

REQUIRED READING for Thursday 23 Sep 2010 Topic: Ideation

"Innovation to the Core," p. 100-104

- *Industry innovations*: these have to do with building new industry architectures. For example, to revolutionize the way people listen to radio in the United States, XM Satellite Radio had to orchestrate three or four different components across several different industries—that is, entertainment content providers, car companies, satellite companies—all of which adds up to an entirely new industry ecosystem. Likewise, Apple had to bring together a collection of players from several different industries to build and continually enhance the iTunes/iPod platform.

Obviously, there is much more complexity as you go from, say, product innovation to business model innovation to industry innovation. On the other hand, the potential for building competitive advantage and generating new wealth increases as you move up the scale. Disruptive business models and industry architectures are typically the most difficult kinds of innovation for rivals to replicate.

Though our list of various types of innovation is by no means exhaustive, it serves as a reminder that stretching your thinking beyond new products and technologies or just “cool” design will significantly extend your scope for innovation.¹⁰ So, as a practical step, ask yourself: Does our company’s search for strategic opportunities currently encompass many of the above and perhaps other types of innovation? If not, could we widen the front end of our innovation pipeline by considering and pursuing more types of innovation—those that are best suited to our business context?

Simply put, the broader and less constrained you make your search for innovation opportunities, the more chance you will have of discovering potential avenues for inventing new value. Later in this chapter, as well as in chapters 5 and 7, we will provide some guidance on how and when you should narrow things down again by bringing more strategic focus into the ideation process.

Start here

INCREASE THE COMBINATIONS

Sometimes, a single strategic insight can be all it takes to stimulate ideation, inspire fresh thinking, and allow you to see an exciting new



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opportunity. However, in our experience, the innovations that have truly game-changing potential are those that are born *at the intersection points between various types of insights*.

As we pointed out earlier in this book, radical business innovations are almost always the product of “creative collision”—that is, they are based on a combination of insights from the four different categories we have identified: unexamined dogma, unexploited trends, underutilized competencies or strategic assets, and unvoiced customer needs.

Your objective should be to take various discovery insights from these four distinct lenses and play them off against each other to see whether the collision opens up new opportunities for innovation. We call this process *crashing*.

To illustrate how combining or crashing various insights can lead to the discovery of breakthrough business ideas, let’s take a look at two cases: PECO Energy and Whirlpool.

Rethinking Energy

PECO Energy Corporation, today owned by Exelon and formerly known as the Philadelphia Electric Company, had successfully operated within the public utility paradigm since its founding in 1881. However, in 1996, PECO’s leaders could see that their old regulatory strategy was not going to be of much value in what was rapidly becoming a deregulated market. Annual growth was already slow—hovering at about 1 or 2 percent. They knew they needed to transform their strategy and their corporate-wide growth agenda if they were going to survive and thrive in the new competitive environment.

In an effort to abandon its strategy-by-habit ways, PECO embraced the task of building a foundation of discovery insights in much the same manner we described in the previous chapter. PECO’s teams worked hard to examine widely shared *orthodoxies* in the company and in the industry, asking what would happen if they overturned these “rules.” They set out to identify deep *discontinuities* at work in the marketplace with the goal of harnessing change to the company’s advantage. They took a comprehensive look at their *competencies and assets*, searching for ways to leverage them into new growth opportunities.

And they deliberately tried to uncover unvoiced and unmet *customer needs*. Here are some of the key insights they generated:

Orthodoxy: It was believed that, in the future, all the real money in the power generation business was going to be made by moving downstream—from the “dirty old business” of managing power plants and networks into the exciting new business of “retail wheeling” (selling energy services to consumers—primarily corporations—in any geographic region). PECO challenged this orthodoxy (which had become almost conventional thinking in the industry) and developed a contrarian point of view about the attractiveness of the retail opportunity. Its focus became, How can we build a strategy that is clearly based around the unique or at least rare competencies and assets that we possess?

Orthodoxy: Another widespread industry orthodoxy at the time was that energy companies should tread carefully in the nuclear sector. At the time, the industry’s largest stranded asset costs were linked with these plants, and there was a general wariness of taking on the presumed regulatory and consumer resistance to nuclear power generation. However, where other firms saw liabilities, PECO saw an opportunity.

Core competence: One of the things PECO’S discovery teams uncovered was the company’s distinct *core competence* in managing big, mission-critical, and relatively older power plants very efficiently. This grew out of PECO’s experience with its own Peach Bottom nuclear power plant, which the company had transformed from a “problem plant” a decade earlier into a model of high-capacity performance with low operating costs. It led the company to ask, What would happen if we took our core competence into a place where rival energy firms are increasingly reluctant to go: the efficient management of old nuclear power plants that other companies are not very interested in?

When the discovery teams finished their work and “crashed” their new insights together, what emerged was a bold and highly unconventional growth strategy. While everybody else in the industry seemed to

be moving downstream into retail, PECO made the decision to actually dismantle the retail consumer marketing organization it had begun to build, and instead, tried to become *the* low-cost wholesale provider of energy in the United States. As part of this strategy, the company went on to buy and turn around several nuclear power plants in North America, including Pennsylvania's notorious Three Mile Island reactor, which PECO purchased for just \$23 million instead of the plant's \$640 million book value (at the time, nobody else seemed very interested in it).¹¹

The results of PECO's strategy transformation speak for themselves. In 2000, the company merged with Unicom to form the Exelon Corporation, which today is the largest producer of nuclear energy in the United States. Exelon's seventeen nuclear facilities generate a full 18 percent of all U.S. nuclear power.

Reinventing Appliances

In another industry—this time domestic appliances—consider the origins of a novel dishwasher from Whirlpool called Briva. The idea for this highly innovative product came from combining or crashing different types of insights: a discontinuity, an unmet customer need, an orthodoxy, and a competence.

Discontinuity: The fastest-growing demographic group in basically every developed country over the last twenty years has been single-person households. This is not an invisible development; it's something that is blatantly obvious, but the whole "white goods" industry seems not to have noticed, or at least not to have paid any attention to it. Look at the average appliance—say, a dishwasher, a refrigerator, or a washing machine. Who is it built for? Judging by the size of it, probably the mythical family of four. Yet we all know that this just isn't the way the world works anymore.

Unmet customer need: The fact that most appliance manufacturers have ignored this deep, fundamental sociodemographic change has created an unmet customer need: household appliances designed for single people. Traditional appliances are way too big—for example, if a single person is working long hours, and probably eating one

meal at home during the day, it would take a week and a half to fill up the dishwasher, by which time all kinds of other things would be growing on the dishes! Single people also tend to live in smaller apartments, where space, particularly in the kitchen, is limited.

Orthodoxy: Dishwashers are big boxes that sit under the kitchen work surface near the sink. Recognizing that this doesn't make sense for single people, Whirlpool challenged company and industry conventions by asking, "Why shouldn't a dishwasher be more like a microwave oven—very small, very compact, very fast?"

Core competence: One of Whirlpool's core competencies is in designing, producing, and marketing low-cost, high-quality appliances. The company asked itself how it could use this competence to create and market a dishwasher that would perfectly fit a single person's lifestyle.

By crashing all of these insights, Whirlpool saw the opportunity for Briva: a mini, high-speed dishwasher that could be integrated on one side of a double-tub sink, saving a lot of space in the kitchen. The product is specifically designed for small loads—the kind that would typically meet the needs of a single-person household. Briva completes a wash cycle in about fifteen minutes, versus traditional dishwashers that grind away for an hour or two. And because it's a top-loading appliance, as opposed to the conventional front-loader, its lid comes down and doubles as a drainer or a chopping-board surface. When not in use, the whole wash mechanism can even be lifted out to provide a fully functional second sink.

IDEATE AROUND SPECIFIC THEMES

One of the concerns that managers often have about the ideation process is that if they open it up and go too wide, the company will end up "boiling the ocean," and the ideas that are generated will be all over the map. Their fear is that people will waste time, energy, and resources by going off in all kinds of crazy directions, potentially taking the company into a lot of areas it knows nothing about. Here are three reasons why they need not worry.