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*This is another in a series of articles on innovation as a means to achieve business success.*

# Winnovation

BY ROWAN GIBSON

## When innovation goes wrong (big time)

Ever since innovation became the buzzword *du Jour*, a lot of people seem to have lost their ability to tell smart ideas from stupid ones. Case in point: the financial 'innovations' (read: stunningly stupid loan products) that kicked off the trillion dollar economic meltdown mess we're currently in.

The simplistic notion that 'new equals good' has often been a recipe for grand scale disaster, just as it was in the dotcom debacle at the turn of the millennium. And when the doo-doo inevitably hits the fan, it's all too easy to level the blame at innovation per se rather than admit to being a bonehead. Here's why many ideas that are labeled 'innovations' are just plain stupidity.

Simply put, innovation goes wrong (sometimes big time) when an organisation over-commits to an idea before validating the key assumptions on which it is based.

Let's take the infamous sub-prime mortgage. The assumption here was that a jobless, homeless person who is just out of jail and doesn't even have a bank account can afford to make mortgage repayments of any description, let alone horrendously overpriced ones.

The idea of selling mortgages to poor people with bad credit was clearly 'new' given that banks have traditionally offered 30 year, fixed rate amortising home loans to people who looked like they could actually pay the money back.

But going after this risky, low end market segment with a rip-off financial product wasn't exactly what CK Prahalad had

in mind when he talked about "the fortune at the bottom of the pyramid."

And it turns out – duh! – that this particular 'financial innovation' wasn't a very smart one (to put it mildly) and even less smart when used as the cornerstone for a multi-trillion dollar house of cards based on endless derivatives of derivatives.

It's precisely big boondoggles like this one that give innovation a bad name. In fact, columnist Paul Krugman wrote in the *New York Times* that 'financial innovation' is a phase that "should, from now on, strike fear into investors' hearts."

Yet should the financial services industry – or any industry for that matter – now decide to throw the baby out with the bathwater when it comes to innovation?

Absolutely not. It's worth remembering that over the last couple of decades, innovation has given us a string of success stories in financial services: Charles Schwab's online equity trading, Commerce Bank's open all day, seven days a week business model, First Direct's branchless banking, Grameen Bank's micro credit lending concept, PayPal's user friendly, online payment service or Umpqua Bank's people centred retail environments, to name just a few.

The difference with these opportunities is that they were all based on very solid assumptions about the viability and sustainability of the business model; they were not built on proverbial sand. That's why these innovations have created significant new value and wealth, instead of destroying it.

Unfortunately, there are all too many

cases where companies have overcommitted to an idea that wouldn't even pass the sanity test.

These tend to be ideas where the customer benefit is unclear or unimportant to people or where the technology is not yet up to the task or where the market is just not there or where the business model is so stupid that it's dead on arrival.

Instead of first checking the validity of critical assumptions on which the idea is based, sometimes a company (or even an entire industry) decides to jump from a height of 3 000 meters without a spare parachute, hoping against hope that the thing will somehow work.

Take Iridium, Motorola's failed satellite telephone venture which was built on a fundamentally flawed assumption about the size of the target market. Basically, Motorola totally underestimated the speed at which cellular coverage would spread.

Their premise was that there would be huge regional gaps in the global network – parts of the world that would have no mobile phone coverage for a long time to come. That would have made Iridium the perfect answer.

It turned out quite quickly that those regions would be very few and far between (you would practically have to be an Arctic explorer to need an Iridium phone!) so the target market soon shrank to insignificance. This is something Motorola should have known better.

Or take Webvan, the 'oh-so-dotcom' online grocery business that burned through a billion dollars and went belly-up. There was nothing fundamentally

*Innovation can never be risk free, but you can certainly make sure you look before you leap.*

flawed about the idea of online grocery shopping, as a host of other retailers have since proven.

Rather, Webvan's massive failure was based on a whole series of flawed and untested assumptions around the customer value proposition, the economic engine, the value of partnerships and the product and service offering.

Business history is full of such examples: from Coca-Cola's infamous 'New Coke' to GM's all-electric EV-1 project (which cost a billion dollars and sold only 700 vehicles), to all those other empty dot-com business models in the late 1990s –

like Pets.com – that quickly disappeared. The lesson from all these disasters is to look before you leap.

A company should first reduce the uncertainty surrounding critical project assumptions before committing irreversible and non-recoverable resources to an idea. The greater the uncertainty surrounding these assumptions, the greater the risk associated with any new opportunity.

Therefore, the focus of an innovation project should initially be on learning rather than earning. It should be on launching experiments to test whether a business model makes sense or not or

whether a new technology will work or not or whether customers would value the new service or what they would be willing to pay for it or which product configuration would work best or which distribution channels would be most effective and so on.

Clearly, innovation can never be risk free. But the process of validating or invalidating these critical project assumptions should stop you from ever completely misreading the basic economics of an opportunity.

It will make sure that hubris never gets the better of humility. ■

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Indeed, each interaction with another human being or with any creature, is an opportunity for leadership. This is our message and the training we offer is to deepen the capacity for the adult conversation.

We believe that the practices of possibility can be powerful tools for overcoming the challenges that could threaten Mandela's dream from becoming a reality.

Of course, we are aware that South Africa faces many difficulties – increased crime, disease, mismanagement and the frequent breakdown of systems – all contributors to anxiety and cynicism.

But we should never forget that a cynical person is a passionate person who doesn't want to be disappointed again. So we will always speak to the passion that is the birthright of every modern South African and not allow

ourselves to be caught in the web of cynicism.

You are the warmest, most open-hearted people, generous beyond measure, always looking for opportunities where none appear to exist. Think of the many projects and institutions – schools, hospitals and clinics – where you find the world's most spiritual and devoted people; the many companies that are dedicated to providing rapid training and advancement to those who a generation ago would never have dreamed of such a life.

The dream South Africa already exists. It has come so far. The cities glitter with modern industry; housing and infrastructure have sprung up everywhere, cafes and restaurants are vibrant as young people of all races take pleasure in each other's company and speak of the future.

That is the story of South Africa. The world is watching, watching to see if the dream that Nelson Mandela harboured

in prison for 27 years, could be made real.

There is no need for despair, there is a need for faith – the faith that the strength and guidance of its citizens will enable South Africa to continue its amazing development.

What is called for is a story, a story already half-written, for the possibility of South Africa, a story alive with possibility! A glorious opportunity!

To put this story out into the world we need powerful and clear headed leaders.

We are coming to contribute to this venture. We believe that a true leader is the relentless architect of the possibility that others can be.

We are honoured to be visitors once again to your country and privileged to join your song of possibility.

Ben and Roz Zander

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