

REQUIRED READING (read prior to class 5, Fri 16/9/11)

more to do with assembling the right sorts of insights (from the four lenses listed above) to provoke a business breakthrough.

In this chapter, we will look in more detail at the four discovery lenses and describe how innovators have used them to uncover new insights and opportunities. We will also describe hands-on tools and techniques—for each lens—that can be used by your company's own innovation teams to generate powerful strategic insights. By powerful, we mean insights with the potential to open up *significant* new opportunities for innovation. Toward the end of this chapter, we provide some specific criteria for evaluating the quality of prospective insights.

Start here. Topic: Orthodoxies

CHALLENGING ORTHODOXIES

The first thing one discovers about radical innovators is that they are, almost by definition, contrarians. They are people who take some piece of conventional thinking—that everybody in the industry has accepted as absolute gospel—and turn it completely on its head.

For example, the people at IKEA asked, “Why does home furniture have to be delivered custom-made and fully assembled? Why can't we create standardized products that customers can pick up and assemble themselves?” The people at Dell asked, “Why do computer companies need a huge network of dealers to sell their PCs? And why do they manage their own inventory when they could let their suppliers do it?” The people at Charles Schwab asked, “Why do equities have to be traded through high-commissioned brokers? Why can't it simply be done online?” And the folks at Southwest Airlines asked a series of contrarian questions that were not only about dramatically lowering the

From "Innovation to the Core", p. 47-54
Equivalent to "การสร้างนวัตกรรมให้เป็น Core Competence", p. 82-94

Orthodoxies:

Deeply held and broadly shared conventions about what drives success within a company or an industry

price of flying, but about dramatically changing the airline industry's traditional business model. For example:

- Why does an airline need a “hub and spokes” route system? What if we could run point-to-point flights instead, keeping the airplane in the air for longer and passing on the efficiencies to the customer?
- Why do airlines need a complicated and ever-changing fare structure, with a choice between business class and economy class? Why can't we just offer one-class seating and make the whole thing simple and straightforward?
- Why does an airline need a fleet of different aircraft? What if we could run an airline with just one type of plane?
- Why is stealing other airlines' passengers the only way to compete in the airline industry? What if we could attract people who are currently taking the bus or train, or driving?

Innovators are people who are willing to challenge industry orthodoxies that are so big, so uncontestable, and so deeply embedded that they have become beyond discussion—orthodoxies that blind industry incumbents to the possibility of any other business model. Time and again, the strategy innovations that radically change customer expectations, or competitive rules, or industry structures, come from questioning beliefs that everyone else has taken for granted.

Orthodoxies are about mind-sets—how we have conditioned ourselves to perceive, to filter, to respond. They tend to become embedded in the way a company or industry does business, forming the dominant logic about the “right” way to compete, price, organize, market, and develop products and services. Orthodoxies are not by definition “bad” or necessarily *wrong*. In fact, they are often essential for creating a common understanding across a dispersed organization, allowing teams to work together smoothly and efficiently. The problem starts when their usefulness has eroded and they start to stifle rather than foster progress. Orthodoxies are potentially limiting if a company can't see beyond or around them. If left unchallenged, they may blind the organization to new oppor-



tunities for creating wealth. In too many cases, success turns “one way” of doing business into “*the way*,” at least in the minds of senior executives—and this opens up opportunities for innovative challengers.

Don't Follow the Leader

Let's imagine that your company competes in an industry that has a strong, deeply entrenched leader. What would be your strategy for attacking and undermining the leader's position? For example, how would you go up against a giant like Microsoft in the software business? Not by trying to compete head-to-head—we all know what happened to Netscape, Lotus Notes, IBM's rival operating system OS/2, and a whole list of other hopefuls. The only way to undermine Microsoft's powerful position is by challenging the company's *orthodoxies*—as Google and Linux have managed to do.

For years, Microsoft has organized and managed itself around a particular orthodoxy about how to develop and sell software—that is, create very complex programs with millions of lines of code and then deliver them to the customer in shrink-wrapped boxes under license. This business model is obviously not *wrong*—after all, Microsoft has used it to dominate the software industry for several decades, creating tremendous wealth for shareholders. Well done, indeed. But the evolution of the software industry did not stop with the creation of Microsoft's legacy business model. Consider, for example, how Google has challenged one of Microsoft's fundamental orthodoxies by making software that is delivered through Web-based services rather than in packages you pick up in a computer store.

Historically, Microsoft has tried to make all of its software programs work together in a tightly integrated way, with the Windows operating system as the glue that holds everything together. What this creates is an impossibly large knot of interoperating programs, which is why it took Microsoft's massive army of programmers about half a decade to build Vista—the latest version of Windows. In fact, after years of delays and colossal development budgets, Microsoft still had to omit some of Vista's promised features (unfortunately, the most revolutionary ones) to get it out the door at all. Since all of Microsoft's software has to be

interdependent and backward-compatible, successive upgrades present ever more complex programming problems as product groups struggle to mesh their software strategies together. Google, on the other hand, has overturned this “integrated software” paradigm by making each of its services independently accessible via your browser. This has taken a huge amount of complexity out of the software development process.

Then there are the updates. If you’re a Windows user and you want to use the latest version of a particular program, you continually have to buy software updates from Microsoft—which is a huge revenue source for the company. By contrast, any update to a Google Web-based service is available to users instantly, as soon as they power up their browser.

Microsoft’s core business model is essentially based on selling software. Google, on the other hand, makes its money through a self-reinforcing network of connections: advertisers who pay for space and click-throughs, and users who enjoy the simplicity of Google searches. Further, Google’s free search software captures valuable attention that advertisers are willing to pay big money for. Today, Google’s programs—like the Google Toolbar for Web and PC search—are installed as standard on Dell computers, and there is even talk of a Google browser. This is a direct threat to the margins Microsoft earns from Windows and from its Office productivity suite, one reason why the company has been investing billions of dollars to make the shift into online advertising. In an attempt to steal ad revenues from Google, CEO Steve Ballmer says he aims to make digital advertising account for 25 percent of Microsoft’s business within a few years.²

Another big challenge to Microsoft’s orthodoxies is Linux. Whereas Microsoft develops software in-house with legions of paid employees, Linux is an open-source platform based on a global network of impassioned volunteers. And instead of selling software under a proprietary license that doesn’t allow users to change any of the source code, Linux has created a “general public license” that allows any user to change the source code as long as those changes are made available to the broader community of users.

For many years, Microsoft’s orthodoxy regarding software development was that “software needed to be built like cathedrals, carefully

crafted by individual wizards or small bands of mages working in splendid isolation.” But, according to Eric Raymond, author of *The Cathedral & the Bazaar*, “Linux is subversive, resembling a bazaar of different agendas and approaches.”³

Between them, Google and Linux have slaughtered a whole herd of sacred cows about what drives success in the software industry—which, paradoxically, is exactly what has helped them become so popular.

Doing the Opposite

Look at other industries, and the pattern is often the same. The companies that are radically reinventing customer expectations and creating most of the new wealth are invariably the industry *challengers*—those willing to question deeply held dogmas and to be contrarian.

Consider the food industry, for example, where innovative companies like Whole Foods Market, Odwalla, VitaWater, and Fresh Express have chosen to go in exactly the opposite direction to the big global food companies. Instead of “convenience and value,” their strategy is “nutrition and authenticity”—they charge a premium for fresh, natural food that’s sourced locally, and they let consumers “discover” them rather than promote themselves as global brands. They are companies that have had the courage to turn industry orthodoxies upside down. No wonder some of them have since been snapped up by the very firms they challenged—Coca-Cola now owns Odwalla and VitaWater, and Chiquita owns Fresh Express.

Exploring and challenging orthodoxies—overturning conventional beliefs about what drives success in your company and your industry—is a key way to surface opportunities for profitable innovation and growth. It’s a lens that allows you to discover possibilities for new industry rules, new structures, new offerings, and new competitive space.

Getting Started

Are you ready to be a corporate rebel? If you want to start using the first lens of innovation—challenging orthodoxies—your assignment will be to

question the deeply held dogmas in your company and your industry, to spot the absurdities that no one else has spotted, and to ask the stupid questions that no one else has asked.

The goal of this exercise is to lead a brave rebellion against the stranglehold of conventional thinking—to identify and challenge any industry practice that is justified by nothing more than precedent, and to discard the mental models that prevent people in your organization from imagining the kind of unorthodox strategies that outperform industry averages.

Identifying Orthodoxies

Now that we have defined what orthodoxies are, how do we actually go about identifying them? The following four approaches are ways that we use to help companies think about where and how to look for orthodoxies. We have found them very useful as a starting platform—for both groups and individuals—when trying to think about where orthodoxies might exist in a company or an industry.

1. *Surfacing the dogmas:* Identifying common assumptions (such as “Price is the key variable” or “This particular customer group is the key segment”) as well as convergent industry strategies (business models that are basically indistinguishable in terms of value proposition, supply chain, product configuration, pricing, marketing strategy, and so on).

Ask yourself why these commonalities exist. Are they due to some fundamental law of economics? Or are most industry players simply hostage to the same deeply entrenched beliefs? Think about what would happen if you reversed these common assumptions and industry strategies. Could you imagine alternative ways of doing things? If so, what new opportunities would present themselves? How would customers benefit?

2. *Finding the absurdities:* Looking for things that companies or industries do almost habitually every day that are “absurd” when seen through the eyes of customers.

Step back and think about the annoyances, frustrations, and inconveniences that are unwittingly being foisted on your customers for the sake of the company's own convenience.

In most industries, there are a lot of these “absurdities”—some of them are rather small, but even the little things present opportunities for innovation. Take the hotel industry. Why do the hangers in hotel closets have that stupid little ring system to prevent you from stealing them? Why not just charge guests for the hangers they take—and have the person who checks the minibar also look in the closet? That way, hotels could even turn the closet into a profit center! Or why is it that even if you check in to a hotel at midnight, you still have to check out the next day by noon? Why can't you just pay for the room for twenty-four hours, the same way you would rent a car from, say, Hertz or Avis?

The point of this exercise is to learn how to recognize these nonsensical things and to look for solutions. The fact that most absurdities are “hidden” to industry insiders reflects the fact that many of these people are not thinking creatively about how to make life easier for their customers. They are not thinking about how to reinvent their business model from the customers backward—in every respect.

3. *Going to extremes:* Taking widely accepted industry norms and asking what would happen if we pushed them to a ridiculous limit.

Innovators who create sustainable disruptions tend to be those who go to extremes. Take Amazon.com. Back in the early 1990s, you could go to a big, bricks-and-mortar bookstore like Barnes & Noble or Borders and expect to get access to about 250,000 titles, which still sounds like a lot of books. But when Jeff Bezos set out to create his online business, he wasn't thinking in terms of offering 275,000 to 300,000 titles—or 10 to 20 percent more books than traditional bookstores. His concept was to give Amazon's customers access to about 2.5 *million* titles. Now that's going to extremes.

Unfortunately, most of us never think about taking things to these seemingly ridiculous extremes—we just accept them as they are. We continue to operate in a narrowly bounded space of possibility because we don't explore the outer limits of what is possible.

As an intellectual exercise, try looking at any common performance parameter like, say, price, efficiency, or speed of services, and then ask yourself what would happen if you *dramatically* improved it. Consider how you might change that parameter not by x or $1x$, but by $10x$, or $50x$, or $100x$. If you did that, how would customers benefit?

4. *Searching for the and*: Looking for situations where the customer faces a trade-off, and thinking about how to resolve it.

Quite often, customers are told that they can *either* have this *or* have that—but they can't have both. What if you found a way to give customers both things at the same time? Think about diet soda, low-calorie foods, decaffeinated coffee, alcohol-free beer, and so forth. All of these products allowed consumers to avoid making compromises and trade-offs that, given an alternative, they would otherwise not make.

There are many more examples. Toyota reinvented the rules in the car industry by offering both low cost *and* high quality in an automobile. In the United States, Costco has done something similar in retail, by offering low cost *and* great, high-end products. Companies like Zara and H&M (and, these days, even Target) sell highly fashionable clothing at relatively inexpensive prices. And Southwest Airlines showed us that we could have a low-priced air ticket *and* extremely high quality, *and* more convenience, *and* a whole lot more fun.

What would happen if you turned an *either/or* into an *and*? For example, search for situations where the customer is getting a benefit on the one hand but simultaneously losing out somewhere else, and try to take the negative out of the equation. Ask yourself how you could turn a win-lose situation into a win-win.