Interview with Michael Hansen

Michael Hansen is currently an independent investment advisor to large and medium sized media businesses in the United States and Europe. Until recently he was Executive Vice President, Operational Turnaround at Bertelsmann – the world's third largest media company with such renowned properties as BMG, RTL Television, and Random House. In addition, he has successfully led several large and medium-sized M&A transactions. Prior to Bertelsmann, Michael was a partner at The Boston Consulting Group (BCG) and the Co-Chairman of BCG's global media and electronic business practice in New York. Michael also helped build and sell Proxicom, a successful technology services business in Reston, VA. Michael can be reached at hansen.michael.e@gmail.com

Doug: This is an interview with Michael Hansen. Michael has been involved in innovation and leadership from a number of different vantage points; as a partner with Boston Consulting Group, a CEO of a startup, vice president of a global media company and private equity.

Michael, let's start by talking about some of your unique perspectives and where you operate from in leading growth and innovation.

Michael: Let me reverse into the chronology with my more recent observations. First, let me say that my comments are going to be influenced by a view heavily centered on the media industry. It is safe to say that the media industry has changed, and continues to change dramatically. Driven by a number of external factors, first and foremost, is the delivery technology for media. Secondly, consumer habits are changing drastically. People used to rely very heavily on one or two primary media such as broadcast television and newspapers. Now their choices have become primarily internet-based, representing yet another major challenge to bring content to the consumer.

It is against this backdrop of massive, externally driven change, that innovation has become an even more highly priced asset in the media industry. The companies accustomed to relying on captive distribution channels to move their product, obviously had less pressure to innovate. For companies competing in open distribution channels, every product had to stand on its own merit, differentiation and value to the customer.

I can illustrate this with one simple point. When the music industry was controlling the delivery mechanism of the music, the consumer was forced to buy 13 songs on a CD just to get the one that was really desired. Downloading single tracks is now available. As a result, the delivery mechanism is now an open system. The pressure is extraordinary for music companies to come up

with a highly differentiated product. Making a CD is no longer an exercise in putting together 13 tracks. Now you need 13 highly differentiated tracks.

The diagnosis and realization of the problem is obviously just the first step in the process. Ultimately, there is the question of what is going to be done?

I was working for one of the top five media companies in the world and we started an innovation program known as Growth and Innovation, about three years ago. We realized early on that our record of accomplishment for genuine, organic growth, i.e. innovation from within vs. buying innovation, was relatively modest. We were better at buying innovation. Once it became clear to the outside world that a company was viable, we would buy these companies and essentially give them access to larger global distribution platforms and money. The hurdle for us to become truly more innovative and more reliant on organic growth rather than just acquisitive growth, therefore, was very high.

Now, to be fair, there is no either/or solution. It is not a zero-sum game. You will always need an accommodation of the two. We clearly needed to strengthen our organic leg. As a result, we needed to strengthen innovation.

When we started to tackle the question of what we were actually going to do, we realized there was an abundance of new ideas in the organization. The real question was, how do you systematically bubble these ideas to the surface and exploit them? Are there processes that everybody understands and lives within, by which you can harvest this enormous potential of unnoticed and unexploited ideas.

The first realization, then, is that there needs to be a process. I'm not talking about just generating a list of ideas. The process really needs to encompass all aspects of the organization without focusing solely on the organizational chart. Idea-generation sessions and cycles need to be taken into account. A tracking program needs to be implemented to see how these ideas are actually performing relative to the marketplace. Infusion throughout the financial incentive systems of both senior as well as less senior managers charged with the execution of these innovation ideas, is critical. So, both process and organization are crucial elements, in my experience, to the success of a truly innovative company.

Once you have the process in place, many more ideas tend to be generated than there are resources to put behind them. So, there needs to be a rigorous prioritization process. This may sound straightforward in theory, but in reality, it is a much more difficult task. People are being vigorously encouraged to pursue ideas and projects. Yet, at the same time, their project might very well be killed within the next six months; not because it's bad, but because other projects have a higher priority. The prioritization process and the portfolio management of these ideas become tricky. Some very transparent, recognizable and hopefully objective, criteria need to be in place for people to understand the pecking order of their projects. 1) The true potential of the project; 2) The right time to allocate money; 3) The benefit of the project to the bottom-line.

Doug: Let's talk about what systems and processes make a difference in turning ideas into great business ventures.

Michael: There is no blueprint. It's a highly customized solution. There are, however, some valid general principles worth checking in any endeavor. Executives have to make dedicated time available for their people to work on innovation.

Google does this with its engineers; 20% of their time is spent working on projects of their own volition.

Having said that, it's important to then quickly systematize, prioritize and monitor the progress of those projects. Careful thought needs to go into whether your organization of today can tolerate a startup. In all likelihood, a separate organization needs to be created around the idea, an incubator, for lack of a better word, to prevent the idea from being trampled and shoved under the rug more quickly than it should be. Applying the same metrics used to calibrate success of established businesses is guaranteed to kill a start-up.

Doug: Can you talk about HBO's experience with creating award winning TV offerings in the context of systems?

Michael: Many people in the media industry, in particular the content businesses, will tell you that it is a highly intuitive process; that it cannot be mapped, predicted or managed. HBO proved the opposite to be true. HBO is recognized for being a huge success based on its innovative content and they went about it very systematically. They had a database of all the relevant writers in the country whom they were scanning on a regular basis. They knew what the writers were working on, regardless of the stage of their ideas. Their tentacles were out in the marketplace, and they understood the inventory of ideas. They then took the ideas in-house and discussed them. They used a sophisticated set of criteria, i.e. the mood of the general population at the time, the trends, the characters, the colors, etc, to identify the ideas that they really wanted to sign. Typically they signed with no difficulty because their competitors were waiting for the ideas to become more fully flushed. This is an example of a company going against conventional wisdom in the industry. They did a terrific job of systematizing and putting operational discipline behind what was arguably a very creative product.

Doug: What other aspect of the systems or process side do you feel people would benefit from being able to better understand?

Michael: People have to understand and internalize that good ideas do not succeed on their own. Organizations, in particular larger organizations, have a tendency to inadvertently crush good ideas; not because the people are ignorant, but because they are actually successful in the ways in which they operate their business. However, operating a startup or experimental business, which is high-risk by virtue of these same principles, can work against its success.

Doug: There is much said about elevating the strategic conversation of innovation, such that the board and the top officers of the company are willing to set up the right framework. What perspectives can you offer on setting up the right framework and elevating the conversation?

Michael: In terms of the strategic question, there is an additional view worth highlighting. This is not a religious war. The operations people are not the bad guys and these bright-eyed innovators are not the good guys. The people who have already put the systems in place are there because they actually are very successful. It is critical not to cut the throat of the goose that lays the golden eggs. The right culture for this discussion needs to be established and the conversation needs to go something like this: "Look, we are very successful in the businesses that we are in. In addition, we're clearly dependent on those businesses, but we need to fill the pipeline with more innovative ideas. Let's now think creatively about what in our system either needs to change or what we need to build in parallel to make this work."

Doug: In many of the markets with which you're familiar it seems that there is a 'tipping point' type of phenomena. People are notoriously bad at estimating timeframes when dealing with that kind of nonlinearity. How have you thought about this?

Michael: This is the $80,000,000 question. I am a big believer in the tipping point phenomenon, as described by Malcolm Gladwell. The question of particular interest to me is that of a **supply-driven tipping point vs. a demand-driven tipping point**. In other words, can you actually create these phenomena? Can you create a rush into a particular product? Is there enough buzz in the system for a product to take off suddenly?

Looking forward, these kinds of tipping points will be created more and more by the consumer themselves, especially given the advent of blogs and chat rooms. This is an area that we do not understand nearly enough about and there are some critical questions that must be asked, answered and monitored in order to get the timing right. How does this get setup? Who are the real influencers? How do these influencers then shape public opinion?

Doug: Where do you look to further determine when the timing will be 'leading edge?'

Michael: I intuitively look at macro trends. Let me use a recent, more universal example. There is clearly a macro trend in the direction of a greener, more environmentally-conscious behavior by the population at large. This is a phenomenon that has been common in many European countries for a long time now, but never really caught on in the US. Driven by the economics of gas, however, this will very quickly become a mass phenomenon in the United States.

Doug: Let's further probe this issue of trends with a hypothetical case in point. Let's say that I'm a chemical company and I've got a product that can substantially improve insulation but it's at a high cost. I know I'm on to something, but should I begin efforts of commercialization right now or should I hold off and be ready to commercialize at some point in the future? What else would you look for, given this macro trend, to know whether or not the timing is right for commercialization?

Michael: A very good competitor scan can help to ascertain appropriate timing. While the macro trend tells you something about consumer behavior, ultimately you need to have a critical mass of product on the market. You need to observe the competition very, very carefully. The timing has to be such that you're on the leading edge as opposed to the bleeding edge. If competitor activity has not increased around this type of product, it's safe to say that you are on the bleeding edge. It is likely that a lot of money is being poured down the drain with little return in sight. If, on the other hand, there is increased buzz in the industry, if you see competitors spending money here, that's an indication of the timing being right.

The timing will never be 100% right, however. There will always be an element of judgment. There will always be an element of gut. There will always be an element of luck, but there is much you can do in order to improve the odds.

Doug: Let's shift the conversation to other executives with whom you have had the privilege of working. Which of their unique perspectives regarding some aspect of growth or innovation, provided you with an "ah ha" moment?

Michael: HBO was clearly an 'ah ha' experience for me. One of the main architects was Jeff Bewkes, who is now the CEO-designate at Time Warner. Most impressive about Jeff was his refusal to take conventional wisdom and run with that alone.

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Conventional wisdom said it couldn't be done and he did it anyway. The 'ah-ha' was to go contrary to and challenge conventional wisdom. I don't mean to imply that conventional wisdom is always wrong, but it is certainly worth challenging and exploring.

Another of the executives who truly impresses me around innovation is Steve Jobs. Steve has an uncanny ability to do all of the things that we've discussed here; to be disciplined, business-oriented, judicious in terms of prioritization of projects and gutsy when it comes to timing. The iPod and iTunes success stories speak volumes to that ability.

Who would have thought that Apple would have become a major player in the music industry? More importantly, think about how you would have reacted ten years ago had you been told that the way into the music industry was through a consumer product? That was heretical thinking. It was Steve's willingness to challenge conventional wisdom while at the same time being very disciplined about observing the market, and observing and making his move when the timing was right - when the music industry was at its weakest and on its knees.

Doug: People in the music business are very passionate. How have you tapped into that personal energy in meeting the disruptive challenges?

Michael: Music people are very articulate and do have a great passion for their business. They have a great passion for the artists and their longevity, and they have a great passion for the arts. There is an enormous fountain of emotion and energy sitting there.

Given that, the question becomes, how can we now change the processes to preserve that about which you so greatly care? It's not the six-inch CD that matters, but the art that's contained within - the music. And the delivery of that music is changing. Now you can have a much more productive and creative discussion because it's about the music and people having better, more affordable access to the music they want, as opposed to living with our decisions about their music.

If you start asking meaningful questions - Why are you here? Why do you care about the industry? Why do you care about the people in that industry? - then any discussion about change in processes, change in operations, change in cost structure is significantly more productive and, dare I say, more creative, than if you begin with a cost cutting conversation.

It ties back to the notion that even if you're in a your-back-to-the-wall type of situation, especially in that kind of situation, you rely your colleagues to access their inner strengths. You are fighting multiple battles, and are constantly being inundated by new and typically bad news. You need all the strength you can get in those types of situations.

On a personal level, it's liberating for me to ask myself 'why am I doing this?' It's certainly not just to improve the bottom line. I could do that in 20 different ways with none of them being particularly difficult. The question of personal motivation gives the whole thing a much more real, positive, and far reaching agenda.

Doug: Michael, thank you for generously sharing your insights and yourself.

<u>Velcro Points</u>

1. Companies with captive channels of distribution have less pressure to innovate.
2. The innovation challenge is less about getting new ideas then it is systematically exploiting those ideas.
3. It is not an either /or religious war between running the business and innovation. You need to strengthen existing businesses to strengthen organic innovation.
4. Will your tipping point be supply-driven or market-driven?
5. Harnessing people's passion leads to more productive and creative conversations.