

The Mind of the Innovator

BY ROWAN GIBSON

Where do innovations come from? How do you generate an idea that is so radical – so compelling – that it fundamentally alters customer expectations, or reinvents the cost structure in your industry, or redefines the basis for competition in a way that devalues the skills and assets of your rivals? Even after all these years, the process that either consciously or subconsciously leads to such innovation breakthroughs is little understood. There is still a sense that innovation is something ethereal and elusive – the 21st Century equivalent of El Dorado or the Holy Grail.

Shouldn't this strike us as more than a little odd? After all, ours is an era in which practically every other business process has been honed to a fine art. Can you imagine any other major capability in a large company – supply chain management, customer service, quality – being ascribed to a mysterious mix of happenstance, individual brilliance and the occasional bolt of lightning?

Some would argue that innovation is the exclusive province of creative geniuses – people like Steve Jobs, Richard Branson or Bill Gates. These are individuals for whom, it seems, innovation and wealth creation come naturally, almost “reflexively”. It's as if they are “wired” differently from the rest of us – somehow they are able to intuitively spot opportunities that remain invisible to mere mortals or ordinary companies.

Clearly, intuition and creative ingenuity – as well as serendipity – are an unquestionable part of the innovation equation. But what if we could unpack the discovery process much more precisely by getting inside the mind of the innovator? What if we could open up that mysterious “black box” and take a good look at how it works? What if we could find out how radical innovators come up with their breakthrough ideas? Most importantly, what if we could actually reverse-engineer this process?

The four “lenses” of innovation

If one looks deeply at hundreds of examples of business innovation, an interesting pattern begins to emerge. Specifically, what we find is that, time and again, innovation came not from some inherent, individual brilliance but from looking at the world through a different set of “lenses”. It came from *a fresh perspective*, an alternative way of seeing things, a particular angle of view. It was these “lenses” that enabled the innovators to look through the familiar and spot the unseen. In fact, there are four essential perspectives – four “perceptual lenses” – that seem to dominate most successful innovation stories and that often characterize the entrepreneurs or companies behind them.

In case after case, we find that the innovators came to their insights by:

1. CHALLENGING ORTHODOXIES – questioning deeply-held dogmas inside companies and inside industries about what drives success

2. **HARNESSING DISCONTINUITIES** – spotting unnoticed patterns of trends which could substantially change the rules of the game
3. **LEVERAGING COMPETENCES AND STRATEGIC ASSETS** – thinking of a company as a portfolio of skills and assets, rather than as a provider of products or services for specific markets
4. **UNDERSTANDING UNARTICULATED NEEDS** – learning to live inside the customer’s skin, empathizing with unarticulated feelings and identifying unmet needs

Here’s the big news: building a corporate innovation capability has less to do with increasing personal creativity – long the accepted wisdom – and more to do with assembling the right sorts of insights (from the four lenses) to provoke a business breakthrough.

In this article, I will begin to demystify innovation by outlining the four perceptual lenses that innovators use – either consciously or subconsciously – to seize upon opportunities for radical innovation.

1. Challenging orthodoxies

The first thing one discovers about radical innovators is that are, almost by definition, contrarians. They are people who take some piece of conventional thinking – that everybody in the industry has accepted as absolute gospel – and turn it completely on its head.

For example, already in the late eighties, the people at First Direct in the UK asked “Why can’t banking be done 24 hours a day over the phone, rather than in physical branches?” In the US, the people at Capital One asked, “Why don’t banks target low-risk yet technically subprime clients for credit cards?” And the people at Charles Schwab asked, “Why do equities have to be traded through high-commissioned brokers? Why can’t it simply be done online?”

In other words, innovators are people who were willing to challenge industry orthodoxies that are so big, so uncontestable and so deeply embedded that they have become beyond discussion – orthodoxies that blind industry incumbents to the possibility of any other business model. Time and again, the strategy innovations that radically change customer expectations, or competitive rules, or industry structures, come from questioning beliefs that everyone else has taken for granted.

Exploring and challenging orthodoxies – overturning conventional beliefs about what drives success in your company and your industry – is a key way to surface opportunities for profitable growth. It’s a lens that allows you to see new industry rules, new structures, new offerings and new competitive space.

2. Harnessing discontinuities

Radical innovators are not forecasters or scenario planners. They are not trying to predict the future or imagine how the world might be 10 years from now. Instead, they tend to be people who are aware – at some deep level – of things that are already

fundamentally changing, and who understand the revolutionary portent in those things, in ways that others do not.

A “discontinuity” is not a single trend, invention, or technology. Rather, it’s a *convergence* or *pattern* of trends – the confluence of several, apparently unrelated developments which together create the potential for dramatic industry change.

Consider an example. Here are four seemingly unrelated trends which are common to probably every developed country today:

- people are working longer hours than they used to
- there is a steadily increasing number of single parent families
- people are getting married later in life
- people are spending more and more time online

Ask yourself: Where is the intersection between these trends? When you put them together, what is the bigger story that emerges?

The bigger story here is increasing “Social Isolation”. It used to be that people would meet somebody at university and get married quite young. Now they tend to delay getting married, choosing instead to pursue a career which puts them under a lot of pressure to work longer and longer hours. That means they have less time for hanging out and dating.

What we end up with is a lot of single people, some of whom are also parents, who are incredibly busy and who are coming home from work exhausted. They have very little time for themselves, and when they get an hour or two to spare, they increasingly tend to spend it online – sitting by themselves in front of a computer screen. In other words, we have more and more young adults with less and less “social time,” and fewer and fewer opportunities to explore relationships.

So if “social isolation” is the theme that emerges from the interaction of these trends, what sort of opportunities does this discontinuity create? One of the huge opportunities is web-based social networking. Another is on-line dating, which is now one of *the* most profitable businesses on the Web. Look at the millions of unique visitors per month to websites like Match.com, Friendfinder, eHarmony, AmericanSingles, Lavalife, Plentyoffish, Matchmaker and Yahoo! Personals. Clearly, social isolation has opened up a very big opportunity for “love online”. Business built on web-enabled social networking is what author Peter Schwartz describes as “an inevitable surprise.” You could see it coming – if you had the right lens.

The challenge for the financial services industry is to harness these discontinuities – these deep forces that have the power to substantially change the competitive rules. The goal is to surf one of these “tides of history” – to exploit some trend that is gathering force and speed around the world. Note, for example, the way companies like UK-based Zopa and US-based Prosper have used social networking as a launch pad for their peer-to-peer lending services. The idea is that people with money can lend it directly to people who want to borrow it without going through banks – sort of an “eBay for money”.

These examples show the importance of understanding and harnessing discontinuities – the intersection points between various individual trends – that have the power to fundamentally and dramatically change an industry’s landscape. Looking at the world through this lens can open up significant opportunities for industry revolution.

4. Leveraging competencies and assets

Radical innovators tend to view their companies not as business units or organization charts, but as portfolios of competencies and strategic assets. Usually it's difficult to see things like skills, processes, technologies, assets and values as distinct, stand-alone entities because they are completely embedded in a company's current business model. But radical innovators have the ability to decouple particular skills and assets from the existing business, and then leverage them in their own right to generate growth opportunities.

Take Disney. Most people would have looked at the company's theme parks as just a business unit, and that would have been that. Not the folks at Disney. They were able to see that those theme parks actually made them the world's largest producer of what they call "three-dimensional entertainment". They realized they had a unique set of skills and capabilities in set-building, costume design, storytelling, and performing arts. So what if they could take that core competence in live, lavish entertainment and actually separate it from the theme parks? Where else could they apply it? What if they used it in a new and different context, in combination with some of the company's strategic assets – like the stories and characters from Disney's popular movies, as well as the Disney brand itself? What, for example, if they took that core competence to Broadway or to London's West End and turned a Disney movie into a stage musical? Enter *Beauty and the Beast*, *The Lion King*, *AIDA*, and so on – some of the most successful theatre productions of all time. Disney Theatrical, which was only formed in 1994, has gone on to win a string of Tony Awards and GRAMMYs, and is now a hugely profitable operation with productions playing all over the world.

The ability to leverage competencies and strategic assets is not restricted to the resources a company can find within its own walls. In fact, radical innovators tend to think of the *whole world* as a LEGO kit of different skills and assets, owned by different companies, which can be combined with their own resources to create new ideas and businesses. Richard Branson is a good example. When Virgin launched its financial services business, Virgin Money, it relied on an Australian insurance company for the majority of the initial capital and on Royal Bank of Scotland for back-office support.

Today, pretty much every Web-based business is an example of "recombination." Take any e-commerce website and you will probably find that the online merchant buys its credit clearance process from one company, another company runs its servers, another company provides the mapping service that helps customers locate physical stores, another company provides the software for searching the site, PayPal does all the money transfers, and a company like UPS or FedEx provides the shipping and the integrated package-tracking software. These capabilities are taken from a lot of different places and then seamlessly stitched together to deliver a particular type of value to the customer. It's a plug-and-play model that is rapidly bringing down the cost of new business creation.

This, then, is the third perceptual "lens" used by radical innovators: the ability to see their own company – and the entire world – as a reservoir of competencies and assets which can be recombined in different ways to create new value.

4. Understanding unarticulated needs

Radical innovators are deeply empathetic; they understand – and *feel* – the unvoiced needs of customers. They bypass traditional market research methods,

relying instead on “getting into the customer’s skin”. They recognize needs that customers don’t even know they have yet. Or they solve some common frustration in a way that people could never have imagined – which is precisely why they are not articulating the need or asking for a specific product, service, or business to address it.

Nobody, for example, was asking years ago for an online store where you could find and purchase practically any book on earth, or a way to carry 1000 songs around in your pocket, or a way to peer down from space at any place on earth and zoom in on streets, buildings and local features. Yet visionary entrepreneurs gave us Amazon.com, Apple iPod and Google Earth. These are all ideas that people didn’t know they needed but today can’t live without. Uncovering these unsolved problems, unvoiced needs and market inefficiencies and can lead to breakthrough innovation opportunities.

As an example, were the world’s poorest people crying out years ago for “micro-credit”? No, it took Bangladeshi economist Muhammad Yunus to see the opportunity for tiny loans that would help people improve their lives. His insight was the basis for Grameen Bank, the world’s best-known micro-credit enterprise. Over the last half decade, the microfinance industry has been growing 25-30% annually, yet the demand for micro-credit services among the world’s poorest is still largely unmet.

Another example is eBay. When you start to think about the huge inventory of under-used and unloved stuff that is out there in the world; the stuff that is sitting in your house right now – in the attic, in the basement, in the garage – that you don’t actually want any more, you quickly realize that eBay was an opportunity just waiting to happen. Nobody at the time was saying: “Help me find an easy way to get rid of all my stuff and make some money while doing it.” But the need was there. It took Pierre Omidyar to see the opportunity for a peer-to-peer, Web-based auction platform.

This, then, is the fourth perceptual lens that innovators use to discover new insights – the ability to see an unmet customer need not only before the competition but before the customer is even aware of it or articulating it.

The core lesson

The core lesson is that radical innovators build their breakthrough ideas on these four types of strategic insights: unexamined dogma, unexploited trends, unseen assets, and unvoiced needs. They come to those insights not by snatching ideas out of the air but by looking through one or more of the perceptual lenses I have described in this article.

As an example, take Commerce Bank, based in Cherry Hill, New Jersey. Since its founding in 1973, the company has been a consistent innovator in retail banking. Its branches are open 7 days a week, they are sleek, modern and brightly signed, and Commerce Bank has adopted customer-friendly policies such as charging no fees or much lower fees than its competitors for most of its services, and training and rewarding its front-line staff for treating customers well. This business model overturned several *orthodoxies* deeply entrenched in the banking business – for example, that bank branches are open from 9am to 5pm on weekdays, that the way to make money in retail banking is to charge high fees, and that front-line staff is an expense to be minimized rather than an asset to be invested in. The Commerce Bank approach also exploited a *discontinuity* – a world that is moving from a sharp distinction between “work time” and “leisure time” to a world where this distinction

has blurred, and where weekdays and evenings/weekends see us doing increasingly similar tasks. Finally, this approach also addressed the *unarticulated frustrations* of customers who were unable to get to the bank between 9am and 5pm on weekdays, and who were being charged exorbitant fees for minor activities or involuntary infractions to the bank's policies. Commerce Bank's business model innovation came from the convergence of several "lenses".

One of the reasons companies find it so difficult to innovate is that they are not looking at the world through the "eyes" of the innovator – through the four "lenses of innovation" I have described. Organizations typically have no process for systematically generating the raw material out of which breakthrough ideas are forged. How often, for example, does any company systematically review and challenge the prevailing wisdom in its industry – as part of a disciplined strategy process or new product development process? How often do executives spend personal time out on the bleeding edge of change, trying to understand nascent discontinuities and their potential for industry revolution? How often do companies make a thorough audit of their competencies and strategic assets – in a way that dissociates those things from the current "served market"? How often do companies try to give their employees an experiential insight into what it feels like to be a customer?

Of course, I'm not suggesting that the discovery process can be completely systematized. Innovation will always be partly serendipitous – "eureka" moments cannot be programmed in advance. But the basic question I am addressing here is this: how do you make serendipity happen again and again? How do you increase the probability that new wealth-creating ideas and strategies emerge in your organization? How do you develop the mind of the innovator? The answer: by assembling the ingredients that have been proven to inspire breakthrough innovation in hundreds of business cases. The odds of a "eureka" moment are significantly increased by generating the types of strategic insights upon which radical innovations are known to be grounded. If you are serious about enlarging and enhancing your company's innovation capability, you need to create a high-yield process that continually produces these four specific types of novel strategic insights.

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