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## **Welcome!**

In many different ways and places, including in Scott Anthony's new book *The Silver Lining*, we've been saying that the current economic climate is no reason to stop innovating. To the contrary, it's a reason to keep innovating, or start innovating. We and others have also pointed out the many start-ups that historically have been launched into difficult economies. But "keep innovating" is not just a mantra for start-ups. Established companies need to innovate as well. This issue's feature article, Mark Johnson and Josh Suskewicz's "Accelerating Innovation," specifically addresses the challenges faced by established companies wishing to innovate in the current climate where time is of the essence and start-ups will always move more quickly than they can.

Comments and suggestions are welcome – send them to [editor@strategyandinnovation.com](mailto: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](http://www.innosight.com/news_events/event.html?id=769)

*Fox Business "Money for Breakfast"*

Innosight President Scott Anthony is joined with P&G's CTO, Bruce Brown, for this Fox Business "Money for Breakfast Weekend."

<http://www.foxbusiness.com/search-results/m/23155031/innovation-in-a-recession.htm>

## Feature: Accelerating Innovation

Recession means you should innovate more, not less. Here's how established companies can move quickly in releasing new offerings.

By Mark Johnson and Josh Suskewicz



In today's environment, there is decreasing patience for slow-ramping innovation. In some contexts it is important for companies to seize first-mover advantage, while in others they need to follow fast, blunting the damaging effect of competitors' innovation efforts.

No matter the competitive dynamic, it is almost always helpful to get new products or services into market settings as quickly as possible, in order to enable rapid in-market learning and business model development.

Yet the new growth process is fraught with risks and challenges, and most smart executives know that even the most transformational growth businesses start small, growing slowly until they hit an inflection point and take off.

How can companies find ways to accelerate the time between the origination and full realization of an idea while running the gauntlet that so often causes great ideas to fail?

This article is excerpted from a book chapter in which we review different ways to accelerate innovation, as well as methods of institutionalizing the processes and tools that make rapid and consistent new product development an engrained capability.

Here, we focus on one type of accelerating innovation: speeding up the time to launch in new, emergent, disruptive market situations.

Specifically, we will examine how teams for new ventures in uncertain environments can be structured and funded in such a way as to increase their chances of succeeding quickly.

We will look to global silicone provider Dow Corning's surprisingly dexterous creation of Xiameter, a new business unit that operates on a fundamentally different business model than its parent, to illustrate key principles of what it takes to get to market fast.

## Structure: Setting Teams Up for Success

The best way to develop a disruptive product or service offering rapidly and get it out into the market is to set up a heavyweight team, grant it operational autonomy, and task it with complete responsibility for the project.

The team should have decision-making power, and should take it upon itself to break down and reconstruct processes so that they match the project's needs.

The team should be led by an authorized project champion with enough power within the company to get things done. Team members should be co-located to avoid communications complexities and should be freed from other responsibilities so they can focus on one project at a time. In addition, team leaders should have the ability to staff up and down as needed.

The heavyweight team should be backed by explicit senior management support recognized throughout the organization, so that corporate antibodies do not interfere. Senior management can — and must — play an active role in accelerating innovation, especially at the early stages.

Additionally, the heavyweight team should have the power to break through corporate orthodoxies — within limits, of course — that might otherwise constrain it. Business-as-usual processes and corporate priorities can stagnate innovation efforts, if not stifle them entirely.

Successful companies are set up to perform in a certain way: to execute upon their business model. To that end they are methodical and incredibly skilled; our research has made it clear that incumbents will almost always win battles of sustaining innovation.

Yet, at the same time, these companies are big, lumbering, and, by nature, conservative. Therefore, they have trouble innovating at speed, especially if the innovation opportunity is potentially disruptive to their core business model. They tend to struggle in situations that require nimbleness and flexibility.

In order to avoid this dilemma, teams focused on new, disruptive development should be kept at arm's length from the standard processes that drive the core business. This requires a senior-management mandate, corporate autonomy, and customized processes and allocations.

The team must also be given the freedom to “write its own rules”: to build its own team culture in order to rapidly seize an opportunity space.

Note that the most insidious rules are often unstated — the mid-manager dismissing an innovation idea by saying, “Oh, we don't do that,” or the momentarily inspired employee realizing, “but this will never pass spec.” These latent negative forces must be short-circuited.

Finally, teams should be staffed with employees with the proper “schools of experience,” a concept we've adapted from Morgan McCall's *High Flyers: Developing the Next Generation of Leaders* (Harvard Business Press, 1998), as well as Clayton Christensen's *The Innovator's Solution* (Harvard Business Press, 2003).

The most effective employees in any given situation are most likely to be the ones who have wrestled with — and learned from and succeeded in — similar situations in the past. The skills and

intuition needed to succeed in a fast-paced environment of accelerated innovation are most reliably learned from experience, from attending the right “schools.”

In sum, an autonomous, focused, empowered, and appropriately experienced team will give you the best shot at first-mover advantage in uncertain, emergent, and disruptive situations.

### **Funding Motivation: ‘Just Enough’ Targeted Resources**

Once the team is set up, the next challenge is to fund it appropriately. We advocate an approach by which companies grant new ventures “just enough” targeted resources — enough to be able to make progress and test key assumptions, but no blank checks, only just enough so teams are under pressure to develop a viable business model quickly.

In essence, companies should consider themselves venture capitalists, parceling out targeted amounts of money based on results. Necessity, after all, is the mother of invention.

Scarcity and the pressure to earn the right to move forward will motivate creativity, force low-cost business model development, and, of course, kill underperforming projects before they become malingering black holes.

If taken too far, however, funding scarcity will limit teams’ ability to scale quickly. Management needs to strike a delicate balance: just enough resources when the project is still in an emergent discovery phase, but if and when the right business model emerges it should be fully supported and advanced.

When doling out money in a stage-gate process, companies must make sure to use the appropriate benchmarks to review progress. The product development funnel that works for a core business may well suffocate ideas that fall beyond the incumbent business model.

Just as teams pursuing innovation require autonomy to thrive, the course by which ideas are developed into products and services must be independent of business-as-usual processes as well.

To that end, distinct metrics will support rather than shackle innovation efforts. Core valuation tools such as “net present value” and “return on investment” work very well when evaluating existing markets and knowable, highly sustaining development efforts.

However, markets that don’t exist can’t be measured; don’t let ratios built for core businesses restrain innovation efforts due to the misleading readings they are likely to produce.

Instead, companies should focus on progress-tracking metrics such as knowledge-to-assumption ratios, which are reflective of the development of the business idea, as well as both directional and actionable.

Indeed, this sort of “plan to learn” approach, which we adapted from Ian C. MacMillan and Rita Gunther McGrath’s article “Discovery-Driven Planning” (*Harvard Business Review*, July 1995), urges teams to focus on identifying and rapidly addressing risks and assumptions. This approach should guide strategic efforts.

### **Accelerating Innovation at Dow Corning**

These principles are best illustrated by Dow Corning’s rapid creation of its Xiameter business unit in 2002. As globalization gathered steam in the 90s, the company began to face commoditizing pressures and difficulty maintaining price premiums in certain market segments. At the same time, they were trying to figure out how to respond to the rise of the Internet and emerging e-commerce paradigms.

Historically, Dow Corning had been configured to provide personalized, high-value-added service throughout the sales process, and was therefore seemingly allergic to hands-off, automated sales processes. While the Internet threatened Dow Corning’s core business model, it could also, if played correctly, offer a way out of the increasingly apparent commoditization trap the company found itself in at the low end of the market.

In order to address this unique confluence of threat and opportunity, an exciting but potentially threatening new business model was rapidly developed: Dow Corning set up an autonomous e-commerce unit, Xiameter, that sells bulk silicone products for 10 to 15 percent less than the prices established by its core business.

Xiameter launched in January 2002, six months after it was conceived. Within three months Xiameter had paid back all the money invested in it, and within a few years had become a significant contributor to the company’s suddenly much healthier bottom line.

So how did the Xiameter team innovate so quickly and so well? Interviews with key leaders highlight a few of the critical success factors:

*Senior management commitment.* Senior management let it be known that they personally sanctioned the Xiameter team to break rules. They also put their money where their mouth was by providing funding, opening up corporate ranks for staff selection, and letting the team utilize key Dow Corning resources when necessary.

*Stake in the ground.* Very early on, senior management decreed a launch date: January 7, 2002, no matter what. This deadline galvanized the team, forced focus and quick decision-making, and underscored the seriousness of the effort, opening doors and paving the way for rapid action. Finally, it encouraged a “good enough” mentality that allowed Xiameter staff to tackle problems collaboratively and move on without waiting for unattainable perfection.

*Autonomy.* The team was completely removed from the normal Dow Corning system, and even physically located on their own floor in the corporate headquarters. Being fully autonomous facilitated the types of countercultural decisions required to innovate at top speed.

*New culture.* Early on, the Xiameter team tore down the cubicles on their floor and arranged their desks in a circle around a fridge stocked with Coca-Cola. The fun, fast-paced, and exciting working environment they created encouraged rapid progress.

*Selective hiring.* Xiameter team members were specifically recruited for their ability to succeed in the new division, not in the parent firm. Team members showed aptitude for decision-making, ability to operate in uncertain conditions, and commitment to change.

The Xiameter story shows that established, mature companies can succeed at accelerating innovation by leveraging the unique resources they have at their disposal to beat out nimble, disruptive entrants.

The key to success is recognizing that new, disruptive growth represents a distinct challenge from growing the core business, and that processes, tools, and resources must be customized accordingly.

As global competition heats up, companies in almost all industries are under increasing pressure to innovate at the pace and scale of the market. This imperative is challenging, but we firmly believe that the study of innovation has begun to surface patterns and yield insights that make accelerated and sustainable new market growth increasingly achievable and repeatable.

*This article is excerpted from the authors' chapter in From Strategy to Execution: Turning Accelerated Global Change into Opportunity (Springer, 2008). The authors would like to acknowledge the contributions of Innosight colleagues Scott D. Anthony, Adeline Ng, and Natalie Painchaud to the development of this article.*

## **Disrupt-O-Meter: Google Translation**

No matter how you say it, Google is disrupting (again)

By Kevin Bolen

On June 9th, Google made an interesting request of the citizens of the world — help us improve our translation technology and the web will be a better place for all!

Now, if ever there was an industry ripe for disruption, the translation industry is it. Considered by some to be the world's "second oldest profession," translation in today's global economy is big business, \$18 billion big according to estimates in the latest industry report from analyst firm Common Sense Advisory. For years, a variety of startups, academics, governments and big tech companies have been chasing the "Holy Grail" of translation — a software application that can

mimic human quality translation. The incentive for this Arthurian pursuit is significant, as for every word translated today that contributes to the \$18 billion, there are literally thousands of words that go untranslated and therefore remain inaccessible to significant populations. The brilliance of this post, for instance, will be missed by most humans because their RSS feeds and search terms will never surface it — and even if it did surface, they wouldn't be able to read it. Now that is a travesty!

So, is Google on the precipice of disrupting another globally underserved industry? From a disruptive point of view, I think this has true potential:

1. **SOLUTION:** Since the only alternative to a Google translation for many of these sites is “zero” translation, providing even a rough but comprehensible translation is expected to release tons of latent demand for global insights that are perceived to be extremely relevant but can be frustratingly inaccessible due to the language barriers that persist on the Internet.
2. **CUSTOMERS:** When you can speak of “the world” as your addressable market — and it is not hyperbole — you are on to something. While most of us in the US remain staunchly isolationist with our monolingual English bias, the rest of the world (and even several major US cities) are struggling to achieve the potential of the “global community” and remain hampered by the time and cost to translate communications among constituents. Targeting a large, important, and unsatisfied job that affects billions of people with a “good enough” solution that can unlock this latent demand is a good recipe for disruption. One need look no further than the explosive growth of AdWords itself as a solution for small business for evidence of this.
3. **BUSINESS MODEL:** While past efforts in this area have burned through millions in development capital to create linguistics engines, Google is keeping its own development costs low by seeking free contributions from the web's minions. Rather than seeking perfection in the source code, Google is actually seeking imperfections in the output and correcting them in real-time, enabling the engine to “learn” at the same pace that language evolves. I also like that there is a quick path to profitability for even the earliest translated output, as the AdWords model is well established and easily scaled to the new multilingual search results.
4. **COMPETITION:** By initially focusing on improving sites like Wikipedia, Google is not squaring off against the bigger translation service agencies, since there is no revenue in the Wikipedia world versus, say, translating the next version of Vista for global release. By the time Google's translation “engine” is performing well enough to take out a chunk of the \$18 billion going to service companies today, Google's business model will be unassailable assuming it chooses to directly target this market. Where other translation groups need to route work to humans operating at a pace of 2,000 to 10,000 words a day, Google will be cycling those words through a server farm in nanoseconds with almost no variable cost. Few, if any, other firms will have the resources to develop a competing system and legacy

internet favs like BabelFish (now owned by Yahoo!) will soon find their platforms eclipsed by Google's scale and accuracy (remember, Google's system will continue to get better every minute). Even if there was a scalable system none will have the AdWords revenue stream, one can forecast turbulent times ahead for those who make a living multilingually.



Having said all that, there are some inherent risks that must be acknowledged. Google actually jumped into the "machine translation" chase several years back seeking to leverage its billions of indexed web pages to create an enormous statistical model of language and use this to create translations based on how frequently a phrase is translated the same way. Basically, if 200 Spanish news sites use the same term for "toxic asset recovery program" there is a pretty good chance that is an acceptable translation, so Google will display it. This is an automated system and, as all preceding efforts for the past 40 years have found, it is not infallible. Unfortunately for these systems, language is continuously evolving and as such, can be unpredictable.

Enter Google's plea for help from real humans. They are asking people to improve the quality of the output of their system by entering their corrections by way of a translator toolkit. What's interesting is that Google is not offering compensation for this work, hoping to tap into the collective power of the web where millions of people making small, incidental enhancements to a central repository of translation "knowledge" will lead to a human-like experience down the road.

While there are many skilled people in the world willing to donate their productive time (open source software is evidence of this), Google's entire business model is beholden to this largesse. What I therefore find somewhat risky is that Google is asking for help from the very people whose true livelihood will be disrupted by this new offering. Granted, early on these translators may find their own productivity enhanced thanks to the emerging Google toolset, but in the long run, they are loading the gun that will eventually shoot them.

To avoid this association, Google is invoking the names of populist sites like Wikipedia as an example of the benefits of this improved system but anyone can see that there is a clear business plan at work here. After all, if my Google searches can now extend beyond my native language to present results, then so too can the AdWords ads that accompany those searches. Knowing their donated time is funding steak lunches at the steel-and-glass Google tower across town may dampen their enthusiasm to help.

Assuming the law of numbers works in Google's favor, over time I feel this risk will be mitigated. As with all disruptions, it is hard to put a timeline to this transformation, but as we also see with all disruptions, once it begins, it is irreversible. *Vive Google!*

Related references

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## From the InnoBlog

### Jobs to be Done, 'As Seen on TV'

By Krystin Stafford



I found myself in a store last week that exclusively sells “As Seen on TV” products. It’s not like I have exercise equipment under my bed, a rotisserie on my kitchen counter, and countless boxes of products designed to simplify my life falling out of the closet....but I was killing some time before a flight. As I traversed the aisles, mentally noting all the products I had been tempted to buy but hadn’t, I realized I can truly appreciate the intention behind them. Home inventors, from busy moms to retirees, have created solutions to their important jobs-to-be-done – and sometimes those solutions make it to market.

Channels such as infomercials and the web have made it easier for home inventors to get their creations into the marketplace. Consider how many people adopt compensating behaviors and jury-rig solutions to life’s problems. For instance, have you ever seen someone using a walker with bright green tennis balls on the bottom? It’s a common solution to a defined problem and easy for consumers to find out how to solve. Sure, there are walkers with wheels on them, but cost is often a barrier and when a good-enough solution can be found for \$3, why not?

Businesses have sprung up (some more legitimate than others) that make money by helping home inventors to patent and sell their products. Unfortunately, some home inventors don’t realize that there may not be much of a market for that product they came up with. Even if it’s a high-quality solution, the barriers associated with solving a job-to-be-done might not be that high and may be easily overcome, and compensating behaviors could be good enough. Sometimes good enough really is good enough.

The possibility of financial success from invention, as well as altruism to solving people’s problems, keeps a steady stream of new products in the market via non-traditional channels. Those that solve jobs that are truly important, widely-held, and unsatisfied by current offerings or compensating behaviors make it past the TV screens and into our homes.

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<http://www.inventionhome.com/>

## Games for Health: An Opportunity for Disruption?

By Andrew Laing



Last week, I attended the Games for Health conference here in Boston, an ambitious gathering with a very broad scope that brought together game developers, researchers, physicians, and academics (as well as the occasional consultant) to discuss the many ways games could contribute to better health. Topics ranged from cognitive fitness (think Brain Age) to “exergames” (like Wii Fit) to the use of games to educate and empower patients to simulations that could help train physicians – I even saw a game designed as a metaphor for addiction. Although it’s clear that the games-for-health space is still in its infancy, I was struck by the disruptive potential of many products and concepts.

Gyms and personal trainers, for instance, are already facing disruption from games: A personal trainer may push you harder and help you lose more weight than your grinning, non-sentient Mii, but a Wii Fit is less expensive (especially over time), much more convenient, and arguably more fun (not to mention the fact that Miis don’t complain when you miss a session). Typical disruptive patterns are already apparent in this industry as games get better and approach “good enough” for more applications; Electronic Arts’ new EA Sports Active title for the Wii, for example, is explicitly designed to deliver difficult workouts that make players sweat.

Medical education is another space facing disruption. Dr. Jeff Taekman, an anesthesiologist at Duke, discussed the development and applications of a software-based simulation of an operating theater, in which physicians can virtually come together and collaboratively practice on a simulated patient. We know all too well that disruption (and innovation in general) in the healthcare industry can be painfully difficult because the bar for “good enough” is fairly high. However, the developers of this simulation are doing exactly what they should to surmount that obstacle: finding appropriate foothold customers and circumstances (in this case, focusing on training teamwork and communication rather than specific skills and on continuing education rather than on medical schools), then testing and learning.

Although I left the conference excited by the many disruptive possibilities in the games-for-health space, it was abundantly clear that there is much R&D yet to be done to make these games even better. Popular games that seem healthy (like Brain Age) may sell well and be fun to play, but researchers don’t fully understand how (or whether) they really help people make lasting changes to their mental or physical health. As researchers and developers learn more about how games can help us get healthier and apply that knowledge to new and innovative games, more and more disruptive possibilities will undoubtedly emerge.

Related references

<http://www.gamesforhealth.org/archives/000250.html>

<http://www.brainage.com/launch/index.jsp>

## Innovation Links Posts

June 12: <http://www.innosight.com/blog/385-innovation-links-for-june-12.html>

June 19: <http://www.innosight.com/blog/386-innovation-links-for-june-19.html>

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