INNOVATION LEADER
ISSUE Nº 2 — SPRING 2016

MassMutual's Radical Learning Initiative

'SOCIETY OF GROWNUPS' GOES NATIONAL

PLUS:

ELON VS. BUREAUCRACY

REBOOTING WALMART LABS

BUILDING AN ENTREPRENEURIAL CULTURE AT COCA-COLA

SOCIETY OF GROWNUPS
CEO NONDINI NAQUI

INNOVATION LEADER
Radical Learning
ISSUE Nº 2 — SPRING 2016

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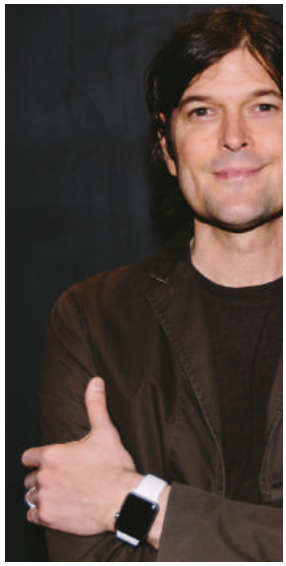

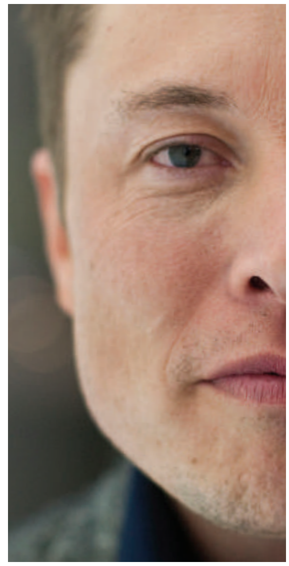

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How do large companies innovate faster, cheaper, and smarter?

That's the question we pose every day on our website, InnovationLeader.com; on our regular conference calls; and at our live events. And this second issue of our print magazine captures some of the best recent answers.

Inside, you'll find advice from executives who've dealt with many of the same challenges you deal with—people like Naomi Fried, a healthcare industry leader who shares her insights on how to make new things happen inside a heavily-regulated industry. Or Christopher Bailey of ExxonMobil, who shares some of his team's learnings from deploying the "Grassroots Innovation Forum," a site for collecting and prioritizing employee ideas.

We also bring you inside initiatives like MassMutual's "Society of Grownups," a gathering place for young adults interested in learning about personal finance. It began in Boston—a partnership between MassMutual and the design firm IDEO—but is now rolling out to other cities. (Attendees at our Boston Field Study last October got a chance to meet the intrapreneurs who created it and spend several hours soaking up the vibe, which is more "neighborhood bar" than "financial services sales office.")

A few things we've got in the works, and which you'll hear more about if you're on our e-mail list:

- Our New York Field Study, June 15 & 16th, which will visit companies like MasterCard, IBM, and Barclays, and feature speakers from FedEx, Starbucks, GOJO, BBVA, FanDuel, and Samsung.
- Our Q2 research report on how and why big companies are deploying the "lean startup" methodology.
- A small "strategy off-site" in Boston on June 23rd, at which consumer products companies will get input and feedback on their connected device or "Internet of Things" strategy from experts.
- A major event we're planning this fall in partnership with the Harvard Innovation Lab.

For this Spring 2016 issue, we're thrilled that we had the chance to work with Patrick Mitchell of Modus Operandi Design to reimagine what INNOVATION LEADER should look like in print. Let me know what you think. Use the e-mail below, check us out at innovationleader.com, and as always, we love to hear your ideas about what else we should be doing to help you and your team.

Scott Kirsner, Editor
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First

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Spring
2016

QUOTED

**“My north star is, DON’T FORGET THE ROLE OF CREATIV
to make things that they haven’t seen before, and**

MICHAEL PERMAN, DEAN OF GLOBAL INNOVATION, GAP INC.

“A lot of creativity and invention is bringing stuff together that we haven’t seen before. When you take that mindset, you suddenly start opening up a kaleidoscope. You might say, we have this idea here, and how would that match with ten other concepts? You combine them.”

JØRGEN VIG KNUDSTORP
CEO, LEGO GROUP

“Complexity is Public Enemy #1 when it comes to innovation. You may have the budget. You may have the CEO’s explicit support. But when things are too complex, innovation initiatives die.”

MARK NITKEY, FORMER EXECUTIVE AT APPLE, AHOLD, AND VICTORIA’S SECRET

ALL QUOTES FROM RECENT ARTICLES ON INNOVATIONLEADER.COM

ITY. Just the raw, pure, essence of enabling people see things that they haven't seen before."

"We think digital is a catalyst for disruption and change in an industry that really needs it. Healthcare is changing in this country. Historically, it was centered out of the hospital in the big urban center. Doctors told patients what to do and patients were supposed to comply. Digital has turned both of those things on its head."

BRIAN TILZER, CHIEF DIGITAL OFFICER, CVS HEALTH

"Co-creation is the new way. If we look at the amount of investment from venture into healthcare, and you look at innovation that's coming out in the healthcare sector, our ability to partner will be a differentiator as we look at our ability to [spur] a more customer-friendly transformation of the system. We can't do it alone."

CHRIS KAY, CHIEF INNOVATION OFFICER, HUMANA

"Those who are building the future shouldn't consider themselves as pirates fighting against the old farts on the execution side. Because they're being financed by these people, and if they don't have access to brand resources and sales channels, they're just a startup in chains."

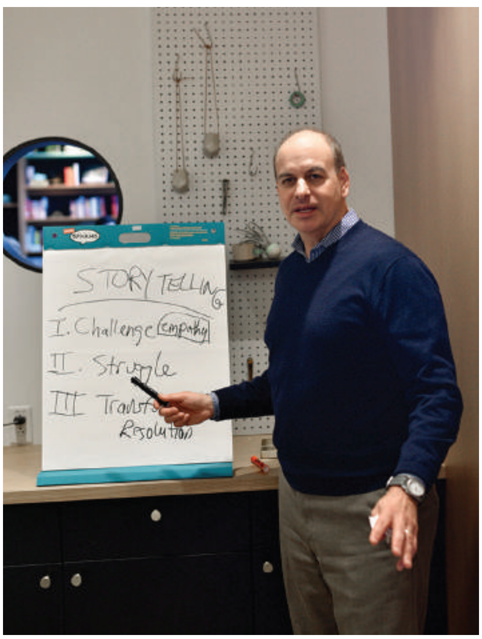
ALEX OSTERWALDER
CO-CREATOR, BUSINESS MODEL CANVAS

Our Boston Field Study featured visits to CVS Health, Society of Grownups, iRobot, Microsoft, and Aeronaut Brewery.

Field Study Boston

October 2015

OUR NEXT FIELD STUDY HAPPENS IN NEW YORK, JUNE 15 & 16. FOR DETAILS, VISIT INNOVATIONLEADER.COM.

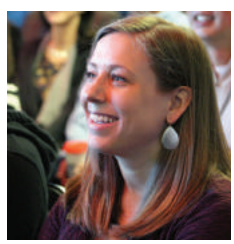


PHOTOGRAPHS BY **Kara Swenson**

We dropped in on Google, Adobe, Ford, Y Combinator, and Vodafone Global Enterprise for our Silicon Valley Field Study. (Plus Strike Brewing Co. in San Jose.)

Field Study Silicon Valley

March 2016



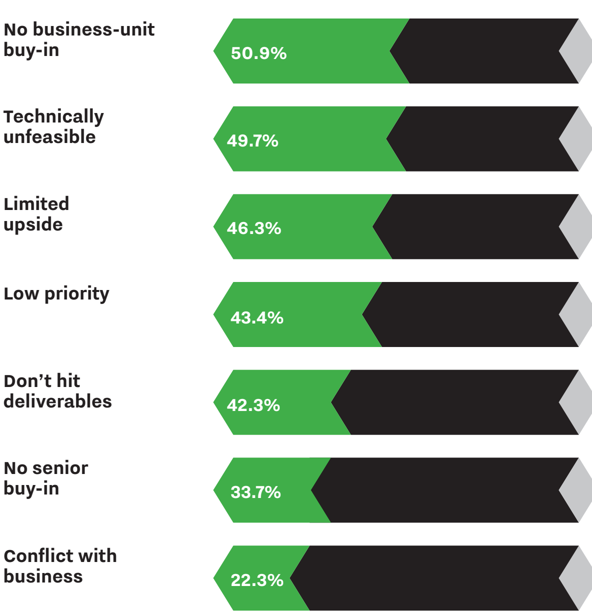
PHOTOGRAPHS BY **Breanna Baker**

Where's the Money?

SURVEY RESULTS ON INNOVATION BUDGETS, PROGRAM STRUCTURE BY SCOTT COHEN

In 2015, INNOVATION LEADER and the growth strategy firm Innosight published an Innovation Benchmarking Report, which analyzed the innovation programs of more than 200 large corporations. The report looked at everything from program structure and focus, to budgets, metrics, and how projects get killed—and since its publication it has

Why Projects Get Killed



been one of the most frequently downloaded resources at InnovationLeader.com.

We're sharing some highlights from the report here; these are excerpts from the larger 40-page document.

Focus and Structure

A recurring theme at our live events and in our editorial coverage relates to program focus and structure. Specifically, innovation executives are very interested in how other companies are directing their efforts when it comes to innovation, and how their organization should reflect that strategy.

In general, respondents to our survey grouped innovation into two different areas: transformational vs. incremental. Transformational or "breakthrough" innovations typically yield entirely new businesses (think Amazon's $5 billion Web Services division.) Incremental or "adjacent" innovations, on the other hand, typically describe smaller product enhancements or brand extensions that have a material impact on a product line (think Sargento Foods' "Ultra Thin Slices" business, which cleared $100 million in sales the second year after its launch.)

According to our report, the vast majority of respondents were pursuing a "Hybrid" approach that included both transformational and incremental innovation. Incremental innovation was the sole focus of 31.9 percent of respondents. Only 14.7 percent of respondents said they were pursuing transformational innovation exclusively.

Respondents similarly took a hybrid approach to the structure of their programs as well. (See charts on the opposite page.)

Different structural approaches come with different challenges. If the innovation strategy is too distributed into the business, the innovation effort can lose steam or become occupied by modest incremental improvements. However, if the innovation strategy is too separated and centralized at headquarters, it can create the "Not Invented Here Syndrome" that leads to organ rejection from the business units.

Where's the spending?

When we asked respondents to break down their annual spend on innovation programs, the results were pretty uniform: "Not much."

In almost every category we tracked—from ideation and events, to expenses related to labs and consultants—the numbers were almost always under $500,000 per category.

Only two categories had budgets with larger averages: personnel and R&D.

Not surprisingly, larger R&D budgets were more prevalent at larger companies. Larger R&D expenses were also skewed by industry: a plurality of companies with the largest R&D budgets (more than $10 million) came from the Consumer Products (20.7 percent) and Technology (17.2 percent) industries.

No matter what the budget, survey respondents made it clear that the battle for resources is never-ending. Innovation leaders need to show creativity and political savvy in capturing budget, which—quite frankly—is no different than any other corporate function. Innovation executives need to determine what services and programs are delivering an impact, allocate budget, and shed initiatives that aren't moving the needle.

Why do projects get killed?

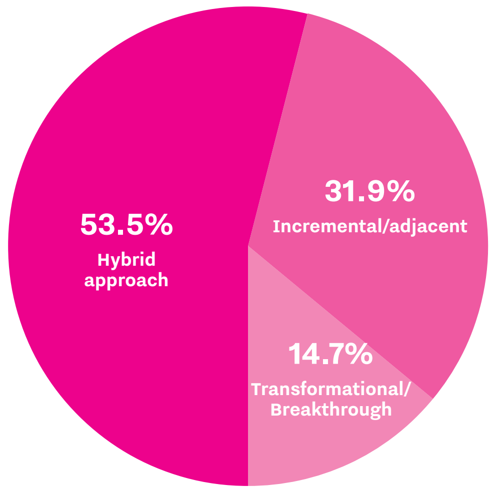
The most common reason projects die highlights one of the most important relationships for innovation executives: with leaders of the business units. Just over 50 percent of respondents said that innovation projects get axed because there was "no business unit buy-in," pointing to the difficulty of transferring projects from an innovation or R&D team to an operating unit.

"It's what I call 'organ rejection'," Transamerica Chief Innovation Officer Aaron Proietti recently told Innovation Leader. "You try to transplant a fully-formed idea into a business unit that doesn't have passion for it, and it tends to get rejected."

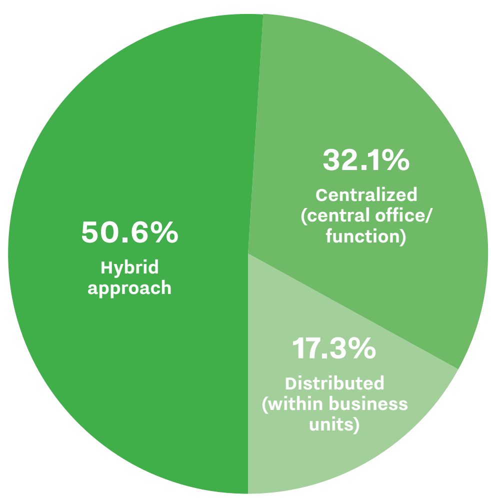
Related to that, 22 percent of respondents told us they'd also seen projects perish because they created conflict with existing businesses—which new ideas have a tendency to do.

Many respondents provided added commentary, nothing that "re-organizations and/or shifts in priorities" are also common reasons why innovation projects are killed. Other reasons cited were simply business-related: customers rejected the product in tests; financial models proved the innovation unfeasible; or "it was too far outside our core business." ●

Innovation Program Focus



Innovation Program Structure



FOR MORE ON THE BENCHMARKING REPORT, VISIT INNOVATION-LEADER.COM'S REPORTS SECTION. FOR SLIDES, VISIT SLIDESHARE.COM AND SEARCH "INNOVATION BENCHMARKING REPORT."

Peer Perspectives

2

So You're Trying to Innovate in a Heavily-Regulated Industry...

Several years ago, my innovation team at Boston Children's Hospital came up with the idea that our doctors could provide care virtually, via video-conferencing, to critically-ill patients in small community hospitals. We brought this idea to the legal department, where it was met with scowls and deep skepticism. Our lawyers were worried about patient consent, physician licensure, medical liability... the list of legal and regulatory concerns they had around this innovation in care delivery went on. And on. And on!

But after many conversations and much hard work, we ultimately launched our "Teleconnect" program to help critically-ill kids in other hospitals. Our legal team provided invaluable guidance and advice. Ultimately, they even became internal advocates for the Teleconnect program.

The importance of innovation is widely accepted. Every company must innovate to survive and thrive, and to avoid being overtaken by peer companies—and upstart firms—that are themselves eager to gain a competitive advantage.

But engaging in actual innovation is far from easy. There is experimentation, testing, tinkering and—sometimes—significant risk-taking. Often, the outcome is failure. In short, innovation with its risk of failure is *scary*.

In industries that are heavily regulated—such as pharma, healthcare, insurance, and banking—there are additional barriers to innovation. Legal, compliance, and regulatory requirements can loom large, and have the potential to stifle innovation—if you don't address them head-on.

Nevertheless, innovation can thrive in large organizations in heavily regulated industries. I know. I have been working on innovation in regulated industries for over a decade now. I have facilitated innovation within health plans, hospitals, and biopharma companies.

Here are seven tips to navigating the internal legal and regulatory roadblocks to innovation that you often encounter in these kinds of organizations.

PHOTOGRAPH BY Troy Caldeira

1. Build relationships proactively with internal regulatory and legal folks. That's right. Seek out—don't avoid—the staff responsible for legal, regulatory, and compliance within your organization. Innovators sometimes think they are better off steering clear of these gatekeepers and guardians for as long as possible. That is a mistake; you can't avoid working with these folks. If you don't find them, they will still find you!

Don't wait until your innovation is "ready" to talk to your regulatory colleagues. Rather, invite the legal, regulatory, and compliance teams into early conversations about innovation. It's best to discuss your innovation project when the stakes are still low, at the beginning of the innovation lifecycle. Give them time to digest the new idea. Let them provide input and guidance in the early stages, at a time when you are still able to shape and mold the innovation.

I found the regular monthly meetings we set up with our legal team at Boston Children's Hospital gave us the time and space to discuss issues that were emerging around the deployment of our "Teleconnect" videoconferencing innovation. Because we discussed our plans well in advance, these meetings were calm and collaborative. While it's great to have informal check-ins, nothing beats regularly scheduled meetings for making sure legal and regulatory partners are up-to-speed and on board with plans.

Also, regulatory folks are less defensive and more open in the planning stages than after considerable resources have been invested in the innovation. Don't wait until the idea is fully baked or tested to share it with legal and regulatory.

What if you still encounter resistance? Is it time to go over the heads of the lawyers, pull rank, and bring the CEO in? Sure, this approach can quickly break through an impasse. But I would not recommend it in an organization where you are trying to repeatedly innovate over time. This type of maneuver is likely to alienate your legal partners and make it harder, not easier, the next time you seek their support or approval.

In discussions with legal and regulatory colleagues, it is important to continuously reference the importance to the business of the innovation. Remind them that shutting it down or blocking it is not an option because it is bad for business. That will keep the lawyers at the table, and keep them focused on finding ways to drive the innovation forward.

2. Find a champion within your legal and regulatory departments who is interested in innovation. Find an innovation partner—someone you can work with throughout the project (and perhaps eventually on multiple projects over time.) This internal innovation partner can help you navigate not just your organization, but also the industry. Having a legal or regulatory innovation champion also lends internal credibility to your project.

> **"Innovators sometimes think they are better off steering clear of legal, regulatory, and compliance colleagues. That is a mistake."**

Wondering where to find this legal or regulatory innovation ambassador? Be open to an innovation partner from any of your organization's legal or regulatory groups. Your legal innovation champion could be a seasoned lawyer, or a more junior attorney who is interested in innovation.

At a biotech company I worked at, my regulatory champion on a social media initiative turned out not to be someone who was assigned to this domain, but rather a relatively new lawyer. He had recently joined the company and was thoughtful, caring, and interested in exploring the possibilities of social media. He was willing to work with us and serve as a bridge back to other regulatory experts in the organization.

3. Reframe the conversations. The easiest and safest thing for legal and regulatory folks to say when confronted with innovation is "no." To avoid a conversation that ends in "no," try to reframe the discussion. Get your legal partners to speak in terms of "yes, but." That is, "yes, you can try that idea, but here are the restrictions..." Or perhaps they can provide a "yes, with" answer. "Yes, you can innovate but with certain constraints." These "yes, but" and "yes, with" conversations provide space for exploration and potential for innovation—unlike instant "no's." Reframing can be done by asking questions and exploring hypothetical scenarios.

At Boston Children's Hospital, when we began planning our first hackathon, the question of who would own the intellectual property that was generated came up as planning for the hackathon progressed. The initial response from our lawyers was that the innovators could not own any IP developed at our hospital-sponsored hackathon. But over the course of a series of discussions, we were able to reframe the conversation. Ultimately, everyone agreed on a mechanism for sharing IP between the hospital and the innovators (outside entrepreneurs, inventors or designers, for instance.)

4. Recognize folk law. In regulated industries, there are certainly rules that need to be followed and laws to be aware of. However, there are also often grey areas where the law is not clear. Innovation frequently occurs in uncharted territory, where regulations may not be well defined. Often in the absence of clear laws and regulations, people rely on "folk law." Folk law is not real law. Rather it is the way things have always been done, or the assumptions people have always made—and thus is treated by some as if it were a real regulatory constraint. Folk law develops as a result of what people are familiar with and comfortable doing. Once restrictions are identified as "folk law," it becomes easier to move past them.

At a biotech company where I worked, our legal team was initially uncomfortable with executives tweeting. But once we began to discuss the source of their discomfort, it became clear that the concern was rooted in the fact that none of the executives had ever been active on Twitter. The "folk law" that "executives can't tweet" crumbled once it was identified. Soon after, the regulatory team issued a set of internal policies and guidelines around the use of Twitter by employees.

5. Track the competition. Legal and regulatory folks are not always comfortable having their organization be the first to innovate and chart new territory. However, when other organizations in the same industry are innovating and pushing the envelope, in-house legal and regulatory experts become more comfortable with their organization doing the same.

There is a sense of "safety in numbers." Tracking how your competition is innovating can help you make the case for innovation with your legal and regulatory colleagues.

6. Communicate broadly. Strong internal communication is always important when innovating. Effective, broad communication across the organization is even more vital when innovating in a heavily-regulated industry. Why? In regulated industries, other folks in the organization besides the legal and regulatory experts may also worry about innovation-related risk. Developing a broad communication plan that reaches all areas of the organization and keeps folks regularly updated can make the difference in overcoming internal resistance to innovation.

When I was Chief Innovation Officer at Boston Children's Hospital, we had monthly forums where we shared updates on our innovation programs. I continuously made rounds to all the clinical departments at Boston Children's to provide updates and information to the doctors and nurses there. And we produced an annual innovation report that proved a great way to disseminate information about our progress on a yearly basis.

7. Be patient. Innovation in a regulated industry takes more time than it does in other industries. There will often be folks who are uncomfortable with innovation and may raise red flags. But just because you are in a regulated industry doesn't mean that you can't innovate successfully. Just be patient. Celebrate progress as you make it. Focus on the ultimate goal of your innovation, and don't get discouraged when there are setbacks. (I've been there!) What doesn't work is treating legal, regulatory, and compliance folks as the enemies of innovation. In fact, they can be great enablers.

No one said it'd be easy, but with time and patience, and by following the steps above, you can bring innovation to a highly-regulated industry. ⬢

NAOMI FRIED HAS HELD SENIOR INNOVATION AND TECHNOLOGY ROLES AT BIOGEN, BOSTON CHILDREN'S HOSPITAL, AND KAISER PERMANENTE. FRIED HAS ALSO WORKED AT HEALTHCARE STARTUPS.

Incrementalism Isn't a Way Station on the Road to Disruptive Innovation

PHOTOGRAPH BY Troy Caldeira

WE SPOKE RECENTLY with Phil Swisher, who in 2015 wrapped up nearly five years as Global Head of Innovation at Brown Brothers Harriman, the oldest and largest private bank in the U.S., and also served as innovation advisor to the Governor of Massachusetts. Swisher now runs Trevian Wealth Management, a national firm.

He made these observations about innovating in an established organization.

1. The fundamental question with innovation roles is self-interest—what are you personally optimizing for? Are you optimizing for your own long-term tenure at the company, or for maximum impact and outcomes? If the role is one stop on a longer career progression inside a company, you're better served focusing on non-controversial opportunities where "successful outcomes" (success as defined inside the organization) are likely, and likely within the expected tenure of the role. It's a corporate staff job, in substance.

But if you're looking to maximize impact and outcomes, you're relying on the senior executive sponsor (ideally the CEO) to provide the permission and space for the team to go after the really big opportunities, including ones which are threatening to the status quo at the company. The mindset here is similar to a start-up, and the goal is to take things as far as possible, knowing that the innovation role is likely the only one you will have at that company, and that it's probably time-bounded by the tenure of your sponsor.

2. If you are trying to maximize impact and outcomes, some of the best places to look are the areas of the firm that are the most political and which are the most resistant to change. Those are the places where there is likely the least focus on meritocracy and on running a business well. There is often big opportunity in going after the entrenched sacred cows, and it also shows the rest of the organization that the leadership is truly serious about innovation. Making steaks out of sacred cow is a good thing, because it is really hard for companies to disrupt themselves. And if an internal innovation team can figure out big opportunities that are disruptive to the existing organization, it's likely that smart people in competing firms can do the same thing. Isn't it always better to try to disrupt yourself rather than letting others do it to you? I like to say, "If you're not at the table, you're probably on the menu."

3. I can't think of any program that has started with incremental innovation and gone on to do really disruptive things. I just don't think it's a progression. If the incremental stuff doesn't work, people shrug their shoulders and ignore you. If it does work, people really like it and they want more of it since it benefits their P&L. So what do you do? Can you really say, "OK, next year, we want to build a space elevator or a self-driving car? And we're not going to help do any more incremental things that we've shown are valuable to your bottom line?" If your incremental approach doesn't work, it's game over. If it does, people will want more of it. And then you have tangible wins, you get a bigger bonus, and now you're going to risk that to do something really disruptive? I just have never seen it work that way.

I'm not an innovation snob—I'm a pragmatist at heart. Incremental and adjacent innovation can be really valuable, as are innovative approaches to reducing costs or increasing productivity at scale. For example, if your goal is to maximize the impact on a large global firm, figuring out how to make the IT department five percent more productive will likely have an impact orders of magnitude greater than most any new product idea, corporate venture fund, or start-up incubator. It's not as glamorous or as easy to quantify, but it's really valuable.

You could also choose to focus on being great at incremental things and execution—be the best at rapid prototyping and hypothesis testing, or making sense of large data sets, or enabling the executives who really want to drive meaningful change in their organization to do that faster and better. This type of program is the best answer for most companies. It's not radically different, and that's OK.

4. The real hard stuff, the fundamental challenge, is when you find a big opportunity and it's also threatening internally. Does the CEO really advocate for the innovation team, over the objections of the core business? As I've said, it's extremely difficult for any company to disrupt itself, unless external events make that the only viable path.

5. You don't want to spend a year or two figuring out what type of structure are you going to have as an innovation group. When I started at Brown Brothers Harriman in 2010 and told people I led innovation, some laughed and asked me if that was really on my business card (it was.) Now, most every company has some sort of program. I think the main structures are:

- A captive startup launching new businesses
- An incremental product development resource for the core business
- A corporate venture capital group
- R&D for emerging and new technologies
- Skill-building, training, and creating more innovation competency in the organization
- Focusing mainly on marketing and PR and going to conferences to look more innovative to your customers.

They're not mutually exclusive, but you should probably start with one focus.

6. It's important to realize that there may be many people in the organization who are waiting you out. They think innovation is the current management fad, like kaizen or Six Sigma or quality circles. It can be really hard to challenge those entrenched interests, who are senior enough in the core business, have mastered the internal politics, and have no intention of leaving.

7. In the innovation roles where you're trying to build disruptive new products and businesses, your tenure is often very closely linked to the tenure of your executive sponsor. Your ability to get stuff done is so vastly diminished if you lose your executive sponsor—no one wants to inherit someone else's ideas.

Innovation teams can have major impact even if you know there will be an end to it. Make it like the Olympics. It can be a shining moment that doesn't last forever. But if all goes well, maybe you even end up on your company's equivalent of the Wheaties box. ●

Fueling Grassroots Innovation at ExxonMobil

ExxonMobil #Innovation Catalyst Christopher Bailey (left).

PHOTOGRAPH BY Breanna Baker

SOME OF THE BEST IDEAS for improving operations—what is frequently called "incremental" or "sustaining" innovation—are often squashed under the weight of other priorities and layers of management.

It was no different here at ExxonMobil IT, the global organization that works in partnership with all ExxonMobil business units to provide integrated technology solutions.

Before we implemented a unique approach that we're discussing here for the first time, there was no good way to test ideas for these operational innovations, which were considered neither "disruptive" nor "breakthrough." Pilots and experiments were not part of our culture or vocabulary.

Instead, all innovative ideas for operational improvements went through more traditional channels, and most of those ideas rarely made the cut; only the most ambitious and driven employees were able to turn their ideas into solutions with business value. But what about the rest of them?

At a company like ExxonMobil, these seemingly minor operational innovations are absolutely crucial. With over 75,000 employees and $269 billion in revenue, even small, incremental innovations can create cascading benefits that yield literally billions in savings or opportunities.

So a small group of innovators began searching for a solution. The group, which we named #innovation, was charged with instilling an innovation mindset within ExxonMobil. We had a hypothesis: that a bottom-up, grassroots program to support "intrapreneurs" would fuel participation, quality, and speed of innovation.

To be honest, our thesis was more of a brainstorming hunch, posed as a question: "What if we created a 'Virtual Café,' where ideas could be shared, swapped, combined, tested, and selected for further prototyping on a global basis?"

That question yielded the birth of The Grassroots Innovation Forum (GIF).

Here's what we did, the mistakes we made, and ten lessons we learned that may be applicable at your company.

Getting Started

For its initial pilot, #innovation wanted to scope out a small area of focus for the Forum. The area selected was, "Ways to improve ExxonMobil through the creative use of IT."

A digital home was created for this 'Virtual Café,' where ideas could be submitted, aggregated, discussed, and even voted on by the community. Ideas would be then brought to a Selection Team for formal review.

This Selection Team was made up of executives and information architects, and the team was provided specific criteria for the identification and management of the ideas.

With that foundation in place, the Forum launched its first idea-generation campaign with a small community of approximately 100 intrapreneurs. Ideas were submitted and ranked, they were selected by curators, and the best were brought to the Selection Team.

And that's when the bottom dropped out.

Overcoming Obstacles

The first meeting of the Selection Team was, quite frankly, a disaster.

That's primarily due to the fact that the Selection Committee was expecting fully-developed solutions, not simply concepts worth consideration. As a result, the Committee was asking sophisticated questions that assumed our GIF ideas were more mature, like, "Where's the full Terms of Reference and list of requirements?" and "How come they don't have business value already identified?"

The #innovation team was forced to regroup and ascertain what went wrong (over ice cream, thankfully.)

In short, #innovation realized that—despite our intentions—we had approached the GIF process like any other project in the company. Specifically:

1. They went out of their way to ensure every business line was represented on the Selection Team;

2. They had senior management representation on the Selection Team for funding needs; and

3. They had robust criteria to score the ideas (a 20 question evaluation form) to ensure they selected the correct idea.

While this approach often works well for large projects that need significant oversight, our process was intended—by design—to nurture early-stage ideas and hunches. Asking our Selection Team to review these concepts was like asking a ravenous giant to sit at the dinner table and pick the seeds for future meals—the ideas would be devoured or crushed, not nurtured.

Retooling For Success

To ensure the process was improved, the #innovation team spent considerable time researching companies, startups, and entrepreneurs that excelled at idea generation and selection. Ten key factors quickly surfaced, and those factors became the foundation upon which the GIF would be built.

They are:

Get The Right People The Selection Committee is really a Steering Committee and should be comprised of "venture capitalists" within the company. Don't arbitrarily appoint executives who represent business units or product lines. Instead, find people across all layers of the organization who are not only excited by new ideas, but are willing to get behind and promote them.

Bring Your Evidence Selection criteria should be simple and structured in a way that drives the community to show you the evidence that the idea is worthwhile. In fact, if you strip an idea down to the basics, you really have three criteria or evidence to prove:

Is It Desirable? Before the Steering Committee sees the ideas, each idea must receive a targeted number of community votes in the forum. This ensures that the Steering Committee knows the idea already has the backing and support of the intrapreneurs in the company.

Is It Valuable? The Steering Committee may not be packed with senior executives, but it is comprised of experienced individuals who understand the varied areas of our business. This ensures the Committee can review the potential value of each idea, along with what the community thinks.

Is It Feasible? Once the Steering Committee deems an idea to be valuable enough to pursue, the full group immediately discusses the best way to investigate the feasibility of the idea. They also match a Steering Committee mentor with the idea generator (whom we call "The Ideator") to provide support and guidance. This approach forces everyone to iteratively develop the evidence that lubricates the innovation engine, making conversations around funding and effort much easier.

Keep It Open Make the entire process transparent. Invite each Ideator to the Steering Committee meeting to present his or her idea, and make sure the Ideators bring friends and coworkers to listen in. In essence, they are marketing the idea within the company, and building grassroots support for the concept.

Keep It Simple Simplify the idea-generation process, and strip it to its bare minimum. For example, we require just a title and description. In fact, we recommend removing detailed fields, categories, or metadata that might intimidate those with just a hunch about something. Don't force them to write a dissertation. This will reduce barriers-to-entry, and will allow the community to foster and grow more quickly.

Keep It Loose When discussing your forum, use language that reflects the open, experimental, loose nature of the idea-generating process. We recommend using words like "seeds," "hunches," "prototyping," and "testing." Avoid terms like "business plan" that imply formality and might scare away entries. This will also help set expectations for the Steering Committee, ensuring they understand that they are going to be reviewing "hunches," not fully formed business concepts.

Be Draconian & Kill Ideas Actively curate the forum by closing ideas that don't receive enough support, and moving ahead those that do. In conversations with other large organizations, we learned employees stop believing and participating when their ideas languish in a black box for eternity. Set a cadence for review—for example, we give ideas two months to gain support—and stick to it. When ideas get killed, make sure you communicate back to the Ideator; don't let them discover online that their idea was killed two weeks ago. And when informing them of the bad news, don't suggest that the idea is "bad," but rather point to the lack of community support, encouraging them to iterate with their colleagues and resubmit.

Don't Be Siloed Cross-functional interaction is always preferred. For example, when focusing on information technology related topics, don't leave the businesses out. The business units will know of opportunities that the IT organization doesn't see, so help them combine their solutions into winning ideas.

Focus It's okay to keep the topics broad, but try to control the flow of junk. And be sure to quickly kill ideas that stray from your strategic mission, otherwise the community will lose focus.

Support Your Innovators Show the love to your community, because they are your greatest champions. Support your first Ideators and give them reasons to come back. Start small and grow organically; once you have a base and success stories, you can go big and launch to a larger audience.

Provide Updates Let everyone know how the process is going. Newsletters, updates, or status pages are all worth considering; the goal should be to inform and remind the community that this is an active, vibrant forum where ideas can and do grow into solutions.

ExxonMobil IT implemented each of these elements. The quality of ideas improved, the Steering Committee was more engaged, the Ideators were excited by the progress, and ideas began to move from just hunches into solutions. To #innovation's delight, the community grew exponentially, ideation spiked, and the ideas continue to get better.

Looking To The Future

Eighteen months after re-launching GIF, ExxonMobil's community now includes more than 4,000 participants who have generated over 400 quality ideas. Nearly 25 of those are in production or under development.

The #innovation team has been attending internal fairs, meetings, and recruiting events to share this story and build the community.

And the #innovation team isn't done iterating. Next on the horizon is expanding this forum to include non-IT topics, mini-challenges to target gaps in ideation, and a #innovation "InnoKit" (similar to Adobe's Kickbox program) to provide our innovators with new kinds of tools.

Our goal is that, someday, everyone in the company will be able to take their seed ideas and grow them into solutions valued by their customers. ⬢

CHRISTOPHER BAILEY AND **JEFF ROSENBAUGH** ARE #INNOVATION CATALYSTS AT EXXONMOBIL.

VISIT INNOVATION LEADER'S RESOURCE CENTER TO DOWNLOAD A PDF OVERVIEW OF THE GRASSROOTS INNOVATION FORUM.

Coca-Cola
Atlanta

INSIDE DAVID BUTLER'S MULTI-YEAR EFFORT TO BUILD AN ENTREPRENEURIAL CULTURE INSIDE COCA-COLA

Explorers Wanted

INTERVIEW BY SCOTT KIRSNER

PHOTOGRAPHS BY STERLING GRAVES

One of the biggest challenges for any large company, says David Butler, is hiring explorers—not just managers—and creating an environment where they can thrive.

"You hire managers to manage your business model," he says. "What you don't hire typically are explorers—people to actually figure out new business models. I think that's one of the biggest challenges for any big, successful company."

Butler is Coca-Cola's Vice President of Entrepreneurship and Innovation, and he joined INNOVATION LEADER editor Scott Kirsner on a recent conference call with subscribers. Butler co-authored the 2015 book *Design to Grow: How Coca-Cola Learned to Combine Scale and Agility (and How You Can Too)*.

READ OR LISTEN TO THE COMPLETE INTERVIEW AT INNOVATIONLEADER.COM/COKE

Why does Coca-Cola need a VP of Innovation and Entrepreneurship?

I think every brand, every established company, every large organization, I'd actually throw in governments in there as well, is looking at this whole space of disruptive innovation with the hopes of avoiding a Kodak moment.

Again, that's an overused example now, but basically becoming irrelevant to the market that they're in or the people that they're talking to. I think every big company is looking at this whole thing and trying to figure out a way to avoid it and, in fact, perhaps leverage it for a new opportunity.

In [our] case, the company wanted to focus on exponential growth. Basically, "How could we do what startups do?" These high growth companies that came out of nowhere—Square, Spotify, Instagram—that didn't exist four or five years ago, how are they able to create something that's now valued in the multi-billion dollar valuation?

LEARN BY DOING

How can we do that? How do we partner with them if we can't do it? To dig into that and try to figure that out on behalf of the Coca-Cola Company, that was the job. Now we've had quite a journey since then. We've tried many, many things. The cool way to say that is we've pivoted two or three times, but essentially we failed a few times and changed directions, lots of learning.

I put one slide up in front of our operating committee, which includes our chairman and his direct reports. It was a slide that just said three words: "Learn by doing." I think that's key.

I just said, "We're going to learn by doing. I don't know how to do this, but we're going to try a lot of things. And we're going to fail at a lot of them, but we're going to learn continuously across that."

We haven't hired consultants. We haven't asked other people to figure this out. We've actually tried to figure it out on our own.

"What is every large organization faced with? They're slow, and they spend a lot of money, and we're right in there."

It sounds like you were very clear that this this was not about incremental product innovation, like, a different package for Diet Coke or an extra button on the vending machine. This was about looking for real growth and things you just weren't doing today.

Exactly. Every company does that kind of incremental innovation. We do that. What we were looking for is a way to tap into what founders are able to do, and startups are able to do. This whole movement, the "lean" movement that's been going on for a decade, we wanted to figure out how we could tap into that to experience the exponential growth that they are.

MAXIMUM SPEED, MINIMUM WASTE

Let's talk about lean startup a little bit. I know you've done a decent amount of training for Coca-Cola employees, in a pretty short period of time, on lean startup. Talk a little bit about what you like about that method and maybe how broadly you've been training people there.

Lean means two things. It means maximum speed, and the least amount of waste. Maximum speed, minimum waste.

If you think about it, what is every large organization faced with? They're slow, and they spend a lot of money, and we're right in there. This whole lean approach has been key to everything we're doing here. Again, we didn't get to it on Day Two. It took us a long time to figure this out.

We did two things. We created a new platform that we called Coca-Cola Founders, where we work with proven founders to co-create with them early-stage or seed-stage startups. We started that platform.

Then we started a second platform, essentially training lean principles across our internal organization. Those are the two things that we started about a year and a half ago.

Did you do the training yourself? Do you have a team of people that are running lean startup workshops inside the company?

Yes, it's all internal. Actually, I will say that from the beginning we formed a relationship with what's called Up Global. They started Startup Weekend. Essentially, you can learn how to create your own startup in 54 hours just right off the street, for a hundred bucks.

We wanted something as turnkey as that inside of our organization, so we partnered with one of the founders. He had spun off and started doing his own thing. We found him and brought him in to help us codify what they were doing. All of it is framed in our own language, in the Coke language that people understand here. It's essentially internalizing the lean principles and tools out there.

I want to ask you a follow up about Coca-Cola Founders. In terms of that program, and bringing in entrepreneurs to work with your people to launch startups, how did you promote that? Did you put boundaries around it in terms of, "Hey, we're looking for people with mobile app ideas or dispensing or distribution ideas?"

First of all, let me say that we've been investing and partnering with established startups, especially late-stage startups, for a number of years now. We are partners with Spotify, Misfit, Music Dealers, a lot of other startups. We had already been doing that. Once we understood lean, we thought, "What if we could go all the way back to the beginning and partner with a founder that was specifically coming out of their startup?" In other words, they just sold or had an exit from their startup, or just had a big failure and were in between things.

What if we could find those founders who understood the lean method and were looking to create something big? What if we could find them and then partner with them from the very beginning, and expose to them the challenges that our company has—the big things that are very difficult for us to solve internally.

If we could explain that to them, if we could expose them to the assets that we have—every large organization has a tremendous amount of assets that are unthinkable, if you're a founder. We have billion-dollar brands, and we have relationships with everyone from the CEO of Walmart to Bono. We could pick up the phone and call anybody. We can get a meeting with anyone.

If we could give them access to seed funding, and give them access to us as a launch partner, meaning get them to the right people inside of Coke to make decisions quick and pilot their product and all that... If we could give that to these proven founders, what could we create?

That could only work inside of Coke if it was in alignment with our business units. The way we're structured is through geographic business units. We went to the BU presidents inside and pitched this idea. They were into it.

Then we went into the markets themselves, into the startup communities and found the founders. We built what we call a co-founder network where we just link them together. We built that network. In a year, we were live in 10 cities. That was last year.

Through that, they launched 23 startups across those 10 cities. If you know anything about this, one in 10 startups make it. That's not an unusual number. We did that within a year. I have to say that doing anything like that is quite difficult inside of a large organization.

We ourselves actually approached that whole platform as if it was a lean startup, and just applied all the same methods and tools to that effort or that platform development as you would in launching a startup.

THE NEED FOR 'EXPLORERS'

I imagine a lot of companies could spend a year just figuring out the intellectual property issues of, "OK, we're going to work with entrepreneurs and co-create things with them. Who owns it?"

Once you have an established business model and you have an established business like the Coca-Cola Company, essentially the way you keep that going is you hire people to execute your business model.

You hire managers to manage your business model. What you don't hire typically are explorers—people to actually figure out new business models. I think that's one of the biggest challenges for any big, successful company.

In our case, we have 700,000 people who are hired to execute a business model, and not explore a new one. When you go to them and say, "Look, we want funding to do this," you mentioned the IP, "We want to do this and that," they look at you like, "What, are you crazy? We don't do this." It's a sort of fundamental structural issue.

A STARTUP TO SOLVE OUT-OF-STOCKS

Can you give one concrete example of what's an idea that one of these 23 startups came up with? What kind of space did they focus on?

I'm happy to share all of that. Actually it's on our website, if anybody wants to check out coca-colafounders.com.

We always start with a Coke problem, a Coca-Cola issue, a challenge. You never want to talk about problems inside a big company, so we call them challenges. But it's essentially a big problem. The team that was based in San Francisco focused on one of the biggest challenges that we have inside of our US business, which is what we call out-of-stocks.

It's easy to understand. If you go to your local convenience store wherever you live, and you're looking for whatever you like, Coca-Cola Zero, let's say, and it's not on the shelf, that's mildly disappointing to you. But that's a billion-dollar lost opportunity for us.

Solving that out-of-stock issue is critical for us. It's a group of interrelated problems. It's not just one thing. Essentially, no one knows exactly when someone is going to buy the last six-pack or whatever of Coca-Cola Zero. Nobody knows that. A guy comes by every two or three days and restocks the shelf. There's no on-demand model.

They thought, "What if we could create a way for the retailer, the shop owner, to post a job and whoever wanted to come and restock that shelf could do the job in an hour, wouldn't that be more beneficial to Coke?" Could they create a business around that?

If you think about it, there are a lot of companies out there right now, TaskRabbit and others. This is sort of TaskRabbit for corporations. That's what they created. It's called Wonolo. The business model is just like Uber.

You post a job. Someone takes the job. The person that does the job gets paid through the app, not the retailer, so it removes that friction.

They've got 70-plus customers. The idea is what we call win-win internally. It creates value for us internally, but it also allows them to hopefully start a big, billion-dollar startup.

METRICS

We've got a couple questions already from listeners, so let's get to those. Question #1 comes from Stanley Black & Decker. What types of metrics are you using to track your progress and define success?

That's a great question. Actually, it took us a little while to get here. We track progress just like a VC does, in this case. We look right at growth metrics, the things that really matter. There's a whole book on this, by the way, "Metrics that Matter." It's inside of a book called "Running Lean."

In early-stage startups, they don't have a product yet. Most of them don't have a team or a product. The way that we measure success is by milestones. In other words, just as an easy example, one of our startups is looking for a CTO. One of their milestones is hiring a CTO.

We look at their milestones and measure according to those. Once they have a business going, they have real customers, they're generating revenue, then we look at that. How many users do you have? How much revenue are you generating?

Phil Gibbs sends in a question asking, "Were the founders employees, or did they become employees of Coca-Cola? What are the issues around equity and ownership in startups? How did you hash that out?"

Great question. I mentioned we made several mistakes or pivots along the way. One thing that we did is we thought—and you can relate if you're inside of a big company—we thought the easiest thing to do is just hire these people.

Number one, none of these people wanted to work inside a big company. I used a lot of my own personal equity and sweat and everything essentially selling them and talking them into doing it.

We hired them and got them all set up inside of Coke. Once they started doing what they are best at, creating a big startup, all of them are outside of the beverage industry. I mentioned the one about Winolo, that's in the staffing industry. Our internal structure and support systems are not geared to running a staffing company. We're a beverage company. All of a sudden I had all of the internal people, audit and everything, coming to me saying, "David, let me remind you. We're a beverage company. We're not a staffing company. What are these guys doing?"

Long story short, I'll call it a pivot. We spun all of them out. They're all their own legal entities. We've set them up through a convertible note, so our investment converts to equity as soon as they reach a sustainable business model.

WORKING WITH SMALL COMPANIES

We have another question about other examples of big and small companies working together effectively. That's from Peter Sayburn at Market Gravity. I would maybe expand that question to say, "Were there role models that you looked at of how big companies can work with smaller companies?"

I can answer that in two ways. One is going to sound almost self-serving, and I don't mean it to sound that way. We didn't have a model to work from.

Again, that's why I put the slide up in front of our operating committee and said, "We're going to learn by doing. If you want to fire me, fire me now because there's a lot of things that are not going to happen the way everyone wants them to happen."

We didn't have a model to start with, especially in our industry. Having said that, I encourage anyone to look at Google, or the big tech brands, Amazon, Google, Facebook, even Apple. They have this portfolio of ventures—early-stage, late-stage startups inside their venturing portfolio—that they have investments in, relationships with.

At any point they can just acquire one of them, bring them in, and essentially repackage it. It feels very natural for them. Even from the outside you think, “Well, of course. They’re a tech company. They can do that.” I would challenge that. I’d say, “Why can’t every brand do that, every company do that?”

I actually think that’s the path to success going forward. I’d say anybody can look at Google or any of the tech brands and look at how they’re doing it and figure it out for their own company.

I would argue that a lot of bigger, more mature companies, they tend to have a corporate development group that looks at the acquisitions. That’s at a much later stage. They’re typically not building those relationships or making very early-stage investments in companies that just started this year.

Scott, you’re right. We have got a M&A team, and they’re great at what they do. They’re used to doing big billion-dollar deals. Just last year we announced a couple of big ones, one with Monster Beverage Company, the energy drink, and Keurig. We do that kind of stuff all the time. We buy big bottlers that we have. These are multi-billion dollar deals. That’s more like private equity. Again, with this other approach, you have to get into this whole lean movement to understand how it works and the speed that you have to operate in.

Ken Durand from Ericsson wants to know, “Do you have any internal people that you allow to take advantage of the founders program?”

That’s a great question. To be very honest, we haven’t quite figured that out. I will say that once you do this, or if you can do this, it really connects with the “millennial” buzzword out there. A lot of existing employees or people who might not otherwise be attracted to our company, once we started doing this, they all of a sudden saw Coke in a whole new way.

The mechanics around how to take an existing employee and spin them out in their own startup, we’re still figuring that out to be totally honest with you.

That sounds like it’s an area that you’re still working on. What else for you feels like something you’re trying to solve, or an area that you want to explore?

I’d say two things. One is more of a mental model, which is always super difficult. There’s a whole almost generational thing. I think for the first time in history, it’s super-easy to start a company. Funding, getting a team, working around the world, it’s very easy to start your own company.

I think just culturally people inside of our company and other companies, especially younger people, don’t feel like they have to go down that management track anymore. It’s a challenge for an organization to think about that and want to embrace that.

SPEAKING THE RIGHT LANGUAGE INTERNALLY

Then secondly, this whole training on lean principles—trying to find the right language and the right way to actually position that, inside the company, so the maximum amount of people benefit.

“We’re going to learn by doing. If you want to fire me, fire me now because there’s a lot of things that are not going to happen the way everyone wants them to happen.”

We’ve tried everything. We’ve called it different things. We’re still in the process of making that work. You essentially just have to try to figure out how to get it inside your culture and use the right language.

Trying to figure out the right language in what sense? To describe the mission of all this stuff that you’re doing?

Let me give you an example. One of the common problems that we have inside of our company, what we would call a problem, is we need to get people to drink more Diet Coke. How do we do that? That’s a problem.

That’s a challenge for us inside, but that’s actually not a problem that people are facing out there. I don’t know that someone woke up today and said, “My car won’t start. I wonder if I could meet that solution with a Diet Coke?”

When you start talking about, “What is the problem we’re trying to solve,” there’s this disconnect. It’s like being able to think, “Well, we have a business plan. Of course we need to sell more Diet Coke. That’s our problem.”

From the lean startup method you say, “No, what is the consumer or the user’s problem that we’re trying to solve?” Even simple things like that are difficult inside. ●

TREK'S CHAD MANUELL ON BICYCLE-SHARING, THE NEW $13,000 MADONE RACING BIKE, AND WHY AN R&D SKUNKWORKS DIDN'T WORK

Planning for the Road Ahead

INTERVIEW BY SCOTT KIRSNER

PHOTOGRAPHS BY PAUL ELLEDGE

Trek Bicycle Corp.
Waterloo, Wisconsin

Trek Bicycle Corp.
Waterloo, Wisconsin

FROM BICYCLING MAGAZINE:
"It's awesome to see Trek finding a bit of swagger and flexing its muscles. ...This is an impressive bike."
[The 2016 Trek Madone 9.9 retails for $11,999.99]

Trek Bicycle Corp. marks its 40th year in business in 2016. But the privately-held Wisconsin company isn't looking over its shoulder. Keeping Trek's 108-employee engineering team focused on the horizon is Chad Manuell, the company's director of bicycle engineering.

Trek markets bikes, components, and accessories under several brands, including Gary Fisher, Bontrager, and LeMond Racing Cycles. The company has nearly $1 billion in revenue and 1,800 employees. Trek also was a founding partner of BCycle, a bicycle-sharing network active in about 30 locations around the U.S.

Manuell joined INNOVATION LEADER editor Scott Kirsner on a recent conference call with subscribers.

LISTEN TO THE COMPLETE CALL AUDIO ON INNOVATIONLEADER.COM. UNDER THE EVENTS MENU, SELECT "INNOVATION LEADER LIVE."


TREK

I have to ask this because I'm a Trek bicycle owner. I've never been to the headquarters there. I imagine it being the place where everybody is biking to work, and probably biking on their lunch hours, and testing bikes throughout the course of the day. What is it actually like?
Absolutely. We have a very strong culture of commuting, and riding at lunch, and riding before and after work. We have several hundred acres of cross country and really extreme mountain bike trails right across the street from us here. You can be doing a lot of mountain biking at lunch as well as commuting before and after work.

That sounds great. Tell us a little bit about your role there. I know your title is Director of Bicycle Engineering. Is that also an R&D-oriented role?

Yes. Engineering does all the engineering roles, from the concept creation all the way through production support. We have people that work in every aspect of product development.


Inside Trek's Industrial Design Prototype Development Lab.

About how many people in total? I think the number I had seen was 1,800 employees. How many of those are in your group?

We have about 108 people in our group across the globe depending on how many interns we have at the time. We have anywhere between five and twelve interns helping us out throughout the year. We have offices in Taichung, Taiwan; Shenzhen, China; Kunshan, China; Holland; California; and Wisconsin.

Trek is now involved in bike-sharing. Tell us about that…
Trek partnered with a company a few years back, and eventually became the sole owner of BCycle. BCycle is a bike sharing brand—we have a BCycle system in Madison, Wisconsin, one of the most recent ones. A couple of the most recent are Philadelphia and L.A.

You've probably seen bicycle sharing systems in larger cities across the US, large and small, maybe even on campuses. It gives another alternative for transportation within cities and on campuses.

People are typically paying a monthly or annual membership fee, or maybe on a campus it's provided free. I'm guessing for you guys, it's a distribution channel and a way to generate revenue from your bikes that isn't necessarily selling them to a consumer.

The cities will own the system. We sell the kiosk docks and bikes, and the service to make sure that the whole thing is running correctly, and then help get them up and running, and support them as they continue business.

Tell us just a little bit about how you encourage people to think more long-term at Trek. I think we talked a while back about these five-year boards that a lot of the different engineering groups have.

One of the things that we've always struggled with is making sure we're doing the right research to supply the company with really innovative products of the future. We've gone through different organizational structures over time, with our R&D group.

A few years ago, we went to a standalone, "skunkworks" R&D team. The struggle with that team was creating products that the business units wanted to buy. A few years back, we combined the R&D function into the business units, to make the R&D resource as effective as possible.

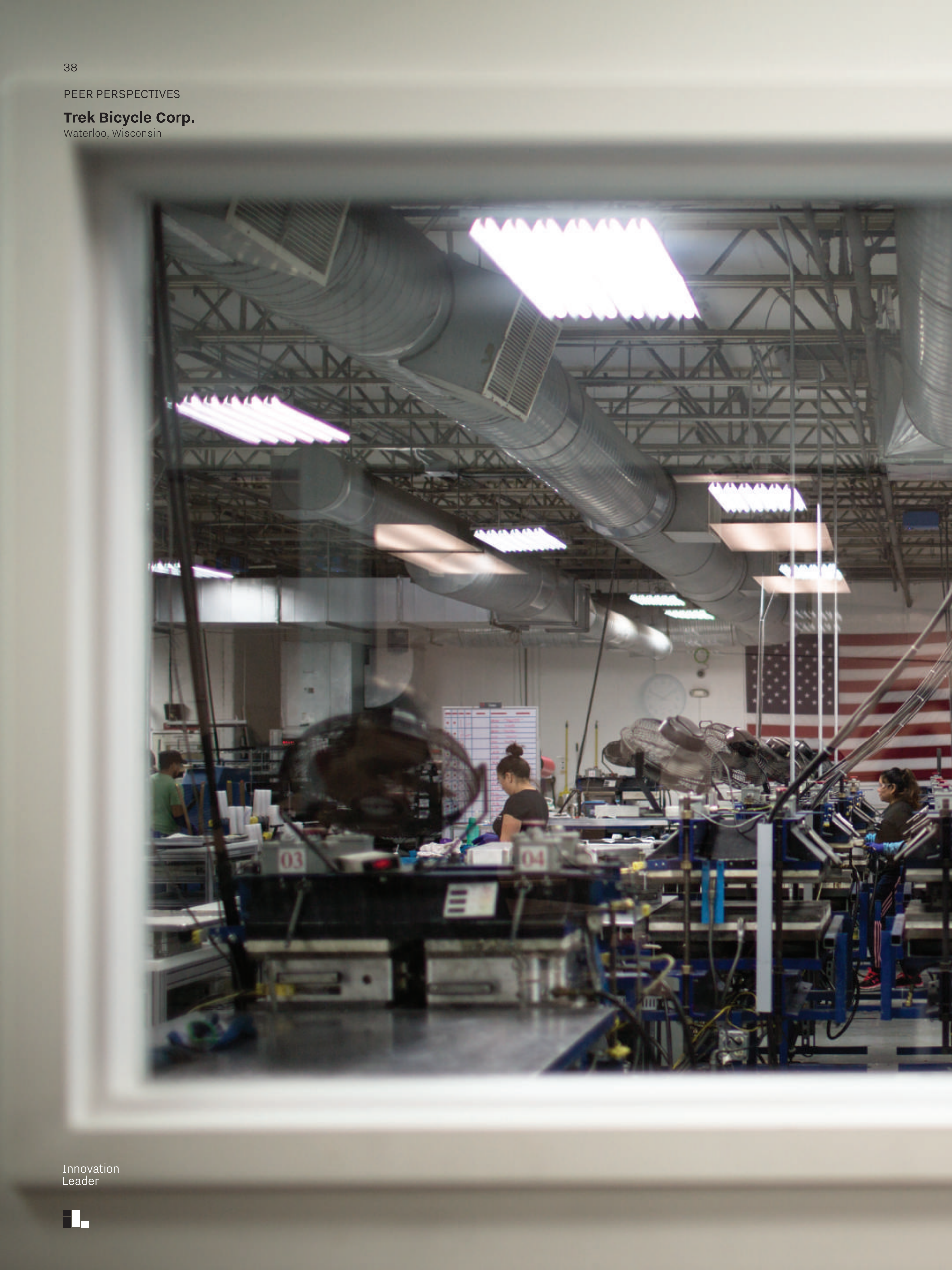
We've asked the [teams here] to create five-year boards. What that does is it helps us map and predict the technologies that we'll need to fill in any of the gaps that we're seeing in those five-year planning documents. What they really have become is more of a three-year planning document, and then a couple key people on the teams will try to fill in the last couple of years to predict where we're going.

The boards are very fluid. They change two years out and beyond. Those products are changing constantly. We're trying to keep up with that product mix, but the reason that boards are so important to the engineering and R&D functions is so that we can predict which technologies we need to develop to fill the holes in the planning boards. There are different, emerging technologies, things that

Employees gather in the atrium, where past and current products are on display.

Sue Moe works in the Advanced Composites Lab.

Trek Bicycle Corp.
Waterloo, Wisconsin



“We’ve asked the [teams here] to create five-year boards. What that does is it helps us map and predict the technologies that we’ll need to fill in any of the gaps that we’re seeing in those five-year planning documents.”

Below: The Composites Manufacturing Facility, where carbon frames and wheels are produced.

Trek Bicycle Corp.
Waterloo, Wisconsin

we're seeing. Trends that we want to work on and develop, so that we're ready for future shifts in the marketplace.

Is there an example of something that you guys have released already that came through that three- or five-year planning process, and bubbled up through one of those planning boards?

The Madone product that we just launched this past year is probably one of the most integrated bikes that has ever been released.

[In the aerodynamic category, the] bikes are very harsh to ride. They're heavy. There's a lot of things that were holding them back. We went into development several years back on some technology that we thought would make that a much better bike. We wanted to still be one of the most aero bikes in that category, if not the most aero.

We wanted to ride incredibly well. We wanted to have the ride quality that our Madone has always had. We wanted to be as comfortable as our Domane.

It's one that definitely looped through development a couple of times. We came forward with a design, and we all got around and reviewed it, and decided that it wasn't quite good enough for what we want to put our name on yet. We went back into development a couple of cycles, and we came up with a bike that we were incredibly proud of.

It's done great in the marketplace, it's won several awards, and it continues to be a very great bike for us.

"We came forward with a design, and we all got around and reviewed it, and decided that it wasn't quite good enough.... We went back into development a couple of cycles, and we came up with a bike that we were incredibly proud of."

Chad, you mentioned a skunkworks that you had set up, an R&D skunkworks. Tell me a little bit about that in terms of, how long did that last? It sounded like you said ultimately you felt like it was too disconnected from the needs or the interests of the different business units there. Maybe I'm misreading between the lines there.

When that group started, it started as an off-site department. They were trying to meet the needs of, "Let's go out and find, scrub the Earth for different technologies that we can put into our bikes, or different things that we can bring to the market."

There was a gap in buy-in between when they developed a technology, and when one of the business units [said], "Hey, that technology is cool. Let's put it on our product." Or maybe that technology that they were developing wasn't quite fitting any of the directions that the product managers or business leaders were going.

Once we pulled that group back into the business units, the buy-in comes instantly.

Working in the Custom Paint Booth; opposite, a bicycle-sharing station.

The business unit itself is at least peripherally aware of the technology that's being developed. They're already bought into it. They're having their input along the way. They may not be the actual developer of the technology, but they're saying, "Hey, wouldn't it be cool if this thing would do that or this? I just rode one of these prototypes today at lunch, and it would be really neat if we could add this little thing to it."

People are getting their input, they're getting buy-in, and they're aware of different things going on. In other business units, as well, the sharing happens more real-time. It's not an after-the-fact type of thing.

When you say you set up the R&D skunkworks off-site, was it in Wisconsin somewhere, or was it really far off-site?

That was just down the street, a couple miles from Trek headquarters. It was very close.

Would you talk a little bit about how R&D funding works there?

Funding isn't really formal. We allot a certain amount of money at the beginning of the year for all of product development, and then as the year goes on, we decide if we're going to turn a project live. R&D projects are mixed within the production project pile of things that we would like to accomplish.

"There are definitely a lot of companies that we look at pretty closely, Apple being the big one. Looking at the simplicity of their design, that's always an inspiration."

It becomes a little tricky to decide [whether we are] going to spend that money all around production projects or around R&D projects? So far, the different people who decide, the VP of product who is kicking off and approving live production projects has really been pretty hands-off with the R&D products, and projects that we're looking at developing.

Those projects go through a different approval loop, and then they require my approval, and our program manager's approval.

We're keeping everyone informed, monthly and quarterly. We're meeting with key stakeholders, letting them know what we're working on. It's very informal.

When you think about something that is more of a disruptive idea, or a different kind of business model like bike-sharing, or maybe like electric bikes, does it tend to come to you guys through an acquisition, or have you done some of that stuff internally, through this process we've been talking about?

We've definitely done some [acquisitions], but in general, I think at Trek we've been more apt to develop the technologies internally. Things like Domane, which shifted the the focus of a comfort bike to being also a very sport- or race-oriented bike.

We'll look at technologies that are available, and look at licensing them, or working with other companies where we can. Suspension is a good example of where we've gone out and worked with Penske to develop some really great suspension products for our mountain bike line.

You did mention with the bike-sharing thing, that was something you acquired into Trek after initially partnering with them?

Yeah, that was a partnership to begin with, and Trek was making the bikes. Eventually, the way the relationship worked out, we ended up taking on a greater role in that product development process. Now, we're developing stations, and bikes, and looking at where that whole system may go in the future.

Let's take a listener question. Are there companies and other industries that you look at as benchmarks in terms of how they do product development and R&D?

There are definitely a lot of companies that we look at pretty closely, Apple being the big one. Looking at the simplicity of their design, that's always an inspiration. If you look at our most recent Madone, I would think that you could probably pick up some of the Apple inspiration in that product, just trying to hide as many cables and as much of the technology as possible. Just make it look really, really simple, but still be a very complex product.

The next listener question is, Why should bikes become a full-fledged member of the Internet of Things? I guess this is somebody who is curious about the bicycle as a connected device.

There are a lot of ways that I think it could play out on the bicycle, from knowing when your bike needs to be serviced, to knowing when your air pressure in your tire is low, to knowing when new products may become available for the particular bike you're riding.

[We think about a] car knowing that a bike's riding right next to it—and maybe put down a cell phone or whatever to not be distracted. ●

Paul Harder snaps rapid-prototyped frame elements onto a bike frame for aerodynamic testing.

Case Studies

3

IN MARCH, HE UNVEILED THE NEWEST TESLA. IN APRIL, HIS FALCON 9 ROCKET STUCK THE LANDING ON A DRONE SHIP. ELON MUSK KNOWS HOW TO GET THINGS DONE.

Elon vs Bureaucracy

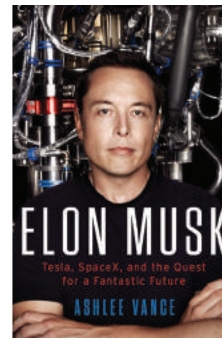
INTERVIEW BY STEPHEN ELLISON

PHOTOGRAPHS BY RAMIN TALAIE

Tesla Motors
Palo Alto, Calif.

When it comes to Elon Musk, the serial entrepreneur behind SpaceX, SolarCity, and Tesla Motors, there are two camps—the believers and the skeptics. And both have had moments of feeling validated as Musk's companies have gone from outright failure (exploding rockets, near bankruptcies) to glowing success (the highest rating *Consumer Reports* has ever given an automobile, for Tesla's Model S). Lately, as each of the aforementioned companies has achieved breakthroughs in its industry, the believers have welcomed a multitude of converts.

Ashlee Vance started as a skeptic. He's a business and technology journalist who wrote the recent book *ELON MUSK: TESLA, SPACEX AND THE QUEST FOR A FANTASTIC FUTURE*. The book offers an insider's look at Musk's insanely ambitious nature, how he manages, and his ability to overcome obstacles to get things done at a trio of world-changing companies. While Musk initially didn't want to participate in interviews for the book, eventually he decided to give Vance almost complete access.



"What Musk has developed that so many of the entrepreneurs in Silicon Valley lack is a meaningful worldview. He's the possessed genius on the grandest quest anyone has ever concocted. He's less a CEO chasing riches than a general marshaling troops to secure victory."

Ashlee Vance

INNOVATION LEADER recently sat down with Vance—who, like Musk, was born in South Africa—at a Silicon Valley café to discuss his book and how some of Musk's methods and strategies might be applicable for others.

How can big companies with long-established business models apply Musk's principles?

One of his first principles is do not assume what has happened before you or whatever your competitors are doing is the right thing; think everything from the ground up; pick your ideal product and then try to build it. When someone says this isn't the way we do it, it's, "Why do you do it that way?" Or someone says it can't be done, it's, "Why can't you do it?" He gets all the way down to if physics is the reason you can't do something, he'll accept that. Other than that, he says, "I want to make it the way it should be made." And then, anyone could take lessons away from his work ethic. Yes, he's clever, but you see a guy who out-hustles, out-strategizes, out-markets his competitors.

There's a ton of lessons about instead of just making another app or entertainment thing, what happens when we apply those people and those skills to these other industries that aren't used to it. Pretty cool things start to happen. He's had the luxury of starting from scratch in one industry that was 100 years old and another that was 60. The aerospace guys have been more ready to try to compete. The automakers are still grossly underestimating what's happening. It's not like the electric car is that [advanced], but it's really the software inside the car that's light years ahead of Detroit.

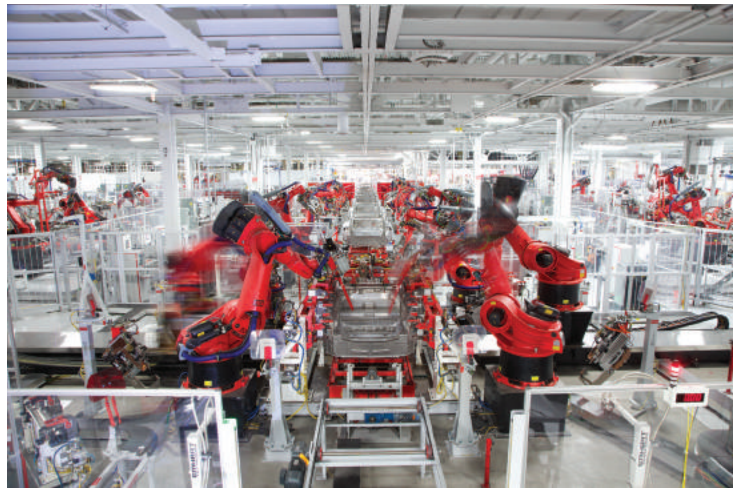
The aerospace guys are all of sudden afraid and have tried to respond. These companies are not built to respond to this challenge; they're completely structured on government deals that are so bloated, and they're not built to operate lean.

[Musk] has had to learn a lot of stuff too, because Tesla sucked at manufacturing at the beginning.

TWO BRUSHES WITH BANKRUPTCY

SpaceX and Tesla started almost simultaneously, didn't they?

SpaceX was first in mid-2002, and Tesla was getting founded by Martin Eberhard and Marc Tarpenning, so Elon wasn't there at the very beginning. But they came to him for money – it was all pretty close together. SpaceX was just getting the office set up. So he's CEO of SpaceX and getting that off the ground, and then he's chairman of Tesla, and he's more or less the sole investor. ...Elon was the only one who would put in any money. Eventually, Tesla had other funding rounds, but Elon led at least the first two or three.



Tesla opened its factory in Fremont, Calif. in 2010. It relies on more than 150 advanced robots, including several that are the biggest in the world, to assist with assembly.

Then in 2008, they both almost went bankrupt at the same time because of the financial crisis. Tesla was struggling to get the Roadster to work—it was too expensive and...they were running out of money. In December 2008, both companies were essentially running on fumes. Elon had lost all his money—he had made about $220 million from PayPal, and he went through that entire fortune, investing it in the companies—and they both survived.

How did he get through that?

Personally, he took out loans to pay his bills, and then at Tesla, they had employees who were paying other employees' salaries. ... And basically what happened was SpaceX had four rockets blow up, and they had enough money to do one more launch in September 2008, and that launch ends up being good enough. ... Then there was a massive contract up for bid, and SpaceX was the underdog to get it, but they'd had that successful launch. Right before Christmas in 2012, NASA announced SpaceX had won this contract for about $1.5 billion—definitely enough for them to keep evolving.

That same week, Elon completely bluffed all the Tesla investors. All the other car companies were going bankrupt—I mean the thought of an electric car company that was hemorrhaging cash was crazy. So he went to the investors and said we're going under, and we're not going to put any more money in. But there was one investor, Alan Salzman, he tries to take Tesla away from Elon, and he wants to sell it to Detroit for parts. So he's blocking any funding rounds. Elon says, "Fine, I'm going to do another funding round, and I'm going to raise all the money myself. ... I'm going to take out a loan from SpaceX, and I'm going to do it all myself." Then nobody wanted to be left out of the deal all of a sudden—they all ended up chipping in except for the guy who tried to take the company under—that was the end of him. So [Musk] raises the money, and the NASA contract comes through, and they survive.

HOW MUSK INTERVIEWS AND HIRES

How does Musk find talent?
Tesla's kind of funny because Silicon Valley had never done a car before, and we actually have all these gearheads around here who've never had an outlet for their passion. When he came along, he was actually able to get really good people at Stanford who had this car racing team. All these guys were chomping at the bit to go do something. Also, there were tons of brainy engineers around the Valley that wanted to do something like that. Then when Tesla looked like the real deal and [Google co-founder] Sergey [Brin] put money into it and then Elon, it was like, this could be the real thing. They were able to get a really good core team of guys from the Bay Area.

SpaceX was a much harder pitch in some ways. You have to go to guys at Boeing and Airbus and convince them to leave their cushy jobs, and they almost certainly won't. For youngsters, it was a little bit easier because there hadn't been anything exciting in aerospace in a long time. ...Elon would call guys personally at colleges—he would scour the Ph.D. aerospace programs and call the guys in their dorm room and try to talk them into coming. The other thing he does is he's kind of cheap; he doesn't try to compete with Google or Facebook for MIT or Stanford engineering classes. He goes more to University of Illinois or Georgia Tech. He really didn't give a shit about anyone's grades. He'd look for someone who had done a project either in

> **"Elon will call suppliers on the weekend... it's Elon Musk calling you, asking where's this part. On a Saturday. It sort of delivers a message to suppliers that if he's there working, he expects them to be working."**

high school or college where they'd actually built something, been on a team and brought something from nothing to a conclusion.

If they were looking for senior people, [his talent acquisition specialist] Dolly Singh would scour research papers and conference proceedings and look for the top specialists in some area. They would go to trade shows and basically try to make these guys feel special. If there was somebody they wanted to hire, they would hand them these envelopes to show up—almost like a secret agent thing—at this place at 7 o'clock, and when they got there—it usually was a restaurant or bar—there would be about six or seven people that they handpicked.

How much is Musk directly involved in the recruiting process?
Elon personally interviewed at least the first thousand people hired at SpaceX, and still, to this day, he interviews every engineer. He puts them through a whole thing—you have to write an essay about why you want this job, and then Elon always gives people a riddle. So he gives them these tests to see how they solve problems. But the Elon job interview is this horrendous thing because he barely pays attention to you. He might be looking at his computer the whole time.

KEEP THE EXECS AND THE ENGINEERS CLOSE

How is he able to bypass internal bureaucracy?
He does run a very flat structure. You can contact anyone, including Elon, without a problem. The biggest thing with both companies is that they build everything in the same building—complete integration. SpaceX makes about 90 percent of their rockets themselves. Whereas Lockheed and Boeing contract among like 12,000 suppliers to build their rockets. There are cases where the other guys buy a radio for $100,000, and SpaceX builds their own for $5,000.

...The engineers have to physically sit on the manufacturing floor. At SpaceX, in the middle of the manufacturing floor, there's this giant glass cubicle office building. The people have to walk through the floor to get to their offices; they have to look at everything that's going on. At Tesla, it's the same thing—on the manufacturing floor, there's a whole cube thing, and Elon's in there. All these people have no choice but to communicate with each other.

With traditional aerospace companies, they will have their software guys in L.A. because that's where the talent is, and then they'll build the rockets in like Georgia or Alabama, where labor is cheaper. Elon is manufacturing stuff in Silicon Valley and L.A. at a time when we're being told that's impossible. He believes all this stuff has to be integrated, to move fast and do things cheaper. ... It's funny because all these industries started out this way. He's kind of a throwback. He's doing what Henry Ford used to do.

FOCUSING ON THE 'CRITICAL PATH'

And when problems arise, they're easier to fix?

With Elon, there's no bullshit. If there's a problem, what they call it is the "critical path." The critical path is the one thing at any given time that is the most pressing problem. At Tesla, that is what Elon puts the majority of his time and effort into. If you're the engineer whose thing is causing the critical path, you've got Elon riding you. But what he does is he asks you point blank, "How many people and how much money and what do you need to fix it?" Whatever you ask for, he gets it for you, and then, of course, he's there making sure you get it done.

Another thing is that he wraps all of his companies up in this larger-than-life mission. SpaceX's mission is to create a colony on Mars; Tesla's is to try to put a dent in global warming by not only making the electric car an option but the standard. I think there's not a lot of companies around here, even though they try to have all these feel-good kind of things, I think they're a bit shallow. But with him, the employees buy into it, and I think it really inspires them.

Elon will call suppliers on the weekend, and you know it's not just some average guy; it's Elon Musk calling you asking where's this part. On a Saturday. It sort of delivers a message to suppliers that if he's there working, he expects them to be working.

'YOUR IDEA IS DUMB, AND HERE ARE ALL THE REASONS'

What can innovation executives learn from Musk as a leader?

Starting with X.com and PayPal [two online payment companies that eventually merged in 2000], what you get to see is an entrepreneur and an innovator kind of developing his schtick, because at both companies, he's the biggest shareholder and the CEO, and he gets thrown out of both companies. ...He was a bit of a loner growing up, and he was not an outgoing guy, and he was sort of a know-it-all. So you see this guy who's trying to tame his personality a little bit. He wants to be a leader, and he's learning how to assert himself without pissing everybody off and without demoralizing people. He was the kind of guy who would be in a meeting and he'd say "Your idea is dumb, and here are all the reasons it's dumb" in front of everybody in the meeting. And people would just come out crushed. He started to realize that was counterproductive to getting the most out of people, and he had to temper that behavior.

Tesla's Model 3 electric sedan starts at $35,000. The company plans to start deliveries in 2017.

How does Musk manage his time?

He works a lot. He keeps super detailed track of all the flights he takes and how much time he spends traveling. He has super detailed notes on his meetings and how long they are—he runs spreadsheets for those kinds of things. His assistant is sort of gathering the info, but Elon pores over it. ... He works 6-7 days a week, splits his time between L.A. and Silicon Valley—so it's like half and half between SpaceX and Tesla. I think he sleeps about 4-5 hours a night.

What kind of insight did you get from Musk's friends and family on what drives him?

When I dug back into his history, I found he was a total loner; he was not well liked, he had no close friends, and if he wasn't being totally ignored, he was being bullied really badly. And he had a really rough home life. His dad was pretty hard on him—to the point that his dad [today] is not allowed to see [Elon's] children.

He was a huge science fiction buff and a crazy reader. He read like two or three books a day. He was just this guy who grew up thinking the world was kind of screwed up, and there were these idealistic, futuristic things he was into, and I think at a very early age he decided he was going to take a crack at solving some of these things. I think he's definitely out to prove to people that he's kind of special—kind of like your classic Steve Jobs, Larry Ellison sort of thing. ⬢


5
POINTS
WE ARE 5 POINTS
WE'RE THE ONES WHO START NOWHERE AND GO EVERYWHERE. BEGINNING IN SILENT PLACES OF POSSIBILITY, WE DISCOVER NOT WILDERNESS... BUT A BLANK CANVAS.
WITH RAW MATERIALS AND WILD IDEAS, WE TAKE CHANCES... TAKE RISKS... TAKE CREATIVE LIBERTIES...... JOIN IN.
STAY VIVID. STAY TRUE.
+ STAY CREATIVE +
DANCE

HALLMARK'S PATTI STREEPER EXPERIMENTS WITH POP-UP SHOPS AND NEW BRANDS

The Next House of Cards

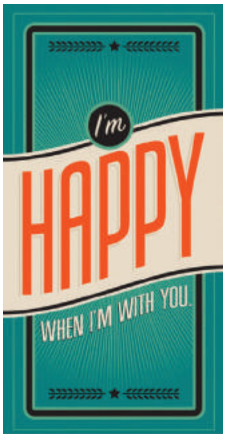
STORY BY PATRICIA RIEDMAN YEAGER

Say the word "Hallmark" and it conjures up very powerful brand associations around greeting cards, retail environments, and cable TV fare.

Patti Streeper's job at the $3.9 billion company is to help Hallmark cultivate businesses that may not fit with the 106-year-old company's current image—but ones that speak to new groups of customers.

We spoke with her about two examples: Easy, Tiger, a line of offbeat cards targeted at Millennials, and 5 Points, a pop-up retail concept that Hallmark launched in 2014.

Streeper is Vice President of the company's Corporate Innovation Group, which works on a large number of projects across Hallmark. In early 2014, she started the company's CREATE incubator, which develops new businesses.



FROM EASYTIGERCO.COM

"We're not just about cards: Easy, Tiger is about fun. The kind of fun they write books about. Then burn. You can find us in an old warehouse in Kansas City, MO, that we've filled with stuff we love—like taxidermy, a Pachinko machine, and trophies. Lots and lots of trophies."

FROM WEARE5POINTS.COM

"We're a creative union, vast and connected."

The 5 Points pop-up retail locations offer workshops, priced from $5 up to $100, on making keychains, ornaments, and wall art—as well as how to live a more creative life.

Hallmark
Kansas City

“We’re learning how to work differently and experiment with different models, and move from an idea to what we hope will be sustainable business over time,” Streeper says. Her eight-person innovation group is composed of internal consultants who work across the organization, and intersect with numerous projects companywide. Her team reports to Hallmark’s Senior Vice President of Consumer Solutions, Ellen Junger. With the CREATE incubator, she has a dotted line to the President of North America, David E. Hall.

Hallmark is privately-held, but its Crown Media Holdings subsidiary, which includes the Hallmark Channel and Hallmark Movie Channel, are public. Recapping its most recent year-end results, Hallmark reported revenue of \$3.8 billion for 2014, down from \$3.9 billion the year before, continuing a downward trend. That creates a sense of urgency to explore new markets.

“WE’RE LEARNING HOW TO WORK DIFFERENTLY AND EXPERIMENT WITH DIFFERENT MODELS, AND MOVE FROM AN IDEA TO WHAT WE HOPE WILL BE A SUSTAINABLE BUSINESS OVER TIME.”

From the 5 Points website: "We've come to believe a successful pop-up space offers ways to build things on the spot (MAKE), express who you are (SAY), connect with like minds and spirits (SHARE), help create a better world (LIVE) and hold onto memories afterwards (KEEP)."

"WE LEARNED WE WERE IN THE RIGHT PLACE FOR THE DEMOGRAPHIC. WE JUST LEARNED A TON."

Most of the products sold at 5 Points are niche brands made in small quantities. The blue sloth character, at right, was created for the store. His story is documented in an online blog and animated clip, and he is depicted on T-shirts and signage.

Hallmark
Kansas City

Streeper's 5 Points pop-up retail concept initially launched in June 2014 in Kansas City, Missouri—home to Hallmark's headquarters. The space offers one-of-a-kind designer goods that tend to be made in small quantities, as well as on-site creative activities. The name 5 Points refers to the shop's ethos: Make, Say, Share, Live, Keep.

After an initial launch in Kansas City, a 5 Points pop-up shop went live for several weeks over the Christmas holidays that year in San Francisco's Mission District, home to numerous art galleries. Aimed at hipster 18-30 year-olds, the temporary store featured different collections from local artists and craftspeople. At the San Francisco pop-up, 5 Points invited customers to use an antique letter press, add to an ongoing mural, and observe as products were produced in real-time on the store's 3-D printer.

Attracting Millennials to a pop-up is challenging. "We're starting to learn what helps to drive the traffic. You have to keep the energy up," Streeper says.

Patti Streeper, Vice President of Corporate Innovation at Hallmark

The product mix is also crucial. "On My Way to Wanderlust," central to the Live collection, features a tree sloth who climbs down from his branch and decides to "live." His story is documented in an online blog and animated clip, and then depicted on T-shirts and signage, all aimed to appeal to a wanderlust generation. Other merchandise, including a tote made from old Army blankets, leather embossed keychains, and art supplies, are meant to be modern but also harken back to another age, Streeper says. She says the shop's personality is all about the "element of surprise."

And while the 5 Points shop has since packed up and moved back to Kansas City to prepare for its next pop up, Streeper says they are poring over notes from their experience, and making plans for what's next, which will include building a bigger online presence for the brand.

Overall, the Mission District location that 5 Points rented for the pop-up was key. "We learned we were in the right place for the demographic," she adds. "We just learned a ton."

A NEW TAKE ON A TRADITIONAL PRODUCT

Kansas City artists Melanie Bridges and Mike Sayre developed the Easy, Tiger product line over a number of years. Now as a Hallmark subsidiary, it is still managed by Bridges and Sayre, who handle all the creative, while one of Streeper's team members helps with the

"WE'RE STARTING TO LEARN WHAT HELPS TO DRIVE THE TRAFFIC. YOU HAVE TO KEEP THE ENERGY UP."

In addition to retail locations, 5 Points has a presence on social media platforms including Pinterest, Instagram, and Vimeo—plus its own Spotify music playlist.

“[WE] WERE SIC MILLENNIALS WEREN’ IF YOU HAVE FEELING, AND POIN

K AND TIRED OF HEARING THAT T INTERESTED IN PAPER CARDS. THE RIGHT KIND OF ARTWORK, T-OF-VIEW, IT'LL HAVE APPEAL."

business side.

In addition to cards, Easy, Tiger sells glassware, T-shirts, trophies, and other collectibles bearing funny, quirky or risque messages. Bridges and Sayre "were sick and tired of hearing that Millennials weren't interested in paper cards," Streeper says. "If you have the right kind of artwork, feeling, and point-of-view, it'll have appeal."

To garner attention, Easy, Tiger converted a few cigarette and candy bar vending machines to accommodate Easy, Tiger cards, and decked out a 1966 Dodge van with the company's trademark logo and green color to show off at events.

So far, business is swift, with men buying half of all the cards—an unexpected development. Easy, Tiger merchandise is now available in 50 boutiques across the U.S., in addition to 11 Barnes & Noble college bookstores. It's also selling its art prints in 81 Indigo bookstores in Canada, as well as through the Indigo website.

And while Streeper anticipates that Easy, Tiger will eventually move under Hallmark's main business umbrella, she says, she would only want it to happen under certain parameters. Because the brand so closely reflects Bridges and Sayre's points of view, "It's not an easy voice to replicate." From a business perspective, she wants it to scale at an appropriate pace. "It's very different from a well-established business," she adds, "you don't want it to get crushed."

HELPING PEOPLE CONNECT

Hallmark's overarching vision is to create a more emotionally-connected world, says Streeper, who has been with the company for 34 years. "That's inspiring to me, especially in a world with so much turmoil and divisiveness," she says. "I've worn a lot of hats and had a lot experiences. I'm bringing all those experiences together to try to find new ways to help people meaningfully connect." ⬢

The second location for 5 Points was in San Francisco's Mission District, home to numerous art galleries, bookstores, and restaurants.

Assurant
New York

WHY INSURANCE FIRM ASSURANT DESIGNED A STRATEGY GAME FOR EMPLOYEES TO PLAY

Game Changer

INTERVIEW BY SCOTT KIRSNER

PHOTOGRAPH BY DIANE MACDONALD

Assurant
New York

Seriously, can getting employees to play a board game actually get them to better understand the company's strategy—and the need for innovation and growth?

That was the hope at Assurant, the Manhattan-based firm that insures everything from boats to homes to smartphones. With about $30 billion in assets and $8 billion in annual revenue, the company has been adjusting its strategy and focus as it sells off certain businesses, like health insurance and employee benefits.

Among the goals behind the company's Strategy Learning Game:

- Helping employees understand the direction the company is going and "how they fit in"
- Welcoming a diversity of perspectives to promote innovation and growth
- Driving a cultural shift to urgency, adaptive thinking, agility, and accountability
- Increasing engagement with enterprise business goals, plans, results and their own personal contribution.

Melissa Kivett, Assurant's Senior Vice President of Business Development and Strategy, explained the thinking behind the company's game; why they didn't avoid touchy topics; how Assurant rolled it out to more than 13,000 employees in 2015; and the impact it has had.

Meet Melissa Kivett and get a demo of the Assurant board game at the New York Field Study, June 15 & 16. Details at InnovationLeader.com.

Assurant HR leaders helped facilitate the game's roll-out, but some employees appointed themselves as "game ninjas," taking initiative to organize meetings and discussions.

ORIGINS OF THE GAME

I'd worked for our new CEO for about a month. He said, "We need to help employees understand our strategy and become more nimble." I looked at him a little bit like, "Wow, that's big." With employees in 15 countries around the world, I knew this would be a massive undertaking.

I said I'd go talk to Human Resources, and he said, "That'll take too long—let's think differently about this." He gave me the flexibility to try to develop something that would really change behavior, and enable our employees to be prepared for and understand different choices they would make to help us follow our strategy or grow our business.

At an innovation meeting in New York, I'd heard about a game Disney created with a small group of HR people. I'd been reading about gamification, and I've always been intrigued about human behavior and what drives change. We came up with this crazy idea that building a game could work for us, too. That's how it was introduced to our board: "Melissa has got another crazy idea." We started discussing it in 2014, and it was rolled out in 2015.

WHY NOT JUST HOLD TRAINING SESSIONS?

In the past, senior leadership would have done a road show. We'd have had facilitated discussions in different offices, and left behind a strategy deck. But this approach made it more real. People like to be part of the decisions. I really loved the idea of enabling the discussions to be had by the people who were closest to the customer. And this would allow us to reduce ambiguity and reach people on the front lines who work directly with clients and customers.

HOW WE CREATED IT

I did a lot of research about games and gamification. My approach was to create a partnership. I knew I'd need to engage in diversity of perspectives, even within the company. I quickly asked the learning and development expert in Assurant for help.

Then, we created a steering committee for it. It took us a while to get alignment on the objectives. People in HR and heads of strategy at our various businesses were early supporters. They all knew that culture is king, and that you can't change direction of the company until we have these kinds of discussions with our employees.

We found a bunch of companies who develop games and learning maps. The vendor we chose was the Learning Design Network in California. They had behavioral experts, and consultants with masters in learning and development, who could make sure that the game sparked the kinds of discussions that would lead to the right kind of behavioral change.

Assurant
New York

Players discussed whether new trends and technologies represented threats or opportunities for Assurant.

TESTING PROTOTYPES

We had 16 prototypes of the game. Teams would advance in the game, moving around the board, if they made effective decisions about threats, opportunities, and trends in our markets. A card would present a topic, challenge a common misconception, and simulate a real trade-off decision that we would need to make. A team of five or six employees would discuss that, and create consensus around whether they agreed or disagreed, and what they would do.

Early on, we discovered our game prototype wasn't encouraging the right type of discussions. People were focused on moving forward in the game and winning, versus engaging in discussions about the company's strategy and exchanging in meaningful dialogue. In some early prototypes, the discussions and decisions weren't edgy enough. We needed the responses to the cards to be not as transparent, to get people to engage in more dialogue.

At one point, we got our top 200 leaders together to play a prototype. I asked them to identify where they saw people either making the wrong strategic choices or not understanding an issue. And we asked them to give us more ideas about content that would help challenge people. That gaming session turned out to be transformational, in helping us create more richness in the content and the examples we give employees in the game.

We did interviews throughout the company so the content would represent each of our businesses, and everyone would feel ownership. We really wanted to the content to be real and candid about mistakes we'd made in the past. That can be hard for any company to admit—when you have done things wrong. And we did interviews throughout the company so the content would represent each of our businesses, and everyone would feel ownership.

We wanted to be mindful of the time commitment involved in playing. The game is an hour long. At Assurant, 80 percent of our employees are call center employees. There was concern about how much of their workday the game would take, so we had to keep it at a maximum of an hour.

THE ROLL-OUT

People played the game over eight months in 2015. The game was self-led. You were talking about the strategy and asking the questions. People weren't just being told what the company was doing, but it was about being able to understand those decisions themselves. We had them play in groups of four or five. The group had to be small, otherwise some people might be left out of the discussions and unable to ask questions. Employees weren't just being told what the company was doing, but it was about being able to understand those decisions themselves.

Our CEO played it six times. He says he learned something new every time, because he played it with different people who had different perspectives.

The CEO of our health business initially wasn't receptive to the idea—"We have healthcare reform going on…we can't play a game." I kept calling him back. He finally said, "OK, but how the heck do I do this? Everyone's working weekends, getting ready for healthcare reform." But he did say that they'd have a period of two months after enrollment ended, when his people would have downtime. As it turns out, that business had the highest participation rate of any of our businesses—97 percent—and their business is going through the most dramatic change.

We had people who became self-appointed "game ninjas." It wasn't my intent, but there were so many people in different parts of the world who raised their hand to promote the game within their office. They became a network of influencers who would get their local offices to engage in discussions about the company's strategy and the content of the game. We had HR leaders facilitating the roll-out, and making sure that space was set up and employees were playing. But the ninjas took it on themselves to have a launch meeting to talk about the game, or they went to another group and led a discussion about it at a department meeting. And they wanted to keep the discussion alive—even after people had finished playing the game.

Our team in the UK decided that they would hike one of the tallest peaks in the UK, and they would play the game when they got to the top of the mountain. They sent a photo of themselves playing it.

We got weekly feedback about the game,

"I'd been reading about gamification, and I've always been intrigued about human behavior and what drives change. We came up with this crazy idea that building a game could work for us, too."

and employee counts of how many people had played it. Our steering committee had a weekly call, and we even made a few adjustments, including changes to the feedback survey and couple of the cards after we had begun the roll-out.

DON'T SHY AWAY FROM CONTROVERSY

Some of the best conversations came from the playing cards which discussed choices where we had made mistakes, and real-life examples of businesses we didn't do well, and where we decided there were better owners for a business. Employees thought the game enabled candid discussions about not only what worked, but what didn't work. The game helped people discuss these strategic decisions. It was kind of like, people had heard about it in the rumor mill, but here it was in black and white on the card, admitting we made the wrong choice.

Some of the paradoxes we presented for people to react to in the game were quite interesting. We had one about the world becoming smaller and more similar, and how what we do in the US might work globally—we can translate it. That one created some of the most debate, because we had always been a risk-averse company.

Another card presented the idea that we should focus on the end consumer of our products, when we had been primarily a business-to-business company that sells through large financial institutions or phone carriers. That kind of consumer understanding was an idea that was new and controversial to some people.

MEASURING THE IMPACT

Changing culture is an amorphous thing. It's hard to put metrics around. What we focused on was engagement as one of the primary metrics of success. We had been very siloed as a company, so one of the objectives was to help the company move forward as one and break down barriers between departments and product lines. When people played, they started out at first thinking it was just about their business, but they soon discovered they shared challenges and commonalities with other businesses across the company.

At a time of tremendous change for Assurant, we exceeded our engagement objectives. More than 82 percent of our employees said that the game got them to be engaged and

Assurant employees played the game in groups of four or five—small enough that everyone could get involved and ask questions.

feel engaged. It was just a great opportunity to democratize the discussion about our strategy, and enable the mailroom employee to teach the CEO about what he thought about what the company was doing. We got such diversity of ideas, even from people you might think were 9-to-5ers, and not engaged with where the company was going. They started to talk about not only what the company could do differently, but what they could do, and were empowered to do.

EVERYONE LOVES GAMES

If you do the same thing every day, can you expect a different outcome? That's how I think about using tools like the game. It may not work at every company, but gamification is a compelling tool that really connects with people.

Since we rolled out the game, I have talked to companies Vonage, Pfizer, and AT&T about the game. Everyone loves games, everyone loves competing, and it's fun. When you think about how you want to spend your time, what would you rather do—play a game or sit through another PowerPoint presentation? The cost of the investment isn't that high relative to the return.

If you really want different behavior and you want to drive change, you've got to think about different ways of engaging people. ⬢

‘YOU CAN’T OUTSOURCE INNOVATION’:
HOW RETAIL GIANT WALMART REMADE ITS GLOBAL NETWORK OF E-COMMERCE LABS

King of E-commerce

INTERVIEW BY STEPHEN ELLISON


49ers
SHARKS '14
GO CSK
GO RAIDERS
COWBOYS
catahoula
Coffee
STEELERS
GO TEAM
YEAH, SPORTS!
RAIDER
nation
ILP
better
Risk

Walmart

San Bruno, Calif.

When people score an invitation to visit @WalmartLabs in San Bruno, Calif., Jeremy King says they often expect to find a small outpost of the $485 billion retailer, with 50 or so techies toiling away. Instead, they tour a vast, well-designed complex that houses about 2,500 people—part of a global team of 4,000—who conceive, test, and deploy all of the technology behind Walmart's websites and mobile apps.

Jeremy King joined Walmart in July 2011. He'd previously been an executive at LiveOps, eBay, and Petopia.com.

King, the Senior Vice President and Chief Technology Officer of Global E-Commerce at Walmart, joined the company in mid-2011 to find an e-commerce division that was overly reliant on software vendors and on-site contractors for its technology development. He gave them six weeks notice, and began focusing instead on building his own team. "You can't outsource innovation," he says. "It's something you really have to own."

King was recruited to Walmart by then-CEO Mike Duke; he reports to Neil Ashe, the President and CEO of Walmart's global e-commerce division.

How big is your staff, and how is it divided?

There's about 2,500 at the lab. The entire division is about 4,000, so the bulk of the team is here in the Valley. And then I have a small team in Bangalore and another in Sao Paolo, and then a couple of other California divisions with about 50 people. Most people don't know this, but we've been in the Valley for fourteen years. So we've just been expanding on our capabilities over the years here.

Over the last four years, we've really changed the way Walmart thinks about technology. At Walmart.com, we were basically an IT shop, where we bought all the software, used third parties to integrate them and shipped product. What I really did when I came in was transform the organization into an engineering team, where we largely built our own tech stack and effectively used open source technology—we not only use open source, but we also contribute back to open source.

We run our organization like many startups...where I have many dedicated teams—over 100 of them that have their own KPIS (key performance indicators) and their own business partners—and their goal is to rapidly iterate just like a startup to develop new capabilities.

KEEPING TEAMS SMALL

How many of those small, dedicated teams are there?

At last count, it was like 130. It varies up and down; they sort of spin up and spin down like startups do. There are teams for catalogs, personalization, the [product] recommendations engine ... supply chain teams are broken up into replenishment teams and fulfillment teams and warehouse management teams. Each one of these has its own individual goals and objectives. We try to keep them under 10 people, so there are a lot of them.

Talk about the thrust of the work at the lab. What's the main focus?

One of the main things we had to do at the beginning was rebuild the tech stack. As I mentioned, we largely bought technology, so we had kicked off an effort two years ago to rebuild the platform from the ground up. That literally meant new data centers, new database architecture, new platform as a service, all the way through a new web framework. This effort, called Pangaea, was effectively building a global platform that all the different websites could use. As we developed those capabilities, we launched a new search engine, a new personalization engine, a new supply chain back-end, and a totally new interface for customers that is responsive and beautiful and has capabilities on the mobile phone as well as desktop—and lots of in-store features as well.

King oversees 2,500 employees at WalmartLabs; the company's entire e-commerce division consists of 4,000 staffers.

We're doing in-store mapping and location. I know lots of retailers are doing that, but try doing it with 4,000 stores that are all set up differently. It's quite different on a global scale. [Walmart has more than 11,000 stores in total.] This is one of the reasons we're able to attract great talent here. Not only are we using the latest and greatest technology, but also our challenge is quite daunting. Engineers like to work on the hardest problems, right? Data scientists want to work at places where there's lots of data, and believe me, we have lots of data.

RECRUITING IN SILICON VALLEY

Speaking of attracting talent, do you have to really go out and chase it, or are they lining up at your door?

I think it's typical for Silicon Valley. There are a lot of options out there, and frankly, as busy as we have been talking about @WalmartLabs for the last four years, many people think of Walmart as the retail store. Even though we've been in the Valley for a while, many people don't know we're in the Valley. The good news is when they find out we're here, we've been able to attract the talent—in fact, most [candidates] that we make offers to accept; it's almost 85 percent, actually.

We've hired about 2,000 people in the last three years, and we've also acquired 14 companies in the last three years. Mostly relatively small companies, but that helps as well.

PROJECT EXAMPLES, SUCCESSFUL AND OTHERWISE

Talk about some of the successful projects or strategies that have launched out of the lab.

King acknowledges that recruiting in Silicon Valley is tough, but he says Walmart Labs has hired roughly 2,000 people over the last three years.

The Savings Catcher app is a great one, where we took some data from our competitive pricing system and then we combined that with our customer e-receipt system and the mobile device. A customer scans their receipt after their transaction, and then loads it into

"Not only are we using the latest and greatest technology, but also our challenge is quite daunting. Engineers like to work on the hardest problems, right? Data scientists want to work at places where there's lots of data, and believe me, we have lots of data."

their Walmart.com account. Then we'll check prices for the next 72 hours, and if any of our competitors has a lower price, we just give them that money back in a gift card. It's hugely popular for customers, as you can imagine. It's directed to our hard-core customers, so they can save money and live better. There was very rapid iteration and delivery of that capability.

What about some projects that didn't pan out, and what did you learn from those?

There's one I'll mention. When @WalmartLabs was first created, there was this big buzz about [social shopping.] The social commerce market—no one has really figured that out. Obviously, there's Pinterest and Twitter doing their buy button and things like that, but in the end, social shopping has not exploded like people expected it would. So we played around with several different places where we were integrating with social media. There was a thing called ShopyCat that we did; we did another thing ... which was essentially a social shopping thing where you could share your shopping ideas on Facebook and other social media. We just haven't found that killer app yet for social shopping. I think everyone thought social shopping was going to go huge.

RUNNING GLOBAL HACK DAYS

What's the process for generating new ideas and taking them through implementation?

Like most startups, we run internal hack days. So we just had our first one globally, where every single part of the site did a hack day at the same time—India, Brazil, and Silicon Valley. It was great. It almost turns out to be a trade show kind of event where everyone comes in, and we do a whole day where people get to show off all the things they've built. Effectively, it's 24 hours, but we cheat—we do the hacking on a Friday, and we do the demo on Monday, so that gives the teams a chance to do more coding.

WMX, the Walmart Exchange, was a prototype from a hack day. This project allows people who buy digital media or digital advertising on the Web to show what the lift is inside a Walmart store, and this has been hugely popular with our suppliers. So if [someone is] selling a computer, and [puts] ads on Yahoo Sports and Maternity Day websites, I can tell them which ad had a bigger lift in a Walmart store, not even on Walmart.com. This is almost the Holy Grail for digital marketers, because they've been trying to justify their online spend for a really long time. But given Walmart's share of market, I can accurately predict and tell our suppliers where their digital advertising is working and where it's not. That was a great hack day project.

We also have a very traditional, Agile practice for doing project delivery—we use customer metrics and then we spec them out as business opportunities in a six-week cycle. We do that about three times a quarter—regular product reviews and all the things you would see in an Agile development [environment.] All the dedicated teams really help that. In fact, sometimes in [our] meetings, it's hard to determine who's the engineer, who's the product person, and who's the business person, because the systems person often knows as much about the business as the product and business persons do, and the business person knows so much about the systems now. This is why [structuring teams as] mini-startups is so effective.

MOVING AWAY FROM OUTSOURCING DEVELOPMENT

What are some of the challenges in connecting Walmart with the Valley?

Really changing the perception of what we were doing from a vendor software house to an e-commerce, engineering shop. That's really the challenge, and frankly that was part of the emphasis for the @WalmartLabs name change. Before, they just called it a Walmart hub out here, and frankly they weren't really contributing to open source. Walmart has been very conservative about talking about its technology in the media for a long time, and when I came on board we changed all that. When most people come walking through our offices, [they] wouldn't be able to recognize which startup [they] were in. It's very much an open environment. There was a lot to do to transform that, from HR policies to facilities to the technology stack that we use to the way we evaluate people in our development process.

It was a fun first year to get that all straight. [King arrived at Walmart in July 2011.] Actually, we did most of that in the first six months. We had outsourced a ton of stuff, and I let go of all the vendors in one day—I gave them a six-week notice, and they were gone six weeks later. That was the bulk of our team—it was all contractors. You can't outsource innovation, as I like to say. It's something you really have to own.

BECOMING THE BEST AT DIGITAL-PHYSICAL INTEGRATION

What is your vision for Walmart innovation, both in the near future and further down the road?

Our destiny is to build out the best omnichannel experience you can find—the digital-physical integration. When I first came to Walmart and went through the interview process, I was very cocky about saying I can build my own data centers and have this all nailed in the first year. When I got here, I

"Walmart has been very conservative about talking about its technology in the media for a long time, and when I came on board we changed all that. When most people come walking through our offices, [they] wouldn't be able to recognize which startup [they] were in."

Internal "hack days" at Walmart Labs begin with coding on Friday, and demos on Monday. Above, King evaluates a team's project.

found out that Walmart has an unbelievable amount of assets—200 million people walk into a Walmart every week, right?—so we have a tremendous amount of data coming in. Not only that, but also the brand is super-strong and what the brand stands for is really strong.

Walmart is advertised as the world's most efficient distribution channel, and I can connect directly into that distribution channel to build out an excellent e-commerce fulfillment center. So after we got our e-commerce basics in line, we spent tons of time building a better, deeper integration with our stores' systems ... from store mapping or real-time store inventory to the ability to do pickups in the store in a seamless way—all the things you would expect the world's largest retailer to do. And that's really what we want to do—we want to be the best at digital-physical integration. ⬢

THE SOCIETY OF GROWNUPS—MASSMUTUAL'S RADICAL LEARNING INITIATIVE—GOES NATIONAL

Street-Level Learning

STORY BY JUDY QUINN

PHOTOGRAPHS BY TROY CALDEIRA

The street-level store looks like a hipster coffee shop, complete with chalkboard murals inside. There are maple-bacon doughnuts in the mornings, and supper clubs at night. Comedian Mike Birbiglia, a regular on public radio's This American Life, performed at the opening. And there are classes with titles like "In Case of Zombie Apocalypse: Why You Should Think About a Will."

This is the first spin-out project from the MassMutual Financial Group, a $27 billion financial services company founded in 1851. It's called Society of Grownups, and MassMutual describes the 2,000-square foot facility as a consumer "learning initiative." It opened in October 2014 near a public transit stop in Brookline, a Boston suburb not far from Boston College.

Here's how the radical concept was born, and what MassMutual hopes to achieve.

FROM SOCIETYOF-GROWNUPS.COM
"Every generation has its own dreams. And its own ideas about success. But the only path to happiness is the one built on your individual goals and values."

Society of Grownups staffers Floyd Miller, Andrea Salzman, and Mary Thibault.

FROM MILLENNIAL TO "MINDSET"

The genesis of Society of Grownups derived from a familiar-sounding innovation challenge. Several years ago, Gareth Ross, MassMutual's senior vice president of advanced analytics and data science, was asked by MassMutual senior management to lead an effort to better understand and engage with "the future consumer."

Ross admits that he "initially thought this would be all about a certain demographic. But what we learned is that we needed to engage the consumer in having a 'grownup mindset'—thinking about the future, willing to take actions. I was equating that to a millennial, but we've moved away from that."

And Ross quickly realized that he'd have to take this project outside. "We do a lot of things well, but large organizations can find it hard to get the space to move quickly, to escape our own gravitational pull," he says. "Our initial bent, was, 'Let's go ask some experts, get some outside partners. Let's treat it as a startup, let's unencumber it.'"

So MassMutual hired IDEO, the design and innovation consulting firm, and set up Society of Grownups as its own legal entity that, after some startup funding from MassMutual, is expected to run as its own business.

Ross says there was not much debate within MassMutual about that decision, because "it seemed self-evident that a Fortune 100, more than 160-year-old firm is built to provide a great deal of value and stability. But to innovate, we would have to create new spaces." As part of the separation, Society of Grownups' on-site financial planners, available by appointment in 20- or 90-minute sessions, are forbidden to push MassMutual products.

"I cannot stress this enough: We didn't say, 'How can we sell more insurance through


MARCH
SPECIAL EVENTS
THU
03
WED
09 STARTUP
THU
10 THROWBACK
THU
31 OPEN HOUSE
BEFORE PLACING YOUR ORDER, PLEASE
INFORM YOUR SERVER IF A PERSON
IN YOUR PARTY HAS A FOOD ALLERGY.

"We do a lot of things well, but large organizations can find it hard to get the space to move quickly, to escape our own gravitational pull."

GARETH ROSS, SENIOR VP, ADVANCED ANALYTICS & DATA SCIENCE
PICTURED ABOVE, THE FIRST SOCIETY OF GROWNUPS SPACE IN BROOKLINE, MASSACHUSETTS

“I cannot stress this enough: We didn’t say ‘How can we sell more insurance through this thing? It’s about ‘How do we get to know the marketplace?’”

this thing?’” says Ross. “It’s about, ‘How do we get to know the marketplace?’”

The startup team tapped into what Ross describes as IDEO’s “well-established human centric design process” to develop those new spaces, which would best engage emerging audiences in seeking knowledge and community about their financial/life milestone concerns.

“Much of it involved going out into the real world and drawing insight from analogous research,” says Ross. “For example, we looked at a motorcycle store called Deus Ex Machina, which gave us a working model for how to build a business that has multiple price points of entry. We also conducted a series of interviews with people at either end of

Long tables in the "library" area of Society of Grownups can be used at night to host communal dinners.

the risk spectrum: 'cliff divers' and 'survivalists.'" The former group represented extreme risk, the latter extreme conservatism. The process led to a series of ever more refined prototypes, and eventually the final model.

Ross acknowledges that he originally thought that the model would largely focus on that popular target group, the millennial generation. That soon shifted, and a primary customer focus for the Society is young people who are not well-served by financial planners today, and who may not seek out advice from traditional financial services firms.

Of course, millennial flavor is certainly still a key element in Society of Grownups's general presentation, with *Wired* magazine recently dubbing the initiative "the Anthropologie of annuities." But just as that retail outlet isn't necessarily solely for a younger demographic, so too does Society of Grownups aim for a broad reach. Nondini Naqui, the banking/philanthropy professional hired to be the director of the spinout in early 2014, says that class attendees so far have been impossible to slot into a single demographic.

"It's about the 27-year-old thinking about freelancing to the 45-year-old thinking about buying a house," she says. She sees the initiative as addressing a "consumer-latent need" and serving as a "democratizing" of financial information. "We seek to curate and make it meaningful," she says. "Our physical location is an incredible catalyst and a place of learning."

The space is open Wednesday through Sunday, closed Mondays and Tuesdays. There are free movie and board game nights. “Chats” on topics like becoming a freelancer or planning grownup trips cost $10. Evening supper club conversations on topics like “Couples & Money” cost $40. At the high end of the menu are 90-minute financial consults, which cost $100. The description: “We’ll look at your household budget, tax situation, and debt picture. Then we’ll assess your risk tolerances and factor in your lifestyle choices. Finally, we’ll apply this knowledge to the scenarios you’re most likely to face in the future.” While the Certified Financial Planners who teach classes and offer consults can make recommendations about products, they don’t open accounts at the Society, and they aren’t there to pitch MassMutual’s offerings. (Eventually, there will be an online marketplace and fees paid for new business—but not only for MassMutual offerings.)

“A CONSTANT ITERATION”

Ross and Naqui are quick to point out that they intend to keep learning from the initiative, finding out what works and what doesn’t and adapting the concept. As Ross puts it, the spinout of the Society of Grownups was done with that purpose in mind, “to give us distance and space to test and learn.”

Naqui is only half-kidding when she mentions that a key lesson gleaned soon after launch was that serving food family-style at a supper club actually didn’t work as expected, because “people didn’t pass the food.” Supper clubs now have staff servers, so the focus can be on fostering good conversation, not on the mechanics of moving food around.

Humor has proven to be a vital part of the enterprise, with Ross and Naqui both mention that the “In Case of Zombie Apocalypse” tagline has proven to be an effective way to draw in audiences, and eliminate the fear factor of focusing on the scary financial topic of wills.

Another take-away for the team so far is that classes aimed at new parents haven’t taken off. “We realized this group is too busy to actually attend classes,” Ross says.

A weekend-long “financial retreat” also didn’t fly. “We changed different components, and also how we described what it was going to cover,” says Naqui. “There either wasn’t a need or a desire.”

But offering free bagels and coffee around the communal table on Saturdays has proven a good way to bring people in. Guests can

ask questions or just talk informally about financial topics—or the weather—and about half of those who stop by sign up for classes and appointments afterward. Sign-ups have also been strong for classes on "Basics of Investing" and understanding taxes as a freelancer. In January and February 2016, Naqui says they hit a milestone her team hadn't expected—all classes and appointments at the Brookline location were sold out. Naqui says the median age of people coming into the first Society of Grownups storefront so far is 30.

EXPANSION PLANS

MassMutual initially fronted $10 million to launch Society of Grownups; last October, the parent company said it would invest another $100 million to open 10 more physical locations over three years, and expand the Society's online presence.

Philadelphia and New York City are the next places that will get a Society. But they won't be carbon copies of the first. "Real estate in those markets is extremely expensive," Naqui says. "So we're exploring what the space and experience need to be, how they should be staffed, and what they need to look like." She says Society has been sponsoring events and hosting pop-up sessions to understand how to refine its offering in those cities, "making sure that the curriculum fits those areas and those grownups."

Was there any internal debate about whether to continue opening storefront locations? Naqui says that "it actually isn't an argument we had. Everyone understands that we do need a place. This is the lab where we've been able to derive so much insight from both the classes and the digital platform—what peoples' needs and pain points and motivations are, and what drives them to action."

One goal for 2016 is "becoming a national brand," she says, and not necessarily getting all three locations to break-even as soon as possible.

WHAT'S NEXT?

Ross and Naqui say they're continually refining the Society of Grownups offering. "We ask at the end of every class and every planning session, 'How did it go?,' likes, dislikes, 'What would you change?' We also ask every teacher or planner for their perceptions," he says. "And we make lots of small tweaks constantly."

Naqui says that a major focus of late is improving the Society's online presence: "How do you take the heart of what we're doing in the physical space—the interactivity and community-building—and scale that? There are tons of website tools around personal finance. But how do you holistically help people navigate adulthood successfully, whether they are in Minnesota or anywhere else?"

Naqui says the dialogues taking place at the Brookline site are helping to shape and expand the learning content available on the Society of Grownups website. Recent experiments include webinars and video snippets focused on a single topic, followed up by interactive exercises.

Another next step may well be new alliances to further enhance the Society's value proposition. "I'm really pushing for partnerships," says Ross, who notes that MassMutual doesn't currently directly sell property insurance, for example, yet these products align with the interest to emerging Society of Grownups community.

The Society of Grownups team now has 45 people, and Naqui says it has a great deal of independence, though she still interacts regularly with Ross. "We're empowered to make our own decisions about our strategy," she says. "They are advisors, collaborators. But we're given a great deal of latitude to be able to take this forward." ⬢

Nondini Naqui and the small team that runs Society of Grownups work out of their own office space, separate from MassMutual's Boston facility.

GENERAL MILLS INNOVATION EVP ON BECOMING THE ‘BEST BIG SMALL COMPANY’

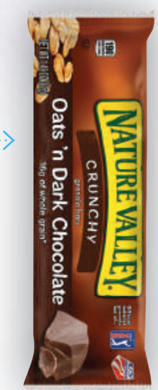
Can a Food Giant Think Small?

INTERVIEW BY STEPHEN ELLISON

PHOTOGRAPH BY LONG HA

General Mills
Minneapolis

Spring
2016



Over the last decade, General Mills, with 43,000 employees and brands like Cheerios, Nature Valley, and Betty Crocker, has been focused on a very clear goal: becoming "the best big small food company in the world," in the words of Peter Erickson.

But blending scale and agility is a tall order for most large organizations. We spoke with Erickson, Executive Vice President of Innovation, Technology, and Quality, recently to talk about how he's approaching it; how the company stays close to consumers; and his efforts to position the $17.6 billion company as the "partner of choice" for inventors and startups working in the food industry.

Erickson has been with Minneapolis-based General Mills for 27 years, and he reports directly to CEO Ken Powell.

Peter Erickson is responsible for the invention and commercialization of new food products and technologies at General Mills, as well as external partnerships. He reports directly to the CEO.

TREATING THE WORLD AS OUR LAB

The General Mills innovation program is one of the longest-running among big corporations. What prompted the launch of the program, and what were some of the initial obstacles?

Our commitment to innovation at General Mills has been around since the company was founded 150 years ago. Over the last decade, we've made a very concerted effort toward ... reinventing innovation at General Mills. One of the first phases of that, which started about a decade ago, was our focus on looking outside the company—new ideas, new technologies, new connection points that could help drive growth for General Mills by bringing new capabilities into the organization. What we have come to learn is that there are lots of other really smart people out there that have tremendous ideas and capabilities that we can do a better job of leveraging.

So back in the day, we used this adage of a General Mills researcher used the lab as their world. We flipped that on its head and said a researcher needs to view the world as their lab. We really tried to open the doors of General Mills and be much more [overt] about what the needs of General Mills are, and inviting inventors and innovators from all around the world to connect with us to together try to drive growth.

Within the last several years, we have been working diligently on trying to [make] the consumer even more central to our development process. And we talk about creating consumer-first design, where we're getting our researchers and innovation teams out into consumers' homes, into the grocery stores, shopping with consumers, really trying to gain a lot more empathy for the various consumers we serve ... and doing a lot of that through ethnographic research in observing consumers in their own environments to [figure] out those critical jobs that need to be done. Again, our belief is if we can get the individual who can solve the problem as close to the individual who has the problem, we dramatically increase the likelihood that we're going to be able to bridge that gap and create something meaningful for the consumer, and ultimately meaningful for General Mills.

MAKING LONG-TERM BETS

How has the program evolved over the years?

When we look at all the stuff we've done across General Mills, really the overarching goal, the North Star that we see for ourselves, is this aspiration of becoming the best big small food company in the world. What we're really talking about is [embracing] many of the best practices that small companies have today. The focus on the consumer and the understanding of the consumer is probably greater at small companies than at big companies. Small companies are very agile and quick and able to pivot in the marketplace—and they're very efficient in their use of resources. So we're trying to adapt some of those small-company techniques, but at the same time preserve some of the big company's capabilities—things like the depth of talent that we have. We continue to invest in recruiting and developing and retaining some of the best and brightest minds in the food industry... Small companies would kill for some of the skills and capabilities that we enjoy within our organization today.

The second thing that big companies have is the ability to scale. When we have an idea that works, we're able to scale it around the globe very quickly—and we have lots of examples of innovations that might have started in one part of the world that worked very well, and we've taken it to other parts of the world.

> **"The focus on the consumer and the understanding of the consumer is probably greater at small companies than at big companies. We're trying to adapt some of those small-company techniques, but at the same time preserve some of the big company's capabilities—things like the depth of talent that we have."**

The third is the ability to make long-term bets. We have some very deep and long-term technology initiatives that we invest in that are helping us create advantages in technologies that we think can take General Mills well out into the future. Small companies tend to focus on what they need for the next week or the next quarter or the next year; we're working on programs ... that may not realize results and benefits for five or even 10 years. So when we think of this adage of the best big small company, it's about all of that.

'LOOKING TO LEARN FROM THE BEST'

What are some of the keys to the program's success and longevity?

We don't sit here believing we have the best approach to innovation, that we have an advantage that's going to allow us to win forever.

We are constantly looking to learn from the best, not just in the food industry but from many other industries that are focused on growth and innovation. So that spirit of continued improvement is one of the elements that has helped us be successful. The other one is a willingness to experiment within the context of our organization. We do a lot of piloting—if we have a new approach or a new technique or new insight on how to drive innovation, we'll try it in one portion of our organization, and if it works very well, we'll scale it across the rest of the organization. If it doesn't, then we learn from it and move on. The third thing is we have great support from senior management. My direct boss, the CEO, he is constantly asking and pushing and prodding for us to continue to invest in and develop new capabilities and new approaches. And he's given us a lot of latitude to try new things across the organization.

You mentioned some strategies or approaches that haven't worked over the years. Can you be more specific about what those were and why they didn't work?

I think we have tried different approaches to how we've structured our organization. Like lots of organizations, we tried centralizing and realized that we lost touch with the consumer. Then we decentralized and realized we didn't have enough scale to be able to invest deeply. So we're always trying to optimize the size and scale of our organization... We've tried a lot of different ways of communicating and capturing knowledge within the organization. Also, we've tried some different kinds of software, tools that allow us to be able to transfer knowledge more effectively. Again, some have worked really well, and others have been great learning experiences for us.

"Our competition is constantly trying to catch up, and in some cases, they have been able to match our product. But in all those cases, we're on to something even better by the time they've figured out how to do the work that we've done."

STRIVING TO BE A PARTNER OF CHOICE

What made you decide to start seeking external resources with the G-WIN program [the General Mills Worldwide Innovation Network, which we've covered previously]?

If I go back to my background, before I came to General Mills, I worked for a small company. I saw how impactful it was to be reaching out and leveraging resources outside. But to do that effectively, you really had to know what to ask for. One of the adages we talked a lot about in the early days is if you're out there looking for everything, you'll find nothing. But if you're out looking for specific solutions to key technical challenges, you'll find many ways of being able to deliver that. That was something I learned working for a small company.

[We are] really striving to be this partner of choice externally, where inventors and innovators will come to General Mills first with their ideas, because they know we treat them with respect, we take care of their technology, and we would share with them in the value that has been created.

How much of a difference has it made?

We've had a lot of products—and improvements to our existing products ... that have been made because of the connection points we have leveraged with others outside. We did some research a few years back where we looked at all the new products we introduced and at that time, about 50 percent of everything we introduced had been leveraging a significant external component of innovation or technology. Those 50 percent that were leveraged were generating more profit and more growth than the other 50 percent by a very large factor.

Talk about some of the projects or strategies that have blown you away.

Certainly, over the last decade, some of the most consistently successful innovation we've seen has come from our snack business—in particular the work we've done around portable snacks, grain snacks. When you think about the Nature Valley line or the Fiber One product line, they have been hugely successful over a long period of time because we have been committed to continual innovation. Our competition is constantly trying to catch up, and in some cases, they have been able to match our product. But in all those cases, we're on to something even better by the time they've figured out how to do the work that we've done. And the result of that is in our grain snack businesses, we've enjoyed some terrific share growth over a long period of time. And our consumers have rewarded that with more trial and repeat [purchases] that have helped those businesses grow.

The General Mills Purity Oats facility in Minneapolis, Minn.

WINNERS NEED TO BE WILLING TO INVEST

Describe the company's process for generating, selecting and developing ideas.

As with everything at General Mills, we start with consumer. We [aim to] understand what that consumer need is. Then we build a series of hypotheses on how we might be able to solve that consumer need. We look into what are all the technologies that we think will allow us to address the various hypotheses that we generated—again, not just in food, but in other corollary industries as well. Then we develop a network of companies that are providing those sorts of solutions and technologies. We reach out to them, we talk about what they have, we determine if there is mutual value to be had by working together on solving that [need], and if all that works, then we ultimately choose to work together and co-invent the solution.

Does this process ever involve direct competitors?

We've had a number of situations where we created a consortium—where we had a variety of companies that might share a similar technology need, a similar problem that they're trying to solve that we will work together on. ... Food safety is one that's fairly common across the industry, and it's not an area where a lot of our competitors are looking to create a competitive advantage. We all benefit by having safe foods that consumers can trust. Packaging and different kinds of packaging formats are areas where you can find opportunities for consortia, where you can come together and leverage the collective scale to reinvent an approach to the industry.

What's in store for the future of the General Mills innovation program and for the food industry in general?

I certainly think the level of competition in our industry is not going to subside in any shape or form in the future. I think there are some parts of our industry that are focused on cost-effectiveness and driving growth by taking away things that can contribute to the bottom line. I believe the winners are going to be those that are balanced in that approach, that are being efficient in where they invest but are also willing to invest ... in capabilities and technologies that are meaningful to consumers and that will drive growth into the future.

Visa, Inc.
San Francisco

VISA EXPLORES FUTURE OF BUYING WITHOUT PLASTIC AT INNOVATION CENTER

Greetings from the Post-Plastic World

STORY BY PATRICIA RIEDMAN YEAGER

PHOTOGRAPHS BY MARK LEET

When most people talk about connected products or the "Internet of Things," they mean a new generation of devices that can communicate with one another wirelessly. But what if devices could buy stuff, rather than just conveying status or the need for maintenance?

"In many cases, what these devices would like to do with each other is conduct commerce," posits Bill Gajda, Visa's Senior VP of Innovation and Strategic Partnerships.

Gajda oversees Visa's One Market Center, an 112,000-square-foot innovation center in San Francisco. It's a futuristic, open space designed to foster interaction between local tech developers, customers, and Visa's software engineers. It's only about 23 miles from Visa headquarters in Foster City, Calif.

In 2015, the company came in second to Apple in PYMNTS.com's first Payment Innovation Index, a ranking of companies in the payment innovation space. The ranking takes into account the number of patents, acquisitions, and investments that up-and-coming payments companies have made in the last year.

One Market Center now has dozens of people working in innovation—everything from security to payments and authentication. Gajda, who reports to Head of Innovation & Strategic Partnerships Jim McCarthy, has several prototypes and pilots in process, and he covered some of these in a recent interview.

A NEW KIND OF DRIVE-IN EXPERIENCE

One of the first ideas that Gadja's team at One Market Center explored was how a connected car might order and purchase a take-out dinner on your drive home from work. They felt the concept could extend to paying for parking, fuel, or countless other on-the-go purchases where speed was important.

Rolling out soon is a Northern California pilot with Pizza Hut, in which beta-testers will be able to order pizzas directly from their cars using Visa Checkout, the financial payment provider's mobile platform, which will be integrated into the vehicle's dashboard. Once the drivers enter the Pizza Hut parking lot, their orders will be delivered directly to their cars, thanks to a Bluetooth beacon at the restaurant that alerts the restaurant clerks to the purchaser's arrival and location in the lot. Visa is working with Accenture, which is handling the technology integration aspects. Visa has one dedicated executive and a staff of a half dozen stakeholders working on the project, including security, authentication, and payments specialists.

"It's a drive-in experience, without a formal drive-in," Gajda says. "You don't have to take the wallet out. You don't have to go through point of sale. We use the car to initiate the order, the tracking, the location, payment authentication and overall provide a really seamless experience."

Also in the works is a parking pilot in an undisclosed U.S. city. Parking garages involved in the pilot will have parking spaces equipped with a beacon, so that when someone puts a car in park, the car communicates with a meter that starts ticking.

As soon as the person puts the car in drive again, it signals to the meter that the driver is leaving, and the flat fee or fee calculated by the hour is debited from the driver's account, with a digital receipt sent to the individual. No walking around to look for a payment kiosk, and no fiddling with cash as a line forms behind you. "It'll really change the way people think about parking," Gajda says.

TECHNICAL CHALLENGES

Gajda said the Pizza Hut prototype used a BMW, but that Visa is collaborating with a number of car manufacturers, as well as with the major phone operating systems. He says new services that Visa develops need to work whether you're using a smartphone linked to your car, or the dashboard system that uses an automaker's own software. The pilot system also can accept spoken input—"Two large veggie pizzas and two Diet Cokes"—or input from buttons on the dashboard screen.

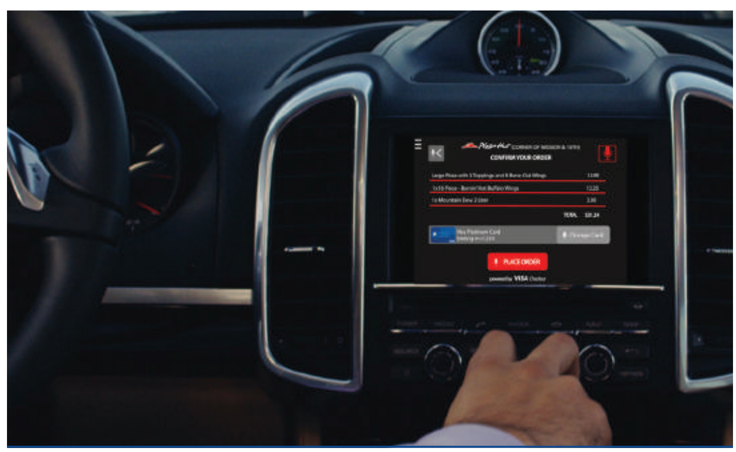
With the Pizza Hut project, working with different automobile operating systems proved to be a challenge, Gajda says. "When we think about mobile apps, a lot of us think, 'Oh if I develop for Android and I develop for Apple, I pretty well have 80 percent or 90 percent of the devices covered,' and that's true in a mobile phone."

"When you talk about cars, there are those two operating systems, and then several more operating systems that are proprietary to car manufacturers. So, that's a complexity we had to wrap our heads around. Things like, 'How do you link the GPS and geo-location capabilities of a car to provide that location-specific service that can be really intuitive?' That was an interesting challenge."

WHY INVOLVE THE CAR AT ALL?

With mobile phones now essential accessories, one might ask, why introduce a car when you can use your phone to do the same thing? Visa is pursuing both paths, Gajda says, but connected cars do have advantages.

"Unlike your phone, your car has a lot of information about you in terms of your location, where you go and where you've been," he explains, noting things recorded by a vehicle's on-board diagnostics, such as a GPS history, mileage, etc. And by 2020, some 250



"It's a drive-in experience, without a formal drive-in. You don't have to take the wallet out. You don't have to go through point of sale. We use the car to initiate the order, the tracking, the location, payment authentication and overall provide a really seamless experience."

"It's not Visa getting into crazy new businesses; this is all about how we can use our network, our relationships with banks, our relationship with merchants, and our brand to provide new kinds of payments and a new kind of consumer experience."


SALABS

million vehicles will be equipped with some form of connectivity, according to research firm Gartner.

The other advantage of using a car, he says, is that Visa found it was easier to integrate commerce with the car's interactive voice response system, which was developed with a heavy emphasis on hands-free communication.

One obstacle was the issue that in most cars there's more than one driver, he says. "So, there's some services that you want, not all services, that are linked to the automobile, or linked to the consumer or both," he says. The team was able to personalize the commerce experience through things such as seat adjustments which are set to particular drivers, so a car knows which driver is behind the wheel.

Plus, Gajda says, if you left the house without your phone or wallet, you'd be able to buy gas, park, or order food using the system embedded in the car.

BIOMETRIC IDENTIFICATION

Biometric identification—using your fingerprints or iris scans for secure identification—is another area of interest. Partnering with biometrics provider Morpho, Visa built a prototype "coffee shop" in San Francisco where visitors can register their fingerprint or have their iris scanned; the info is then linked to their Visa cards. When they order a beverage, a passive iris scanner begins to scan their irises. "These very sophisticated iris scanning devices are scanning your eyes—you don't even know it—10 times a second. So, by the time you've ordered your coffee and got your coffee, they've scanned your irises maybe 600 times, and so they know it's you," Gajda says. The iris scan or fingerprint reader can even pull up coffee preferences, so by the time you get to the front of the line the barista can ask if you're having your usual. The payment automatically gets processed and you can walk out with your coffee.

And while buying coffee with an eye scan might seem like a futuristic sci-fi demo, Gajda is quick to point out that testing new ways to streamline payment is vital for the company. "It's not Visa getting into crazy new businesses; this is all about how we can use our network, our relationships with banks, our relationship with merchants, and our brand to provide new kinds of payments and a new kind of consumer experience. It's really related to our core business, which is commerce." ⬢

Guidance

4

Spring
2016


Innovation
Leader

AUTHOR AND PROFESSOR VIJAY GOVINDARAJAN TALKS ABOUT HIS LATEST BOOK, *THE THREE BOX SOLUTION*. (SPOILER: COMPANIES HAVE A HARD TIME FORGETTING THE PAST.)

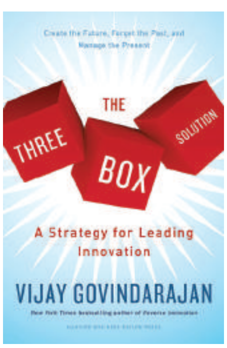
Thinking Inside the Box(es)

INTERVIEW BY SCOTT KIRSNER

PHOTOGRAPH BY LAURA DECAPUA

HOW CAN LARGE ORGANIZATIONS CREATE the future when almost all their time and energy is spent competing for the present? That challenge is at the center of *The Three Box Solution*, the new book from Vijay Govindarajan, professor at Dartmouth College and visiting fellow at Harvard Business School, who has also served as chief innovation consultant to General Electric.

We spoke with Govindarajan about how future-focused teams should be set up, staffed, funded, and structured—as well as some of the advantages of acquiring innovative startups instead of developing new products and services internally. We also discussed the importance of abandoning long-held beliefs about what the customer wants, and how the business needs to operate. Among the companies Govindarajan uses as case studies in the book are Hasbro, Keurig, IBM, and Tata Consultancy Services.



ABOUT THE BOXES

BOX 1 The present. Manage the core business at peak profitability.

BOX 2 The past. Abandon ideas, practices, and attitudes that could inhibit innovation.

BOX 3 The future. Convert breakthrough ideas into new products and businesses.

Why don't you start by describing what the Three Box model is? What's in the three boxes?

I take everything an organization does and put them in three boxes. How many of the activities are in Box 1? Box 1 is about managing the present. It's about improving the performance of your current business the way they're configured today.

Box 2 is about selectively forget the past. Box 3 is about create the future. What I find working with organizations is they over-focus on Box 1.

I was just going to ask that. Box 1 is everybody's job, 99 percent of their time, right?

Yes. Box 1 is important, but Box 2 and Box 3 are also equally important. I say Box 1 is competition for the present. It's all about efficiency—improving performance of your current business.

Box 2 and Box 3 are all about competition for the future. They're all about innovation. The reason this is tough is that what it takes to succeed in Box 1 is very different than what it takes to succeed in Box 2 and Box 3.

Take your own industry, publishing. There are print magazines in Box 1. Then, digital technologies create fundamental changes. You need to experiment with new business models online. Managing those two conflicting businesses is the tough challenge.

Explain Box 2 a little bit—forgetting the past. What's in that, aside from executives who are going to say, "Yeah, we tried that 15 years ago and it didn't work then, so let's not try it ever again."

Box 2, I find, is the toughest of the three boxes.

To understand or to do?

To do. Of course, even to know what you have to forget is tough, but forgetting, that is really tough. If you really think about it, there are a lot of books written on learning organizations, but nothing written on forgetting organizations. Perhaps you may need to forget your culture, some performance management systems.

Assessing what you need to forget requires you to first understand how the future will unfold. Therefore, we give the example of Hasbro.

If you go back to the mid-1990s, some of the forgetting challenges for Hasbro would be, "We'd better forget we are a physical product company. We'd better forget we're an American company. We'd better forget our only distribution channel is brick-and-mortar stores." Those were the rules by which they were winning in the mid-1990s. The forget challenge is to say that some of the rules by which you are winning today are not relevant for the future. Therefore, you must forget.

The reason why forgetting is a huge problem is you have to forget things which will create your future weakness, but they're your current strengths. Therefore, they're supporting your Box 1 today, but they could become future weakness.

We give the example of Microsoft. Part of the reason Microsoft has struggled a lot is not that they didn't understand digital music, or search, or all these things. They are smart people. The problem is knowing that those big changes are happening is one thing. [But] for them to migrate to that world, they have to forget one thing, which is sales of PCs... That's where they are making their money—in Windows.

Would you talk about a mechanism for forgetting, because I guess hitting someone on the head with a two-by-four probably isn't acceptable in most organizations. Yet, I think everybody's been in one of these meetings where you have the CEO or the COO who says, "I remember 30 years ago, I used to call on this kind of customer, and they told me X." They still think X is true 30 years later...

There are two fundamentally different approaches one can take for forgetting. One is to sell off those businesses. There are certain industries that don't fit your future anymore.

When P&G starts selling off their beauty businesses, and [GE's] Jeff Immelt sells off their finance business, essentially it's saying, "These are not bad businesses, but they don't fit our future." That's one way you forget.

The second and the more difficult one is [to keep people] inside the organization, but make them forget. That means you've got to change people's mindsets. The best way to effect that is when you're executing a Box 3 initiative, create a dedicated team.

The dedicated team should be separate and distinct from the Box 1 performance engine. ...If you constitute the team correctly, the kind of people you recruit, the processes you have—they will be able to forget the rules by which the performance engine is run.

Talk a little bit about Hasbro, because you discuss them in the book as one of your case studies. Having written a little bit about the toy industry 15 years ago, it seemed like they were trapped in that Coke versus Pepsi, Hasbro versus Mattel, Hyatt versus Marriott [mindset]—just duking it out like crazy with Mattel for who was going to have the hit toy this Christmas. How did they get out of that?

That's a good characterization of Hasbro in the '90s. The competition was between G.I. Joe and Barbie. There was a book somebody wrote about it—

***— Toy Wars*.**

Yes. Hasbro has—particularly under [CEO] Brian Goldner—expanded the pond to go into areas which are adjacent but quite different from their historical focus, like digital gaming, going into the Hollywood movie business, going into Universal theme parks.

When you go into those areas, your competition is not Mattel. Suddenly, it becomes Disney, because Disney is more of a full-fledged entertainment player as compared to Mattel. I would say Disney's a better characterization of Hasbro's competitor, but also, Hasbro has a lot of competition with a lot of small players in technology games. Technology games are something a Silicon Valley start-up could quickly put together.

Angry Birds—some company, Rovio from Finland, comes out of nowhere.

Exactly. In technology-based games, the entry barriers are so low that you can introduce new games. Every time you open your iPhone, there will be a new version of Angry Birds popping up. It's not like the Monopoly board game, which had a long product life cycle. You can have a lot of competitors. Many of them you wouldn't even know who they are, because they can pop up.

Hasbro has expanded [its thinking about] the people they compete with, the kind of distribution channels they go after, the kind of customers they deal with. Therefore, I would say that mindset has significantly changed. If you walk into Hasbro today, it feels, smells, very different than the toy and game product maker of the '90s.

> **"There are a lot of books written on 'learning organizations,' but nothing written on 'forgetting organizations.' ... The 'forget challenge' is to say that some of the rules by which you are winning today are not relevant for the future. Therefore, you must forget."**

He has this team you write about called "Future Now." That is a future-of-the-business team and not, "How do we sell more Monopoly boards this year?"

Exactly, and he also has processes by which he says, "How are we succeeding today in Box 1? What are the rules by which we are succeeding in Box 1? Are there weak signals that are telling us there are going to be changes in those rules?"

In the future, Box 3, you respond to weak signals. Box 1 you are responding to clear signals. The question, therefore, is how do you plan for a future you cannot predict? I say that the focus in Box 3 has to be prepare, not plan. You can't plan for the future.

The way you prepare for the future is to observe the weak signals—the emergent trends in technology or customers—and ask the question, "Will those emergent trends affect my success formula today? If it is going to, then I'd better start an experiment somewhere to see whether this will happen actually."

Weak signals are so hard for big companies, in a way, because you can see a weak signal that really is going to be an important new business. Yet, it just looks so small. If you're a multibillion-dollar company, you're looking and you're saying, "This is a hundred-thousand-dollar business today. Why should we, Hasbro, or we, GE, be messing around in this small market?"

That is exactly the problem why Box 3 is so difficult. Any progress that you make on Box 3, the impact is going to be very small today.

In fact, one of the metaphors is that a Box 3 activity [is like doing] exercise every day. If you do exercise every day, you've got good health in the year 2020.

The reason why individuals don't do exercise every day is...because you can always give some excuse. "I've got too much work here, I've got to talk to Scott and then prepare, I've got emails to check." If you don't do exercise today, your health does not decay today. It decays in the year 2020. That's why you postpone.

By the way, your health decays today, but the decay is so small, so invisible, it doesn't bother you.

Similarly, when there are weak signals, you say, "If I'm going to act on those weak signals, I make only a couple million dollars in sales." For a $6 billion company, it doesn't move the needle. Therefore, they may not bother with it. "Let me jump into the game when the game becomes really big."

That is all the more reason it is the CEO's job to say, "When I look ten years from now, [videogames] look like a phenomenal opportunity. For me to participate in that, I have to start today." The...future's not in the future. The future comes in daily doses.

"In fact, one of the metaphors is that a Box 3 activity [is like doing] exercise every day. If you do exercise every day, you've got good health in the year 2020."

It is a question of small bets forming a bigger bet. This is the job of the CEO.

One of the things that is like a puzzle that's really hard to solve, is that CEO tenure can be really short nowadays.

Do you think it is true that consistency wins, and when you have companies that have a lot of turnover, or a "strategy of the year" that changes every year, those companies fall behind?

The short answer is yes. When you look at a CEO like Brian Goldner [of Hasbro], he has been around now for at least 15 years. ...Any of these strategies take time for fruition.

If the board is impatient, and makes the [CEO's] tenure short, and, as a result they start to focus on short-term things, then I say the problem is with the board. They need to give enough time, but enough time alone doesn't do it if the CEO doesn't... really lay out a three-box balance.

I want to ask you about buying the future versus building the future internally. You talk about Keurig in the book. When it was just called Green Mountain Coffee Roasters and they were up in Burlington, Vermont, they acquired the Keurig coffeemaker technology, and that became the engine of their growth for like eight years or so. It was a fantastically well-performing stock, and that was just a smart acquisition. Then, they tried to develop internally the Keurig 2.0 coffeemaker and, more recently, this Keurig KOLD beverage maker, neither of which seemed to really do that well.

Do you think there's a lesson in there about how challenging it can be to organically develop the next big thing?

There are three lessons in that Keurig story that one needs to highlight. First of all, Green Mountain Coffee Roasters, they were a roasting company, that's all. They roasted coffee beans and sold it to the wholesale market. They knew how to make a good cup of coffee.

When Keurig came along, initially, [Green Mountain was] one of the investors in that start-up, along with others. My first lesson, therefore, is you don't have to do all the Box 3 yourself. Sometimes it is such a nascent field, such an embryonic idea, you may [be] only assuming risks...if you start it in-house. I would say it is a very good idea to go and take equity positions in start-ups in those nascent areas.

Lesson #2 is, at some point, they saw enough merit in Keurig, especially when they saw it in the office market. They were able to establish a foothold. [Offices were] a smaller market compared to B2C. B2C was the vision. In 2006, they acquired Keurig and brought it in-house.

...It was still a small player with still enormous amounts of unknowns in the business model in terms of product, distribution channel, etc.

Second lesson is at some point, you will bring that...start-up in-house. Keep it separate. Do not bring it close to your performance engine, because your performance engine is the coffee-roasting business which you know how to do. Keurig is still an evolving business.

From 2006 to about 2012 [they had] record growth.

They left Keurig here in Boston. The rest of the company was up in Vermont.

Exactly. They were still leveraging some assets in Vermont, which is how do you make a good cup of coffee, etc., but the Keurig itself was developing as a Box 3.

This goes to my lesson #3. They followed all the rules I suggested. The third important lesson is the three-box lesson. Three-box balance is not a one-time activity. It is a recurring, continuous, rhythmic activity. Where I fault Keurig is in 2012 when the patents expired on the K-Cup [coffee pod], they introduced a brewer version which would prevent anybody who simply copied the [K-Cup design] to make coffee in that brewer.

That, to me, is not Box 3. It was simply defending their Box 1, the Keurig system. This was a very successful, wonderful business model, [and it had] moved from Box 3 to Box 1 now.

I want to see if you could talk about some other elements of the book that I really enjoyed. One is the three traps that you talk about: the complacency trap, the cannibalization trap, and the competency trap.

Those three traps are what keep you in Box 1. The reason why companies go into preservation mode is because of those three traps. One of the three traps, the competency trap, essentially says, "When you are successful in Box 1, you try to build competencies and perfect competencies that continue to make you successful in Box 1."

If you're highly successful, if you're Hasbro and making board games, your human resource function requires more people who are good at making better board games, whereas that competency, almost by definition, is not useful for your Box 3, because Box 3 requires new competencies. Breaking out of that is what leadership involves.

The complacency trap is when you are successful in Box 1, you somehow assume it validates the past.

The cannibalization trap is the fear that if you try something new it will destroy the machine that is paying big dividends for you.

The fact that you're building defenses doesn't prevent somebody else [from doing] that cannibalization for you.

I feel like a lot of people are trying to figure out what is the right structure to set up one of these "Future Now" kinds of innovation teams. Is there a one-size-fits-all solution, or for every company is it going to be a different closeness to the headquarters, and a different composition of people?

The answer is both. There are some generalizable principles I can offer for every company. How those principles should be applied is so contextual [that] there is no one formula. The three important principles in succeeding in Box 3 is, first, you must create a dedicated team for Box 3.

The dedicated team should be constructed for the job at hand, which is to build this Box 3 business. Therefore, it can have different people, different processes, different metrics.

You don't like the model of saying to employees, "Oh, you can have five percent of your time to think about the future."

No. That can be helpful in coming up with an idea, but it's not helpful in executing. You must have a dedicated team. Principle #2 is that the dedicated team should have some separation from the Box 1 performance engine. All of that is problematic. Therefore, the right approach is manage the conflicts down so that there is a partnership.

The last thing I want to ask, just because you got me thinking about it, is, where does the funding come from for the future team? At a lot of companies we talk to, it's like, "Oh, the future team comes up with an idea and they go to the business unit, and ask 'Hey, do you guys want to fund this idea for us?'"

This is a job of the CEO, whether you're Jeff Immelt or Brian Goldner at Hasbro...They have three important jobs in this three-box solution.

Job #1 is when they ask for projects from the business units, they must say, "Give me your strategic plan separately for Box 1 and Box 3. Give me your initiatives, and put them in these two buckets."

Principle #2 is, I'm going to allocate resources separately for these two buckets. Once they allocate resources for Box 3, they will be a protected class of resources. They're not going to be redirected to Box 1—ever.

Principle #3 is, I'm going to evaluate Box 3 differently than Box 1. Box 1 is the performance engine. Box 3 is an experiment, so it should be treated as an experiment. It should be [have] accountability for learning, not accountability for results. We go into how you do it in the book.

As a CEO, if you follow these three [principles], then the Future Now group doesn't have to go begging [for funding] to a business unit. The funding comes from the top, and is earmarked for future. ●

READ OR LISTEN TO THE COMPLETE INTERVIEW AT INNOVATIONLEADER.COM/THREEBOX.

Transformation Through Innovation

BY **GARY GETZ**, CEO, AND **MICHEL VAN HOVE**, PARTNER, STRATEGOS

IT'S A QUESTION WE HEAR OFTEN: HOW CAN YOU transform an organization to become more innovative? The question sounds simple, but almost by definition transformation is a daunting task, and it's easy to start down the wrong path.

When we arrive on the scene, here's what we usually find:

A feeling in the organization that growth is slowing, the industry is facing rapid and irreversible change, or that the core is under attack.

Some pockets of innovation success across the organization.

Uneven distribution of innovation capability and few if any uniform practices or tools.

No common definition among leadership or staff of what "innovation" means or what it should achieve.

A sense that the company needs either many more good ideas, the ability to get existing ideas into the marketplace faster and with higher likelihood of success, or both.

Very frequently, we also find a desire to discern, and then imitate, the specific practices of companies widely seen as innovative. The Apples and Googles of this world, the Legos and Virgins all have great stories to share and each is a worthwhile company to study. But benchmarking, copying or emulating individual tactics doesn't guarantee success; on the contrary it often leads to disappointing results.

So what should you do? Our experience tells us that there are three imperatives that businesses should address in a systemic way to drive transformation through innovation:

1. Make it clear.
2. Make it real.
3. Make it stick.

MAKING IT CLEAR: PURPOSE AND AIMING

Often companies state their ambitions in numbers, e.g. market share, percent growth, and margin attainment. But the problem with numbers is they very seldom excite most of us unless we're discussing world records.

It's amazing to us how rarely companies clearly define, align around, and engage employees in dialogue about, clear statements of their innovation aspirations. What types of opportunities do we seek? How will our future culture be different if we become more innovative? What differences will we make in customers' and employees' lives?

How can we expect an organization to achieve a dramatically different future if we neither articulate nor communicate it? And it's not just about the business goals; while it is important that the innovation aspiration guides the rational allocation of a company's growth resources, it is mandatory that it connects on a more emotional level, providing a compelling reason and a clear direction to seek opportunity for the business.

Innovation must be directly linked to business strategy, not treated as "something outside of our real business." A strong innovation-based business strategy describes, in detail, our future competitive dimensions of leadership, where we will play and how we will win. Opportunity development that results from innovation informs strategy; and strategy drives choices on an ongoing basis about which opportunities to pursue and which to ignore.

MAKING IT REAL: MARKETPLACE SUCCESS

Another error that we frequently see is that companies begin their innovation journeys with extensive efforts to design and deploy innovation infrastructure, or even worse, to adopt and impose generic organizational and process models for innovation, before they ever get to work on real opportunities.

Of course, over time companies need to design processes, implement metrics, create training modules, build systems, and establish the organization structures and roles that support innovation. But to survive long enough to be formalized, innovation and its benefits must first become tangible to stakeholders across the organization.

For employees, innovation is initially about generating excitement and realizing people's ideas; it has the power to mobilize teams to focus on delivering something new and of value to the business. And for leaders, a crucial part of the early work of innovation is to demonstrate that their organizations can, in fact, generate and execute new ideas.

It's easy to get this part wrong, however; far too often we see companies who have launched innovation with big, visible events or all-comers idea markets, only to find two things happening:

In the absence of new stimuli for idea generation, effective ways of facilitating diverse discussions, and methods for grouping small ideas into larger platforms, the opportunities identified are either trivial tweaks, retreads, or grandiose fantasies.

Once the floodgates have been opened, the river must have somewhere to flow—or else. Inviting ideas without having the tools and resources to evaluate, improve, and pursue them is a recipe for cynicism and can kill a nascent innovation transformation almost before it begins.

In our client work, we engage teams in targeted innovation challenges across the entire life cycle of innovation. These challenges range from what we call early stage (the disciplined investigation of broad opportunity areas to identify multitudes of new ideas) to late stage (elaboration of and planning for specific ideas we want to realize), and from management innovation (new ways to organize, lead, or motivate) to front line (engaging the wider organization or beyond for ideas).

At the same time, we work to ensure that fit-for-purpose resources and methods are in place to take some of the initial ideas and begin the process of experimentation, learning, and execution to make them real, providing critical validation for the organization that the innovation transformation will be worth the effort.

MAKING IT STICK: CAPABILITY AND CAPACITY

Part of the dance of managing an innovation-based transformation is developing the needed skills (individual capability) and infrastructure (organizational capacity) in a way that is neither too fast nor too slow, and neither too formal nor too ad hoc.

In the early days of the transformation, capability building can be done almost exclusively within the context of innovation challenge projects and management team workshops; each is a temporary mechanism that allows the organization to build innovation muscle, while learning what types of new infrastructure will be needed and what existing processes and systems will need to be made more innovation-friendly.

Our experience tells us that it is best to start innovating, building momentum, and removing obvious roadblocks along the way to learn what works best in your situation and circumstances, and only then move to formalize your learning in more permanent capability building approaches and organizational models. Innovation tiger teams, or every employee an innovator? Formal innovation leadership development "university," or small learn-by-doing modules that supervisors execute with their teams? Dedicated seed funds for new ideas, or establishment of a single resource allocation model for both sustaining and innovative investments? We have seen all of these, and many other variants, work; the "right" model for a given company turns out to be highly situational.

To navigate your way, take a step-wise approach. With your innovation aspiration in mind, paint out a plausible roadmap of capability and capacity initiatives that, over a period of several years, could help your organization to close the gap. Then, use the roadmap as a living tool, incorporating learning as you go and modifying the specifications for system elements, and even the sequence of what to do, based on what you learn.

Major parts of the puzzle usually include portfolio management, innovation processes, organizational structures, metrics, and leadership development.

Making it stick isn't the first thing to do, but will be absolutely necessary to embed and scale innovation across your organization. ⬢

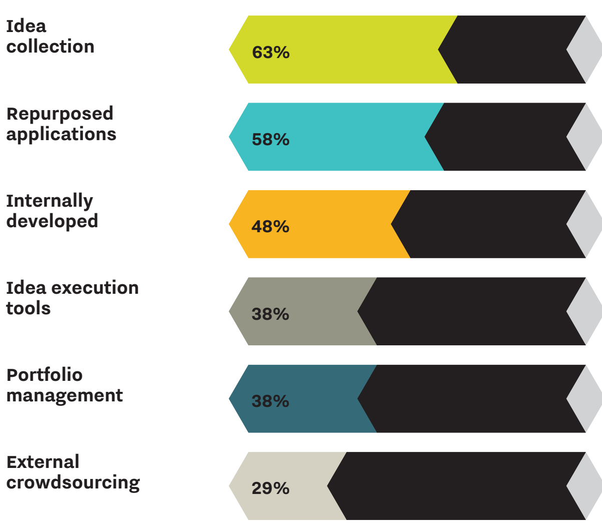
Software Decisions

BUILD YOUR OWN, USE EXCEL, OR BUY? BY SCOTT COHEN

According to our recent survey of 115 innovation executives, most companies have just scratched the surface when it comes to utilizing software to manage innovation programs. "We've got a long way to go," confessed an innovation executive at a $40 billion global telecommunications company.

According to the survey, conducted by Innovation Leader in Q1 2016, the most widely-deployed innovation software packages are those that assist with "idea collection." Those idea collection tools, utilized by 62.3 percent of respondents, typically enable companies to collect, sort and rate ideas; often, idea collection tools include voting or discussion features as well. Those numbers were remarkably aligned with data from our 2015 Innovation Benchmarking Report, conducted in partnership with the consulting firm Innosight, which found that 62.2 percent of companies were utilizing "idea capture" tools.

Which of the following tools does your innovation team use?



Companies that have deployed these idea collection tools are able to track innovation projects throughout their lifecycle. "We use a hosted solution for idea collection and execution that allows us to track ideas through [our] stage-gate process," said an innovation executive at a $2 billion energy company. The products "are increasingly important to our workflow," noted another innovation leader at global healthcare brand.

But the data uncovered an interesting fact: the innovation tools being deployed at a majority of companies aren't innovation-specific software packages, but rather Microsoft Excel and other software products already available within their organization.

OVER-THE-COUNTER SOLUTIONS

According to the survey, the majority of respondents are using "repurposed applications" that have been modified or customized internally. More than half of respondents, 58.8 percent, stated they were using Microsoft Excel, Sharepoint, or other "over-the-counter" software applications to manage their innovation programs.

Most respondents using these general purpose software applications cited their simplicity and ubiquity inside the organization. "Everyone has it, and everyone knows it," said one respondent about using Microsoft Excel for idea collection.

Others said they chose over-the-counter tools due to concerns about the complexity and cost of outside solutions. "It's so painful to deal with external software implementation and integration," said an innovation executive at a $14 billion power company, "that it's just an easier path to purpose something like Sharepoint or Excel."

Others agreed, noting that over-the-counter solutions can easily be customized. "Our tools are mainly low-tech, and have been heavily customized to meet our needs," noted the top innovation officer at a $600 million consumer products company.

In addition to Excel and Sharepoint, respondents noted that Salesforce, Yammer, and other applications already in use within the enterprise have been repurposed to accommodate the needs of the innovation team.

NOT WITHOUT LIMITATIONS

That being said, many respondents acknowledge the limitations of the over-the-counter approach, and they're hunting for something better. "Excel is cool because it is very flexible," noted an innovation executive at one of the largest companies in Spain, "but there must be a better way."

"We recognize that this is sub-optimal and that we are in a transition stage," noted another respondent who was using Excel at a healthcare company.

A few told us that innovation-specific software purchases were likely in the near future. "Sharepoint is dreadful," said the innovation officer at a $13 billion financial services firm, adding "[we] will be looking for new crowdsourcing software shortly."

As innovation programs get their feet under them, and start to have an impact within their organization, they may gravitate toward more capable software applications.

Why is that? Chris Townsend, chief marketing officer at Imaginatik, a software and services firm, explains that as innovation efforts grow, reliance on basic tools "is increasingly untenable: there's too much manual data manipulation, insufficient process support, lack of decision-making tools, no meaningful analytics, etc." Gretchen Hoffman, a longtime marketing executive in the sector, says that many companies gravitate towards innovation-specific software to better track outcomes and "to help quantify the impact of investment."

The chief innovation officer at a $3.4 billion consumer-products company noted that his firm's generic software approach offered "little to no insight or ability to see across the multiple front-ends within the enterprise," and said that an innovation management tool might be in his company's future.

OVERCOMING OPPOSITION

For innovation software providers, the survey data highlight both the challenges and the opportunities. "It shows that we have some way to go in educating and demonstrating the benefits of an innovation management platform," acknowledges HYPE Innovation VP Marketing Tim Woods.

A complicating challenge to innovation software providers is the lethargy of large corporate customers. Several respondents admitted this was a problem. "We could use more specific tools," acknowledged an innovation executive at a $48 billion biopharmaceutical company, "but big companies are always behind!"

Others noted their internal corporate culture was a greater obstacle to tool adoption than the tools themselves. "This is not a critique of the tools, which typically work well for their intended purpose," remarked one respondent. "It speaks more to the culture needed to advance good ideas."

Another respondent admitted that his company's idea management tool worked well, but implementation within his culture and workflow were the problem. "The way in which it was moderated and administered resulted in rapid abandonment."

Nike's Director of Sensing Innovation, Jordan Rice, agrees that understanding one's culture and implementation capacity is critical. "Most of the tools are only as good as the amount of time someone spends maintaining and organizing," he says.

Other respondents similarly acknowledged that obstacles to success are typically related to the culture and implementation, not the tools themselves. "We found it very difficult to have our new-idea teams leverage our innovation technology to track and progress ideas, so the tool was never really used," said one respondent.

HOME-GROWN

But buying software isn't the only solution to innovation management; some choose to build. Nearly half of our respondents (48.3 percent) said they were using internally-developed "home-grown" tools.

For example, the chief innovation officer at a $16 billion financial services firm said, "We're using a custom-designed, home-grown tool to collect ideas, vote, rate, discuss, assign, track, collaborate, and approve." According to this executive, their custom tool also has dashboards that provide executive views of the innovation pipeline.

The same was the case at a $24 billion data storage giant. "It's ideal to run everything for innovation management [across the enterprise] through a single tool, or set of tools which are extremely well integrated," noted the innovation leader there. "We couldn't find a set of reasonably-priced tools to do this across ideas, portfolio management, patents, university research, etc., ...so we built our own."

Not coincidentally, home-grown tools were commonly developed and implemented at software and technology companies, where a culture of custom development prevails.

Home-grown tools were also common at companies where custom solutions were needed further along in the pipeline, long after the initial idea-collection phase. "We needed an in-house tool to track the filing and formal review and approval process for patent filings," noted the innovation officer at mid-sized software company. "So we built it."

FOR A DETAILED COMPARISON OF 20+ INNOVATION SOFTWARE PROVIDERS, INCLUDING PRICING AND KEY CLIENTS, VISIT INNOVATIONLEADER.COM/SOFTWARESURVEY

OTHER TOOLS

Portfolio management and idea execution tools—which typically enable companies to evaluate, approve, assign, and track ideas—are being used by 39.5 percent of respondents.

Though that's a smaller number than those using idea collection tools, it appears that respondents using portfolio-management tools were more committed and invested in their utilization. "So far, the most powerful feature is the automation of some idea evaluation, as well as the idea analytics," noted one respondent. "It's very powerful to have visibility into our portfolio; we've barely scratched the surface of all the value we can get from the platform..."

Others agreed, noting that—like any enterprise software application—it takes internal commitment to extract real value from an innovation tool. "If the organization is behind it, the value can be pretty remarkable," noted the innovation director at $5 billion industrial manufacturer. "The opportunities for savings that emerge from our global workforce, and the new-business opportunities they've recommended, far outweigh the cost of the tool we implemented."

CONCLUSIONS

Companies seem to be taking a "walk before we run" approach. This enables the innovation team to understand exactly what they need in terms of tools, and perhaps develop some strategies for getting the tools—and the data they generate—adopted widely throughout the organization and delivering value.

More importantly, the "walk before we run" approach may ultimately help them ascertain what gaps exist, which then create the incentive and business case to upgrade to more professional innovation software tools.

For vendors serving the corporate market, it remains a challenge to demonstrate the benefits of upgrading from over-the-counter tools. But winners in the space may actually need to embrace the fact that companies are happily using Excel and Sharepoint. Instead of fighting the battle to supplant Excel, vendors may want to consider providing a suite of value-added services that are tool-agnostic, whether training or consulting, and once inside the organization, they can better advocate for software sales and deployments. Simplifying deployment and reducing integration headaches—as well thinking through how the tool will prove useful over the long-term—will also be important ways for vendors to differentiate their offerings. ●

Altitude
Somerville, Mass.

How Innovation Leaders Can Champion Connected Products Strategy

BY **DAN OSTROWER**, CEO, ALTITUDE

THE EMERGENCE OF CONNECTED PRODUCTS (also known as the Internet of Things, or IoT) is still in its early days, especially in business-to-consumer markets, but there are a few things we can say with confidence: It's inevitable; it's a huge threat to existing product companies; it's an enormous opportunity for existing product companies; and it's really, really complicated to figure out. Although it's easy to be overwhelmed by the enormity and complexity of connected product strategy, we think its also a great opportunity for Chief Innovation Officers (CINOs) and other executives responsible for innovation to show leadership and add tremendous value.

Embracing connected products means that today's "normal" product companies will eventually have to grapple with a dizzying variety of unfamiliar challenges:

Which standards should I adopt?
How do I handle data security?
What technology do I buy vs. make?
With whom should I partner?
What new capabilities do I need?
How should I organize?

We find that, because these types of implementation, or "how" questions, are concrete many companies gravitate to them as the starting point for connected product strategy. But although important, these questions aren't the game changers. And starting with them can be dangerous. For example, one company we've worked with started by spending millions on a robust business analytics engine and customer relationship management backbone to crunch the terabytes of data its connected products would produce. But the value propositions of its first four connected products were hastily conceived, nothing more than existing products with gimmicky apps thrown in. All the products failed. The IT backbone sits empty of data.

Instead of starting with "how," the connected product leaders need to start with "why?":

Why should we embrace connected products?
Why are our competitors there?
Why will we win?

And most importantly, why will connected products make our customers lives simpler, better, or more meaningful?

The story above is not unique. With a few exceptions, consumers have largely found smart, connected devices to be underwhelming. If consumer product companies continue to grapple with the minutiae, and not the big picture, they will cede their markets to startups.

CINOS TO THE RESCUE

As companies struggle with these early days of connected products, so too do CINOs struggle to establish their roles and their influence in their organizations. Expectations for CINOs are high, while budgets remain low, tangible results thin, and tenures short. But CINOs can find opportunity in their companies' struggle to get connected product strategy right. In consumer product companies, CINOs must be the one driving the big picture. They must be the ones asking, and answering the "why" questions so critical to strategy. To rise above the morass that connected products can become, we suggest focusing on three key principles that are currently getting lost: people, vision and transformation.

THAT'S NOT HOW ANY OF THIS WORKS: REFOCUSING ON PEOPLE

Today's connected product efforts are being driven from either a technology or business perspective. The CIO sees the possibility for technology developments and an increased role for IT. The CEO sees the opportunity for more lucrative business models, or the avoidance of threat. But before any of that can happen, a company's connected product focus must be on the people the business serves. The CINO's most important role in connected products is, in fact, to preach that connected products aren't the point. The point is what the company can do for people with them.

To actualize this philosophy, the CINO must stand in consumers' shoes and reframe the company's purpose from what it makes, to why it makes it and ask:

What jobs—functional, emotional, and social—are customers really trying to accomplish?

By employing connected products, what role can the company play in helping people meet these objectives that we aren't playing today?

Without fresh answers to these questions, a company's connected products efforts won't find traction with consumers. And that is what separates successful outcomes from million-dollar failures.

FILL THE VISION VACUUM

The Lean Start-up movement and its emphasis on Minimum Viable Products (MVPs) and agile learning cycles are critical to successful connected products. And these MVPs should be steps on a path towards a powerful, inspiring vision for the company's future, centered around the transformative promise of connected products. But often this vision goes missing. And if there is no vision, where are you headed? What are your MVPs moving you towards? Agile without a vision is random motion. Agile with a vision is purposeful innovation.

CINO's should fill this vision vacuum. They should lead the articulation of a vibrant, inspiring and thoughtful vision of a future state in which the company has fully embraced connected products to meet the needs of people. Such a vision should vividly demonstrate both the impact on customer's lives as well as the bottom line.

EMBRACE TRANSFORMATION

The vision the CINO creates may show a very different company than today's product-centric one. It may have higher consumer engagement, a new array of business models, new capabilities and new behaviors. Very likely, it will have all of these. Such is the transformative nature of connected products.

By embracing connected products, the CINO is aiming at much more than product innovation. She is taking a leadership role in transforming the business; she is seeking innovation's maximum potential. Directing this unrealized force in a meaningful, and entirely necessary way, imbues the CINO

"Consumers have found smart, connected devices to be underwhelming. If consumer product companies continue to grapple with the minutiae, and not the big picture, they will cede their markets to startups."

role with more importance, but also presents new challenges. More than ever, the innovation process will need to experiment with, and balance between, desirability, viability and feasibility. The realm of exploration is far greater. And success in these experiments will look very different than success in today's product-centric businesses. The CINO must use the elevated objectives and this broader canvas to secure the multi-disciplinary resources, the freedom to experiment, and the new norms of success that she will need to chart a course to the future.

By now it has become apparent that connected products will have a transformative role on product and manufacturing businesses. But treating connected products—their technology or their business implications—as an end in themselves misses the point. For a company to successfully embrace this technological revolution, it must see it as a tool to create value for the people it serves. This missing, yet critical, perspective presents CINOs with a unique opportunity to clarify and amplify their role, while creating not only lasting value for their organizations, but a competitive edge that any business can benefit from in this fast-paced digital age. ⬢

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