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Mapping Your Innovation Strategy

by Scott D. Anthony, Matt Eyring, and Lib Gibson

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To a casual observer, American football seems pretty simple: You run, you pass, you kick, you pause an inordinate number of times for car commercials. However, any aficionado knows that football is, in reality, dizzyingly complex. A professional team's playbook looks about as thick as the Manhattan phone book. On any given down, the coach selects a formation and a specific play to run from that formation. All the players know their precise assignments for each play and how to adjust them if necessary.

Good coaches know the keys to winning consistently in ever changing circumstances. They need great playbooks that exploit the strengths of their rosters. They need to select plays on the basis of their opponents' strengths and weaknesses and the circumstances of each game. They must be prepared to adjust their game plans midstream. Players need to be flexible, too, ready to change on the fly in reaction to moves by their opponents. Teams that can accomplish these things, week after week of a grueling schedule, emerge as champions.

Most managers would grant that creating innovative growth businesses is at least as complicated as professional football. Yet all too many companies approach innovation without a game plan that positions them for success. Instead, they take the strategies that worked in the past and try to execute them better. Or they fumble in their search for markets that might welcome the technologies incubating in their labs. Ultimately, many companies come to some uneasy realizations: Their old plays are no longer effective. Their unsystematic efforts to create growth lead to random and often disappointing results. After repeated struggles, some managers throw their hands up and declare that bringing predictability to innovation is impossible. Indeed, there is a general sense that a fog enshrouds the world of innovation, obscuring high-potential opportunities and making success a hit-or-miss affair.

It doesn't have to be that way. Over the past five years, we've helped dozens of companies apply Harvard Business School professor Clayton Christensen's insights into disruptive innovation. Our work suggests that a few simple

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principles can help companies speed through the fuzzy front end of innovation. By creating a playbook for new growth, using it to identify the best opportunities, investing a little to learn a lot, and changing the corporate discourse, companies can develop a process that produces high-quality innovations more quickly and with much less up-front investment.

Pick Your Playing Field

Before deciding *how* to play the innovation game, companies have to decide *where* to play. The good news is that, unlike professional sports teams that go where the schedule makers dictate, companies can choose to play in many different markets. But that is also the bad news. Too much choice can be overwhelming. And the innovation process can slow to a crawl if managers pursue opportunities that don't have a realistic chance of seeing the light of day.

One way to narrow down choices is to clarify what the company *won't* do. For example, a newspaper company that was looking into the wireless market set strict boundaries: no gaming, no gambling, and no personal ads. The company knew those boundaries left promising growth opportunities on the table, but they also kept middle managers from wasting time on ideas that senior managers would ultimately kill.

Paradoxically, these kinds of constraints can be liberating, helping to focus managers' creative energy. The search for new growth, however, can still be daunting. Most companies intuitively sense that the best place to look for growth is outside of—but not too far from—their core business. But where? We believe that strategies based on disruptive innovations have the highest chances of creating growth. Generally speaking, these innovations offer lower performance along dimensions that incumbent firms consider critical. In exchange, they introduce benefits such as simplicity, convenience, ease of use, and low prices. To spot markets that have a high potential for a disruptive approach, we ask three basic questions. (For a closer look at the three questions, see the sidebar "The Disruptive Playbook.")

What jobs can't our existing customers get done? As Christensen has pointed out, when customers buy products, they are in essence hiring them to get important jobs done. Companies can start the search for growth opportunities by examining why customers hire their current products. That understanding can point to related jobs that customers can't get done.

Consider how software provider Intuit developed the insight that led to its massively successful QuickBooks package. In the early 1990s, Intuit observed that many people who used Quicken, the company's personal financial software, were small-business owners. That was curious because Intuit hadn't designed the software to manage a business. The company realized that the job these customers had to get done was a simple one: Make sure I don't run out of cash. Software programs such as Peachtree that were designed for the small-business market were generally packed with complicated functions like depreciation schedules, which small-business owners found unnecessary and intimidating. Intuit realized that users enjoyed Quicken's simplicity and easy-to-navigate user interface. Intuit adapted that program for small-business owners, branded it under the QuickBooks name, and quickly became the dominant player in the category. "We uncovered a giant opportunity," Intuit cofounder Scott Cook said. "The majority of small-business people do not have the skill to utilize debit- and credit-based software, but they have to keep books."

As the Intuit example shows, it's important to notice if your customers are using existing products in unusual ways, stretching them to do something they were not designed for, or "kludging" several together for a suboptimal solution. Those compensating behaviors signal that customers do not have access to the ideal product. None of the solutions small-business owners hired for the "don't run out of cash" job—pen and paper, Quicken, Excel spreadsheets—were a perfect fit, which spelled opportunity for innovation.

Who are the industry's worst customers? An industry's worst customers might sound like the last place to look for new growth. But thinking about ways to serve seemingly undesirable customers can point to novel strategies. Global silicone leader Dow Corning, for example, found a successful growth strategy by focusing on the low end of its customer base. The company produces the world's highest-quality silicones, used in applications ranging from shampoos to space shuttles. Dow Corning's scientists provide high value-added ser-

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vices to its customers. Yet the company found that its traditional business model actually overshot the needs of customers looking for basic silicones at reasonable prices. Those seemingly unattractive customers were turning to low-cost competitors that provided less-advanced products and no-frills service.

As the industry's largest player, Dow Corning would be able to take advantage of scale economics to play in this tier of the market—if it could reconstitute its business model. In 2002, it launched a distribution channel called Xiameter, designed to compete at the commodity end of the silicone business. By embracing a business model that differs sharply from its core model, Dow Corning is prospering in a very challenging market space.

Where are there barriers that constrain consumption? Throughout history, some of the most powerful growth strategies have democratized markets, blowing open select groups of the few, the trained, and the wealthy and thereby dramatically expanding consumption. Companies should scan for markets limited in various ways. Sometimes markets are constrained because products are too expensive for mass consumption. Sometimes the need for expertise limits a market to those with special training. Sometimes the need to go to a centralized setting, such as having to go to a doctor's office for a diagnosis, makes it difficult for individuals who prefer to "do it themselves."

Looking for such pools of bottled-up consumption led Turner Broadcasting System, a multibillion-dollar subsidiary of Time Warner, to a counterintuitive growth strategy. All of Turner's successes had been cable channels, like Cable News Network (CNN), Turner Classic Movies (TCM), and the Cartoon Network. In each case, the company had succeeded by obtaining basic content at a reasonable price and then shaping and molding it into a differentiated offering.

To find new growth, Turner looked for nontelevision markets that might have desirable content consumers couldn't easily access. The search led to gaming. Gaming companies had vast stores of content they pulled off the shelves years ago, just like the old movies that air on TCM. A consumer looking for one of those games had to put up with inferior online replications or try to find the original game on eBay—and that option would work only if the consumer owned the console on which the game operated.

Turner's strategy attempted to expand consumption of out-of-circulation games. The

The Disruptive Playbook

At the core of the disruptive innovation theory developed by Harvard Business School professor Clayton Christensen is a simple principle: Companies innovate faster than people's lives change. Most organizations make products that are too good, too expensive, and too inconvenient for many customers. This happens for a good reason. After all, managers are trained to seek higher profits by bringing better products to the most demanding customers. But in the pursuit of profits, companies overshoot less-demanding customers who are perfectly willing to take the basics at reasonable prices. And they ignore nonconsumers who may need to get a job done but lack the skills, wealth, or ability to adopt existing solutions.

Companies seeking to create growth through disruption can run three basic plays, each of which is suited to certain circumstances.

The Back-Scratcher: Scratch an Unscratched Itch

What it is: Make it easier and simpler for people to get an important job done.
When it works best: When customers are frustrated by their inability to get a job done and competitors are either fragmented or have a disability that prevents them from responding.
Historical examples: Federal Express, Intuit's QuickBooks.
Current examples: Procter & Gamble's Swiffer products, instant messaging technology.

The Extreme Makeover: Make an Ugly Business Attractive

What it is: Find a way to prosper at the low end of established markets by giving people good enough solutions at low prices.
When it works best: When target customers don't need and don't value all the performance that can be packed into products and when existing competitors don't focus on low-end customers.
Historical examples: Nucor's steel mini-mill, Toyota Corona.
Current examples: India-based Tata's sub-$3,000 automobile, exchange-traded mutual funds.

The Bottleneck Buster: Democratize a Limited Market

What it is: Expand a market by removing a barrier to consumption.
When it works best: When some customers are locked out of a market because they lack skills, access, or wealth. Competitors ignore initial developments because they take place in seemingly unpromising markets.
Historical examples: Personal computers, balloon angioplasty, Sony Walkman, eBay.
Current examples: Blogs, home diagnostics.

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company licensed thousands of games—from timeless classics like Pong and Asteroids to more recent hits like Tomb Raider and Splinter Cell—and in 2005 launched a Web-based subscription service called GameTap. Although it is too early to measure results, the company's approach is consistent with other democratizing innovations that have created substantial growth businesses.

Build Your Growth Playbook

Once a company has identified the market space it wishes to target, it's time to look more specifically at how to serve that market. As an example, consider MinuteClinic, an emerging provider of health care diagnostic services. Its kiosks, located in stores such as Target and CVS, offer a menu of services for diagnosing about 25 straightforward ailments, including strep throat and pinkeye. The nurse practitioner who staffs the kiosk can reliably diagnose the conditions in less than 15 minutes and write a prescription that the customer can fill in the in-store pharmacy.

Most companies intuitively sense that the best place to look for growth is outside of—but not too far from—their core business.

MinuteClinic shares the following characteristics with other disruptive innovations:

• *The target customer is looking for something different because existing solutions are too expensive, too complicated, or don't quite get the job done.* MinuteClinic's customers aren't looking for better-trained doctors; they are looking for speed and convenience.

• *The solution is good enough along traditional performance dimensions and superior along other dimensions that matter more to target customers.* MinuteClinic can't treat everything. If a customer comes in and says, "I feel dizzy" or "Something is wrong with me, but I don't know what," MinuteClinic refers the patient to a physician in a traditional setting. But MinuteClinic has better performance along dimensions its customers care about—speed and convenience.

• *The business model has low overhead and high asset utilization, allowing companies to offer low prices or serve small markets.* MinuteClinic, with its lean overhead and effective software systems, can provide a lower-cost solution that is extremely appealing to insurers and corporate sponsors.

• *The strategy is not one that powerful incumbents initially want to pursue themselves.* Many primary care physicians welcome MinuteClinic's solution because it frees them to work on the more complicated problems that are a better fit with their training.

While this basic disruptive pattern holds true across industries, companies need to customize an approach that reflects the idiosyncrasies of their particular markets. Thus they need to develop checklists that spell out the market circumstances where the approach has the best chance of succeeding and identify criteria to which successful strategies should conform.

One way to develop such a checklist is to analyze ten to 15 major innovations in the market segment's history. Look at both successes and failures, particularly the "sure-fire" strategies that flopped and the "unpromising" ones that were runaway successes. Figure out the elements shared by the truly successful strategies. Combine the results of this historical analysis with the basic disruptive principles, and you have your customized checklist, or playbook. For example, a consumer health care company identified at-home diagnostics as a key growth area. It was interested in understanding why some consumer-based diagnostics, such as pregnancy kits and blood glucose monitors, took off while others, like home drug tests, floundered. By analyzing the history of home diagnostics from a disruptive perspective, the company identified the characteristics shared by successful innovations. It then created a 20-point checklist to assess new products that included elements such as the following:

• Is the diagnostic job important to the consumer?

• Is diagnosing currently very difficult, inconvenient, or expensive?

• Are results conclusive without further testing or triaging of symptoms?

• Is the diagnostic linked to treatment or follow-up action?

• Are we capable of developing the necessary technology?

• Can we communicate effectively to the target consumer?

• Will influencers (such as professional caregivers and insurers) actively support the diagnostic?

• Will our competitors have difficulty duplicating this product?

The checklist allowed the company to look at any opportunity from multiple perspectives, including those of consumers, competitors, the channel, and regulators. The diversity of perspectives allowed the company to avoid a classic trap: a myopic focus on innovation within a

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company's comfort zone. For example, a firm with a strong engineering culture might focus primarily on whether it can solve a tough technological problem. This kind of focused question is important, but companies that don't also develop a holistic sense of an opportunity run the risk of missing important elements that can come back to bite them.

With these guidelines in hand, companies can then begin to move from generic plays to specific opportunities for innovation.

Build Your Innovation Game Plan

Now it's time to create a short list of innovation ideas for your target market and to assess whether those ideas adhere to the general pattern of success you've uncovered and to your specific checklist.

The discipline of checking seemingly high-potential ideas against a rigorous list of questions should keep you from moving forward with a plan that's similar to something that worked in the past but different in some crucial way. For example, Procter & Gamble has time and again leveraged its massive distribution power to muscle itself into a product category. To take just one example, in 1999 the consumer products giant purchased Iams, a niche pet food provider, for $2.3 billion. By improving an already good product and bringing it to tens of thousands of grocery stores, where it competed against fragmented providers, P&G created a blockbuster brand. However, when P&G tried to enter the prepackaged cookie market with its Duncan Hines soft-baked cookies in the 1980s, it was a different story. The market was not fragmented, and strong competitors Keebler and Nabisco reacted ferociously to P&G's entry. Although P&G claimed the rivals had infringed its patents (and ultimately won a lawsuit), it had to exit the market. P&G's classic consolidation-and-distribution play worked when competitors were fragmented but failed when two powerful incumbents were among them. A checklist that included questions about the clout of potential competitors might have alerted managers to the problem.

Notice if your customers are using existing products in unusual ways, stretching them to do something they were not designed for, or "kludging" several together for a suboptimal solution.

Creating specific opportunities. Let's look in detail at how one company identified, then assessed, a potential innovation. Ethicon Endo-Surgery, a multibillion-dollar company, sells equipment for minimally invasive surgeries. In analyzing the industry's pattern of success, EES managers realized that the most successful new medical devices typically enabled less highly trained (and less costly) practitioners to treat patients themselves instead of referring them to specialists.

EES managers then looked methodically for an existing surgical procedure characterized by a lot of seemingly avoidable high costs. They learned that more than a quarter of colon resections—painful, invasive, high-cost procedures—remove a benign growth. That figure seemed high, so EES managers started talking to leading gastroenterologists, many of whom had a rule of thumb: Any growth of more than two centimeters gets referred to a surgeon because the gastroenterologist can't efficiently remove such polyps, which are often cancerous. Once EES identified this circumstance, which had high potential for a novel approach, it started looking for a specific technology to bring to the market. Some internal brainstorming, followed by an intensive survey of external technologies and development work, led to a project to develop a device that would enable gastroenterologists or clinicians to remove large polyps noninvasively, during a colonoscopy. Clinicians who have used the device say that it has the potential to become the new standard of care, allowing more practitioners to treat patients less invasively and in less centralized settings.

The process of assessing an opportunity against a checklist often leads a company to go ahead with the project—but adjust it in some crucial way to fit the pattern of successful innovations. For example, a team at P&G was evaluating a strategy to bring one of its leading brands to China. The team knew its solution had to be very low cost and still perform adequately along dimensions that consumers cared about. But to get the product to a low enough price point, P&G would need to strip out functionality that demanding consumers in the country's largest cities considered critical. This assessment led P&G to start in smaller Chinese cities, where consumers for whom existing alternatives were too expensive would embrace P&G's limited first-generation product. As P&G works out the inevitable kinks in manufacturing such a low-cost product and improves its functionality, it plans to introduce the product in larger cities.

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Focusing on patterns instead of numbers. Many seasoned innovators might be asking themselves, "But what about the numbers?" Obviously, when you're planning to launch a product or service, you can't ignore financial data. However, our experience suggests that most companies force teams to develop detailed financial estimates way too early, when their accuracy will necessarily be low. Using metrics such as net present value (NPV) or return on investment (ROI) as rough guidelines is fine. Using them as rank-ordering tools to make decisions is counterproductive.

Here's why: Companies that rank projects using detailed financial metrics won't end up selecting ones aimed at the seemingly small, difficult-to-measure markets that are so often the footholds for powerful growth strategies. Instead, they'll likely move forward with projects in large, measurable markets—the ones that are usually hostile to disruptive innovations. As a result, new products often fail to deliver significant, differentiated new benefits, or the company suffers a devastating response from incumbents.

Instead of fretting over precise figures, play the "number of zeros" game. Determine whether the revenue created by an opportunity will have eight zeros on the end ($100 million) or five ($100,000).

Instead of fretting over precise figures, play the "number of zeros" game. Determine whether the revenue created by an opportunity will have eight zeros on the end ($100 million) or five ($100,000). Focusing on the assumptions behind those estimates—what must be true for those estimates to be plausible—is meaningful. Arguing about whether an opportunity will produce revenues of $23 million or $28 million is pointless at this early stage.

Detailed metrics make sense for product extensions in known markets. Innovation strategies that are markedly different need an appropriately different evaluation process. A company's early focus has to be on how well the innovation fits with the pattern of success. Had the P&G team mentioned earlier focused on detailed metrics too soon, it probably would have decided to start in China's largest cities. After all, that approach would appear to yield the highest first-year sales and NPV figures. By paying attention to its playbook, however, the team saw that starting in the big cities would actually lead to failure.

Execute and Adapt

If everything went exactly as coaches diagrammed, football would be a pretty boring game (rugby fans might argue that it already is pretty boring). The result of any play would be perfectly predictable. In reality, however, plays often unfold in completely unanticipated ways. Companies need to make sure that as they begin to execute their new-growth game plans, they, too, encourage adaptation and flexibility. They can do this by following a simple mantra: Invest a little, learn a lot.

Big companies often think their deeper pockets give them an advantage over start-ups. But sometimes extra financing is a curse. Project teams with too much money may keep going in the wrong direction for too long. Those with scarce resources, however, must scramble to find novel approaches that they might not otherwise discover.

One powerful example of this principle is Teradyne's efforts in the late 1990s to create a disruptive product in semiconductor test equipment. Teradyne's CEO at the time, Alex d'Arbeloff, recognized that emerging technologies would allow the company to create machines that were dramatically smaller, cheaper, and simpler to use than the products it currently sold to market leaders like Intel. The new machines wouldn't be as functional, but they might be good enough for some market segments. It felt like a classic case of disruptive innovation.

D'Arbeloff gave the team, code-named Aurora, modest revenue expectations—$1 million in year one and $11 million in year two—but demanded that it achieve profitability before he invested significant sums of money. By constraining the team's financial (and therefore engineering) resources, he forced it to find a foothold market it could attack quickly. The team just didn't have the luxury of spending years in development to make the product good enough for Teradyne's core customers. Although team members occasionally muttered not-so-nice things under their breath about d'Arbeloff, scarcity compelled them to experiment with novel approaches. Ultimately, the team found a surprising way into the market by targeting manufacturers who produced inexpensive commodity semiconductors that perform basic computations in household appliances such as toasters. Historically, these customers couldn't afford Teradyne's expensive, complicated test equipment, but they loved the simpler, cheaper Aurora product. The product took off and created a substantial growth business for Teradyne.

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Some managers might be nodding their heads at this point, thinking, "We get this. We have brought the venture capital approach into our organization." Our experience suggests that many companies that think they are following an "invest a little, learn a lot" approach are actually falling into one of three classic traps: They are unwilling to kill projects that have fatal flaws; they commit too much capital too soon, allowing a project team to follow the wrong approach for too long; or they fail to adapt their strategies even in the face of information that suggests their current approach is wrong.

To avoid these mistakes, companies should be rigorous about staging their investments. Early investments should focus on resolving critical unknowns. Identifying where the team should focus is straightforward. Just ask the following questions: What is the consequence of being wrong about an assumption? Is it catastrophic or potentially harmless? How much certainty do I have that I am right? Enough to bet my job on it? How long would it take and how much would it cost to become more knowledgeable?

By answering these questions and identifying critical assumptions, teams can direct their investments to the appropriate experiments. After running the experiments, companies then have one of four options:

- *Double down:* Information clearly points to a winning strategy with no obvious deal-killing uncertainties, so move forward rapidly.
- *Continue exploring:* All signs look positive, but there are still untested assumptions, so keep experimenting.
- *Adjust the game plan:* Investigation suggests that the current strategy is not viable, but another approach might be, so change the approach and begin experimenting again.
- *Shelve:* There is no clear path forward, so move on to other projects until something else changes.

The key is to make decisions rapidly. We have seen companies seeking to build their innovation capabilities try to move dozens of ideas forward simultaneously. Starting with a lot of ideas is important, but success requires the fortitude to shut down the unpromising ones and redirect those that are heading in the wrong direction. If companies wait too long to make these decisions, they end up diverting resources toward fruitless efforts or continuing to execute a fatally flawed strategy. Consider the words of a newspaper editor who faced this difficulty as his company attempted to innovate on the Internet: "Given the pace of our expansion, I don't think we made mistakes fast enough, and we didn't learn from them often enough. The problem wasn't just turning [the experiments] on, sometimes it was turning them off."

Change Your Role

It will come as no surprise that senior management has an important role to play in building a strong capability around growth and innovation. Creating a separate pool of resources for growth initiatives and fiercely protecting that pool is one obvious step. But senior managers need to do more than provide resources. They need to shield innovation projects as if they were viruses threatened by corporate antibodies. And they need to work with innovators to solve vexing strategic issues.

Blocking the antibodies. Consider a chemical company that was working with a wide array of suppliers to quickly bring customized products to the marketplace. The strategy was very different from the one the company used in its core business, where it worked with just a few suppliers and followed a very rigorous and lengthy process to ensure that suppliers met high quality standards. That process worked extremely well when the company was adding another core supplier. However, it crippled the new approach, which focused on mix-and-match, fast customization. By the time a supplier received clearance, a window of opportunity had slammed shut.

With this realization, senior management gave the team "process FastPass" cards modeled on Disney's program that allows people to cut to the front of lines on popular rides. As long as the team had convincing evidence that using a supplier would not get the company in trouble, it could bypass the standard approval process. Fortunately, most of the suppliers in question worked with other industry players and so easily passed that litmus test.

Mobile phone giant Motorola applied a similar principle while developing its ultra-thin Razr phone. Usually, when Motorola planned to develop a new phone, representatives from each of the company's major geographic regions (Europe, Asia, and so on) weighed in on the concept. The regions would request the sorts of

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features and functions they wanted in the design. Each region would then forecast how many units of the model it thought would sell. The aggregated regional plans would help Motorola decide whether to invest in the phone.

It was always a complicated dance. If a development team ignored features that a specific region deemed critical, that region would project low sales, which would make it tougher for the development team to get approval for the project. Teams knew, then, that they had to appease each of the regions. Although this system ensured that products reflected some critical feedback from the regions, it could force designers to develop compromise products that were acceptable to everyone yet delightful to no one.

With the Razr, Motorola's management sensed an opportunity to buck industry trends. Whereas competitors were racing to cram more features and functionality onto handsets, Motorola decided to limit features and focus on form, creating the smallest, thinnest phone on the market. Luckily, management recognized that it had to buffer the Razr team if it wanted to introduce this blockbuster innovation. Senior management exempted the Razr from the company's standard development process, giving the team freedom to create a novel product that delighted customers and caught competitors off guard. The Razr exceeded the company's total lifetime projections for the product in its first three months, turning into a massive success story for Motorola.

Changing the conversation. In addition to shielding project teams, senior managers must also change the discourse with them. As more and more companies have adopted stage-gate processes to manage innovation, an us-against-them mentality has emerged. Teams present to senior managers, who then act as gatekeepers, either opening the gate to let projects through or locking it until the team comes back with better numbers or more proof. When the right strategy is unknown and unknowable—as it so often is with novel growth initiatives—senior managers need to be problem solvers, not dictators.

Karl Ronn from P&G embodies this notion. Ronn, the vice president for research and development for the company's home care division, oversees such brands as Mr. Clean, Dawn, Swiffer, and Febreze. When a team is working on an incremental line extension, Ronn receives results at predetermined milestones. But when P&G is developing extremely novel products, such as the Mr. Clean Magic Eraser or Flick (a version of Swiffer that cleans carpets), Ronn acts differently. Instead of reviewing results of agreed-upon decisions, he and the business unit president go into the labs to review early prototypes and participate in day-long brainstorming sessions. Such deeper engagement allows senior managers to get a better feel for the new products and share their

Changing the Innovation Mind-Set

Implementing the principles we discuss can allow companies to embrace new innovation mind-sets:

- **Good enough can be great.** Many companies unintentionally slow the innovation process by pushing for perfection. eBay CEO Meg Whitman, quoted in a March 2005 issue of *USA Today,* put in nicely: "It's better to put something out there and see the reaction and fix it on the fly…It's another way of saying 'perfect' is the enemy of 'good enough.'"
- **Step, don't leap.** Great leaps forward, when companies spend many years and millions of dollars seeking to jump over existing companies, almost never work. Companies have a much greater chance of success if they start with a simple springboard. Think about the journey of P&G's Febreze brand. P&G initially positioned Febreze as a "removing odor" brand by packaging it to look like other household cleaners and placing it in the laundry aisle next to such powerhouse brands as Tide and Downy. The company then introduced Air Effects, thus moving Febreze toward a "clean the air" brand. In early 2006 P&G introduced Febreze Noticeables, a plug-in air freshener that alternates between two scents. P&G has obviously moved squarely into the air freshening market, but it has done so in a thoughtful, staged way.
- **The right kind of failure is success.** Most well-run companies naturally consider failure to be highly undesirable. But remember, most of the time the initial strategy for a growth business is going to be wrong. Managers need to recognize that learning what's wrong with an approach and adapting appropriately is a good thing, not a failure. The Mayo Clinic gives a "queasy eagle" award to individuals who fail for the right reason. Managers must balance the confidence to start going in an uncertain direction, the humility to recognize that the direction is wrong, and the fortitude to listen, learn, and adapt.

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collective wisdom with the team. "This is not like a Skunk Works where we cut out the middle managers," Ronn said. "Rather, we are there with them to help and also to learn about the business before we have to invest in it."

Generally, senior managers overseeing novel growth strategies need to engage frequently with the managers developing and implementing them. Quarterly meetings either slow progress or lead teams to make critical decisions without senior management's guidance.

Now, of course senior management can't be deeply engaged in every project. If a project is in a well-known market, it's appropriate for senior management to act as a traditional gatekeeper. Nor should senior managers abdicate their role as decision makers who determine when a team has learned enough to continue moving forward. But if neither management nor the team knows the answer, senior managers ought to break out of the us-versus-them mind-set and use their strategic thinking skills to help the team solve problems. (See the sidebar "Changing the Innovation Mind-Set" for other important changes.)

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Companies can pierce the fog of innovation. An unpredictable innovation process teeming with trade-offs between speed, quality, and investment can become better, faster, and cheaper. By allocating resources more efficiently and accelerating the highest-potential innovations, companies can enjoy a winning streak of innovation successes that will throw competitors off balance.

But the opportunity that now exists to build a competitive advantage through innovation won't last forever. That's because problem-solving approaches evolve in a predictable way. When people first encounter a new type of challenge, they must solve it using an unstructured, trial-and-error approach. Over time, as they learn more about that particular challenge, clear rules emerge to guide problem-solving efforts. We believe that innovation is now somewhere between random trial-and-error and perfectly predictable, paint-by-number rules. We think of this transitional period as the era of pattern recognition, during which companies can create competitive advantage by becoming world-class at defining and executing against patterns. As the patterns we've identified become more obvious—and as others emerge—it will once again become difficult to base a sustainable competitive advantage on innovation competencies. But for the moment, forward-thinking companies can head out in new directions by learning how to see patterns where others see chaos.

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