Innovating for Impact - Becoming an Invincible Company

Q&A

The Thinkers50's fourth-most-influential management thinker explains how to be more innovative — invincible, even.

Interview by Karen Christensen

You have noted a radical shift in the way value is being created today. Please describe it.

It used to be enough for an organization to focus on getting better at what it does. Today, that isn't enough; you need to get better at what you do and explore ways to reinvent yourself at the same time. It's the classic balance between exploitation and exploration. It's not that one is better than the other; every organization needs both cultures under their roof. The challenge is that the logic of experimentation is completely different. You might invest in 10 projects and only one will actually work out.

As a result, you believe innovation needs to be measured in a whole new way. What needs to happen?

It's very simple. In the world where you're managing your existing business, you can continue to measure return on investment (ROI). You can still make projections and expect to achieve them within a certain time frame, at least in part. But when it comes to exploration, you can't know ahead of time if a project is even going to work. So how can you measure that side of the business?

My advice is this: Rather than measuring ROI in your exploratory work, measure ROP — return on portfolio. Let's say your company decides to invest in 100 ideas. Portfolio theory tells us that a small number of them are going to succeed — and that those successes will pay for all the other failures. If you look at venture capital, only one out of 250 ideas or early stage start-ups wins big. The implication for established companies is that they need to spread their bets. The CFO, the CEO and the Chief Marketing Officer all need to think about how these two completely different types of returns can coexist under the same roof.

What are some powerful approaches to exploration?

We call top-level explorers Visionaries, and they are usually entrepreneurs. They use their imagination to find huge market potential where others don't and are able to satisfy unmet needs with new value propositions. Examples include **Tesla** cars, the iPhone and **Nintendo** Wii. Another approach is what we call the Repurposer. These companies find innovative ways to tap into proven market demand by

Everybody in a company should be allowed to prove they have a great idea by getting some time to explore.

repurposing existing technology and/or infrastructure that previously served other ends. **AWS** (Amazon Web Services) and **M-Pesa** (Africa's leading payment method) are successful examples of this approach.

Should different people be running each side of the business?

It's hard to find people who can do both. The famous example is **Steve Jobs**. In the early days of **Apple**, he failed. He wasn't able to run an execution machine because he was an innovator. Later, when he returned to the company, he had become world class at hiring the right people to run the existing business. He understood that innovation was a separate endeavour and that he needed to hire the right people to create the future under the same roof as those executing the present. This mindset represents a new type of leader who is able to switch from one role to the other within milliseconds, and we call them 'entrepreneurial CEOs.'

Another option is to have co-CEOs: one is the Chief Execution Officer and the other is the Chief Entrepreneur. This approach, in my opinion, is better, because you can have two people who are 100 per cent dedicated to completely different aspects of the business. However, they must get along well, because a project that grows out of exploration will eventually be handed over to the execution side. And the CEO who runs the current business needs to understand that the Chief Entrepreneur will need access to some of the resources of the exploitation side of the business.

You've become an expert on innovation risk. What key learnings can you share?

Innovation risk is the risk that a business idea is going to fail. Risk is high when there is little evidence beyond impressive slides and spreadsheets to support an idea, and it decreases with the amount of evidence supporting four things: desirability, feasibility, viability and adaptability.

The danger posed by *desirability* risk is that custom- ers just aren't interested. The market being targeted is too small, too few customers want the value proposition or the company can't reach, acquire and retain targeted customers. With *viability* risk, the risk is that a business can't generate successful revenue streams, that customers are unwilling to pay (enough) or that the costs are too high to make a sustainable profit.

Feasibility risk is the risk that a business can't manage, scale or get access to key resources (technology, IP, brand etc.), key activities or key partners. And lastly, *adaptability* risk is the degree to which external factors are unfavourable — that a business won't be able to adapt to the current competitive environment, technology, regulatory, social or market trends, or that the macro environment is not favorable (due to a lack of infrastructure, recession, etc.)

The way to manage these risks is by constantly exploring and only investing significantly in those few projects that show signs that there is something there — based on evidence. If there is such evidence, the team receives more funding; if not, the project is halted. But here's the good news: the teams that don't get follow-up investments can try again in a year or two. You don't punish people for trying and failing. Everybody in a company should be allowed to prove they have a great idea by getting some time to explore, and you need a rigid process for that. It's about saying 'Here is some funding. Come back to us in three months with evidence that customers actually care about this.' That's how you find the best innovators — you let them emerge by creating the right system around them.

Talk a bit about the importance of being able to pivot while exploring.

The journey in the exploration portfolio is one of searching and pivoting until you have enough evidence that the new idea will work. The search for ideas, value propositions and business models that will work consists of two main activities that continuously nourish each other: business design and testing.

Business design is the activity of turning vague ideas, market insights and evidence from testing into concrete value propositions and solid business models. Good design involves the use of strong business model patterns to maximize returns and compete beyond product, price and technology. Testing is the activity of reducing the risk of pursuing ideas that look good in theory, but won't work in reality. You test ideas by defining critical hypotheses, conducting rapid experiments and learning from the evidence. But be ready for the evidence to either support or refute the value propositions and business models you are exploring.

There is this myth that creative geniuses are just born that way. But the reality is that innovation is like medical

The Art of Business Model Portfolio Management

Designing and maintaining a strong business model portfolio by **requires three main activities:**

VISUALIZE
The starting point for any good discussion, meeting or workshop about your business model portfolio is a shared language to visualize it. You need a shared understanding of which business models you currently have and which ones you are exploring.

ANALYZE
A shared understanding of your business model portfolio allows you to identify if you are at risk of disruption and if you are doing enough against it. This includes analyzing which of your business models are most profitable, which ones are most at risk and which ones you are exploring to ensure your future growth.

MANAGE
This includes continuously growing and improving existing business models shifting outdated ones to new business models and protecting those that are established. It also includes exploring completely new business models — of which many will fail, but some will produce outsized returns and ensure your future.

FIGURE ONE

school. Of course you have to learn all about anatomy and physiology; that's the theory part. But then you also have to do an internship to learn how to put it all into practice. It's the same with innovation. It demands a combination of business theory and practice.

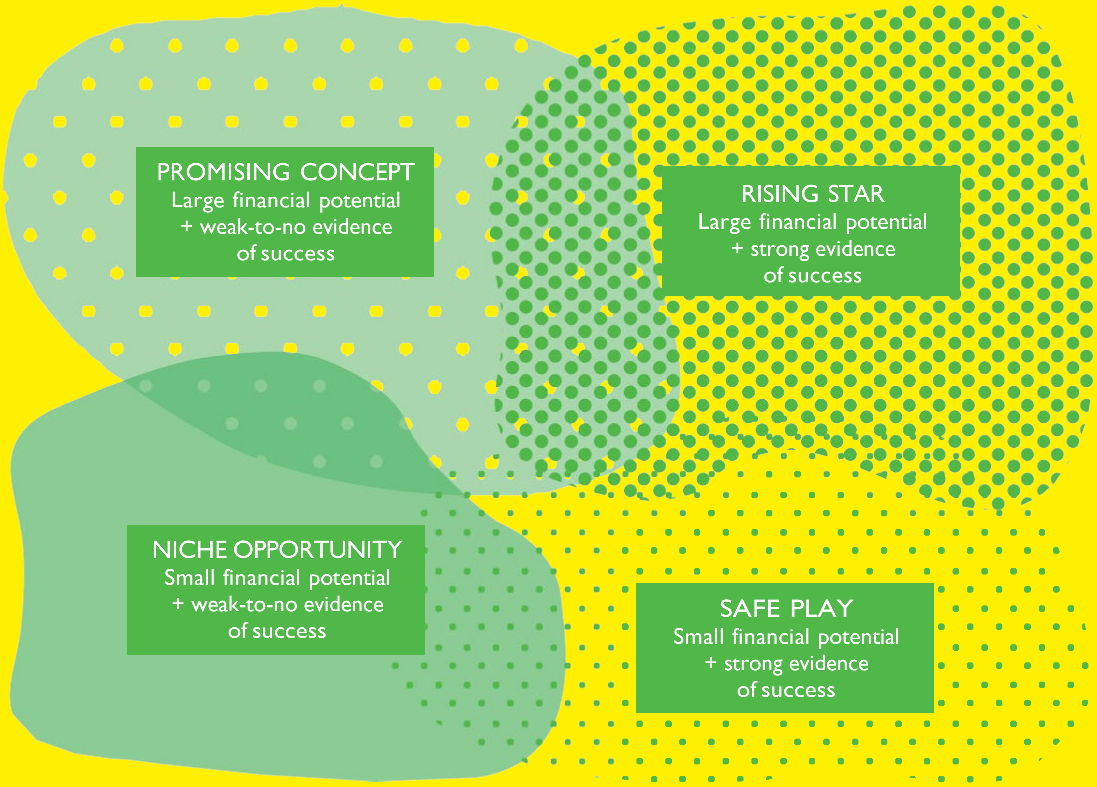
Are there companies out there who are doing all of this really well?

One example is **Bosch**, whose R&D led to successes such as the diesel injection pump and the antilock brake system. In 2014, CEO **Volkmar Denner** sent out a communication to spur business model innovation. He told people that Bosch needed to maintain its technology and product focus but *simultaneously* turn more of its attention to new business models. In 2015, they created an actual Business Model Innovation Department. They saw a need to create an ecosystem dedicated to exploring, nurturing and facilitating growth innovation, moving beyond product innovation.

Next, that department created an Accelerator Program. Teams going through the program explore either a new idea or explore a concept originating in an existing business. The program managers select an initial cohort of 20 to 25 teams from all over the world that work together for two to 10 months. Each team receives initial funding of $120,000 and gets two months to test whether their idea can scale. Depending on the results, they can then obtain an additional $300,000 or more during Phase 2 of the program, so they can test minimum viable products with customers and demonstrate the ability of the business model idea to scale profitably. Only the teams with the best evidence move on to Phase 3, the incubation phase.

Since 2017, Bosch has invested in more than 200 teams. Seventy per cent had to retire their projects after the first investment round and 75 per cent of the remaining teams stopped after the second. With this process, 15 teams have successfully transferred their projects to scale with follow-up funding. Bosch has succeeded at creating a global standard for validating new business ideas.

Potential Steps in The Exploration Journey



Small and large companies that constantly reinvent themselves have an enormously positive impact on society. They provide economic growth and potentially game-changing innovations. The best of them put environmental and societal impact at the centre of their endeavours to change the world for the better.

You need to understand which parts of your business have further potential to grow, which parts need renovation and which are at substantial risk of disruption. You also need to understand which initiatives have the potential to define *tomorrow's* business.

FIGURE TWO

Your most recent book is called *The Invincible Company*. How do you define that term?

We chose that title to be provocative. The reality is, the moment you start believing you're invincible, you're probably going to get disrupted. The most successful companies are those that recognize there is no such thing as invincibility, so instead, they constantly reinvent themselves.

You can love or hate **Amazon**, but from the start **Jeff Bezos** always said to his teams, "We need to keep a mindset of Day One. When we lean back and adopt the mindset of Day Two, that will be the end of us." Even in the midst of huge success, they were always trying new things. Likewise, today's leaders need a mindset that invincibility doesn't exist. And as soon as they adopt that mindset, ironically, they actually do become invincible. ***RM***

Alex Osterwalder is Founder and CEO of Strategyzer, a Visiting Professor at IMD Business School and creator of the Business Model Canvas. He is the co-author of *The Invincible Company: How to Constantly Reinvent Your Organization with Inspiration From the World's Best Business Models* (Wiley, 2020). He is currently ranked No. 4 along with his business partner Yves Pigneur on the Thinkers50 list of the world's most influential management thinkers.