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Achieving Greatness through Innovation: Three Ways it Can Happen

Welcome!

At Innosight, we believe that innovation is the best path to corporate greatness. But as Shakespeare wrote in *Twelfth Night*, there are three ways it can happen: "some are born great, some achieve greatness, and some have greatness thrust upon them."

This month, we take a look at the innovation strategies of all three types. The big Hollywood studios were born great. But these days, that greatness is at risk as century-old empires are being challenged by disruptive forces such as digital streaming. New movie distribution networks may end up pointing to a different future for the industry.

Procter & Gamble, meanwhile, has been one to achieve greatness. The $80 billion consumer products giant has taken a systematic approach to innovation. In an excerpt from their new feature in *Harvard Business Review*, P&G's Bruce Brown and Innosight's Scott Anthony provide a glimpse into its "new-growth factory."

Finally, the automobile companies now may be having greatness thrust upon them. They might be in the early days of a shift from gasoline-powered cars to electric vehicles. After years of rebuffing this opportunity, some auto makers are embracing this transformation more than others. To get there, the industry will also need to innovate fundamentally different business models for building, selling, owning, and servicing cars.

But as Shakespeare said: "Be not afraid of greatness."

Comments and suggestions are always welcome – send them to eschwartz@innosight.com

— Evan I. Schwartz, Director of Storytelling

Innosight News & Events

On May 17, at the **Front End of Innovation** conference in Boston, Innosight co-founder **Mark Johnson** interviewed **Sheri McCoy**, Vice Chairman, Executive Committee, at Johnson & Johnson, about what it takes to unleash innovation in the company's pharma and consumer business units.

Matt Eyring will provide the opening keynote at the World Environment Center's annual **Gold Medal Colloquium** May 20, 2011, at the National Press Club in Washington, D.C. The topic is "Sustainable Development as a Driver of Business Model Innovation."

Mark Johnson is a featured speaker at the **HSM Innovation and Growth Forum** on June 28 in Sao Paolo, Brazil. He will be discussing how to innovate the business model for growth and renewal.

For FEI photo:
http://www.innosight.com/images/S&IMay2011/Mark_SheriFEI2011.JPG

For Gold Medal Colloquium:
http://www.wec.org/GM%202011%20invitation%20packet_v2.pdf

For HSM Innovation and Growth Forum:
http://eventos.hsm.com.br/foruns/forum-hsm/inovacao-e-crescimento

How P&G Tripled Its Innovation Success Rate: Inside the Company's New-Growth Factory

Excerpted with permission from Harvard Business Review June 2011

By Bruce Brown and Scott D. Anthony

Back in 2000 the prospects for Procter & Gamble's Tide, the biggest brand in the company's fabric and household care division, seemed limited. The laundry detergent had been around for more than 50 years and still dominated its core markets, but it was no longer growing fast enough to support P&G's needs. A decade later Tide's revenues have nearly doubled, helping push annual division revenues from $12 billion to almost $24 billion. The brand is surging in emerging markets, and its iconic bull's eye logo is turning up on an array of new products and even new businesses, from instant clothes fresheners to neighborhood dry cleaners.

This isn't accidental. It's the result of a strategic effort by P&G over the past decade to systematize innovation and growth.

To understand P&G's strategy, we need to go back more than a century to the sources of its inspiration—Thomas Edison and Henry Ford. In the 1870s Edison created the world's first industrial research lab, Menlo Park, which gave rise to the technologies behind the modern electric-power and motion-picture industries. Under his inspired direction, the lab churned out ideas; Edison himself ultimately held more than 1,000 patents. Edison of course understood the importance of mass production, but it was his friend Henry Ford who, decades later, perfected it. In 1910 the Ford Motor Company shifted the production of its famous Model T from the Piquette Avenue Plant, in Detroit, to its new Highland Park complex nearby.

Although the assembly line wasn't a novel concept, Highland Park showed what it was capable of: In four years Ford slashed the time required to build a car from more than 12 hours to just 93 minutes. How could P&G marry the creativity of Edison's lab with the speed and reliability of Ford's factory?

The answer its leaders devised, a "new-growth factory," is still ramping up. But already it has helped the company strengthen both its core businesses and its ability to capture innovative new-growth opportunities.

P&G's efforts to systematize the serendipity that so often sparks new-business creation carry important lessons for leaders faced with shrinking product life cycles and increasing global competition.

Laying the Foundation

Innovation has long been the backbone of P&G's growth. As chairman, president, and CEO Bob McDonald notes, "We know from our history that while promotions may win quarters, innovation wins decades." The company spends nearly $2 billion annually on R&D—roughly 50% more than its closest competitor, and more than most other competitors combined. Each year it invests at least another $400 million in foundational consumer research to discover opportunities for innovation, conducting some 20,000 studies involving more than 5 million consumers in nearly 100 countries.

These investments were necessary but not sufficient to achieve P&G's innovation goals.

In 2004 Gil Cloyd, then the chief technology officer, and A.G. Lafley, then the CEO, tasked two 30-year P&G veterans, John Leikhim and David Goulait, with designing a new-growth factory whose intellectual underpinnings would derive from the Harvard Business School professor Clayton Christensen's disruptive-innovation theory. The basic concept of disruption—driving growth through new offerings that are simpler, more convenient, easier to access, or more affordable—was hardly foreign to P&G. Many of the company's powerhouse brands, including Tide, Crest, Pampers, and Swiffer, had followed disruptive paths.

Leikhim and Goulait, with support from other managers, began by holding a two-day workshop for seven new-product-development teams, guided by facilitators from Innosight (a firm Christensen cofounded). The attendees explored how to shake up embedded ways of thinking that can inhibit disruptive approaches. They formulated creative ways to address critical commercial questions—for example, whether demand would be sufficient to warrant a new-product launch. Learning from the workshop helped spur the development of new products, such as the probiotic supplement Align, and also bolstered existing ones, such as Pampers.

In the years that followed, Leikhim and Goulait shored up the factory's foundation, working with Cloyd and other P&G leaders to:

Teach senior management and project team members the mind-sets and behaviors that foster disruptive growth. The training, which has changed over time, initially ranged from short modules on topics such as assessing the demand for an early-stage idea to multiday courses in entrepreneurial thinking.

Form a group of new-growth-business guides to help teams working on disruptive projects. These experts might, for instance, advise teams to remain small until their project's key commercial questions, such as whether consumers would habitually use the new product, have been answered. The guides include several entrepreneurs who have succeeded—and, even more important, failed—in starting businesses.

Develop organizational structures to drive new growth. For example, in a handful of business units the company created small groups focused primarily on new-growth initiatives. The groups (which, like the training, have evolved significantly) augmented an existing entity, FutureWorks, whose charter is to create new brands and business models. Dedicated teams within the groups conducted market research, developed technology, created business plans, and tested assumptions for specific projects.

Produce a process manual—a step-by-step guide to creating new-growth businesses. The manual includes overarching principles as well as detailed procedures and templates to help teams describe opportunities, identify requirements for success, monitor progress, make go/no-go decisions, and more.

Run demonstration projects to showcase the emerging factory's work. One of these was a line of pocket-size products called Swash, which quickly refresh clothes: For example, someone who's in a hurry can give a not-quite-clean shirt a spray rather than putting it through the wash.

Bruce Brown is the chief the technology officer of Procter & Gamble. Scott Anthony is managing director of Innosight.

Read the full article at HBR here: http://hbr.org/2011/06/how-pg-tripled-its-innovation-success-rate/ar/1

Disrupting the Hollywood Business Model

By Evan I. Schwartz

I had the chance to attend this year's Tribeca Film Festival[1], where Innosight founder Clay Christensen keynoted the annual Disruptive Innovation Awards. The event fit right into the festival's new ethos, which is about leveraging technology to solve some of the movie industry's most urgent woes.

If you're like most film fans these days, you're already part of the problem. Audiences are watching more movies than ever before, yet Hollywood is watching its revenue shrink away.

Essentially, the big six studio empires are being disrupted by cheap technology and greater accessibility on three fronts at once: 1) in distribution, 2) in filmmaking itself, and 3) in marketing.

By examining all three disruptions, we can start to see how a new business model can emerge. And since new films are essentially new products, the lessons here apply to other industries as well.

Disruption #1: Distribution

The rise of digital streaming on phones, tablets and laptops has led to a dramatic drop in DVD revenue, the industry's biggest cash cow. At the same time, hi-def TVs connected to the Internet are prompting more and more people to shun theaters, setting box office ticket sales on a gradual decline.

Clearly, high-tech disruptors are using new business models to capture value. Netflix does it with its low-priced, all-you-can eat subscription model. Apple does it by breaking even on content in order to spur sales of its high-margin hardware. Amazon has bundled online movie streaming into its annual Amazon Prime shipping service.

But while those companies are growing fast, the resulting content licensing fees have been modest for the studios, not nearly making up for the 30 percent revenue plunge in the home video market. "Digital streaming has created more piracy and more ways to watch for free online," said Tom Lesinski, president of Paramount Digital, at a panel discussion.

The solution may come from the world of independent filmmaking. Tribeca's chief creative officer Geoffrey Gilmore hinted in a small filmmaker workshop that he left the helm of running the Sundance Film Festival in 2009, in part, because he was frustrated with the pace of business model innovation there. After 19 years building Sundance, he yearned to experiment using a lower-risk platform. As America's second most prestigious film festival, Tribeca is now that platform.

This year, Tribeca made movies available to home viewers during the festival, showcasing certain films[3] on pay-cable for $6.99 each. (Sundance tried something similar this year, but at a $10.99 price point).

At the same time, an "online festival"[4] featured a series of free screenings. Viewers had to sign up in advance to reserve one of only 500 "seats" per showing. (Sundance tried online film streaming under a different model as early as 2001 but largely scaled it back in recent years just as streaming has taken off.)

The time for a new indie-driven distribution model is right, Gilmore says, because there's been "an expansion of taste," evidenced by independently produced fare such as *The Kids Are Alright* and *The King's Speech* going on to rack up major league grosses.

Disruption #2: Filmmaking

That brings us to the second disruption, in filmmaking technology. Quite simply, cheap hi-def cameras and digital editing tools have transformed the cost model.
This became a point of discussion at a 10th anniversary screening of quadruple

Oscar winner *A Beautiful Mind*. I sat behind director Ron Howard, who hadn't seen his film since its original release. The writing, acting and cinematography remain stunning and by the end, there's wasn't a dry eye in the house. But in the after-panel, uber-producer Brian Grazer said: "I wouldn't be able to get this movie made in Hollywood today."

A film like *A Beautiful Mind*, which cost about $60 million to make a decade ago, now can be done for $6 million. Yet Hollywood has too much overhead and too many contract obligations to produce movies in that cost range. So the big six studios have largely ceded the middle ground to independent producers. The big studios now only focus on broad spectacles that cost $80 million or more.

As a result, indie-produced films are moving up the value chain into the void. The problem with Hollywood, said Gilmore, is that major studios aren't satisfied making a little profit. "They only want to make a lot of profit." Protecting high-profit products while ignoring low profit ones is a hallmark of companies that end up being disrupted.

Disruption #3: Marketing

The third disruption is in marketing. "The way large films are marketed no longer makes sense," said Paramount Digital's Lesinski. A studio spending up to $50 million on saturation TV advertising belies "a significant lack of innovation." After all, compelling trailers can whip around the web via Facebook, Twitter and YouTube for no cost at all.

The big idea, says Gilmore, is to build buzz around a virtual, distributed version of a screening event, leveraging what is already the #1 way to market indie movies: word of mouth among film buffs. With new social media tools, he says, the friends-telling-friends factor is more powerful than ever.

By harnessing all three disruptions, Tribeca is knitting together all the pieces to build what Innosight would call a disruptive value network. Enabled by new technology and forged by new business models, such networks deliver what customers want or need more easily at a fraction of the cost.

While all this is happening, Hollywood is fighting to maintain the oligopoly by using sustaining innovations such as 3-D in theaters. And to make up for the DVD drop, Sony, Universal, Fox and Warner Brothers have ignited an inter-industry war over a new model called "premium video on demand."[5]

Under the plan, the studios are working with DirecTV to test the notion of shrinking the theatrical window from four months to two months for certain films, beginning with a $30 home VOD price point for the widely panned Adam Sandler comedy *Just Go With It*.

But the theater chains are just not going with it. They've joined forces with a group of powerful film directors to oppose[6] what they see as a threat, something that can kill the goose that lays the golden egg. After all, initial box office success is still needed to drive interest in digital and home viewing in the first place.

Tribeca's Gilmore is highly skeptical of the new price point. "I don't think people are going to pay $30 to watch an Adam Sandler movie that failed in the marketplace two months earlier."

In other words, the industry's new business model can't be about exhibiting a few wide-release movies at higher prices, but rather about exhibiting lots of smaller movies at lower prices.

Thanks to digital technology, quality movies can now be made, distributed and marketed in new ways. What happened in music is now happening with movies. A similar transformation might be coming soon to an industry near you.

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Revving Up New Business Models for Electric Cars

By Evan I. Schwartz

As the price of gasoline chugs toward an all-time high, there's more incentive than ever to innovate new ways of getting around without the stuff.

Given all the grief at the pump, the production of electric vehicles seems to be ramping up at just at the right time. Yet it's still not clear how widely they'll be embraced by tradition-bound consumers. To make that happen, it helps to think of these new cars not just as stand-alone products but as part of a wider ecosystem that requires new business models to drive adoption.

One way to jump start that thinking is to see the documentary *Revenge of the Electric Car*[1]. I recently caught a premiere screening at the Tribeca Film Festival that was followed by a panel discussion with the filmmakers and some of the stars of the film. I came away believing that electric vehicles are more than just a new kind of car; they're also the start of a wholesale reinvention of how cars are built, sold, owned, powered and serviced.

Revenge is a follow-up to the 2006 film *Who Killed the Electric Car?* In the earlier movie, director Chris Paine explored the mystery of why General Motors recalled the much-loved EV1 sedan and crushed the vehicles into heaps of scrap. Now, in Paine's new movie, the electric car is back from the dead.

The tone of the new film is often hyperbolic, but the intensity of the drama makes it work. Paine's behind-the scenes footage reveals what it takes to get new products out the door, and the conflicts he captures turn *Revenge* into perhaps the best case study of innovation ever put to screen. That's because Paine wisely chose to focus the lens less on abstract environmental issues and more on the super-charged personalities who are building a new sub-industry, namely GM's Bob Lutz, Elon Musk of Tesla Motors and Nissan's Carlos Ghosn.

Revenge ends just as the "extended-range" Chevy Volt and the all-electric Nissan Leaf are coming to market. At certain points, the film touches on the follow-on innovations that will be needed to support these vehicles and the necessary charging infrastructure. For instance, Nissan's Ghosn gives a nod to Better Place[2], the ambitious startup led by Shai Agassi that is building a network of battery-swapping stations. The big idea is to solve the under 100-mile range-per-charge problem of most electric cars by creating the equivalent of a gas station, a place where you can "re-fuel" in less than five minutes. This summer, Israel will be the first nation to put that model to the test.

Bold new business models, each with its own customer value proposition, are just starting to hit the market. Some of the most notable ones include:

> **1) The cable company model:** Utility companies are starting to offer free installations of high-voltage home charging units, then recouping that cost under monthly charging plans. This is akin to a cable company bundling the cost of the set-top box into the monthly package. For instance, Texas-based NRG is offering an unlimited charging package[3] in the Houston and Dallas areas. The price: $89 per month, locked in for three

years. Unlike the price of gasoline, which can and does fluctuate wildly, electricity can be offered at a predictable rate.

2) The consumer electronics model: Best Buy is installing charging stations in some of its parking lots and is also gearing up to sell EVs[4] under partnerships with GM, Nissan, Ford and Mitsubishi. The retailer's Geek Squad unit is being trained[5] to visit consumer homes to help set up and troubleshoot garage charging units. This is a disruptive way of servicing a car. The motor oil change becomes a thing of the past, as there is none. You won't bring your car to a dealer for a 30,000-mile engine tune-up, as all-electric cars have no engines. Instead, you might take it to the electronics store for its 30,000-mile software upgrade.

3) The car sharing model: Services such as ZipCar and Connect by Hertz cater to drivers who only need a vehicle occasionally, mostly for short local trips. E-cars make a lot of sense under this model because eliminating gasoline fill-ups should make the sharing process simpler and cheaper. Plus, you don't run the risk of owning version 1.0 of a product that might be on a steep improvement curve. Hertz is testing a mini-networks of charging stations[6] in New York City and at the University of Arizona[7], while ZipCar is testing Toyota's forthcoming plug-in Prius in Boston[8].

4) The smart phone model: Smart phones can become key components of the ecosystem. Car companies as well as startups such as Ecotality[9], Coulomb Technologies[10], and PlugShare[11] are now offering mobile apps that enable drivers to locate, reserve, and pay for charging. This often includes the ability to find charging stations that are powered by wind and solar.

So far, electric vehicles are selling in small numbers. That's not because demand is low, but because production has been extremely limited. So the real test will come later this year when GM and Nissan are planning to supply dealers with thousands of cars per month. New business models can make electric cars cheaper, more convenient and more accessible. That may make the difference in the push beyond early adopters into the mainstream market.

Source Notes:

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Better Innovation Architecting

By Scott D. Anthony

One tried-and-true innovation trick is to look for analogies. When you feel like you're working on an intractable problem, find someone who has already solved the problem, but in a different context. Apply their learning to your situation, and see where it takes you[1].

Let's practice by using this approach on the act of innovation itself. What do innovators do? At a basic level, they transform a blank piece of paper into a successful growth business. Can you think of anyone else who faces the same challenge? Architects would seem to fit the bill.

Think about how architects approach the blank-sheet-of-paper challenge. They don't just start by building a business. Instead they sketch or create physical or computer models to bring their ideas to life. The design community calls this "rapid prototyping."

Consider an example in Peter Sims' excellent book *Little Bets*[2], describing how the famous architect Frank Gehry comes up with designs for new buildings. Sims writes that Gehry starts the design process by "literally cutting up, crumpling, and folding pieces of paper or corrugated cardboard with colleagues."

"The initial prototype that emerges over an hour or so barely looks like a building," Sims writes. "But it's merely a starting point. They have begun and can work quickly and inexpensively to explore dozens of initial possibilities. Staring at it, Gehry smiles and says, 'That is so stupid looking, it's great.'"

Of course, truly great architects don't just create compelling prototypes, or we'd consider Dr. Seuss one of the world's great architects[3]. The mark of a great architect is a building that looks great when it is actually built. Gehry wouldn't be considered such a legend unless he designed notable buildings like the Guggenheim Museum in Bilbao[4] and the Walt Disney Concert Hall[5] in downtown Los Angeles.

The same is true of innovation. I've seen many a would-be innovator work endlessly to polish or perfect their business plan. But the plan isn't the thing. The business is the thing. Clever plans that can't be commercialized are nothing more than dead trees.

Finally, think about the different roles involved in creating a new building. The architect (and his or her team) develops the blueprint. The architect might create a scale model. But architects do not actually construct the building itself. Rather, a professional construction crew performs that task.

Similarly, there are different roles in the creation of a new business. Entrepreneurial maven Steve Blank[6] describes how one mistake startups make is thinking they are just small businesses. They aren't. Blank describes a startup as a "temporary organization searching for a repeatable and scalable business model."

The people who can master the search phase are likely to be quite different from those who actually do the scaling.

The lesson? When you're thinking about architecting innovation, remember the value of rapid prototypes, to focus on impact, and to match the skills of the team to the task.

Source Notes:

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How Boredom Can Drive Innovation

By Scott D. Anthony

Our eyes are underrated innovation tools. It's easy to get caught up in a whirlwind of activities and miss opportunities that are literally right in front of your face. Make a regular habit of just standing and watching. You may be surprised by what you see.

Here's how it worked for me recently. This Monday, I was in Mumbai conducting market research with a project team. A couple of my colleagues were interviewing a consumer on the street in a pretty well-to-do neighborhood. The interview was in Hindi and we didn't want to slow it down with simultaneous translation.

Instead of being a bored bystander, I started just looking around, watching for things that I found surprising. My eyes wandered to a small pharmacy shop. Over a 20 minute period, I jotted down the following observations:

- The shop had a pharmacy license, but the picture on the license bore no resemblance to the people dispensing medicine (who couldn't have been older than 25). I later learned that the people manning the shop were related to the license owner but had no formal training in drug dispensing.

- Traffic was high — about 15 customers stopped by during 20 minutes. It seemed like the pharmacist knew most customers.

- One consumer received two pills. One way that consumers compensate for relatively low purchasing power is to purchase medicine literally by the dose.

- The front of the pharmacy was bursting with Procter & Gamble products, with brands such as Always, Pampers, and Gillette visibly displayed. There also was a rack with about 30 different drinks. Most of the drinks were Pepsi brands, but the two people who stopped to buy drinks both bought Coca-Cola.

- At one point, a distributor came to refill the stock. The distribution vehicle was a bicycle, and the distributor carried the stock in a small plastic bag.

- The pharmacist took inventory by glancing over his shoulder at what he had on the shelf. The shop's small retail footprint means there is no "back of the store" and certainly no sophisticated inventory management software. The only machine in the shop was a small solar-powered calculator. Everything else was paper-based.

- Two Tata Nanos drove down the street, both driven by young, seemingly well-to-do drivers on their own (not the relatively poor families that Ratan Tata had hoped to move off of unsafe scooters).

These observations weren't closely connected with my client work, but they did help to provide local context and might ultimately spur thoughts about opportunities for innovation.

In their 2009 award-winning *Harvard Business Review* article, "The Innovator's DNA"[1] (soon to be a book[2]), Jeffrey Dyer, Hal Gregersen, and Clayton Christensen discussed how successful innovators tend to be careful observers. "Discovery-driven executives produce uncommon business ideas by scrutinizing common phenomena, particularly the behavior of potential customers," they wrote. "In observing others, they act like anthropologists and social scientists."

The moment when someone is choosing, purchasing, or using a product can be a great vehicle for learning. (But make sure you have something that allows you to easily capture notes. I jotted the list above down on a notepad and snapped a few pictures on my iPhone.)

To sum up, remember some advice I learned from Innosight Director and noted author Richard Foster: "Don't just do something. Stand there."

Source Notes:

1. http://hbr.org/2009/12/the-innovators-dna/ar/1
2. http://www.innovatorsdna.com/

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. If you have an issue that you would like analyzed or if you have a comment, please email editor@strategyandinnovation.com.*