

'Companies should work like venture capital firms'



Business model innovation is the new Holy Grail, says global business strategist and best-selling author Rowan Gibson in an interview with Satish John and Vivek Kaul



Google competes with Microsoft on the basis of a completely different business model. Microsoft's business model is a huge operating system and everything is integrated with everything else. Google does not sell software at all. It sells advertising space. So what do we see now? Microsoft is trying to shift its business model to an online model.

Rowan Gibson is a global business strategist, bestselling author and an expert on radical innovation. His new book, *Innovation to the Core*, was published in this March by the Harvard Business School Press.

Co-authored with Peter Skarzynski (CEO of Strategos, the consulting firm founded by renowned strategy guru Gary Hamel), the book explains how to build and sustain a company-wide innovation capability.

How do ideas that lead to innovation spring up in an organisation?

So far, companies have approached innovation in a very ad hoc manner. Companies ask for ideas. This is an extremely inefficient method and needs to be made more efficient to come up with big game-changing ideas.

For our new book *Innovation to the Core*, we looked at 200 cases of successful business model innovations and then came with four lenses for innovation. These are a) challenging orthodox b) Harness trends and discontinuity c) Leverage core competencies in new ways and d) address unmet consumer needs.

We like to have four discovery teams addressing these four lenses in organisations we work with. Let me tell you that these are not research & development teams. Hence they are constituted of normal average people belonging to different departments and regions within the organisation who systematically generate ideas on an ongoing basis. It is at the intersection points of these lenses that we get the big ideas.

Can you give us an example?

CNN is a classic example. At the time the channel was born various new trends were popping up. To his credit, Ted Turner put all of it together and came up with CNN, a 24-hour news channel. People were working longer hours and did not get home in time to watch the six o'clock news. People were traveling more on their job, and hence not getting their daily share of news. Technology had developed to an extent that made it possible to transmit pictures in real time. At the same time deregulation had ensured that cable television could start their own news channel. Ted Turner saw all of this and came with a 24-hours global news channel.

Now who should have really seen the opportunity? The BBC. But they remained blind to the opportunity.

So, as organisations become bigger, do they become less innovative?

Yes they do. Hence, there is a need to create an innovation system in a big firm. In a small firm, it is very easy for an individual to put across a new idea. However, in big firms, great ideas get killed, in most cases by the immediate boss of the individual who has come with the idea.

Hence organisations need to approach innovation as they once approached quality. Edwards Deming built a system which ensured that quality was everybody's job. He made quality systematic. The same things need to come for innovation to happen.

Take the case of Whirlpool, the appli-

ance manufacturer. They realised that their products were becoming commodities and being drowned in a sea of white. Given this, price of their products would keep going down. In this situation they asked themselves, "How do you create a brand in an industry like this to differentiate, command a good price and brand loyalty?"

This led to a corporate innovation system. One of the teams formed was asking itself, "We are selling products to women, why don't we start thinking products to address men?" or "We are primarily addressing the kitchen and the washroom, how can we start addressing other spaces in the house?"

So they came with this wardrobe system that dry-cleans clothes. In addition, they looked at the garage. They realised that men are spending a lot of time in the garage. This gave them the idea to come with a series of modular products for the garage and the brand was called 'Gladiator'. Things like extremely tough refrigerators, freezers etc came up through this route. This brand became the biggest non-appliance revenue earner for the company ever.

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Are diverse organisations more innovative?

Yes, they are. One of the breeding grounds for innovation is diversity. But the problem is big companies get rid of diversity. Having said that, innovation teams need diversity. You need young people or people who are young at heart, people from the periphery of the organisation, people from every level and every function and also people who are either new to the company or the industry. This ensures that they do not have any preconceived notions. This diversity creates intersection points and it is at these intersection points between various groups that form the innovation team that radical ideas come out. Nokia did this very successfully in the 1990s. Whirlpool also did the same thing in their own way.

You seem to suggest in your book that figuring out unknown unknowns or unarticulated needs is very important for innovation?

Yes it is. Let us take the case of Procter & Gamble. Their employees now spend less time in office and more in observing how people use their products, the frustrations they have using them and what's wrong with the product. Ideas spring out in observing these things.

Let me give you another example. What's wrong with the laptop as it is made these days? Laptop screens become very dusty. Now, how about if someone develops a “nonstick”, dust-free screen such as in a

Teflon frying pan? In fact, LG and Phillips are already on the job.

Or take the case of a super-hit product like the iPod. No one was crying out for iPod, waiting for a small device, which could hold 1,000 songs. Still the need was there, otherwise iPod would not be such a great success. Take the case of the Tata Nano. No one was begging Ratan Tata to come up with that car. So these needs are unknown but not invisible. All they are is “hidden in plain sight”. Hence companies need to address these needs before their competition does.

What is needed is a disruptive business model. Most companies in a given space of business compete with other companies who are doing business on the basis of a very similar business model. Now if somebody comes up with a radically different business model that becomes very tough for companies to compete with, the existing companies will literally have to undo everything they have already set up in order to compete with the new business model.

How to create a business model that is differentiated from competition is the new holy grail

Do you think an innovative company needs to be a serial entrepreneur?

Yes of course. We've seen too often in the past that companies come up with one big idea and create an entire business model around that idea. And, more than that, act as if it will be successful for rest of the time. But in a world where we have hyper acceleration, hyper competition and hyper commoditisation, business models do not last as long as they used to. One look at financial services industry, telecommunication industry, automotive industry, television industry and even Hollywood you will find that old business models are getting obsolete. And more than that are very rapidly being replaced by new business models.

There is a great opportunity for Indian companies to come up with radically different game changing models and compete with global companies and find success that way.

Any instances of radically different business models?

The Apollo Hospitals group, I think, is a marvellous business model. Medical service is a new business model, which is competing with the biggest hospital chains in America and is actually winning. An individual looking for treatment gets better, cheaper and faster service here. More than that you are treated better as a complete person with offerings of wellness and other programmes. And add to the equation cheap air travel and the whole thing really takes off. If you go back 10-15 years, that kind of business model this would have been unthinkable.

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How do you see innovation at Microsoft and Google?

Microsoft and Google approach innovation very differently. Microsoft puts a whole army of programmers behind something. Google has very small teams around ideas. Google allows ideas to bubble up from everywhere. So they have a top 100 pet projects that Larry Page lists and the greatest honour for an employee is to get his project listed on it.

What they try at Google is to grow a lot of Googlets (baby Googles) and see where they go. They then have a thing called Google labs where you can come from outside and test your ideas and see if they work. Employees are given the 10:20:70 principle.

As much as 70% of their time is spent on normal projects, 20% is spent on special strategic projects and 10% is just for you to work on their pet projects.

So people are given the time and that means a whole different kind of innovation that comes from the hearts of people and from their passion, that is being generated at Google.

On the other hand, innovation at Microsoft is top down. That would have worked well in the past. Not now.

Microsoft almost missed the internet opportunity in the early nineties. When Bill Gates realised this he turned the battleship around and got it working in terms of major strategy. Having said that, I believe in the Google model of ongoing innovation.

And if you look at it, Google competes with Microsoft on the basis of a completely different business model. Microsoft's business model is that we make a huge operating system and everything is integrated with everything else. And we sell software products in shrink-wrapped boxes in stores and online.

Google does not sell software at all. They



“All roads lead to innovation. So ... getting there and understanding it, that's just the first step, crucial step. The second step is what you are going to do about it. People like Immelt and Palmisano (pictured) have created this cultural change programmes inside their companies.”

sell advertising space. It is a totally different business model. So what do we see now? Microsoft is trying to shift its business model to an online model. Steve Ballmer has said that within the next two to three years he hopes that 30% of the business would come from online advertising.

Do you see giants like Microsoft thinking on their feet and being nimble to make rapid

strategic shifts as they witness market dynamics change?

Hats off to Microsoft for what they did with the internet. From 1993 to 1995 in 2-to-3 years they shifted the entire company around. So they have proven it is possible. Nevertheless, it is very difficult for large companies to do that. That is why it is much smarter to put your money on Google. Those things may be the future of your entire company. Some of them will die but some of them will roll. Innovative companies should work like a venture capital firm.

Are there any companies that practise innovation like Google?

“Jack Welch is from another era. Welch's era was all about natural cost-cutting efficiencies, six sigma, mergers & acquisitions, etc. But now we have a new era. Immelt has realised that it is all about innovation.”



Today many companies are creating such a portfolio of ideas. Global oil major Shell has something called “Game changer” where it is funding a lot of small experiments and see where they go. There is a peer review panel for these ideas and the company gives \$25,000 and 30 days off to employees to test their ideas. If this is successful, then the employee gets ninety days off and \$50,000 to take the idea forward. A lot of businesses have come out of this. Some are built around business models, some are around technologies and some of them are around products. Microsoft doesn't do it that way.

Do commodity companies innovate?

One of the greatest examples in our book *Innovation to the Core* is about a global cement company Cemex. They made innovation their number one priority. One of things that Cemex introduced was to cut down on the length of time that it takes to receive cement. For the cement to reach the customer's end it took about 2-to-3 hours. Now Cemex has reduced the delivery time to 20 minutes. To do that they checked other systems such as the 9/11 call centres, where paramedics reach a destination in double quick time and even taxi services. What they did was using analogies outside their industry, which no one had thought of earlier.

It is a new business model. Thus it is possible in a commodity industry, to differentiate.

Do you see the life of companies getting shorter?

Well there are two arguments. Jim Collins (management guru and author of *Built to Last, Good to Great*), set up the idea of being built to last. I actually believe companies should be built to change, built to innovate and built to renew...that's a much more important issue. I do believe that you can renew over and over again and you can go from one thing to another.

Take a look at a company like Nokia. You know Nokia for many decades was a large conglomerate that made many things from television sets to Wellington boots. They chucked all this and shifted to become a mobile phone company. 3M famously went from mining to plastics.

Apple was a computer company, now it has dropped the word “computer” from its name. It is rapidly turning itself into a consumer electronics company.

There is a computer in everything today. So Apple made that shift today to not only just takeover the desktop but also entertainment through iPod, iTunes and AppleTV. This has become the hub if you like of all the entertainments.

I think there are firms that are able to make the metamorphosis. There are those that are not able to do so. Take the big automotive firms such as General Motors and Ford, they are really struggling. So there are companies that are at their end and will be replaced through creative destruction. You see it everywhere and that just seems to be the natural way of things.

What is your advice to CEOs to keep on churning ideas?

My advice would be to make innovation number one on the agenda. Jeff Immelt, CEO of General Electric, the biggest company in the world by market capitalisation, when asked about his priorities for the fu-

all roads lead to innovation. You think of hyper competition you think about new business models, you think about strategic renewals ... you think of all those issues and you realise that all roads lead to innovation. So number one is getting there and understanding it that's just the first step, crucial step

The second step is what you are going to do about it. People like Immelt and Palmisano have created this cultural change programs inside their companies to make innovation a daily reality. To take it out of R&D, where it has traditionally been, and spread the responsibility of innovation throughout the firm.

This is because you can't expect technicians of R&D to come up with new business models. IBM learnt this first-hand as what saved the company was not technology but coming up with new business models. So the realisation now is to involve people across the firm.

So, for innovation R&D is no longer relevant?

R&D is relevant. However, today the key advantage that technology gives you can be copied very, very quickly. There are very few companies which have some proprietary technology that no else can get their hands on. Therefore, if your advantage is based on some technological advances then I think it will be very short-lived. Same is true of product innovation. Any new product that comes to the market other companies can copy it in weeks or months.

Hence, the issue is, we need to focus on a different kind of innovation and that is business model innovation. And to do that we need to more people across the firm thinking about business model in a systematic way. So companies need to challenge the conventional ways of doing things and harnessing trends and bringing that into their business models, looking at their own core competencies and assets, and ask how these can be used in new ways and addressing their main customer needs.

Let's take the case of Walt Disney. The heart of the Disney business model includes theme parks. If you go to the heart of the business model and unpack the theme park what you find is that Disney has a core competence in three dimensional entertainment. They call it 3D entertainment. The question is how can they use this core competence in a completely new way and create new values. What they did was take it out of the theme parks and brought it to Broadway and brought it to London's Westend and created the theatre productions around the line such as the *Beauty and the Beast*. They are tremendously successful for Disney, financially. Now they are taking another of their



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core competence in running hospitality hotels, and creating a new thing called ‘Adventures by Disney’, which is a travel company. They will take it to India, Europe and I know they'll do a good job of it. The Disney brand name comes with its cache trust. They have created value in a completely new way to create new values for customers.

Can mergers and acquisitions be construed as innovation?

I don't think so. I am a lesser fan of M&A for growing the business. If you look at GE, they feel they had that era of growing their business through M&As. Now they are creating strategic groups and creating new geographic markets. It is that kind of growth.

What's wrong with growing through M&As?

I am not suggesting that is wrong. Vodafone has done well through this route recently. But there's a limit to that. There's almost an arithmetical limit to that growth. At a certain point the issue becomes what exactly is the differentiator from the competition. The strategic focus for companies is what are we doing with all these parts of companies that is strategically different. The only way to sustainable growth is through innovation. Doing things that are unique. And buying some other company is not going to make us unique. And what is also important is, why does a company acquire another company. Is it just trying to play catch-up as it failed to innovate.

Sam Palmisano, the CEO of IBM, says