REQUIRED READING (read prior to Class 3, 5 Sep 2015)

Once you have built a comprehensive library of trends from many different categories—facts and data, if you will—your key analytical task is to imagine how these trends might interact and reinforce each other. What you need to figure out is whether certain trends fit together in some way.

To do this, look for the intersections—the interactions *between* all the isolated facts and trends—and see whether you can spot the emerging patterns, as well as the opportunities those patterns may create. Ask yourself, When this group of trends or that group of trends is put together, what is the bigger story that emerges? Does this set of trends point toward an inevitability?

As an example, look at the following set of trends:

From "Innovation to the Core", p. 61-69
Equivalent to "การสร้างนวัตกรรมให้เป็น Core Competence", p. 105-117

- Experienced older workers looking to reskill and renew
- Interest in alternative medicines, naturalistic or holistic
- Search for spirituality, balance, or quality of life
- Shift to information or knowledge economy
- Cheaper or better communication
- Ability and desire to look younger or stay young due to medical advances
- Fewer births (people are having fewer children in developed countries)
- Aging but increasingly active population
- Declining savings rates

Ask yourself, What is the overarching theme here? One possible theme is that future senior citizens will redefine the senior citizen lifestyle. We could express this theme in a succinct and catchy statement like "from aging with grace to aging with energy."

Start here. Topic: Core Competencies

LEVERAGING COMPETENCIES AND ASSETS

Radical innovators tend to view their companies not as business units or organization charts, but as portfolios of competencies and strategic

Core competence:

A unique (or rare) bundle of skills, knowledge, and experience that delivers a valued customer benefit and competitive differentiation

assets. Usually, it's difficult to see things like skills, processes, technologies, assets, and values as distinct, stand-alone entities because they are completely embedded in a company's current business model. But radical innovators have the ability to decouple particular skills and assets from the existing business and then leverage them in their own right to generate growth opportunities.

Take Disney. Most people would have looked at the company's theme parks as just a business unit, and that would have been that. Not the folks at Disney. They were able to see that those theme parks actually made the company the world's largest producer of what they call "three-dimensional entertainment." They realized they had a unique set of skills and capabilities in set building, costume design, storytelling, and performing arts. So what if they could take that core competence in live, lavish entertainment and actually separate it from the theme parks? Where else could they apply it? What if they used it in a new and different context, in combination with some of the company's strategic assets—like the stories and characters from Disney's popular movies as well as the Disney brand itself? What, for example, if they took that core competence to Broadway or to London's West End and turned a Disney movie into a stage musical? Enter *Beauty and the Beast. The Lion King, Aida*, and so on—some of the most successful theater productions of all time. Disney Theatrical Productions, which was only

Strategic asset:

A corporate possession that is difficult to imitate, develop, or acquire and that provides a basis for competitive advantage formed in 1994, has gone on to win a string of Tony Awards and Grammys and is now a hugely profitable operation with productions playing all over the world.

Or consider ESPN. How did the company manage to transform what was originally a small, twenty-four-hour sports channel on cable television into one of the most powerful marketing empires in U.S. history and the world's largest distributor of sports information? It was precisely by refusing to think of itself as merely a television channel. Instead of accepting this narrow self-image, ESPN's leaders looked for ways to leverage the company's competencies (delivering sports coverage) and assets (the ESPN brand) in all kinds of new ways, constantly stretching their definition of the business. Their vision was to build an omnipotent sports network. Thus, ESPN now has more than eight television channels, America's largest sports radio network, a biweekly magazine with a circulation pushing 2 million, lucrative licensing agreements for video games, one of the most popular Web sites in the United States, its own sports competitions and awards, a string of innovative programming concepts and movies, and a national chain of sports-themed restaurants. The company's annual revenues, which already top $4 billion, are expected to grow to almost $7 billion by 2010.

This ability to leverage competencies and strategic assets in new ways or new settings serves to multiply the profit-making potential of these resources. Take Crest Whitestrips, P&G's popular teeth-whitening product. It was born out of the interaction between various competencies and assets inside the company—from the oral care unit (dental products), the family care unit (substrate technology), and the fabric and home care unit (hydrogen peroxide bleaching).

The fact is, radical innovators tend to think of the *whole world* as a Lego kit of different competencies and strategic assets, owned by different companies, which can potentially be reconnected like building blocks or used in a new context to invent novel products, processes, services, and business models.

To illustrate the point, pretty much every Web-based business today is an example of "recombination." Take any e-commerce Web site, and you will probably find that the online merchant buys its credit clearance process from one company, another company runs its servers, another company provides the mapping service that helps customers locate physical stores, another company provides the software for searching the site, PayPal does all the money transfers, and a company like UPS or FedEx provides the shipping and the integrated package-tracking software. These capabilities are taken from a lot of different places and then seamlessly stitched together to deliver a particular type of value to the customer. It's a plug-and-play model that is rapidly bringing down the cost of new business creation, not just for Web-based companies but also for a new breed of "manufacturers."

Consider KEEN Footwear—a fashionable new kid on the block, based in Alameda, California. The company was founded in 2003 with nothing more than a big ambition and a now-patented toe protection technology. Using freelance shoe designers to provide the styling and manufacturing specs, two Chinese factories to make the shoes, and blog-based publicity to promote the brand, KEEN Footwear managed to go from nowhere to stealing sales from Nike in less than sixty days. To put this in context, it typically takes a traditional footwear brand about ten months to develop a new range of shoes. KEEN built its whole company and launched sixteen styles of shoes in just two months. It sold around $30 million worth of shoes—that's about seven hundred thousand pairs—in its first year, and its shoes are now available in retail locations all over the world. The lesson is clear: today's start-ups can effectively be born "full-size" by quickly and cheaply outsourcing everything from design, prototyping, and manufacturing to logistics, billing, sales, and support.

This, then, is the third perceptual lens used by radical innovators: the ability to see their own company—and the entire world—as a reservoir of competencies and strategic assets that can be recombined in different ways and used in different settings to create new value.

Getting Started

Your first task with this lens is to try to reconceive your company as a portfolio of embedded resources—core competencies and strategic assets—that can be recombined or leveraged in their own right to create wealth in interesting new ways.

This task is not as easy as it sounds. Why? Because most companies define themselves by what they *do* rather than by what they *know* or what they *own*. The tendency is to develop a self-image that locks up the organization's skills and assets inside a particular definition of the business.

Let's make the distinction clear. By core competencies we mean things that a company *knows how to do uniquely well*—its skills and unique capabilities. By *strategic assets*, we mean things that a company *owns*—brands, patents, infrastructure, customer database, proprietary standards, and anything else that is both rare and valuable.

Take Apple. Fundamental to the company's success in this decade has been the ability to look at itself not merely as a maker of personal computers but as a pioneer in cutting-edge, consumer-friendly technology. Making a move into MP3 players (iPod), online music and movie distribution (iTunes), and mobile telephony (iPhone) could easily have been construed as way "out of scope." But Apple's elastic definition of its own business made it possible to stretch into these new fields, harnessing the company's competencies (design excellence, user-friendliness) and assets (a brand name with cult status) to open up huge new opportunities in consumer electronics.

Or take Google. It started life as a search engine, but now it's a whole range of different Web-based services, and new ones seem to get added every week. This has only been possible by viewing Google's underlying software code as a powerful strategic asset that can be leveraged in a myriad of ways.

This principle—stretching the way you define your business; thinking of it in terms of what your company knows and what it owns rather than what it does—may sound fairly straightforward, but in our experience it is typically the hardest of the four discovery lenses for a company to work with.

Identifying Core Competencies

What exactly is a core competence? We define a *core competence* as a bundle of skills, technologies, processes, and values that has become part of the fabric of the company, and is difficult for others to copy. Good examples would be MTV's ability to understand Gen Y tastes, or Nike's ability to create emotional bonds between individuals and athletes. As a useful exercise, we usually express competencies as "the ability to . . . (do a particular thing uniquely well)."

It's important for a company to distinguish between core competencies and mere strengths. Unfortunately, since the notion of core competence was first introduced by Gary Hamel and C. K. Prahalad in 1990, the phrase seems to have taken on a life of its own.[8] Many executives we speak with will explain how their company has a core competence at market research (usually if we are talking to the vice president of marketing), or at logistics (if our interviewee is the head of that function), or at managing human assets (you can guess who that one usually comes from). We then ask them if they are as good as P&G or Kraft at market research. Or as good as FedEx or UPS at logistics. Or as good as GE or IBM at human resources management. We usually get an embarrassed "No, but . . ."

Here's what you have to keep in mind: the goal is not just to list your company's strengths—it is to identify *unique* strengths. To qualify as core competencies, those strengths have to meet the following five criteria:

Core Competencies

1. Create value for the customer
2. Are unique or at least scarce (at a minimum in your company's industry, and better yet, in the world)
3. Are sustainable over a significant period of time
4. Are important to the company's position today
5. Can be leveraged into new products, markets, or businesses

The third attribute in this list (sustainability) is particularly important and often overlooked. For a strength to be a true core competence, it needs to be *sustainable* for some period of time. In other words, your competitors shouldn't be able to copy it just by hiring away one or two of your employees or adopting a particular process that you use.

This doesn't mean that core competencies are static. Sometimes a core competence can deteriorate over the years. For example, FedEx's core competence was its ability to route and deliver overnight packages reliably.

This capability clearly created value for FedEx's customers, it was differentiated (FedEx was the only company able to do it), it was sustainable at least for a time (think of the investment others had to make in planes, trucks, sorting centers, information technology, and people in order to duplicate it), and it was central to the company's competitive position. But while FedEx still routes and delivers packages overnight reliably, today this competence is no longer "core" because others, such as UPS, DHL, and Airborne, have finally caught up.

A similar situation exists for CNN, whose core competence was once its ability to deliver live news from anywhere in the world at any time—a capability that other TV channels eventually copied, but only after awhile.

Clearly, then, core competencies have to be managed. Organizations need to continually invest in them—to maintain and enhance them in the face of competitive attacks.

Once you have listed some candidates for your company's unique strengths (be they technologies, processes, or skills), carefully compare each of them again with the five criteria for core competencies that we listed earlier. Apply these criteria stringently, and make sure you can state the evidence of why a candidate meets the criteria. Don't be alarmed if you come up with very few core competencies. It is a high bar, and in our experience, most companies really have only one to three true core competencies.

Having finalized your list of core competencies, begin thinking about your company's strategic assets.

Identifying Strategic Assets

There are many different kinds of strategic assets. For example, here are five categories that you could consider:

Strategic Assets

1. *Input assets:* Access to suppliers, supplier loyalty, financial capacity
2. *Process assets:* Proprietary technology, standards, functional expertise, infrastructure

3. *Channel assets:* Access to distributors, distributor loyalty, distribution networks

4. *Customer assets:* Customer information, customer loyalty, brand recognition

5. *Market knowledge assets:* Understanding of customer, competitor, and supplier behavior

Using these five categories, ask yourself:

- What assets does our company possess that are (a) rare, (b) valuable to customers, (c) transferable to new opportunities?
- Could we exploit our strategic assets in new ways to bring new value to customers?
- Could our strategic assets be valuable in other industry settings?
- Can we build new business models that exploit our existing strategic assets—that is, can we imagine alternate uses for our strategic assets?

These questions should help you appreciate strategic assets that may so far have been underleveraged or simply taken for granted inside your company because they have never been considered in this context before. Your aim should be to identify a comprehensive list of strategic assets (i.e., brands, patents, technologies, and so forth) that have the potential to be leveraged in new ways.

Yes, but this isn't "core" - others can also exploit

Borrowing Competencies and Assets

In the spirit of open innovation, some of the biggest opportunities can come from bundling your company's competencies and assets with those of other companies to produce radical new solutions. Take Procter & Gamble. Over the last few years, P&G has teamed up with a whole list of external partner organizations as well as individual inventors to bring a slew of product innovations to the market. For example, one of P&G's strategic assets is the Crest brand in oral care. It used to stand just for toothpaste. Now we find the Crest brand name on such things as Teflon-coated Glide dental floss (developed by W. L. Gore) or the SpinBrush—now the top-selling toothbrush in the United States—a low-cost, battery-powered disposable toothbrush that was developed by a small team of external entrepreneurs.

P&G's strategy is to search the world for ideas and technologies that can be packaged with its own competencies and assets to create new wealth. As an example, the Mr. Clean Magic Eraser is based on an innovative foam product developed by the chemical firm BASF. The strategy also works in reverse. P&G licenses some of its assets to other companies to develop revolutionary new products. For example, the Philips IntelliClean power toothbrush system dispenses liquid toothpaste that was specially formulated by Crest.

The point here is that you should learn to look not just at your own organization, but also at the world outside as a Lego kit of interesting skills, technologies, assets, brands, and so on—and start to think about all the exciting combinational and contextual possibilities.

UNDERSTANDING UNARTICULATED NEEDS

Radical innovators are deeply empathetic; they understand—and *feel*—the unvoiced needs of customers. They bypass traditional market research methods, relying instead on "getting into the customer's skin." They recognize needs that customers don't even know they have yet. Or they solve some common frustration in a way that people could never have imagined—which is precisely why they are not articulating the need or asking for a specific product, service, or business to address it.

Nobody, for example, was asking years ago for a global overnight courier service, or a way to buy made-to-order computers directly over

Customer Insight:

An unmet need or a customer frustration that can serve as the basis for a new business opportunity