inventory and inventory management costs. With the same basic products, insight into their customer's real needs, and well-thought-out packaging, they cornered the market and earned a well-deserved premium.

Andy's Advice: Understand what your customers are doing before, during and after they use your products and services. You can very often meet these surrounding needs in a way which has favourable economics both for the customer and for you.
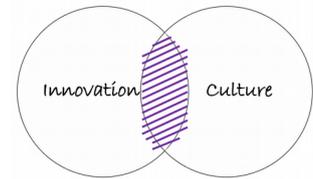
4. Force yourself to be frugal

Experts build products and design services based on their own view of what is required. Often the result misses the mark, and does so at greater than the required cost. For example, GE had been trying for years to sell premium-priced ultrasound scanners in China. The problem was that 90% of hospitals couldn't afford them, and after trying for ten years, GE's ultrasound sales were a disappointing $5 million. In response, the company designed a scanner just for the Chinese market. By focusing on essentials, the local team came up with a hand-held version for $15,000. Its performance wasn't as good as the premium scanner, but it was affordable, easy to carry and easy to use – ideal for rural areas.

Between 2002 and 2008, GE's ultrasound sales in China grew from $5 million to nearly $300 million. And here's an interesting twist: it turned out that people in developed markets liked the stripped-down scanners, too. GE now sells them in the US and other developed countries for use in ambulances and operating rooms – previously untapped markets for which the premium scanners were over-engineered, and so impractical.

Andy's Advice: Ask yourself: "Where are we incurring costs to deliver things – features, services, extras – that the customer isn't noticing, or simply doesn't care about? How well do we understand the job the customer is trying to do through using our product or service, and how well do we understand their criteria? How might we advantageously differentiate ourselves by removing features from our offerings? Could we even earn a premium on the 'less is more' principle?"
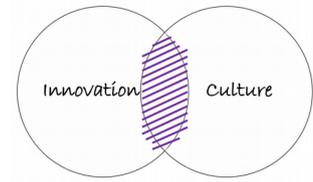
5. Prioritize observable behaviour over words

Disney stores are like catnip to kids. I remember visiting a shopping centre with my then four-year-old niece. As we reached the bottom of the escalator, we were faced with the lurid shop front of Ann Summers, the lingerie and 'adult products' chain, complete with under-dressed manikins in the window.

"I hope she doesn't ask about this," I thought.

I needn't have worried. Because next door was The Disney Store. My niece locked on to it like a heat-seeking missile, oblivious to the tacky soft-core right in front of her.

How do Disney stores achieve this effect? They didn't figure it out by asking young children what they wanted – after all, the kids were unlikely to be able to articulate it. Instead, at the advice of Steve Jobs, they built a Disney Store on a movie lot, and observed kids while experimenting with the design and layout. They realized that the best information was behaviour, not words.

Adult customers are often no better than kids at articulating their needs or predicting their buying behaviour in hypothetical future scenarios (Rory Sutherland, Vice-Chairman of Ogilvy & Mather, told me that most market research is pretty useless for this reason).

Andy's Advice: Like Disney, create real situations and watch how people respond. This will provide much better information than interview responses. And it leads onto Key #6…

6. Test your assumptions in the real world before you waste money

In around 2000, when investors were falling over themselves get in on the dotcom boom, a startup called Webvan raised hundreds of millions of dollars to build an online groceries business. Advised by their backers—including Sequoia Capital—to grab first-mover advantage, they built state of the art distribution centres, complete with automated picking systems, and bought a fleet of distinctly shaped delivery vans to emphasise the brand in consumers' minds. Unfortunately, they selected the wrong market, and revenue never caught up with investment. Their market research had shown that this was a service with mass appeal. But while market research respondents said they liked the idea of home delivery, they wouldn't actually pay for it when the time came. Note that the Webvan team, like their backers, was a group of clever and successful people who acted on the basis of careful business planning.
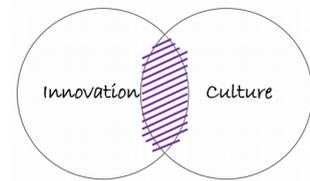
Contrast this with the approach taken in the early days of Zappos, the online shoe store now owned by Amazon. The founders of Zappos did not spend much money to start with. They built a simple website and populated it with photos of shoes taken at a local shoe shop. If someone placed on order online, someone from Zappos (it might have been the CEO on occasion) went down to the shoe shop, bought the shoes, and delivered them personally to the customer. They verified the key assumption that people would buy shoes before trying them on. Once they knew that was true, they could think about other aspects required to scale the business.

Andy's Advice: In this fast-moving world, beware of assumption-laden traditional business planning. Like Zappos (and GE, Intuit and others using lean startup approaches) identify the key assumptions which could sink a business idea and test them in the real world as early and cheaply as possible.

7. Unify your power barons—or else.

Over thirty years, starting from 1957, Digital Equipment Corporation founder and CEO Ken Olsen built DEC to be the world's second largest computer manufacturer after IBM. When I was a university student in software engineering in the 1980s, DEC VAX minicomputers were the leading edge. DEC had an engineering and technological innovation culture where the engineers were the heroes. Its answer to any marketing issue was to build another, even more sophisticated and costly piece of kit. And it worked – until the advent of the PC. When computer hardware became a commodity, DEC knew that they had to develop a market driven strategy. They knew it, but they just didn't want to do it. It would mean saying "no" to engineers with new ideas. It would mean emphasising customer research, service and software applications, rather than ever more glorious technology. And: i*t would mean firing senior executives who couldn't or wouldn't change*. So now, DEC is no more.

Kodak of course famously invented but failed to commercialise the digital camera. A big part of the problem—which they again recognized but failed to address—was that they had power barons running chemical-based film businesses who wouldn't allow their revenues to be cannibalized (so they instead got eaten by others).

This is a top management challenge that can't be shied away from. Historically, executives at Tata Group held on to their fiefdoms like barons. But when Ratan Tata became chairman in 1991, he began easing out the barons and insisted on a compulsory retirement age. It was confrontational, but it created dozens of opportunities for new talent to rise and help Tata become India's largest private corporation.

Andy's Advice: I've seen many CEOs who have failed to confront recalcitrant power barons. It never goes well for the leader if their direct reports aren't supporting strategy. Give people a reasonable opportunity to get on board. But kick the can down the road at your peril!
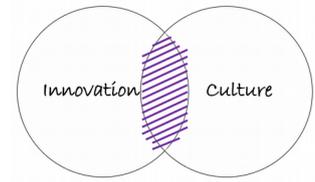
Organizational Self-test: What's your organization's capability for starting with what you have?

Where would you and your team judge your business to be positioned in the following chart?
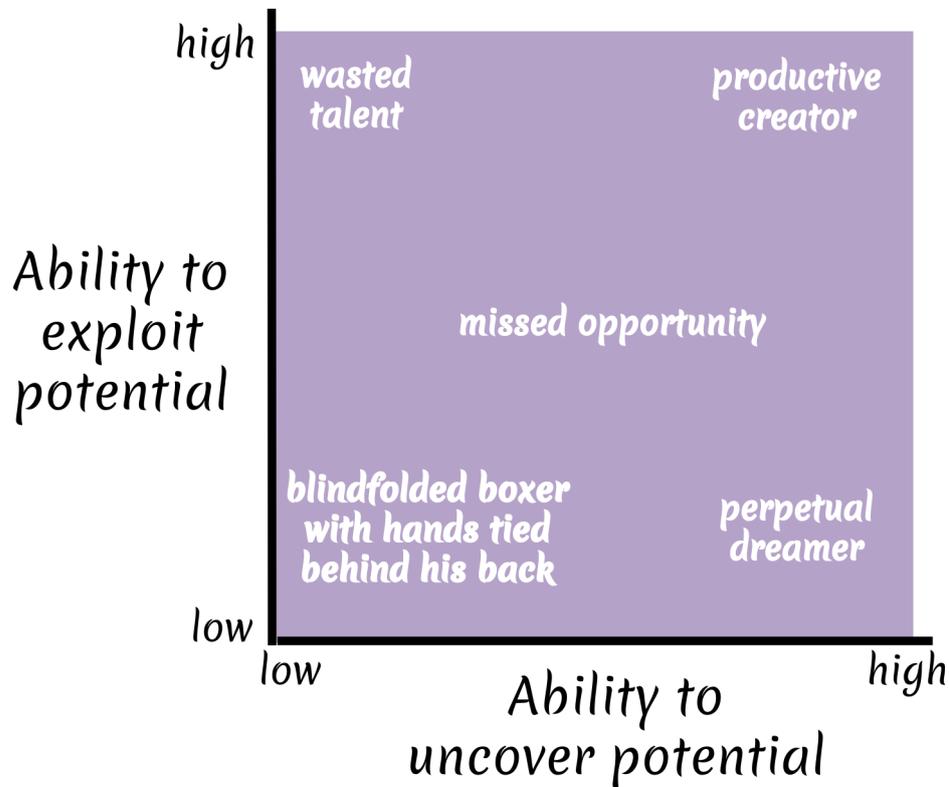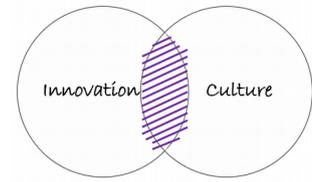

Fig 1: Ability to start with what you have

There is a questionnaire for each of the two dimensions, below.

Ability to uncover potential

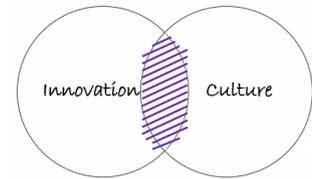Below is a checklist for you to assess your organization's ability to uncover hidden potential:

	Agree	Disagree
1. People are very conscious of the customer result that their product or service is creating.	☐	☐
2. People are looking at things in different ways. They are talking to customers and bringing those insights to senior management. People seek unexpressed needs of customers, employees, and other stakeholders.	☐	☐
3. If an employee has an idea with potential, there are ways for those ideas to be treated well. People who challenge assumptions intelligently are valued and rewarded.	☐	☐
4. People are focused on the customer, not on services or products that they see as their personal "hobby" or fiefdom.	☐	☐
5. People from different parts of the business have mechanisms to coordinate, and to figure out if they have pieces of the puzzle that could be used by their colleagues	☐	☐
6. Employees co-create new ideas with your customers and suppliers.	☐	☐
7. The company brings in people from outside the industry, as consultants, as employees, and as speakers.	☐	☐
8. Employees are always looking to see where assumptions may be wrong, and are courageous about facing complaints and critical feedback from the field.	☐	☐
9. Leadership is serious about seeing people advance; they are allowed to "get above their station" and bring ideas to meetings, even if they are junior and inexperienced and even if it's a bit annoying.	☐	☐
10. People are often trying ideas out to see if they have traction.	☐	☐
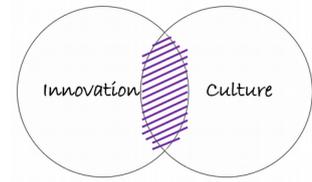
Scoring

|		
HIGH	10 – 9 "Agrees"	Forward-thinking, mentally agile organization. Open to new ideas, challenges assumptions etc. If you are also excellent at changing so that you can bring these insights to fruition, you will be a world-beater!
MED	8 – 6 "Agrees"	Quite innovative. But there's scope to make a step change of progress.
LOW	5 or less "Agrees"	Stuck in the mud.

Cont/

Ability to exploit potential

Below is a checklist for you to assess your organization's ability to exploit uncovered potential:

	Agree	Disagree
1. The organization has ways to reconfigure and experiment with new combinations of resources.	☐	☐
2. Leadership is prepared to contemplate cannibalizing an existing line of business if they think it will be necessary for long-term sustainability.	☐	☐
3. Employees prototype things to see what works, rather than having endless debates on the principle of whether things will work.	☐	☐
4. People don't just say that change is a way of life, it actually is.	☐	☐
5. People don't use the excuse, "I would think strategically, or innovate, but I have too many short-term operational things to do."	☐	☐
6. People who put customer interests ahead of vested interests are recognized and well-compensated.	☐	☐
7. There is a process in place to ensure that funds flow to great opportunities, even if unbudgeted at the start of the year.	☐	☐
8. There are **no** rules, standards, codes, or "custodians" that forestall good ideas or create organization-paralyzing bottlenecks.	☐	☐
9. We quickly identify the key assumptions which could sink a business idea and test them in the real world as early and cheaply as possible.	☐	☐
10. It is safe, from a career point of view, to pursue a good opportunity that may nonetheless fall short of expectations.	☐	☐
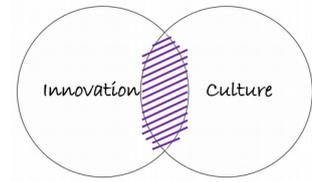
Scoring

HIGH	10 – 9 "Agrees"	You are like the crew of the Enterprise! Make it so, and it happens. With strong insights you will be irresistible.
MED	8 – 6 "Agrees"	Like many organizations, you have scope to improve your agility.
LOW	5 or less "Agrees"	Always on the wrong foot.

Questions to get your discussion started

After answering the questions add up your score and map yourself on the grid.

What quadrant are you in?

Assuming you're not a 10x10, what are your priorities for getting there?

What's the first step you can take right now?

More from Andy

Andy Bass, Ph.D., managing director of BassClusker Consulting, helps businesses to *use what they already have* to build the kind of innovation culture that leads to dramatic growth and improved productivity. He has consulted in 22 industries on three continents. He can be reached on 0121 427 7217 or at andrew@bassclusker.com. His web site is http://www.bassclusker.com.