



The Innovators

Conversations

on the *Cutting Edge*

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Interview with **Scott Anthony** Consultant, Author Managing Director, Innosight Ventures



Scott is the Managing Director of Innosight Ventures, a business building and investment company with offices in Singapore, India, and the U.S. Previously he was the President of Innosight's consulting arm, advising companies on topics of growth and innovation.

He has written three books on innovation, including "The Silver Lining; An Innovation Playbook for Uncertain Times" (Harvard Business Press, June 2009). He is a frequent keynote speaker on topics of growth and innovation, and has a weekly blog at Harvard Business Online (blogs.hbr.org/anthony).

Scott is on the Board of Directors of Innosight Holdings, Media General, Guarantech, and Village Laundry Service, as well as being a member of the IDEAS Ventures Investment Committee.

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Interview conducted by Doug Berger, INNOVATE doug@innovate1st.com

Doug: In your book, "The Silver Lining," you refer to 2008-09 as The Great Disruption. You are now located in Singapore. How are executives in Asia looking at this economic period?

Scott: It is a particularly interesting time in Asia. I moved here two months ago, and as I was getting ready to move, a reporter asked me, "Why are you moving out to Singapore? You're a specialist in innovation. Certainly the place to be for innovation is in the United States." Historically, if you were to look at the epicenter of innovation, it would be the United States. Generalizing, most Asian companies used their cost advantage to introduce things that were pretty similar at sharply lower prices.

Now when I talk to executives in the West there is a general feeling of fear. Markets are changing more quickly than they ever did before. Growth is slowing in Western markets; it might never come back to where it was, and everyone sees new competitors in their markets. Western executives are trying to figure out what to do to keep growth flat, let alone begin to have an increase.

Asia is altogether different. People are saying, "If we just execute our strategy - if we just go and pick off the competitors in the West who have been weakened, we have enormous growth potential." Then, you layer on top of that the ability to compete differently in our local markets, and the sky's the limit. There is the potential for a lot of change to take place in the next few years. The companies here in Asia are the ones who are going to be leading the global agenda related to innovation.

Doug: In the book you focused on how to operate differently and effectively in times of disruption, some of which had to do with conservation and pruning. However, I would like to focus our conversation on growth.

Scott: Great. It's more fun to talk about the growth side than the conservation side.

Doug: Clayton Christensen and you are known for your 'jobs to be done' perspective, and how that perspective identifies opportunities you wouldn't see from the more traditional perspective of market segmentation. In contemporary terms of 2010, how are companies applying that perspective towards growth?

Scott: In 2003, Clayton Christensen introduced this terminology with his book, "The Innovator Solution." The notion is this - people don't buy products and services. Instead, they hire services and products to get jobs done in their lives. Which means, if you want to understand opportunities for innovation, you've got to look at the world through the eyes of the customer, and try to understand the problem that customer is struggling to solve. You find an important problem that is not well-satisfied with current solutions, and you have an opportunity to innovate to get that job done.

For example, an apparel company looked at its current market in a different way using this perspective. Historically, their jeans wear division followed a simple strategy. They called it "shop and copy." They would go out, look at what was coming out in the boutiques in Los Angeles and New York, see the new fabrics, and find simpler, cheaper ways to include those features in their jeans. This was a successful strategy for a long period of time. But in the 2007-08 timeframe, the company found that private label was getting so good at shopping and copying, they really needed to follow a different approach. So in 2009, they set out to take a customer-first perspective and figure out the problems that their customers couldn't solve today.

They discovered that women have a massive job to be done related to jeans. That job is, "Please, please, make it less painful for me to find a pair of jeans that actually fit and flatter me." With this insight, the company had all sorts of avenues for innovation. They could do things related to the fabric, related to the fit, related to the physical characteristics of the jeans. They could also do things related to the ticketing on the jeans and the placement on the floor of the store. Instead of size numbers that don't really mean anything to most human beings, they could match different body types. They began testing that idea earlier this year in their company-owned outlet store, and will begin rolling it out in mass merchandise later this year. The customers have been delighted because it really is addressing a big pain point that they feel. This company was able to take its mature market where it couldn't find obvious room for growth, use this 'jobs-to-be-done' mentality, explore the market in a different way, and see all sorts of opportunities to reinvent and innovate within its core category.

Let me give you another example in a very different space. Godrej & Boyce is an Indian conglomerate that plays in a lot of markets, one of them being refrigerators. Historically, Godrej had been locked in a battle to the death against companies like Whirlpool, General Electric and LG, to produce refrigerators for that small portion of the Indian market, which would consume what you and I would conceive of as traditional refrigerators.

Godrej said, "Let's turn the problem on its head. Ninety percent of the Indian market doesn't consume any refrigeration technology at all. Let's figure out what's stopping them from consuming refrigeration and what jobs they're trying to get done." It found the things you would expect – refrigerators are too expensive, power is unreliable, the refrigerator is just too big. These are some of the factors that would stop people from consuming refrigerators. But they had some very clear jobs they were trying to get done. They wanted a cold beverage at the end of a long day. The housewife wanted the ability to keep leftovers for even a day or two.

Late last year, the company introduced a product designed to get these jobs done. It's something called 'Chotukool', which means "little cool." It's a top-loading refrigerator that can be powered by a battery, which means that you don't have to rely on the unreliable electrical grid. It's very small, about the size of a cooler. It's good enough to allow people to store food for a day, or have a cold beverage, and it costs about 40 percent less than any other refrigerator on the market. It's distributed through rural entrepreneurs who are backed by micro-finance loans. So, it can reach places in India that normally are not easy to reach. Using this approach, Godrej now has something of real potential to completely change the market, and grow in a segment of the market that Whirlpool and LG and General Electric are largely ignoring.

Doug: You wrote about companies running smart, strategic experiments.

Scott: Many times when companies innovate they have all of these ideas, but in the early stages, it's very hard to know which ideas really are the best ideas. Metaphorically speaking, there's another person who has the exact same problem, and that's the general manager of the baseball team. There are a lot of people playing baseball in high school or college who he could have join his organization. It's very hard to know, however, who of those players actually have the talent for the major leagues, and who doesn't. What baseball managers never do is pick up a player who has never played professionally and bring them straight to the big league. If you follow baseball at all, you know that there is a whole system of minor leagues.

I've been counseling people to create innovation minor leagues to address this problem. For example, one company we worked with is working on something that could have huge growth potential, but they just can't know for sure whether that potential is real. If they are going to commercialize it, it's going to cost a large amount. They developed a pretty rough prototype that works, but it only lasts for about six months before it breaks down. They set up a system within the company by which company employees could pay to rent this particular device. So they begin to get an approximation of whether people will actually purchase, and more importantly, use it, once they have it in their home. The strategic experiment is to get company employees to begin buying early versions of the device, bring it to their homes, and use it, so that they can figure out what kind of behavior people follow once they have the device.

The first rounds of tests were providing insufficient results. People weren't using the device enough to justify the investment that would be required to commercialize the idea. This wasn't bad news, actually. The team could then change the ways in which they were promoting the device; they could change some of the marketing materials around it; they could change the communication with the customer, and begin to think about the next generation of the device, so that they could improve the results.

Doug: In incremental innovation, most companies have well defined stages in the development cycle. What are the equivalent stages when one thinks of these newer kinds of innovation?

Scott: What people are trying to manage in incremental are some of the technological or production related risks. And there are certain questions that you don't even bother asking. Does the customer really want this? What are the ways in which the customer is going to use this? Where are we going to sell it? Those are all questions that you can appropriately take for granted because you have answered them in the past.

When you create a category that has no name, or transform a category in a meaningful way, you've got very different questions to answer. Does the customer really have a job to be done? Do we really have a way that will get that job done in a meaningful way? Will the customer change habits if that's what's required to succeed here? Can we develop a business model that works? Can we scale that business model? These are exactly the ways in which I try to stage things. First, do we have a job to be done? Second, do we have a way to get that job done? Third, what does a business model look like? Fourth, how can we scale that business model?

We've done this with one of the businesses that Innosight Ventures actually built in India called Village Laundry Service. The basic premise of the business is that there is a missing middle segment in the laundry services market in India. If you're a wealthy consumer, you can have the same things that people in the West have. If you want affordable services, India has people known as dhobis. They are people who come and pick up your clothes, wash them in a communal pool, beat them against rocks, and about a week later, they'll bring back your clothes. It's not particularly hygienic; your clothes don't get particularly clean, but it is very affordable.

We have this gap in the middle of the market where consumers are looking for convenience; they're looking for high quality; and they don't have enough money to afford the high-end solutions. Hence, our idea, Village Laundry Service. It is a seven-foot by seven-foot kiosk that has an integrated washing machine and dryer, with a couple of people who staff that kiosk. You drop off your clothes and within 24 hours you get those clothes cleaned with high-quality detergents. We offer delivery and pick-up services, as well. We had this idea several years ago, and at first, our question was, "Are we right that there is an opportunity here?" We created, for less than \$10,000, a very rough approximation of the rig and we tested it for an afternoon. We put it on the streets of Mumbai and said, "Is anyone going to stop by this thing? Is anyone interested in the service?" Enough people stopped by that we said, "Okay, let's run this for a month. Let's invest a little bit more to see if we can begin to generate demand."

Enough demand was generated that we said, "Okay, let's increase a zero at the size of the investment. Let's go from \$10,000 to \$100,000 to begin to now

prototype this business.” We designed a much nicer rig and began to now introduce it in Bangalore as a test market. We got enough interest in the business that we said, “Can we now develop a profitable business model? Let’s get the next round of investment so we can move from three rigs to about 30 rigs, and have a management team who can really figure out that this is a business model we can crack.” Signs are looking very positive today. The next thing we’ll figure out is how to scale this business model across India and then globally.

We have been very careful about how we’ve managed spending. You invest a little bit to figure out if there truly is a job and if you have a solution that you can at least envision to that job. Then, you invest a little bit more to say, “Okay, what does this solution really look like if you have the underpinnings of a scalable business?” Then we invest a little more to figure out the business model. Then you invest more to begin scaling the business model, trying to reduce risk by trying to address the critical questions early. There are a lot of other businesses that we tried by following this model, and never got past the first investment, because it turned out that there wasn’t the demand in the marketplace, or we couldn’t quite figure out how the technology would work.

Doug: Let’s shift to a different topic in the book, which deals with driving a personal reinvention. Senior executives are shaping the playing field in which innovation can take place. If they are not able to get their own heads around it, then the amount of innovation being done by people in the middle of the organization doesn’t matter.

Scott: I 100 percent agree with that statement. On the consulting side of our business, some of our engagements have been what we would call unqualified successes. Some of our engagements have ended with stalled projects. We found the relationship between involvement, passion, and mindset of senior leadership and project success to be about 1-1. The companies that succeed have senior leaders who are actively involved in shaping, influencing, participating, and driving the innovation agenda inside their company.

Leaders like Steve Jobs and A.G. Laffery who have this natural ability are rare. Most leaders do not have the innate ability to grapple with the paradoxical demands of being excellent operators and great innovators. When you ask yourself, “Where does the innovator’s dilemma really rest?” I have found that it does not rest at the senior-most level - the level of the CEO. They have the strategic foresight to see that we’ve got to do these things differently. It does not rest at the grass roots of the organization, because they’re very in touch with the fibers of the market. Where the dilemma does squarely rest is really in between, at the level of General Manager or Vice President. These are the people who are very heads-down, focused on delivering their P&L statements, and doing everything they are supposed to be doing. They are measured on a quarterly or annual basis on the kind of returns they’re providing. This is where the innovator’s dilemma really exists.

Doug: What are some of the best ideas for stimulating a higher level of innovation from within that population of an enterprise?

Scott: The best of what I have seen recently was a Harvard Business Review article last December. It covered research done by Jeff Dyer at the Marriott School at BYU, Hal Gregersen at INSEAD, and Clayton Christensen at Harvard, under the title, “The Innovator’s DNA.” These professors have decoded the innovator’s DNA and

have laid out the practical steps of becoming a better innovator. They talk about four specific practices.

Question - make a regular habit of asking questions. The best questions compose or remove constraints. A great question is, "What if we were legally prohibited from serving our current customers; what would we do then?" Asking questions like that can send your brain in all sorts of new directions.

Experiment - consciously complicate your life by just trying different things. Go to trade shows in industries that you've never thought of before. Read magazines in fields that you've never considered. I try to find very simple ways to disrupt my routine. For example, in the mornings I'll try different ways to commute.

Observe - make a regular practice of watching your customers, or watching your sales force, or watching your executives, and just carefully note the things you see that surprise you. What are the things that people are doing that you wouldn't have anticipated? I carry a little notebook with me so that I can jot things down, and I carry a Flip video camera with me so that I can record things when the moment strikes me.

Network - network with people who are intentionally different from you, because that's where the ideas come from. Ideas come from the intersections of disciplines. This is part of the reason I decided to move out to Asia, so I could find people who were different from me. And it's been great so far.

Doug: How would you advise our senior executive readers to develop that innovation skillfulness at the business level?

Scott: I suggest that you think differently about the chain of assignments for your up-and-coming leaders. Typically we think about cultivating our next generation leaders by giving them bigger and bigger opportunities - a 10 million dollar P&L, and then a 100 million dollar P&L. The logic being, the bigger the P&L, the bigger the opportunity, the more important they are. I suggest that people walk away from that and think about looking at the size of ambiguity of the opportunity you're presenting. If they've run a 100 million dollar P&L, they're going to figure out how to run a billion dollar P&L. But, flipping from a high degree of certainty to high degree of uncertainty is a very different and difficult challenge. Instead let them open up an office in a new country, or let them manage the introduction of a completely new business unit. Now you're giving people the conscious experience of grappling with ambiguity and dealing with uncertainty. This will give them the intuition they need to ultimately be the business leader of the future.

Doug: What would you like to say in conclusion?

Scott: This is really an interesting time for innovation. The movement that began about 20 years ago is maturing. 20 years ago, people talked about innovation in the same way that they talked about quality in the 1950s and 1960s. It was something ethereal, and sometimes it worked and sometimes it didn't. We just couldn't have any control over it. Of course, the quality movement showed us that we could have a great degree of precision over quality. We set up a process in the right way, and we can with six sigma accuracy predict that we're going to get good things on the other side.

People are now approaching innovation in the same way. It's not a mystery, or random, or unpredictable. There are a lot of patterns. It can be learned. It can

be a discipline. We have begun to coalesce a set of things that anybody could use to more reliably and more predictably innovate. Increasingly, the innovator's dilemma will turn into the innovator's opportunity, because those companies that train themselves to think in the right way, those entrepreneurs that train themselves to think in the right way, can dramatically increase their odds of success. This means that we really can be looking at a different era of growth, where instead of it being something that is fleeting and unpredictable, it really is something that can be managed in quite a routine sort of way. And those companies and those entrepreneurs, who really figure this out first, are going to have some pretty sizeable competitive advantage.

