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Welcome!

Since many of you are new to "Strategy & Innovation," we are beginning in this issue to reach into our archives and highlight some of the valuable and relevant articles there. The Clayton Christensen article below, “Defining 'Performance' in the Disruptive Innovation Model,” is one such article.

Last week saw the release of Innosight President Scott Anthony's new book, "The Silver Lining: An Innovation Playbook for Uncertain Times," published by Harvard Business Press. In this issue we are running an aggregated version of the Silver Lining checklist for innovation Scott has been publishing post by post on his popular Innovation Insights blog on the Harvard Business Publishing site. If you're still curious about this topic, Scott is also leading a webinar called “Leading Innovation in the Great Disruption,” which will be held at 1 pm EDT today. You can find out more and sign up here: http://us.hsmglobal.com/contenidos/hsm-webinars-anthony.html

Comments and suggestions are welcome – send them to editor@strategyandinnovation.com.

—Renee Hopkins Callahan, Editor

Innosight News and Events

The Landscape Transformed: What HR Leaders Need to Know to Survive and Thrive In the New Economy

Scott Anthony, will be a featured speaker at the Executive HR Network Summit. Held July 15 at the Harvard Club in Cambridge, MA.

http://www.innosight.com/news_events/event.html?id=769

Feature: Defining 'Performance' in the Disruptive Innovation Model

By Clayton Christensen

When I set out to explain the theory of disruptive innovation, I purposely chose the somewhat generic term "performance" to describe how products, services, or technologies improve over time. This is reflected in the core diagram of the disruptive innovation model, which describes the performance trajectories of technologies over time.

The diagram's axes, "performance" and "time," illustrate the observation that over time performance improvements tend to outstrip customers' ability to absorb those improvements. This results in "overshoot," companies offering new attributes for which customers are increasingly unwilling to pay premium prices. When this occurs, a disruptor can gain a foothold with a new product that makes consumption cheaper and easier for these overshot customers.

While the term "performance" is a good generic starting point to describe the theory of disruptive innovation, I increasingly believe there is real value in thoughtfully and explicitly defining what that vertical axis is in the life of a particular industry. Getting this axis right not only makes lots of otherwise confusing things fall into place, but also makes spotting the implications of the model easier, helping you to identify overshoot, spot disruptive opportunities, and avoid costly sustaining battles.

Recently, I have been thinking about how this applies to two quite different industries: air travel and public education. A critical disruptive notion is that incumbents are motivated to flee up market to higher margin, higher performance- demanding customers as disruptors eat away at the least attractive segments of the market.

But without explicitly defining the term "performance," how can one envision where an incumbent airline or large school system would flee?

Improving 'Performance' for Airlines: Miles Per Route Flown

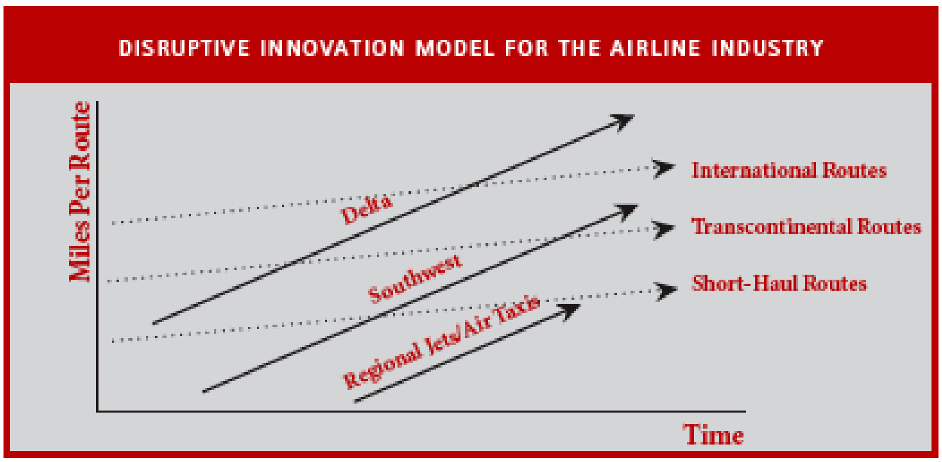
Many traditional airlines have been going through well-documented difficulties, including lengthy bankruptcy proceedings, as a proliferation of low-cost carriers have gained significant market share.

Now, with revolutionary jet technologies hitting the market, a new breed of companies offering things like point-to-point air-taxi service and small-jet international routes are poised to reignite the battles.

When early disruptor Southwest Airlines first entered the market, it sought to compete against bus services in Texas, believing airlines had overshot customers' needs to go relatively short distances at discount prices. These so-called short-haul routes necessitated a business model that could support a greater number of gate turnarounds, takeoffs, and landings, all expensive activities.

Able to reap profits on shorter routes, Southwest flourished. Customers were thrilled with the cheap fares and traditional carriers were happy to flee up-market to longer routes with higher fares and better margins.

What, then, is the performance-axis in this industry? It is not, as one might guess, fare price. As Southwest showed, the basis of competition is "miles per route flown." As jets made by Boeing and Airbus improved over time, getting bigger and flying longer distances, traditional carriers flew increasingly longer routes in larger planes.



This trend continues today, as most of the traditional domestic carriers look to expand their long-haul overseas routes, which still command premium prices in the largest of planes.

The recent, costly upgrades and expensive amenities announced by British Airways and Virgin Atlantic, which are fighting over the New York-London route, are signs of a brutal, sustaining battle. Both are eking out incremental improvements of interest only to an increasingly smaller, yet higher-margin, group of customers.

On the shorter domestic routes, traditional carriers now tend to partner with regional airlines flying a new class of smaller jets, such as those made by Canada's Bombardier and Brazil's Embraer, which are themselves disruptive to
Boeing and Airbus. These smaller airlines are targeting customers looking to go from places like Atlanta to Cleveland, not Atlanta to Singapore.

The big, traditional carriers now face two problems. There simply is not enough long-haul volume to sustain all of the incumbents. The well-publicized airline mergers and bankruptcies are removing this excess capacity from the system.

Secondly, successful regional carriers and low-cost airlines are themselves marching up market into longer routes. Disruptive jet manufacturers like those mentioned above will continue to develop better aircraft, squeezing Boeing and Airbus in the process.

As more new entrants look to disrupt traditional carriers, pay special attention to those providing good-enough service on shorter-haul routes.

How Should Performance Be Defined in Public Education?

Public school systems are not thought of as competing against each other or fleeing up market to higher-margin customers, but many agree the system is in bad shape. One first might look at this industry and ask, "Why do we continue to pour money into education, but see little improvement?"

Worker productivity is a good place to start. Public education is one of a handful of industries where workers are unable to become more productive. In fact, teacher productivity---essentially more students per teacher---is viewed as anathema to good education. If anything, parents and administrators clamor for *reduced* productivity per teacher, in the form of smaller class sizes.

This pressure creates an inexorable economic problem: Wage increases consistently outpace inflation with no increase in productivity. Without productivity increases, this gap wage/inflation gap essentially raises the cost of education.

Faced with flat budgets and rising costs, most school systems have had only one option: Deliver less education. Usually, this is done by cutting from the periphery, so things like athletics and arts lose funding or user fees are charged for some "non-essential" services.

At some point, though, there is a looming cliff. Schools will either have to cut from the core curriculum, increase spending, or grow more productive. Cost increases simply can't keep outstripping spending growth.

If we assume most cities and states will at some point refuse to cut into the core public curriculum and also will not allow education costs to continually outpace inflation, the system is left with only the option of increasing productivity. What, then, constitutes improving performance over time in education? Inevitably, it must be "enrollment per class."

School districts need to maximize the number of students enrolled in each class and cannot afford to continue classes that are under-enrolled. Knowing this, one can begin to identify where disruption might successfully occur.

Take Apex Learning, founded by Microsoft cofounder Paul Allen. Apex, a provider of computer-based learning tools, began by targeting a specific type of low enrollment offering: advanced placement (AP) courses.

To those who would define better performance in education as "quality learning" or "subject matter difficulty," this strategy looks doomed to fail. Why would school districts and parents pass off the most difficult, important courses to an unproven provider?

In fact, nonconsumption of these classes was enormous because most individual schools could not afford the luxury of offering these lower-enrollment classes. Schools gladly passed these classes off to Apex because teachers could be redeployed into higher enrollment classes, increasing productivity.

With "performance" defined, it's easier to see the pathway for growth in computer-based education. It is likely not to target a subject (math), nor is it to address a level of difficulty (introductory or advanced). Companies like Apex must help school systems get a simple job done: Increase or maintain enrollment per class.

In the early stages, this means going after the lowest enrollment classes, allowing a school district to offer programs without reducing overall productivity. By using Apex, a school could avoid the cost of hiring a teacher to conduct AP English classes, for example, but could still offer these advanced classes.

Once companies gain a foothold in the market, they can improve their ability to educate more students per class and march up market into higher enrollment classes.

As always, we'd be interested in hearing your thoughts about these issues. Increasingly, I believe that correctly defining the product-performance attributes that will shape an industry over time can help you spot disruptive opportunities.

Feature: Seize the Silver Lining Checklist

10 ways you can start making your company more innovative despite the recession

By Scott D. Anthony

In today's tough times, companies may feel like they have a choice: focus on innovation or survival. It is a false choice. Innovation has gone from a nicety to a corporate necessity. After all, remember what legendary trial lawyer Clarence Darrow — clearly channeling Charles Darwin — said: "It is not the strongest of the species that survives, nor the most intelligent, but rather the one most adaptable to change."

There's little doubt that innovation is going to become harder as resources become tighter and competition becomes fiercer. Those companies that continue to focus on innovation have a rare chance to create substantial space between themselves and their competitors. Those that don't will fall further and further behind.

The Silver Lining: An Innovation Playbook for Uncertain Times makes the case that today's turbulent times make mastering innovation a competitive necessity (see related references). The book aims to provide corporate innovators and entrepreneurs with practical guidance to seize the ample opportunities that still exist in today's markets. (Editor's note: See related references for ""The Tipping Point of Innovation," the *Strategy & Innovation* interview with Scott about *The Silver Lining*.)

The following 10-point "Seizing the Silver Lining" checklist synthesizes the book's key messages and provides practical guidance for leaders looking to realize opportunities in their market. Each item links to a blog post describing the item in more depth (see related references for each point).

1. The Imperative: Does your organization recognize today's transformation imperative?
In today's hyper-competitive world, competitive advantage that takes years to build disappears seemingly overnight. Constant change is the new normal. Companies can't win through operational excellence alone. They have to master the ability to fundamentally transform what they do and how they do it.

However, a lack of common understanding around the transformation imperative can doom well-intentioned efforts. One of the biggest innovation killers is the "sucking sound of the core." Common understanding of the need to change can help to ward off this sucking sound.

2. Innovation Potential: Does your organization have a handle on the future potential of innovation projects and existing businesses?
Like it or not, most companies are going to have to trim their innovation investments. In many cases, this means shutting down some ideas in the development pipeline. In other cases, it might mean shutting down or selling off a product line or a business unit.

Companies shouldn't make these decisions haphazardly. A simple inventory detailing the potential of existing efforts and businesses can help companies make the right strategic decisions.

3. Prudent Pruning: Does your organization have a process to prudently prune its innovation portfolio on a regular basis?
Companies that complain about a lack of resources for innovation need to make sure scarce talent and dollars aren't being drained by "zombie projects" that are limping along with no hope of long-term success. Making regular decisions about which projects to accelerate and which to shut down helps to make sure innovation resources flow in the right direction.

4. Growth Options: Does your organization have clear consensus on the one to three top opportunities for innovation?
Growth rarely happens by accident. Companies should thoughtfully approach the creation of new markets or business models. A lack of consensus around high-potential opportunity areas can fracture innovation resources. Alignment on a few broad "innovation themes" can help to bring needed focus to innovation. Themes could be customer segments, geographies, revenue streams, or other areas that could provide the foundation for future growth.

5. Customer-Focused Cost Cutting: Does your organization always asks, "How does the *customer* define more?" before asking people to do more with less?
Doing more with less is important when times are tough. However, companies that aren't careful often end up doing *less* with less. The problem is companies don't stop to ask what "more" means. So they start cost-cutting efforts by looking for the largest line-item in a budget, or elements they think customers won't notice.

A far better approach is to develop a deep understanding of how the customer defines quality. There might actually be elements where a company is providing performance that actually overshoots a customer's needs — a natural target for cost cutting.

6. Smart Strategic Experiments: Does your organization match technological experiments ("can we?") with strategic experiments ("should we?")?
No company would launch a new technology into a market without carefully testing the technology's viability in the laboratory. Yet, companies regularly launch new businesses into a market without carefully testing their *strategy*'s viability.

Companies need to embrace *strategic* experiments, which help to answer questions such as: will the customer buy the product? Will they repeat, if that's necessary? Will competitors crush us? Can we make money? Can we scale? Using smart, low-cost experiments to answer these questions can lower the risk of individual innovation initiatives.

7. Sharing the Innovation Load: Does your organization constantly seek to share the innovation load to de-risk innovation?
People often think of entrepreneurs as risk seekers. In fact, most entrepreneurs ruthlessly seek to mitigate risk. They know that what they are doing is inherently risky. Good entrepreneurs find partners who are best positioned to handle key pieces of risk.

Companies run into the trap of thinking that innovation requires going it alone. Rather, companies should find smart ways to share risk. Use customers to come up with good ideas. Co-develop businesses with suppliers. Partner with channels to test ideas. Consider collaborating with competitors in non-competitive arenas.

8. Loving the Low End: Does your organization have a plan to "love the low end" in existing and emerging markets?
Customers in established markets are becoming increasingly value conscious. Competitors are growing increasingly fierce. Eighty percent of the world's population and 40 percent of the world's economy (adjusting for purchasing power parity) constitutes just 10 percent of revenues for S&P 500 companies.

Companies around the world have to figure out ways to love the low end, or they will fail to deflect looming threats and miss promising growth opportunities.

9. The Innovation Factory: Does your organization have systems and structures to make innovation repeatable?
There is a long-held view that innovation is random. Because innovation is unpredictable, the best a company can do is to identify important innovations early, and react appropriately. But decades of research and applied work has brought great clarity to the world of innovation. While we're still far from perfect predictability, companies that manage innovation like a process can sharply boost the returns on their investment in innovation.

10. Personal Reinvention: Does your organization have a plan to help leaders transform *themselves*?

Einstein once defined insanity as doing the same thing and expecting different results. Managers hoping to transform their businesses have to start by transforming themselves. They have to build the capability to confidently confront the paradoxes they will increasingly encounter.

* * *

History shows us that innovation flourishes, no matter how dark the times. Whether your company looks back and remembers today's troubled times as the beginning of the end or a kick-start to transformation depends on your actions. The choice is yours.

Related references

http://www.silverliningplaybook.com
http://www.innosight.com/innovation_resources/article.html?id=799
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From the InnoBlog

Daily Candy Loses Some of its Sweetness

By Robyn Bolton

There are very few things I rave about. But there is one thing on that very short list that I considered worthy of a take-you-by-the-shoulders-and-stare-you-dead-in-the-eye rave: Daily Candy.

For the uninitiated, Daily Candy (see related reference) is a daily email customized to the city in which you live (12 cities so far) that uses wonderfully witty and snarky prose to give you the latest info on fashion, beauty, food, entertainment, and culture. Their recommendations are so unique that pretty much anything I own that elicits compliments was discovered through Daily Candy.

This is why I was both interested and surprised this week when Daily Candy and Target announced a partnership (see related reference) in which Target would advertise in Daily Candy's emails and Daily Candy editors would provide content for a new section on Target.com that highlights up-and-coming designers (see related reference). As I read the WSJ.com article I had 3 nearly immediate reactions:

1. I didn't know Daily Candy was owned by Comcast.
2. This is GREAT! I love Target and if Daily Candy will help me find the coolest stuff there that's even better!
3. Wait a minute, are Daily Candy emails going to start "recommending" Target products? I don't want that. Anyone can buy Target stuff.

Once I recovered from my retail roller-coaster, I was struck by the fact that the combination of two things I truly enjoy (Target and Daily Candy) could combine to become LESS than the sum of their parts. Both satisfy my jobs-to-be-done better than alternatives — Target because it provides access to interesting products and very cool design at a low cost and Daily Candy because it helps me find unique statement pieces well worth their premium. But the partnership between the two increases the attractiveness of one (Target) while compromising the attractiveness of the other (Daily Candy).

As a business person, I completely understand the business rationale that drove the partnership — Daily Candy gets guaranteed ad revenue from Target and Target attracts more visitors increasing the ad rates they can command. But as a raving fan of Daily Candy, I feel like their pursuit of new revenue streams may compromise their ability to satisfy my important jobs around unbiased recommendations for unique products.

This tension highlights two principles we often stress with our clients — focus on your consumers and build a solution that satisfies their important jobs better than existing solutions *then* build a business model that supports the solution. Making choices that change the solution or the business model in a way that compromises your ability to satisfy your consumers' important jobs (in a real or perceived way) creates space for competition.

Daily Candy continues to have a relatively unique approach and style that keeps it on my list of raves. But I've stopped physically accosting people and proclaiming its virtues. And, depending on whether the partnership impacts its current solution, the once-inconceivable may become possible — relegating the daily email to the Spam box.

Related references
http://www.dailycandy.com/everywhere/
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http://sites.target.com/site/en/spot/page.jsp?title=rhs_this_months_picks&ref=sc_iw_r_2_1_12

Persuading Customers to Adopt New Habits Is Critical for Innovation

By Natalie Painchaud

Humans are creatures of habit. We tend not to change our behavior unless the incentive to change is compelling. We prefer that things stay the same or change as little as possible, which makes it hard for us to break out of our set patterns and routines.

Psychology shows us that breaking this status quo bias and developing new habits is one of the most difficult things to do. Yet companies develop innovative offerings and expect consumers to readily change existing habits and adopt new habits all the time!

Even if you have a solution that absolutely targets consumers' problems dead-on and you know will delight them, consumers still need some help knowing when to turn to your solution and how to use it. You can use advertising and marketing to show them when and how to use your solution.

Consumer packaged goods companies do this particularly well. Just think of the Tide to Go commercial with the woman who is about to make a big presentation, spots a stain, quickly removes it with the handy Tide to Go pen that her coworker hands her, and confidently gives her presentation (see related reference). To my mind this 30-second commercial is effective because it incorporates the following three key elements:

1. **Shows a circumstance where the job-to-be-done is acutely important and for which a solution either is not available or falls short**.
   Removing a fresh juice stain on a blouse just minutes before a big presentation (yikes!)
2. **Shows the consumer how the solution is used to effectively solve their job.**
   Can be pulled out of a purse, quickly applied, and dry in the time span of an introduction
3. **Makes it clear that your solution is the best out there for this job in this circumstance**
   What else could this poor businesswoman have done? Go out there and make her big presentation with a stain on her shirt? Keep her audience waiting while she runs to the bathroom to apply cold water? With Tide to Go, she removes the stain and confidently delivers her presentation.

Remember, it is not enough to develop a great product, you need to crisply communicate when your solution can be used, how it works and why it's the best solution to get the job done!

Related references
http://www.youtube.com/watch?v=_Bp54a07UFg

Innovation Links Posts

We've started posting once or twice a week annotated links to various news and blog items of interest in the innovation world. Since the last *Strategy & Innovation* was published, this link has been posted:

June 5: http://www.innosight.com/blog/374-innovation-links-for-june-5.html

Strategy & Innovation is published by Innosight, whose consulting and training services help companies create new growth through innovation. Building on the disruptive innovation frameworks developed by our founder, Harvard Business School professor Clayton Christensen, Innosight's approach and proprietary tools facilitate the discovery of new, high-growth markets and the rapid creation of breakthrough products and services. This new digital issue of Strategy & Innovation incorporates Innovators' Insights. If you have an issue that you would like analyzed or if you have a comment, please email editor@strategyandinnovation.com.