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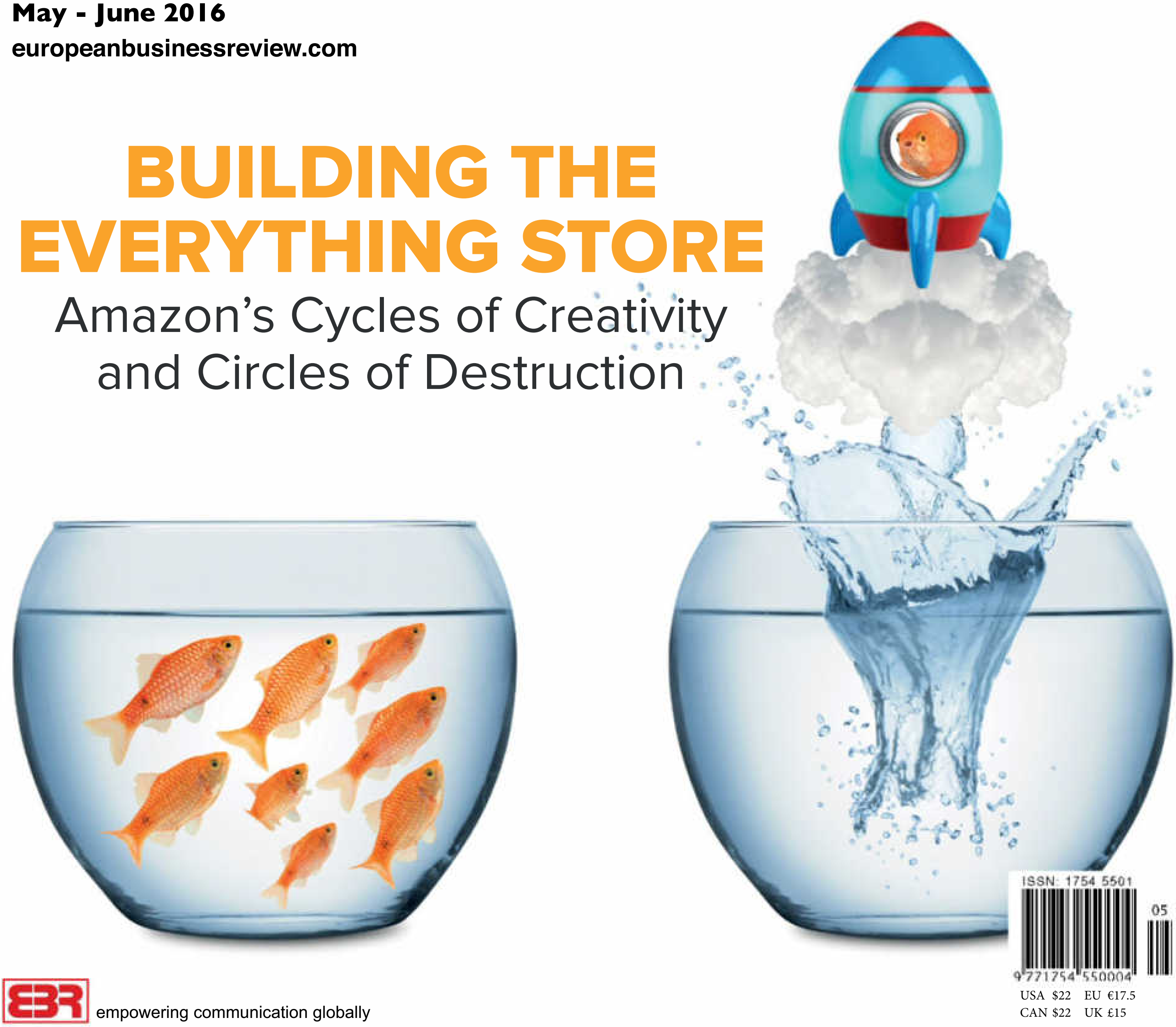
BUILDING THE EVERYTHING STORE

Amazon's Cycles of Creativity and Circles of Destruction



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WHO LEAVE FOOTSTEPS
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From the Editors

Days of Glory Past

In the run up to the 12 May 2016 Anti Corruption Summit in the UK last week, the British premier let off a classic gaffe, describing Nigeria 'as one of the most corrupt countries in the world'. The Queen's gaffe came a day later, describing Chinese officials as 'very rude' during the Chinese Premier's state visit last year. Of course everybody scrambled for cover and the media pondered what this could mean for China-UK relationship and Nigeria-UK relationship.

The Mail, concluded, quite firmly that Nigeria's reaction was nothing to worry about, because Nigeria depended on British Aid. Meaning, 'we can say whatever we like about them, after all we keep them afloat'. China on the other hand is a different story: the fastest growing economy in the world, an emerging super power and a nuclear power to boot. During the 3-day Chinese state visit in October last year, the British did not complain of rudeness while they wrote £40 billion trade agreements with the Chinese.

What appears and is reported as classic British arrogance belies British frustration and a new reality where Britain can no longer play its old realpolitik aided and abetted by its gunboats imposing trade treaties and ceding territories from other nations. It is now UK who goes to China with 'cap in hand' (Prescott). It is not surprising that the Chinese decided to exclude this footage in their country, after all, they are the ones doing the British a favour, Britain is not even in a position to bite the hand that feeds it, it can only mumble.

While Nigeria may not have the same bargaining power as the Chinese, it does indeed have the capacity to embarrass the British. BBC is no longer the main news channel in the world. In response to Cameron's gaffe, Nigerian President said he was not looking for an apology, he was looking for the

repatriation of looted funds and assets. As if that were not enough, Mr Buhari, was presented with a grand platform to remind the UK of its own complicity in corruption. Unfortunately for Mr Cameron, he was hosting The Anti-Corruption Summit a few days after his gaffe and gave Nigeria another opportunity to point the finger back at the UK. As one of the biggest enablers of corruption from Nigeria and other countries, British banks, businesses and lawyers are known to harbour and facilitate the transfer and deposits of looted funds in its own banks. For example British lawyers were jailed in the corruption case against former Delta State Governor, James Ibori. At the Summit, Buhari stressed that the 'international community that has looked the other way for too long now has an obligation to establish structures that would dismantle safe havens and facilitate the easy return of stolen funds and assets to their countries of origin'. The Summit was a reminder to UK and other countries about the looted funds, and the real estate assets that still reside comfortably in their countries.

The days of glory are long gone, Britain can no longer monopolise, dictate or influence the rhetoric.


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BUILDING THE EVERYTHING STORE: Amazon's Cycles of Creativity and Circles of Destruction

BY SEAN CULEY

In just 20 years, Amazon has grown from an online startup focusing on selling books, to a devastating multi-platform, multi-industry technological disruptor, predicted to be worth $3 trillion by 2026. In his latest article, Sean Culey describes how the company is using its massive R&D fund to create a virtuous cycle of technological innovation that is outpacing Google, Facebook and Apple combined. Jeff Bezos' goal of creating the "Everything Store" is nearing fruition, meaning that competitors – and nations – are now facing a relentless monopolistic giant, one that is aiming to control every aspect of the future global value chain.

PHOTO COURTESY: Joe Klamar/Getty Images

On February 7, 2016, an average of 111.9 million people[1] watched the televised coverage of the Denver Broncos' 24-10 victory over the Carolina Panthers at Super Bowl 50, making it the third most-watched program in US television history. They would have also witnessed a world first; a Super Bowl advertisement by the online retailer Amazon, promoting its new voice-controlled home device called Echo.

Two weeks later, Amazon did something else surprising; they raised the minimum amount that non-Prime customers had to spend to qualify for free shipping by 40%, raising it from $35 to $49.[2]

These two actions were not unconnected, but well thought out strategic moves designed to realize Jeff Bezos' grand vision of Amazon becoming the 'Everything Store'. This article will explain how moves like these are swiftly moving Amazon into a checkmate position against not just other online retailers, but also logistics companies and suppliers worldwide.

Building The Everything Store

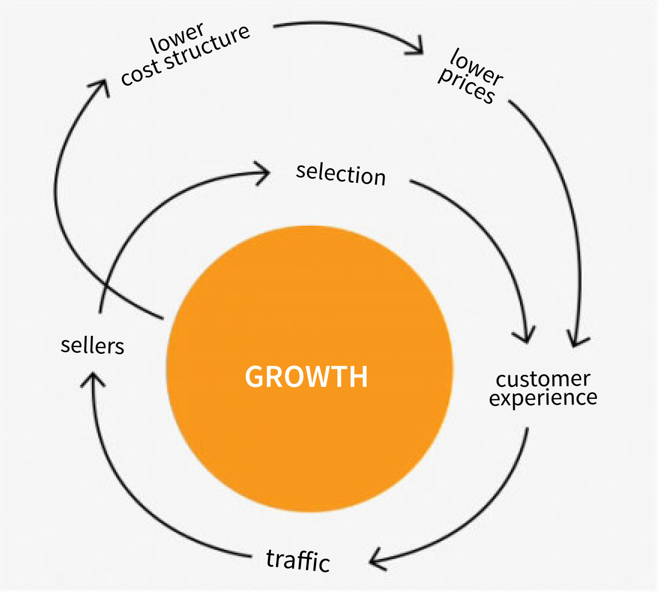
Back in 1994 during the early days of Internet, a job posting for Unix / C++ developers was issued on the Usenet group mi.jobs, looking for applicants to join a 'well-capitalized Seattle start-up'. The poster was Jeff Bezos, and the start-up was Amazon. Bezos finished the posting with a quote attributed to Alan Kay; *'It's easier to invent the future than to predict it'.*[3]

It's a mantra Bezos has consistently followed. Amazon has already unleashed its creative destruction power against the publishing industry, completely redesigning the way people bought and read books. The incumbent booksellers and publishers were caught in the destructive side of the equation, creating casualties such as Borders, which went bust in 2011. To many, this is Amazon – an online retailer renowned for crushing suppliers, putting booksellers out of business and poor working conditions in its fulfilment centres.

However there is much more to Bezos' ambition than this, and those who are paying attention would have seen Amazon

Bezos' ultimate vision is to create 'the Everything Store', a retail destination where people can buy everything they want, when they want, at the price they want.

DIAGRAM 1. Amazon's "Virtuous Cycle"



quietly introduce them, hiding in plain sight. The problem is, not many have noticed – and this may prove a fatal oversight. Bezos' ultimate vision is to create 'the Everything Store', a retail destination where people can buy everything they want, when they want, at the price they want. However, visions are simply hallucinations unless they are backed up by action, and Bezos is a man of action. As Jim Collins detailed in his books,[4] the great organisations are guided by an unchanging core principle while also developing a flywheel culture of continuous improvement and innovation focused on the customer. In Amazon, this flywheel is called the 'virtuous cycle', based on the three customer-centric components of price, selection and experience.

Diagram 1: Amazon's 'Virtuous Circle'

The circle works like this; Amazon initially attracts customers through the combination of low prices and convenient ordering. The lower the prices, the more customers are likely to visit their website. The better the customer experience, the more the customer is going to repeat that visit. More customers increase the volume of sales and attract more commission-paying third-party sellers to the site, further increasing choice while also allowing Amazon to get better utilisation out of fixed costs such as their fulfillment centers and website servers. This improvement in efficiency creates the opportunity to lower prices further, attracting more customer visits. As each component is improved, the synergistic effect causes the flywheel to turn faster.

Keeping the customer at the heart of the model and focusing only on those things that drive the flywheel forward has become the 'unmoving principle' at the heart of Amazon. As Bezos states; *"I very frequently get the question: 'what's going to change in the next ten years?' And that is a very interesting question; it's a very common one. I almost never get the question: 'what's not going to change in the next ten years?' And I submit to you that that second question is actually the more important of the two.*

In our retail business, we know that customers want low prices, and I know that's going to be true ten years from now. They want fast delivery; they want vast selection. It's impossible to imagine a future ten years from now where a customer comes up and says, 'Jeff I love Amazon, I just wish the prices were a little higher [or] I love Amazon, I just wish you'd deliver a little more slowly.…And so the effort we put into those things, spinning those things up, we know the energy we put into it today will still be paying off dividends for our customers ten years from now."[5]

Amazon actions therefore always support at least one aspect of this cycle. The decision to develop Amazon Marketplace and allow other retailers and suppliers to sell their wares through their website was questioned by the Amazon team, but not by Bezos. He realised that it would dramatically increase the number of sellers, increasing the choices available to consumers, which increases the number of visits, attracting more sellers, which again increases the choice. Meanwhile, Amazon ensures that it takes a percentage of every trade that takes place in this virtuous cycle of demand capture.

Locking in

E-commerce is fast approaching its tipping point, with US online sales increasing to $341.7 billion, an increase of 14.6% from 2014.[6] However, that is still only 7.3% of total US sales, leaving a massive opportunity for those who can change the buying patterns of consumers from physical to online stores. It's a challenge Amazon is taking on with gusto. The creation of a marketplace built around the virtuous circle principles of convenience, choice, and price have enabled it to overtake Walmart as the world's most valuable retailer, with over 200 million items for sale on its website and the #1 choice for Americans to buy things online. A significant reason for Amazon's continued growth is the level of strategic thinking applied to its supply chain strategy. One of the key components in this strategy is Amazon Prime.

A significant reason for Amazon's continued growth is the level of strategic thinking applied to its supply chain strategy. One of the key components in this strategy is Amazon Prime.

In its Q4 2015 earnings report, Amazon announced that in 2015 paid Prime memberships increased by 51% globally, and 47% in the US – despite Amazon raising the cost of Prime in the US by $20 to $99 in March 2014. A January 2016 report by Consumer Intelligence Research Partners declared that 46% of the households in the US, now belongs to Amazon Prime. This number jumps significant for the upper middle classes, with 70% of households with annual income over $112,000 paying for Prime.[7] Prime's free shipping offer has been a major draw for consumers, with 47 per cent claiming that this was the primary reason for them signing up.[8] Amazon added more than 3 million new Amazon Prime members globally in just one week at the height of the 2015 holiday shopping season, mostly attracted by the lure of free shipping.[9]

Free shipping and added value services such as Prime Music, Prime Video and Cloud storage draw customers into Prime, where they justify their subscription by ordering as many things as possible through Amazon. For those remaining non-Prime shoppers, the decision to raise the minimum shipping amount needed to qualify for free shipping, and increasingly slower delivery times for non-Prime orders make the alternatives less attractive. Both approaches are part of Amazon's strategy to expedite the transition of the remaining households over to Prime membership.

Why is this so important for Amazon? Because as well as providing $99 upfront, creating cash flow for future innovations, Prime members also spend almost double the amount per year than non-members do. The average Prime household accounts for approximately $1,100 in purchases while non-members spend about $600. Prime members also tend to be more loyal, with 95% renewing their membership after one year. Amazon understands that the first click is the most important, and if, through the benefits of free shipping, they can persuade shoppers to start their purchasing decisions with a visit to Amazon, this immediately takes away page views from competitors, creating a huge advantage. On the internet, where your competition is only a click away, ensuring that you own the first click is crucial.

Amazon's retail sales in the last 12 months accounted for $82.8 billion of this, whereas its nearest online competitor, Walmart, made only $12.5 billion.[10] However, the opportunity is still massive for Amazon, as 92.7% of US retail activity, notably food and apparel, still takes place in traditional bricks-and-mortar stores.

That may all be about to change. Amazon's virtuous cycle is about to shift into top gear.

Virtuous Cycle Part 1: Dramatically increase consumer selection

In 2015, Jeff Bezos announced that his goal is for Amazon to grow sales to $200 billion. To achieve this, Amazon is looking to expand both its fashion and grocery efforts, two huge markets that it has yet to nail (in 2015, its market share of online food and beverage sales was around 22%). However, the amount of groceries purchased online in the US is relatively small, representing only $33 billion out of $795 billion. Amazon is doing all it can to expedite the shift from physical to online by directly attacking the major grocery retailers.

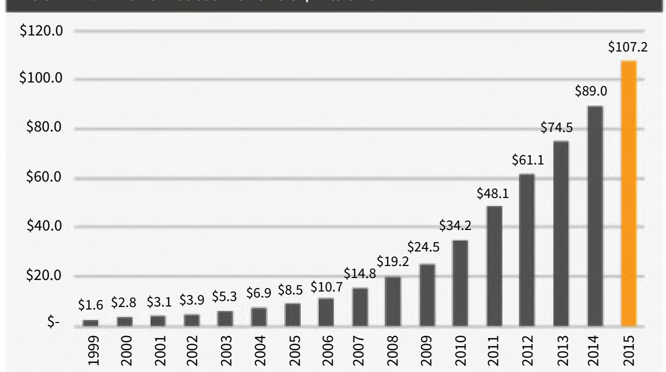
The average Prime household accounts for approximately $1,100 in purchases while non-members spend about $600.

In 2013, after completing successful trials in Seattle, Amazon began expanding its grocery delivery service *Amazon Fresh* to other cities, delivering around 20,000 items, including fresh produce, from local shops. This service is also being rolled out to the UK using the name *'Amazon Pantry'*, offering consumers a selection of approximately 4,000 grocery and household items.

The strategy is working. Back in 2012, Walmart was the undisputed ruler of retail and the third-most valuable American company. Its $444 billion in revenue was 16 times the revenue of Amazon and was equal to 3% of the US economy. However, in July 2015, Amazon's market capitalisation exceeded Walmart's for the first time. Nine months later and this gap has increased dramatically, with Amazon's valuation rising to $294 billion and Walmart's falling to $217.21 billion.

Amazon's global intentions in this market became apparent earlier this year when they signed an agreement with UK supermarket chain Morrisons. This agreement provides Morrisons, which was a late arrival to online shopping, with

FIGURE 1. Amazon Sales Revenue $Billions



The Prime effect has had an impact, growing Amazon's 2015 revenues to an unprecedented $107.2 billion access to Amazons logistical capabilities, while Amazon immediately gets access to Morrisons grocery customer base. Morrisons has already supplied 800 separate product lines – all tinned and packaged groceries – to Amazon, with its CEO, David Potts, stating that the availability of all its ranges via the Amazon Pantry service is 'imminent'.[11]

The market approved. Amazon's deal with Morrisons caused an immediate 6% rise in its share price, but a 9% drop in the value of Ocado, the online food distributor who has a 25-year contract to deliver Morrisons' online deliveries. As Amazon quickly uses its new partnership to learn the UK grocery business, many, such as Credit Suisse and Goldman Sachs,[12] have already stated that Ocado should just give up and let Amazon acquire it. By acquiring Ocado's trucks, automated warehouses and customers it would immediately possess the physical capabilities necessary for Amazon Pantry to rapidly expand and steal customers from the other major grocery retailers such as Tesco, Sainsbury's and Asda.

Although traditional grocers may not see sales migrate to Amazon right away, that luxury won't last. By growing its Amazon Fresh offering, Amazon is preparing for a long fight in grocery. Becoming a grocery supplier not only expands the choice available to consumers, bringing more sales, but it could also make its business much more profitable due to frequency and density of ordering. People tend to buy groceries at least weekly, so getting them hooked on delivery justifies sending trucks out more frequently. Also, the wide variety of choices Amazon has, plus its increasingly intelligent recommendations system, draws consumers into purchasing non-grocery items that get shipped at the same time, adding sales while optimising shipping costs. It is also planning to move from grocery supplier to manufacturer, announcing that by summer 2016 it will produce and sell private label brands ranging from diapers to perishables.[13]

PHOTO COURTESY: Getty Images

In 2013 Amazon began expanding its grocery delivery service Amazon Fresh to other cities, delivering around 20,000 items, including fresh produce, from local shops through Amazon.

Amazon is also taking this 'distributor to manufacturer' strategy and using it to make inroads into the highly lucrative apparel market. It acquired shoe retailer Zappos for a reason – and it wasn't just for selling more shoes. Amazon studies categories to learn the business and identify consumer-centric opportunities. They then skilfully bring suppliers into their marketplace to understand the emerging trends and figure out how to capitalise in this area by differentiating through speed, convenience, price, reliability and service. Amazon's Fashion CMO Jennie Perry declared that; *"We're in it for the long haul. We're really invested in this industry"*[14] and backed up that claim by introducing seven private clothing labels, including Franklin & Freeman men's shoes and Society New York women's dresses, and sponsoring New York's first-ever men's fashion week.

Amazon's US apparel business, including sales by third parties, is now forecast to rise from $16 billion in 2015 to $52 billion in 2020 according to Cowen & Co. and is predicted to surpass Macy's as the biggest apparel retailer in the US by 2017.[15]

Virtuous Cycle Part 2: Reinvent the Consumer Experience

Towards the end of 2014, when most retailers were still struggling with offering a reliable 48-hour delivery service, Amazon trialled a new one-hour delivery offering in Manhattan called Prime Now. Using a Prime Now app, Prime members could order from a range of 25,000 items and have them delivered within one hour for $7.99, or within two hours for free. The service was available between 8 am and midnight, 24/7, raising the bar well beyond what most people thought was realistic – but it worked.

Consumers lapped it up, and the Prime Now trial was an immediate success. Within six months, full page adverts in the UK press announced that this one-hour delivery service was now available in London, Birmingham, Manchester, Liverpool and Newcastle. Since then it has expanded to other areas across the US and the UK - including wealthier areas such as Surrey - showing how quickly Amazon learns. As previously highlighted the adoption and usage of Prime in upper-income areas is high (70%), probably because they are more likely to be cash rich but time poor, making it logical that Prime Now would be a winner in a wealthy suburban area like Surrey. To expand the benefits of Prime Now, Amazon has also introduced a one-hour restaurant delivery service in the US, with the intention to roll this out soon in the UK. Of course, Amazon makes a percentage of every meal ordered. On May 1 2016 Amazon extended Prime Now from an app to a web destination, allowing Prime customers to select one or two-hour delivery slots on PrimeNow.com.[16]

Back in 2014 Amazon also trialled two other innovative products with select US-based Prime customers – the Dash and the Dash Button. The Dash was a small handheld device that allowed you to order items by voice, which were then automatically added to your Amazon Prime account's shopping basket. Not long after this, Amazon Dash buttons were launched, small branded Wi-Fi devices that you placed in your house and which allowed you to re-order essentials – such as toilet paper, coffee capsules and washing powder – simply by clicking each brand's button.

Amazon 70+ New Dash Buttons

There are now over 100 buttons for different items available, and in March 2016, Amazon announced a broadening of categories to include snacks, beverages, batteries, and more office products, including brands such as Charmin, Doritos, Energizer, Red Bull, Starbucks, Trojan, and Vitamin Water. Orders via the brand-specific Dash Buttons have grown by 75% over the first three months of 2016, and there's now one taking place every minute.[17] Dash Buttons cost $4.99 each, but they come with a $4.99 discount off your first Dash order, and so are essentially free.

Amazon Dash never went on sale – it was never intended to. It was an experiment designed to see whether people would accept the concept of ordering by voice (they did). Likewise, the purpose of the Dash button isn't to sell Dash Buttons – it's to establish whether people would appreciate the convenience of being able to ensure that they never run out of essentials by simply clicking a single button. The goal is to encourage more frequent and more regular retail purchases of essential goods from Amazon.

Then, in late 2015, Dash Replenishment Service (DRS) came online. DRS is the Dash Button without the button, introducing into the home the concept of connected, smart devices that replenish themselves. With as little as ten lines of code, manufacturers can embed automated purchasing capability into their devices.[18] Currently, fifteen major manufacturers, including Samsung, Brita, GE, Whirlpool and Brother have installed 'DRS' capability into their devices, creating water filters that automatically reorder replacement filters, printers that reorder ink and washer dryers that reorder detergent.

The whole purpose of Prime, Dash buttons and DRS is to keep the consumer locked into ordering all of your frequently needed goods through Amazon's shopping empire, erecting walls of convenience that prevent customers from even considering buying their coffee or condoms elsewhere. Which takes us back to Amazon's killer move, and the Super Bowl advertisement of Echo.

Amazon Echo is an innovation emerging from Amazon's Devices division, an outcome of their continuous experimentation to develop the ultimate consumer platform. At the heart of Echo is Alexa, a cloud-based AI system similar to Apple's Siri. It can play music, reads the news, answer questions, and – critically – order stuff through Amazon Prime. Echo can also control lights, switches, and thermostats with compatible smart home devices, for example, Nest, WeMo, Philips Hue and Samsung SmartThings.

David Limp, SVP of Devices at Amazon, stated at a press event for Echo that; *"What we're trying to do is to build a computer in the cloud that's completely controlled by your voice."* It's found a market. In less than a year, Echo has become the best selling device on Amazon over $100, and Amazon doesn't miss a beat, making Echo-compatible light bulbs, thermostats and electrical outlets recommended items when you select Echo on Amazon.com.

A Whole New Platform

Bezos' understanding of the power of platforms is proving pivotal. Whereas the Kindle was a platform designed to expedite the transition from physical books to eBooks, the Echo is designed to transition people from ordering goods using the PC and smartphone, to just their voice. However, people would not be interested in a device from a retailer that just allowed them verbally buy things, and therefore Echo needed to be much more than just a consumption portal – it had to become the centrepiece of your home. Conversing with Alexa had to become a natural part of their daily activities; one they couldn't do without. One where other companies would pay to have access to that platform. One that meant it became the 'one device' that ran their homes - claiming a huge 'first mover' advantage preventing any other devices from encroaching on this space.

Amazon, therefore, needed the right 'hook' to get consumers to buy it – and that hook was music. Data from

Amazon Echo, Tap and Dot devices

beta testing uncovered that the most common activity people used Echo for was playing music. This finding encouraged the devices team to make this a more prominent feature, creating a reason for people to increase their frequency of engagement with Alexa. Amazon improved Echo's speaker quality and song selection, enabling Echo to rapidly command 26% of the online speaker market, outselling established brands such as Sonos, Bose and Sony combined.[19]

Amazon has also understood that closed systems provide closed opportunities. The attractiveness of a platform depends on the number of things people can do with it, as the more benefits and applications a device has, the more likely people are to buy it. The more people who buy it, the more app developers and suppliers would want to work with it. Another virtuous cycle.

Amazon has therefore made Echo and DRS into open platforms. Manufacturers can easily make their devices DRS compatible by adding either a physical button into their hardware that when pressed reorders the consumables or by measuring usage and automatically reordering on behalf of the consumer through Amazon Prime. With Echo, Amazon has allowed developers to create 'Skills' (apps) that people can purchase to expand the capabilities of Echo, enabling it to interface with other devices with Echo or other platforms. There are currently more than 300 listed Skills available, from ordering pizza to 7-minute workouts. Spotify, Dominoes, Uber, FitBit and Capital One are just a few companies that have created Skills, and even car companies like Ford are planning to integrate their products with this new platform. Hence the Super Bowl advertisement campaign. As VP of Amazon Devices, Neil Lindsay, explained; *"We're showing Echo in this Super Bowl campaign because we think being able to control your lights, order a pizza, or listen to music with only your voice is magical, and we wanted to show that in action."*[20]

In April 2016, Amazon expanded its smart home reach even further with the release of Echo Dot and Amazon Tap. Dot is an extension of the original Echo, allowing users to have multiple access points to speak to Alexa in their home, and Tap is a portable speaker you can take with you that connects to a Wi-Fi connection or smartphone to play music on the go. Amazon Tap and Echo Dot extend Amazon's smart home capability, providing a simple, easy way to connect devices and issue voice commands.

Echo, DRS and Dash are strategic masterstrokes; final building blocks in Bezos' 'Everything Store' vision. They are also about to disrupt the retail industry in a way that their competitors probably do not yet understand or appreciate. Dash and DRS provide a way for a household's regular *needs* to be replenished automatically, while Echo creates the ability for people just to verbalise their *wants* - and Prime Now provides a sub two-hour delivery service to both. In effect, consumers no longer need to shop anywhere other than Amazon for almost all of their commodity purchases.

To the vast majority of consumers and Amazon's competitors, Echo is just a cool voice-controlled speaker. In reality, Echo has enabled Amazon to intertwine itself with the running of consumers lives, creating a continuous relationship with them rather than just a transactional one. Now they are focusing on dramatically increasing the number and variety number of these relationships, locking consumers into continually using it and in doing so creating in effect the ultimate convenience device. A platform that is constantly getting smarter and adding more functionality, one that allows the consumer to merely verbalise their needs – music, takeaway food, groceries, transportation – and for it to arrive as if by magic. A platform that has a hundred different ways to embed Amazon into your life - and of course a hundred new ways to make them money.

The first mover advantages this provides are enormous. As a website, where the competition is only a click away, Amazon is always at risk that the consumer may look elsewhere. Echo provides a way to secure consumer demand before they even go online, effectively making Amazon the first choice retail channel for the entire household. The genius behind Amazon's platform model is that once the consumers are hooked on the ease of use of Echo, Prime itself becomes more valuable, securing its automatic renewal. Another

Amazon Echo is an innovation emerging from Amazon's Devices division, an outcome of their continuous experimentation to develop the ultimate consumer platform virtuous cycle of creativity for Amazon, and a vicious circle of destruction for its competitors.

Amazon has therefore already won the Internet of Things (IoT) race while others are still talking about it. It's a winner takes all model as people won't want 'two' devices running their household. By becoming the 'one device' that runs the home Amazon has created more than just a new way to engage with customers – it has created a whole new platform that people are queuing up to use. A platform that also captures an enormous amount of data.

The Power of Data

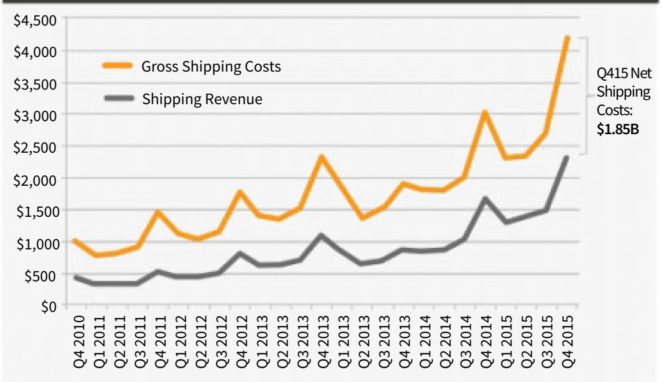
In a 2014 New Yorker article on Amazon one line stands out; *"Before Google, and long before Facebook, Bezos had realized that the greatest value of an online company lay in the consumer data it collected."*[21]

Echo's Alexa is a cloud-based AI device that *learns* through use, collecting data as it goes; your data. Amazon has long used purchase data to drive replenishment strategies, offer recommendations and set prices – but with Alexa, it is about to capture more data than any other company combined. Using Echo and Alexa allows Amazon to capture data on what you buy, when you buy it, what music you like, what films and TV programs you watch, where you go, what pizza toppings you like – everything they need to drive their virtuous cycle of convenience. This data has enormous direct and indirect value to Amazon. Amazon already hinted at how much data Alexa captured when they reported the top Christmas songs people played through Echo and how often they used the timer function to help with cooking Christmas dinner.

Amazon is making a Faustian bargain with the general population; the sale of your privacy for convenience, choice & price. You want free music, free videos, TV programmes, free delivery, convenience and low price. Amazon wants to know everything about you and to be your sole retailer. It has therefore created the platform where you get what you want, but you have to sign up to what they want – for Amazon to capture enough data to become your personal 'everything store.' It is a bargain most are willing to make.

To process all of this data, Amazon has also used one of their other platforms, Amazon Web Services (AWS), to allow developers to use their Cloud based servers to build machine learning solutions that improve the quality of their predictive analytics. It's proving advantageous. Amazon filed a patent in early 2014 for algorithms able to know what people wanted before they placed an order.[22] With Echo and AWS, Amazon has both a robust audience, a ready-made data collection device and a flurry of developers rushing to put their services on its platform. Running Amazon's website and servers is expensive, but they turn this overhead into a money making

FIGURE 2. Amazon Shipping Financials (in millions)



Source: Amazon SEC Fillings GEEKWIRE.COM

opportunity by offering third parties access to their spare capacity, creating another revenue stream for the company. It's a profitable business. In 2015, Amazon Web Services generated $7.9 billion, with an operating income of $6B.

Virtuous Cycle Part 3: Dramatically reduce prices

Amazons strategy of responsive supply has come at a major logistical cost. Amazon's net shipping costs reached an all-time high of $1.85 billion during the fourth quarter of 2015, driven mostly by an extremely busy Black Friday and Christmas period, which meant that the 2015 costs surpassed $5 billion, a 19% increase on 2014.[23]

Amazon had taken actions to address the rising costs by raising the annual subscription cost of Prime from $79 to $99 in 2014, but it also knew that passing on any more costs to the consumer worked against the 'low price' element of its virtuous cycle. Likewise, if it squeezed the sellers and further it would limit the attractiveness of using Amazon as a marketplace, reducing the 'choice' element of the cycle. If Amazon was going to become the 'Everything Store', able to deliver items within one hour to its customers, it was therefore going to have to radically rethink its supply chain strategy. Here's how it is planning to do it:

1 Get Control. In 2013, Amazon quietly announced FBA – *Fulfillment by Amazon.* With FBA, Amazon offered picking, packing, storage and shipping services for retailers selling on Amazon's platform. It was a killer move. In one sweep Amazon set the agenda by making only FBA items available for Prime and Prime Now delivery, immediately making those items significantly more attractive to consumers and more profitable for Amazon. FBA was a key ingredient in making Prime a robust and successful offering; by only offering it on items they were in control of, they reduced the incidence of a supplier's

Amazon has therefore created the platform where you get what you want, but you have to sign up to what they want – for Amazon to capture enough data to become your personal "everything store".

poor performance compromising their brand. Suppliers soon realised that Prime delivery items were much more desirable to consumers than non-Prime, and therefore were left with a choice to either join FBA or accept reduced sales. In addition to helping to sell profitable Prime relationships, FBA generated significantly more volume through Amazon's systems, which lowered Amazon's costs while generating revenue from competitors that were selling through Amazon's marketplace.

2 Automate. For Prime, Prime Now and FBA to work, Amazon had to develop perhaps the world's most advanced supply chain. It had to reduce the cost per item shipped while also dramatically improving the level of responsiveness and reliability. Enter the Kiva bots. Plagued by bad press about the working conditions in its fulfilment centres, Amazon needed a way to improve picking speed and accuracy, at lower cost. After acquiring Zappos.com and seeing how they used a fully automated robotics logistics picking system, in 2012 they purchased the company behind it, Kiva Robotics, for $775 million in cash. For two years it seemed like nothing was happening, but then before Black Friday 2014 Amazon announced that it rolled out 15,000 Kiva bots across its primary fulfilment centres in the US. The following year this had doubled to 30,000. Kiva robots are quicker, more accurate and allow Amazon to store 50% more inventory in each Kiva fulfilment centre because humans don't have to walk the aisles. They also save Amazon a fortune. Each item costs Amazon $0.448 to pick using humans, but by using Kiva, this falls 47.6% to $0.213 per item. Amazon has now developed its own division, Amazon Robotics, to continually develop new and innovative ways to fulfil customer orders faster and more efficiently.

3 Go local. To achieve one-hour deliveries, Amazon had to localise their supply chain. Amazon needed to create a series of smaller fulfilment hubs in urban locations, able to hold enough inventory to meet the needs of the local Prime Now customers. It also needed to dramatically improve the level of algorithmic assistance it obtained to understand projected consumer demand, as getting it wrong meant that it would both fail its delivery promise, and quickly fill the urban fulfilment centres with inventory.

4 Create flexible alternatives. For Prime Now to work, Amazon needed to be able to deliver orders individually, rather than the usual next day approach of combining multiple orders in a shipment route. Buying this level of responsiveness from 3PL's (who were already struggling) would be incredibly expensive. So what to do? Amazon firstly recruited cycle couriers to deliver non-bulky Prime Now orders in urban areas. Then it hit on a new way to expand its delivery force – Amazon Flex. Utilising the gig economy model, Amazon now allows approved private individuals to become 'delivery drivers for hire', paying them $18-25 per hour to deliver Prime packages using their cars. Similar to Uber, drivers use an app to sign up for shifts to pick up packages from Amazon's metropolitan warehouses and deliver them to customers' doors. The program is currently available in 14 cities across the US. This has also presented Bezos with an Uber beating opportunity. Uber is basically just an app plus customer support, but one that is valued at more than GM.[24] However, its start-up costs ran into the billions. Amazon's creation of the Flex platform could allow it to dramatically reduce both the start-up and driver incentive costs by combining ride-sharing with its package delivery service, providing Amazon with a powerful - and sustainable – competitive advantage.

5 Own your own trucks. Over the 2015 holiday period, it was clear that the 3PLs that delivers Amazon's packages could not cope, expediting Amazon's decision to take measures into its hands. Something Amazon is not even trying to hide anymore if this recent job posting is anything to go by; *"Amazon is growing at a faster speed than UPS and FedEx, who are responsible for shipping the majority of our packages. At this rate, Amazon cannot continue to rely solely on the solutions provided through traditional logistics providers. To do so will limit our growth, increase costs and impede innovation in delivery capabilities. Last Mile is the solution to this. It is a program which is going to revolutionize how shipments are delivered to millions of customers."* Then, in December 2015, Amazon announced that it had purchased thousands of truck trailers to ship merchandise between its primary fulfilment centers and its more local warehouses. Amazon Fresh's grocery service is a big driver behind this move, with Amazon purchasing a fleet of grocery delivery trucks to support this sector. By owning its own trucks, Amazon can ensure constant replenishment of the smaller Prime Now locations, able to travel in the middle of the night when the roads are less busy or during holidays - all things for which a 3PL would typically charge a premium.

6 Rethink the last mile. Cycle couriers and Amazon Flex are all temporary measures until legislation catches up with Amazon's level of innovation, allowing them to automate the last mile with drones and autonomous vehicles. Amazon aims to dramatically reduce its shipping costs by using human-free methods, and has already been advertising Prime Air drone deliveries on US national television, highlighting that they have the technology ready and waiting. Delivering items at the cost of electricity would allow Amazon to offer lower prices than competitors using traditional delivery methods, creating more momentum for its virtuous cycle.

7 Control the whole international supply chain. Amazon doesn't just want to be a last-mile deliverer; it wants to run it all. The real scope of Amazon's intentions became apparent recently when leaked documents appeared that contained details about Amazon's secret project 'Dragon Boat'.[25] The documents describe Dragon Boat as a *"revolutionary system that will automate the entire international supply chain and eliminate much of the legacy waste associated with document handling and freight booking."* Dragon Boat is about to be officially launched as "Global Supply Chain by Amazon"; an aggressive expansion of its Fulfilment by Amazon services designed to create a global delivery network that removes the cross-border barriers for small merchants. It will put Amazon at the centre of a logistics industry that involves not just shippers like FedEx and UPS, but also legions of middlemen who handle cargo and paperwork associated with international trade.

This move means that as well as doing the outbound shipping, Amazon will also move goods directly from the supplier's factories – which may be in China or India – to the fulfilment centre, effectively controlling, and making a profit from, the whole end-to-end logistics process. This direct 'factory to consumer' model will allow Amazon to bypass these brokers, amassing inventory from thousands of merchants around the world and then buying space on trucks, planes, and ships at reduced rates. Merchants will be able to book cargo space online or via mobile devices, creating what Amazon described as a "one click-ship for seamless international trade and shipping." The transformation of FBA into 'Global Supply Chain by Amazon' creates a huge honey pot of a platform, attracting sellers to use this end-to-end offering, trapping them into selling through Amazon's marketplace and devices. This not only lowers costs but more importantly, it gives Amazon direct control over the layers of the value chain, potentially transforming them into not just the world's biggest retailer, but also the world's largest distribution company. If successfully executed, it is estimated that this would create an entirely new \$400 billion[26] business model for Amazon - one that would be tough and costly to compete against.

In its latest 10-K, Amazon even changed its company description to a "transportation service provider"[27] and is currently leasing 20 Boeing 767 freight planes to boost shipping speeds and increase capacity with the intention to increase this to 60.[28] It has also received a license to expand into ocean freight and is reportedly in talks to purchase loss-making airport Frankfurt-Hahn, which is for sale, in order to create an inbound hub to aid with its plans to offer Prime Now one-hour delivery across several cities in Germany.[29]

In the short term, Amazon would continue to need companies like FedEx and UPS while they take their first baby steps along this path, which could create a false sense of security for those businesses caught in the cross-hairs, allowing them to remain in denial of what is happening. Even if they pick up on the threat, this may benefit Amazon as they could use it as leverage to renegotiate more preferential short-term shipping contracts, playing on the 3PL's desire to make whatever money they can off Amazon before it runs everything.

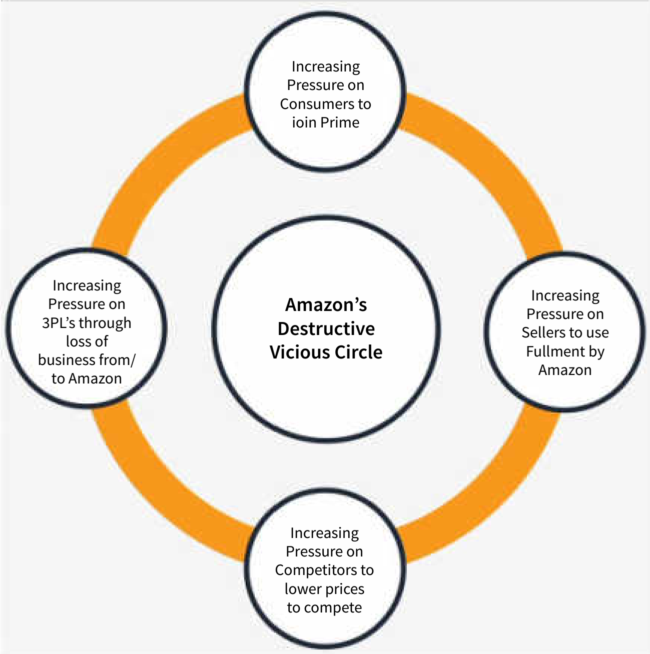
Playing the Long Game

One of Bezos biggest achievements has been his relentless ability to stick to his vision and not capitulate to the lure of short term gains. The ability to go decades without turning a profit but still convince his shareholders to persevere with him and understand the long game. Once, when asked about Amazon's revenue growth, Bezos couldn't even remember the exact growth percentage. When asked why he didn't know, he said: *"I'm thinking a few years out. I've already forgotten those numbers."* As Bezos himself declared; **"if you're long-term oriented, customer interests and shareholder interests are aligned."** Amazon's numbers back this up. Its Q1 2016

PHOTO COURTESY: businessinsider.com

A Kiva robot moves a rack of merchandise at an Amazon fulfilment center in Tracy, California.

FIGURE 3. Amazon's Vicious Circle of Destruction



earnings report beat all estimates, recording its fourth profitable quarter in a row with $517 million in net income, compared to a $57 million loss it recorded in Q1 2015. Its year-on-year Q1 results saw operating cash flow rise 44% and revenue rise 28% to a staggering $29.1 billion.[30] As a result of these numbers, Amazon's stock price rose 12%, proving Bezos' point.

Amazon's retail virtuous cycle generated over $20 billion of this, growing 31% YoY compared to just 1.75% growth for the retail sector at-large (online and offline). The Q1 2016 earnings report also highlighted that the demand for Echo is so great that Amazon is struggling to keep up. Watching Amazon move its virtuous cycle into top gear in the US gives an indication of what its competitors in its other primary markets can expect in the future. It's why Chamath Palihapitiya, founder and CEO of Social Capital, stated publicly at the Sohn Conference on May 4 2016 that he believes Amazon.com will be worth $3 trillion in 10 years.[31]

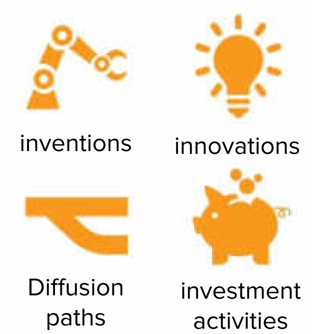
Bezos is exactly the type of entrepreneur that Austrian economist Joseph Schumpeter was referring to when he described them and their innovations as the architects of the process of Creative Destruction. He has created a culture where people are continually experimenting, constantly trying to find new ways to drive its virtuous cycle, then quickly going big when something makes economic sense. Currently, it has a patent out to enable drones to use your phone's GPS address to 'follow you home', a patent for 3D printing on an autonomous truck - effectively producing your goods while delivering them, and most interestingly, a move into physical stores - only ones that are human free. These stores use facial recognition cameras, sensors, and scanners to know when a person entered the store, when they removed something from a shelf and when they left with an item in her hand - capturing even greater levels of data for Amazon to process, analyse and use to rule the world.

The process of technological innovation involves complex relations among a set of key variables: inventions, innovations, diffusion paths and investment activities. Currently, Amazon is in control of all of these elements, being both responsible for the invention of new products and able to determine their marketability and reach a wide enough audience to convert into innovations. Then it can utilise its platforms to diffuse the innovation and plough money into their continued development without the short-term pressures that stifle other companies.

Aftershock! The Vicious Circle of Destruction

Amazon's platform based business model is preparing to tighten its coils around its customers, sellers, competitors and partners. It is rapidly drawing more and more consumers onto Prime and Prime Now, either through its traditional marketplace or new platforms such as Echo, in turn forcing sellers to offer their wares to Amazon to fulfil, allowing Amazon to make a greater margin off every order sold. Competitors are now facing a monopolistic giant, able to control the supply chain and use its massive R&D fund to created new technological innovations that eliminate the humans, and their errors, from the equation. Likewise, as Amazon itself, and its sellers, choose to use Amazon's global supply chain solutions, the ripple effect on the 3PL's bottom line will significant. Finally, as Amazon increasingly moves into manufacturing, sellers will be forced to reduce their prices and innovate more simply to compete against their retail 'partner'.

Amazon is becoming the ultimate gross margin killer. A company that, unlike traditional retailers like Walmart, doesn't spend billions of dollars a year on share buybacks or offering dividends, instead choosing to invest in future growth. A company that continually challenges other retailers to try and remain competitive in a game where they keep changing the rules, forcing them to reduce their prices, knowing that it will drive



Amazon is currently in complete control of all of these elements their margins into the ground. They will then turn to their logistics partners, and ask them to reduce their costs to help, once again driving down the 3PL's margins. They will challenge everyone to keep up, and they know very well that they can't. Throughout all of this, Amazon continues to make money off every platform, from its cloud and web services through to its shipping services and online marketplace.

Amazon is changing the rules of the game, and for those that can't keep up – or develop their own game changer – it's game over. Not today. Not tomorrow. But soon. As Jeff Bezos himself declared *"your margin is my opportunity"*.

However, Amazon's increasingly monopolistic position will raise some very big and important questions, and Amazon may find that is biggest challenge comes not from it competitors, but from national governments concerned at the wider social and economic impact of its plans. When Amazon negotiated agreements with several US states to delay the collection of sales tax in exchange for locating warehouses and providing jobs there, nobody presumably contemplated total warehouse automation. **As companies start to fail and jobs are lost, how long will governments sit quietly by as Amazon acquires a monopolistic position, wiping out tax paying companies with tax paying employees, while it declares little taxable profit, choosing instead to reinvest in increasing levels of automation that feed its virtuous cycle of creative destruction?**

AMAZON IS CHANGING THE RULES OF THE GAME, AND FOR THOSE THAT CAN'T KEEP UP – OR DEVELOP THEIR OWN GAME CHANGER – IT'S GAME OVER.

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Aargau – a location that moves companies forward

The Aargau Services team

f.l.t.r.
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Where do you Begin with your (Big) Data Initiative?

BY JOE PEPPARD

While "Big data" has garnered a lot of attention over the last number of years, many managers struggle in deciding where to begin. They can often be mistakenly seduced by technology companies with the promise of an IT solution to the (big) data problem. By first distinguishing between the two different ways that data can be leveraged, this article suggests a route to navigate the terrain. It introduces the QuDa model as the foundation from which a (big) data initiative can be mapped. Its fundamental premise is that it is managers not technology that give meaning to data.

One of the questions that I frequently encounter in my work with executives concerning so called "big data" is where to start. Unfortunately, many look to their IT organisation for guidance, seeing the challenges as being technical in origin and consequently having an IT solution. They can often be convinced – wrongly in my opinion – of the need to buy technologies like a data warehouse, analytical tools, or perhaps event to invest in Hadoop. While all these technologies might help, my advice is to first get a handle on the data your organisation has, its quality and how you currently use it. With this understanding, you can then start to become more sophisticated in thinking about how you might use data and the outcomes being sought.

Of course, it is crucial to first acknowledge what you are trying to achieve. This is why it is important at the outset to recognise the distinction between the *exploration* of data and the *exploitation* of data; this helps in establishing a focus for any initiative. With this understanding, particularly how the two concepts interrelate, managers can then begin to map out what they are seeking to achieve. In this article I argue that there are four possible outcomes when exploring data and that these outcomes can help in providing the clarity that is all too often absent.

Exploration and exploitation

Given all the attention that "big data" has received over the last few years, managers can be forgiven for thinking that this is something new. It is not. The fact is managers and their organisations have always struggled to control and leverage data. This is why computers were introduced into organisations in the first place. The paradox is that the technologies that were supposed to help manage data are now causing a data deluge. The 'big' really just signifies that there is a lot more of data around today!

Distinguishing between *exploration* and *exploitation* can be very useful in thinking about data and how it might be leveraged. It also helps in differentiating between using analytical and business intelligence (BI) tools and other applications of IT, such as an ERP system or an IT-system for online ordering. Actually, the

Distinguishing between exploration and exploitation can be very useful in thinking about data and how it might be leveraged.

concepts can be considered as two sides of the same coin, but more about this later.

Exploration is using data to better understand something; whether this is about your customers, your operations, your products, your supply network, the marketplace, etc. This data may be internally generated from operations, from devices, machines or assets, or result from direct interactions with customers and ecosystem partners. Sometimes it can come from external sources, such as comments about your products or services posted on Facebook or tweets on Twitter. This challenge is to make sense of this data. For an electricity provider, for example, this might be converting 200 million meter readings per annum to make sense of the power consumption of customers in order to optimise the production of electricity. Insurance companies might want to know the likelihood that a claim is fraudulent. While often referred to as "insight" by marketers, these examples are essentially about generating understanding and discovering new knowledge.

Exploration is using data to better understand something; whether this is about your customers, your operations, your products, your supply network, the marketplace, etc.

Some of the ways that data is being explored include: modeling risk, conducting customer churn analysis, predicting customer preferences, targeting ads, and detecting threats and fraudulent activity. This often requires that datasets from diverse sources be combined and examined. For example, Her Majesty's Revenue and Customs (HMRC) is combining external data from credit and other institutions with its own internal data to identify potential under-declaration of tax liabilities.

The exploration of data is also revealing some unexpected results that themselves required some creative thinking. Public health researchers, for example, have found a spike in Google search requests for terms like "flu symptoms" and "flu treatments" a few weeks before there is an actual increase in flu patients coming to hospital emergency rooms. Central banks are currently studying whether keyword searches, reported by Google as soon as the queries take place, can provide lead indicators of consumer demand before official statistics become available.

Sometimes a company can be pro-active in gathering data. For example, many have implemented customer relationship management (CRM) technologies to glean information *about* customers (demographic details, choices and preferences) and information *from* customers (as a result of their interactions and exchanges). One of the things they then look to do is use this information to tailor offerings to customers based on anticipated needs that they glean from historical data. Amazon, for example, claim that 30% of its sales are generated as a result of its recommendation engine: "customers who bought this book also purchased…."

Initiatives to explore big data are getting ever more sophisticated. Using video, some retailers are now building systems to better understand customer behaviour when they are in the store. In most cases, this video data is taken directly from a store's existing security cameras. That feed is analysed and correlated with sales data. Some retailers are also integrating with data from hardware such as radio-frequency identification (RFID) tags and motion sensors to track how often a brand of cereal is picked up or how many customers turn left when they enter a store. Using video, luxury retailer Montblanc generates maps showing which parts of the store are most-trafficked and use this knowledge to decide where to place in-store decorations, salespeople, and merchandise. Such analysis can often throw up insights that refute conventional wisdom. For example, many food manufacturers pay a premium for their products to be displayed at the end of an aisle. But what retailers are finding is that customers actually pay greater attention to products placed in the centre of an aisle.

Exploitation is using data to take advantage of information asymmetries; it is essentially about making the invisible visible. These asymmetries arise when one party to a transaction or interaction or potential transaction/interaction has more or better information than the other. This usually results in costs which are often referred to as "transaction costs." Large vertically integrated companies were established to reduce transaction costs in open markets. Today, the use of technology can greatly reduce transaction costs both in markets and within organisations. Thus, by identifying these asymmetries that are leading to transaction costs, an organisation can avail of opportunities, through the medium of technology, to potentially change what the organisation does, even providing a source of competitive differentiation.

For example, manufacturers often hold stocks of raw materials to buffer against uncertainty in their supply chains – what is often referred to as "safety stock." This uncertainty is caused by having an incomplete picture of production processes, schedules and stock levels at suppliers. Making this information available to the manufacturer reduces uncertainties caused by these information asymmetries. Armed with this information, manufacturers no longer need to tie up working capital in raw material inventories and risk obsolesces and can execute a Just-In-Time (JIT) strategy. JIT is essentially about replacing inventory with information. It is information asymmetries that have seen the rise of price comparison websites where shoppers visiting a store can use their mobile phones to scan bar codes to see if there is a better deal available elsewhere.

Being ambidextrous: leveraging exploration and exploitation. Many of the examples of big data use actually rest on the interplay between exploration and exploitation. Thus, by generating new insights from exploring data, an organisation may choose to then exploit any information asymmetries that may be revealed. For example, insights from historical tax returns data and other external data (exploration) are enabling HMRC to identify factors that indicate potentially under declaration of tax liabilities. Using this knowledge it has built an (exploitation) application that automatically checks all tax returns submitted by citizens against this 'signature', flagging up those that are potentially fraudulent for further scrutiny. The recommendation engine of online retailer Amazon ('customers who bought this book also….') is based on the same ambidextrous principle, where exploration of book purchases across all its customers has enabled the company to generate new knowledge about customers and exploit this insight and build an application to make purchasing suggestions for customers.

By generating new insights from exploring data, an organisation may choose to then exploit any information asymmetries that may be revealed.

Exploring data to discover new knowledge: The QuDa Model

The historical and dominant application of IT is in organisations and their processes and across their ecosystem is to exploit information asymmetries. How this is done is well established, but unfortunately most organisations still struggle to achieve expected benefits. To capture the exploration of big data and the use of analytical tools to generate new knowledge and insight, a good starting point is to borrow from Donald Rumsfeld's words at his infamous 2003 press conference: *"There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know."* These statements can be used to create a model to capture the different possible outcomes from exploring data.

These four outcomes can be positioned on a framework that maps the *question* against the *data* (see Figure 1 on next page). The reason for the "question" dimension is that knowledge emerges from answering posed questions. Einstein captured the importance of questioning and getting the question right when he noted: *"If I had an hour to solve a problem and my life depended on the solution, I would spend the first fifty-five minutes determining the proper question to ask, for once I know the proper question, I could solve the*

FIGURE 1:
The QuDa model: exploring data to discover new knowledge

		Data	
		Known	Unknown
Questions	Defined	*Known knowns -things we know we know*	*Known unknowns -things we know we don't know*
	Undefined	*Unknown knowns -things we don't know we know*	*Unknown unknowns- things we don't know we don't know*

problem in less than five minutes." The data dimension signifies the potential source for uncovering this knowledge.

Defined question/known data. This is where the question being answered is already known and the data to help in answering the question has already been pre-determined. These are the known knowns – things that we know we know. Good examples here are reports and dashboards that contain information that answers pre-established questions. Sales reports typically answer questions about sales by region, sales person, product line, etc. The knowledge being sought is determined by the question; to answer the question requires particular data. Reports and dashboards actually provide the answers pre-determined questions. Financial reports, sales reports, reports showing actual key performance indicators (KPIs) against planned are examples of such reports.

Known data/undefined question. This situation exists where there is data in the organisation that might reveal something about customers, operations, suppliers, products, etc. but the question to uncover this knowledge has not yet been posed. GE, for example, collects terabytes of telemetry data on the performance of its engines. The company knows that there is knowledge in this data that has not yet been revealed about these engines. The challenge is to construct an inquiry to uncover this knowledge as these are the unknown knowns – what, as an organisation, we don't know we know.

Defined question/un-known data. In this scenario we have a question – there is something that we wish to know. However, the data to provide an answer to this question has not yet been identified or precisely defined; this is the known unknown – what we know is that we as yet don't know the answer to a particular question. Often getting this knowledge will demand refining the initial question. Instrumenting products with sensors, for example, provides opportunities to capture data on a "product in use."

Undefined question/un-known data. This situation acknowledges that there is new knowledge to be discovered but that we have yet to either pose the question or identify the relevant data. These are the unknown unknowns. For example, Google announced some time ago that it is collecting as much data as it can even though at this stage it doesn't know how it is going to use it or what it might tell them.

Framing questions can unlock innovation

The QuDa model emphasises two important aspects of exploring data to discover new knowledge. First, it emphasises the importance of precisely framing the question in the process of generating insight. Second, it points to the criticality of accurately identifying and selecting the data where the answer to the question lies.

The framing of a question is, in essence, how it is posed. So, for example, if somebody was trying to solve a mathematical problem and wanted to seek your help there are several ways they could ask. Posing a question like: *"Can you help me with my mathematics?"* is less precise than *"What is x when* $x^2 + 2x - 24 = 0$*?"*

Both of these questions are asking for help but one is framed in a better way to get a more accurate and precise answer. So you might be able to respond positively to the first question but be unable to solve the mathematical expression in the second which is really where help was needed.

With a well-defined question, where the data to generate an answer is known or can be determined, the question can be considered as structured – the 'known known's'. Standard reports typically provide answers to these questions. Examples include:

- What are the factors that indicate a customer is likely to defect?
- Given current customer profiles, to which customers should we mail or new catalogue?
- Which products did our customers purchase most frequently last month?
- How much inventory do we have a product X?
- What were sales last week in the Southwest region?

Questions posed of data are often characterised in four ways:

- What happened (WHAT descriptive)
- Why it happened (WHY diagnostic)

- What will happen (WHEN predictive)
- How I can make it happen (HOW TO prescriptive)

However, questions are not always framed in a way to generate an unbiased, genuine answer. Some ways of framing questions can be designed in a way to get an answer that the person wants. Framing a question in a particular way can distort, twist, and influence the answer, defeating the point of asking the question in the first place. A question should be framed to elicit a genuine, unbiased answer. Frequently, political polls have framed questions to get particular answers to questions (and poll results). For instance take the questions:

"Who do you want Trump or Clinton to be America's next President?"

"Do you want someone with more business experience or less experience to be the next president?"

These are two questions about the same topic but framed differently. The first one is more fair and balanced. The second question is phrased or slanted in such a way to get the person to support Trump.

Asking the right question is only part of what is required. The question has to be answered; this is achieved through a process of knowledge discovery by interrogating the data, often by identifying additional data that may not be readily available. This is essentially a cognitive process that takes place in the minds of managers. As it typically takes place in teams, it has also a strong social element. This process of sense making is a voyage of discovery. It is important to never lose sight of that fact that it is people (i.e. managers and data scientists) not the technology that give meaning to data and make sense of it. Technologies, like analytical tools, merely augment human cognitive processes.

Sometimes, instead of a posing a direct question, some hypothesis is established with the data used to explore it further. A hypothesis is essentially a proposed explanation for some phenomenon. For example, that customers living in a particular part of the city buy a certain product. This hypothesis is then tested using data and evaluated as to whether it is proven to be 'true' or 'false.'

It is perfectly valid for a hypothesis to start out as a hunch or 'gut feeling'; this is where experience can come into play. However, we also need to be aware of biases and assumptions that we hold. For example, the confirmatory bias relates to the fact that we only 'see' data that confirms a particular point of view. We also need to be aware of spurious correlations is it does not indicate causation: what appear to be relationships between things can be just random.

Mapping a big data initiative

The QuDa model can also be used to guide a big data or analytics initiative. Much of the writing on big data presents examples of companies combining data sets, doing predictive analytics, etc. While useful in getting executive attention, it can all seem very daunting for a manager with little experience. Success with any big data initiatives demands first understanding data: data you have and don't have; the role data plays in your existing business model; and thinking about how you might use data and the outcomes we are looking to achieve.

My advice is to start in the top left hand quadrant with the "known knowns." This essentially demands challenging existing way of making decisions and the data used in making these decisions. Look at the BI reports and dashboards that managers use (or at least get or have access to – many are often not consulted or read). Most were probably been designed some years ago and may not be fit for purpose today. The constraints of data available at the time they were developed will also likely have influenced what is presented. Today richer and more comprehensive data may be available, but managers can continue to use these old reports. The layout and data on reports and dash boards is also likely to have been influenced by the particular biases and assumptions of the person who designed the report. Perhaps assumptions, valid when the report was initially designed, are now no longer appropriate in today's environment. Furthermore, what is the quality of the data underpinning the report like?

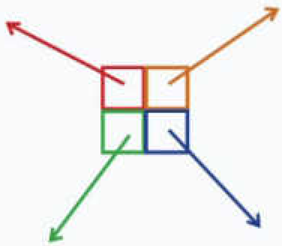
Once this has been completed, existing data can be explored to assess whether or not it may be able to reveal new insights or knowledge – the "unknown knowns." What questions can be posed of this data? Of course, we need to know what data we already collect and generate. This

My advice is to start in the top left hand quadrant with the "known knowns." This essentially demands challenging existing way of making decisions and the data used in making these decisions.

FIGURE 2. Using the QuDa model to map a big data initiative to discover knowledge

This is all about challenging existing decision making and knowledge discovery processes and data (in reports, dashboards, data bases, etc.)
- Are we asking the right questions?
- Are we using the right data to support decisions? If no constraints over information available, would different data set be used?
- What biases/assumptions are in the data that we are using to answer these questions?
- What biases/assumptions are in the decision making process/knowledge discovery process?
- Can decsion-making be automate? (e.g. prognostic and diagnostic tools)

What are the questions that we don't have answers for?
- Why do we not have answers to these questions?
- What data do we need to answer these questions? What data do we already collect? What new data do we need?



Company probably has data that could potentially be valuable
- What is the data that we currently collect revealing?
- What biases/assumptions are in the data?
- What questions should we be asking of the data?
- Does the data enable us to rethink the value proposition to customers?

This is where you really need to be creative!
- What does company not know that it doesn't know?

is not a trivial exercise; while most organisations are awash with data, discovering this and where it is located can be a challenge. This data might reveal insights that enable us to predict future states or behaviour if only it could be harnessed. (see Figure 2 above)

We can then move to the top right-hand quadrant. This is where we have questions but have not determined the data that will help in revealing answers to these questions – the "known unknowns". Why do we not have answers to these questions is often worth exploring. Sometimes the question can be too loosely defined, making it hard to determine the data that might potentially provide an answer. It requires continual refinement in order to be more precise. Achieving this end is usually an iterative process as through a learning process sense is made of data. Examples of unstructured questions include:

- What is the demographic and psychological makeup of our potential high-value customers?
- Which hurts the bottom line more: inventory holding costs or hiring staff to handle frequent deliveries?
- How effective was our last marketing campaign?
- How do our customers migrate between segments?

The bottom right quadrant is really where you can start to be provocative: what does the organisation not know that it doesn't know!

Figure 2 presents some guidance for executing in each of the four quadrants of the QuDa model.

Conclusions

Managers should not be daunted by big data. My advice is that they should forget about the "big" label and just concentrate on data. Be clear as to whether what is being sought is the exploration or exploitation of data. The QuDa model presented in this article is to help managers first figure out the possible outcomes from an initiative what they are looking to achieve. It forces them to explore the data they have and don't have as well as providing them with an understanding as to the process through which new insight will be gleaned. Mapping your exploration initiative will always lead you to return to the top left hand quadrant, for example, the "known unknowns" eventually become the "known knowns." But it should also highlight that it is a never ending journey; a continual process of inquiry, learning and discovery as you move in and out of the four quadrants.

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THE SECRET LIFE OF CROWDFUNDING

BY ADAM J. BOCK AND DENIS FRYDRYCH

Crowdfunding is a much-hyped tool for entrepreneurs to access capital anywhere in the world. While media and public perception have generally been positive, the data suggests high failure rates for crowdfunding campaigns. We analysed more than 80,000 Kickstarter projects and found surprising success factors for raising capital. We observed one artist-entrepreneur's campaign to reveal the secrets behind the statistics. Online crowdfunding is fundamentally different from traditional entrepreneurial finance, but there are ways to make it work.

"Most of the things that succeed in life are just because you are too stupid to realize that you have already lost the game and you show up anyways." (Cory Cullinan, aka "Doctor Noize")

In 2014, more than 1,200 online crowdfunding platforms facilitated approximately $16bn of investment across the globe. Current estimates suggest investment volume exceeded $30bn in 2015.[1] Online sites such as Kickstarter, Indiegogo and CrowdCube are potentially disruptive platforms that democratise access to start-up investments. Crowdfunding raises capital from the "crowd", an ever-changing online audience of everyday people. Entrepreneurs promise financial returns or non-financial 'rewards' for investing in social, artistic, technological, and commercial projects.[2] The online platforms help entrepreneurs fund projects and ventures when friends, family, and private investments are not viable or sufficient. Some estimates suggest that annual crowdfunding volume will eclipse total venture capital investment within the next few years.[3]

Crowdfunding is making "Noize"

The rapid growth of crowdfunding has caught the attention of regulatory authorities and policymakers. The European Commission is actively studying the value and risk of crowdfunding in 21st century entrepreneurial ecosystems.[4] Some EU economies have opened regulatory frameworks to facilitate crowdfunding, despite significant concerns about accountability and the lack of protection for investors from fraud, deceit, or

> Crowdfunding raises capital from the "crowd", an ever-changing online audience of everyday people.

incompetence. Given the fluid, evolving nature of the crowdfunding industry, it is important to understand how and why some entrepreneurs are impressively successful in raising capital from the crowd while others fail dramatically.

Certain projects are crowdfunding in name only. Video game sequels provide the most obvious example. These campaigns often rely on a massive, enthusiastic fan base to pre-pay for a copy of the game on release. In other words, these are product launches based on prior commercial success that only use crowdfunding to shift implementation risk to the customers. While this risk-shifting phenomena warrants investigation, these projects do not leverage or solicit the wisdom of the crowd. We focus, therefore, on novel, one-off projects as the intended beneficiaries of fully dis-intermediated crowdfunding efforts.

We studied data from more than 80,000 crowdfunding campaigns around the world to explore the characteristics and processes that drive success. But these numbers do not tell the full story. To reveal the secret life of crowdfunding, we also report on a three year, in-depth study of one entrepreneur's journey to create and produce an opera for children. Cory Cullinan, aka "Doctor Noize", used Kickstarter to raise $50,000 for "Phineas McBoof Crashes the Symphony". This "edutainment" opera was recorded with the City of Prague Philharmonic Orchestra, conducted by Kyle Pickett, and international opera stars Isabel Leonard and Nathan Gunn.[5]

(from right to left) Conductor Kyle Pickett, baritone Nathan Gunn, soprano Isabel Leonard, composer Cory Cullinan (aka "Doctor Noize").

In contrast with traditional entrepreneurial financing like bank loans and venture capital, *crowdfunding is not about who you know, where you have been, your sales pitch or even returns potential.* Successful campaigns leverage the online platform to inspire a project-specific syndicate. Effective campaigns are co-created by the entrepreneur and a previously hidden set of vocal, involved supporters. *Crowdfunding works when the project and syndicate identities align; when the backers say (to quote Doctor Noize): "We're with the band".*

The hard numbers of crowdfunding

No matter what the landing page of crowdfunding platforms suggest, crowdfunding success is neither easy nor guaranteed. Early in the process, Cullinan saw the reality behind the crowdfunding PR:

"I am doing the Kickstarter campaign to raise the required money for this project to responsibly move forward. However, I do think that people less frequently look at Kickstarter as an investment opportunity. People look at Kickstarter as something that is fun and emotional so that they want to be involved in it. As beautiful conceptually crowdfunding is, at the end the funding matters." (Cullinan)

When crowdfunding was new, campaign success rates were high. Now, the novelty has worn off and backers are savvy about vetting projects. Campaign success rates across leading reward-crowdfunding platforms have fallen to about 33%. The distribution of funding outcomes, however, tells a much more complex story. Campaign funding outcomes (shown in Figure 1 on next page) are bimodal, revealing underlying dynamics that rapidly encourage or restrict capital allocation to specific projects.[6] *The vast majority of reward-crowdfunding projects either succeed by a small margin or fail by a large margin.*

Early research seemed to show that crowdfunding was very similar to private fundraising. Network size and pitch quality were key drivers of success. But as crowdfunding has evolved, these are no longer clear 'signals' of quality or legitimacy.[7]

Like many entrepreneurs, Cullinan saw crowdfunding as a means to an end. Driven by a vision of making musical education approachable and entertaining, he had produced three albums, two books, and a mobile app. His inspiration for a 21st century successor to Prokofiev's iconic "Peter and the Wolf" required resources of a different sort. His vision attracted world-class talent. Grammy Award-winning soprano Isabel Leonard, baritone Nathan Gunn (one of *People Magazine*'s "sexiest men" in 2008), and renowned symphony conductor Kyle Pickett all agreed to donate their time. But Cullinan still needed to pay for an orchestra, travel and accommodations, and extensive recording and mixing assets. Online crowdfunding seemed like a good match for his mission-driven, socially valuable creative project. Rewards for donations also seemed obvious, ranging from downloads of the album to participation in the recording event.

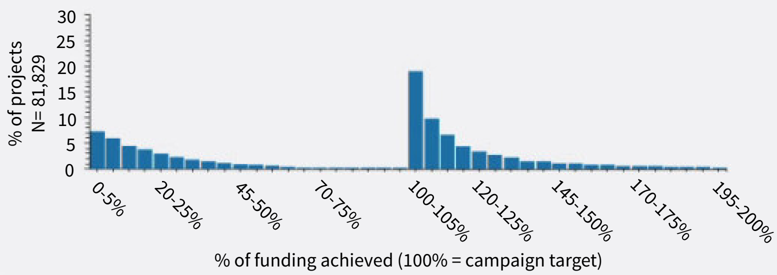
"The objective of this project is to produce and record a musical theatre that teaches children about classical music. Too often classical music is performed for and attended by adults. This project creates orchestral music written directly for children so that it appeals to them and in turn attracts them to orchestral music to master the ideas and concepts of classical music. My dream [is]… there will be thousands and thousands of children who are listening to classical music." (Cullinan)

After six months of intense preparation, the crowdfunding campaign for "Phineas McBoof Crashes the Symphony" launched on Kickstarter in October 2013. The campaign site provided extensive details about the project, positive critical reviews from the prior albums, and a professionally-produced video including Leonard, Gunn, Pickett, and even Cullinan's daughters. On the first day, the campaign raised 10% of the funding goal.

"The first days of the campaign had been a success. With the initial funding coming in, people believed that something exciting was happening. People wanted to get on board, and the campaign, its content and the early money raised communicated a positive vibe." (Cullinan)

The campaign was listed in Kickstarter's "What's Popular" lead page, driving more traffic to the campaign site. The forecast looked good. The forecast was wrong.

FIGURE 1. Crowdfunding campaigns either barely succeed or completely fail



A Level Playing Field?

Crowdfunding appears to offer a 'level playing field' for entrepreneurs and prospective investors. The platform provides a standardised template for communicating project information that is transparent and equally available to everyone. Anyone with a registered account can communicate with the entrepreneur, asking questions or providing feedback. All participants know the rules, costs, risks, and rewards.

The truth is less sanguine. Platforms make no guarantees about the representations of the entrepreneurs, relying instead on the wisdom of the crowd, the resources and insights of the users, to identify problems or misrepresentations.[8] As with traditional finance, information asymmetry influences how entrepreneurs and investors interact. The platforms promote projects based on unwritten or arbitrary heuristics. The standardised platform and network effects may encourage herding behaviour; most projects capture the majority of their funding in the opening days of the campaign.[9]

Campaign entrepreneurs have skewed incentives for disclosing evolving information about the project. Similarly, entrepreneurs have little or no control over who actually views the project site, beyond direct contact with their extant

Platforms make no guarantees about the representations of the entrepreneurs, relying instead on the wisdom of the crowd, the resources and insights of the users, to identify problems or misrepresentations.

network prior to and during the campaign. It should not be surprising that crowdfunding campaign pitches often look like traditional business plan pitches, with nods to specific socially redeeming outcomes. Entrepreneurs, like Cullinan, often invest heavily in time and money to develop the pitch – it is, after all, the first impression potential backers will receive.

"In order for anybody to be interested in the Kickstarter campaign, I had to create good campaign content. Things like a campaign video with the team and social media engagements absorbed a lot of time and budget to get the word out. I would not do these things if they weren't needed for the Kickstarter campaign." (Cullinan)

Crowdfunding is not, however, traditional fundraising. *Backers want to be part of something bigger than just their investment* – the whole needs to be greater than the sum of the parts. Projects over-reliant on the entrepreneur's initial network and a glossy video pitch tend to fall short. After all, if entrepreneurs could access funds by telling a good story to their current network, why bother with the time, effort and transaction fees required by the online platform?

Statistical analysis of more than 80,000 Kickstarter projects told us what entrepreneurs do in successful campaigns. But it could not tell us *why* those choices attracted backers. For that, we needed to see the full cycle of a campaign, from project idea inception through the campaign and ultimately project implementation. That brings us back to Doctor Noize. We had been studying Cullinan's entrepreneurial activities for three years before his crowdfunding effort, and we followed his campaign through the subsequent recording of the opera. We discovered that the secret life of crowdfunding is both simpler and stranger than the databases reveal. Ultimately, successful reward-based crowdfunding of novel creative projects requires authenticity, inspiring a syndicate, and constantly re-creating the campaign in real time.

Successful reward-based crowdfunding of novel creative projects requires authenticity, inspiring a syndicate, and constantly re-creating the campaign in real time.

The secret life of crowdfunding

Success in traditional entrepreneurial finance is often attributed to the quality of the opportunity and the credentials of the entrepreneur. Private investors rely on key gatekeepers and referrals to filter out the vast majority of deals from reaching their desks. Crowdfunding novel, creative projects is clearly different. The transparent nature of the online platform gives investor-donors access to hundreds, if not thousands of alternate projects that claim to make a difference. Donors are not necessarily swayed by prior success or expected project impact. Early enthusiasm can fade quickly; first impressions may not last.

Cullinan discovered this the hard way. After a few days of excitement, the campaign stalled. During the middle two weeks of the campaign only $3,200 was raised. A week before the campaign's end, Cullinan was $30,000 short of the funding goal. Based on the campaign's general characteristics and progress, quantitative analysis predicted failure. As researchers, we were lucky to see a counterexample that helped reveal what makes crowdfunding work.

"After a week, people close to me were saying that this campaign has already failed. But we invested lots of time and money on the campaign and I would not go to bed for the remaining three weeks thinking that I gave up on this after a few days." (Cullinan)

As with many aspects of entrepreneurship, the really interesting phenomena take place at the edge where success and failure hang in the balance. Some crowdfunding campaigns are doomed from the start by poor communication, lack of credibility, or just second-rate projects. Some are almost guaranteed success by a large extant fan base. Somewhere in between, hidden in the datasets, are the projects that should succeed but fail, and the seemingly doomed projects that somehow succeed. Here are the secrets that make the difference.

Secret #1: Success is who you are, not what you say

At the surface, campaign success seems to hinge on superficial factors. The statistics show that investors interpret posted content for professionalism and viability. Spelling errors suggest the project team is not competent. Longer duration campaigns convey a lack of confidence. The statistics show that, at the margin, these factors hinder campaign outcomes.

Another easy mistake is to overcommunicate at the start. This strategy relies on potential backers to figure out what broadcast information to assimilate. Cullinan had even used some pilot testing to arrive at this strategy:

"How I designed my Kickstarter campaign is a direct response to a couple of meetings with potential big supporters. Some wanted to know lots of detailed information, whereas others did not want details at all. Now the campaign covers this spectrum." (Cullinan)

In the final analysis, however, authenticity makes the difference. Entrepreneurs can manage crowdfunding content as the campaign evolves. Errors can be corrected; images and videos updated or swapped out. But backers are not consistently convinced by cosmetic changes. What they really want is to fund something 'real', something authentic.

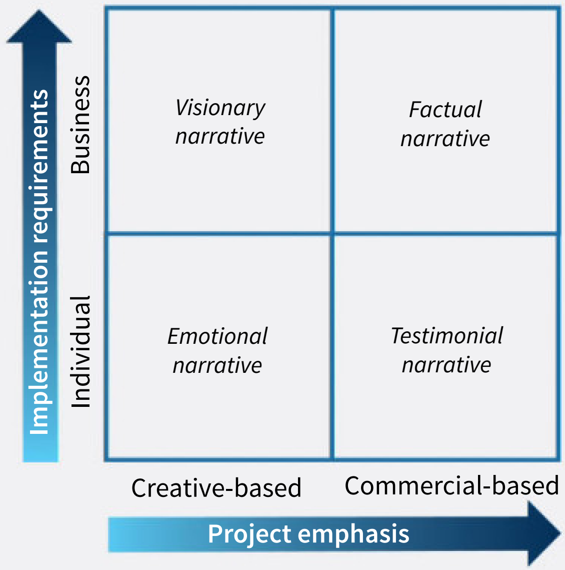
This was powerfully demonstrated in Doctor Noize's campaign. Although Cullinan is a creativity-centered entrepreneur, he adopted a professional identity for the crowdfunding campaign. The project site highlighted his track record and business successes, along with a thirty-page business plan including detailed financial analysis. If crowdfunding backers were like traditional investors, this might have worked.

As donations slowed, Cullinan considered cancelling the campaign rather than allow it to fail. Instead, he talked with his advisors about why people supported his creative work. They concluded that *backers support authentic individuals rather than professional projects. The campaign needed to be re-humanised.* The pitch needed to be personal and authentic rather than professional and polished.

"I bungled the initial campaign phase...I got smarter throughout the campaign to understand the flaws. That triggered me to engage extensively with people from the Kickstarter community. [T]he interactions became very personal rather than product and business focused. And it turned out that this was the right thing to do as I got a lot of responses and started to receive contributions." (Cullinan)

Authenticity comes in many forms. Figure 2 shows the optimal authenticity strategy based on project emphasis and implementation requirement. Creative projects demonstrate authenticity by linking the outcomes to the entrepreneur's vision and emotions. Commercial projects, which look more like traditional ventures, should emphasise facts and demonstrated team competencies. Authenticity should also reflect the implementation requirements of the project. If the project will require organisational structure, the campaign authenticity requires a specific vision and facts to support it. If the project will effectively be a one-person show, then authenticity derives from the entrepreneur's demonstrated emotional commitment. The "wisdom of the crowd" resides in rapid assessment of authenticity rather than assessment of project potential. *The most valuable currency in a crowdfunding campaign is an authentic narrative tailored to project scope and scale.*

FIGURE 2. Authenticity strategies in crowdfunding



Secret #2: Success is who you inspire, not who you know

Networks play a critical role in accessing and assembling capital, especially for seed- and early-stage start-ups. Raising risk capital is seemingly about "who you know". A large personal network with strong ties leverages network effects and increases access to diverse resources.[10] Early studies suggested the same relationship held true in crowdfunding.

The disruptive power of crowdfunding, however, derives from transparent, effectively zero-cost communication. When the communication and interactivity tools of the platform are taken into account, the entrepreneur's network at the start of the campaign becomes less important. The statistics show that a temporary syndicate of supporters is more powerful than the size of the entrepreneur's network. *Who you inspire is more important than who you know.* These syndicates are closely-coupled networks of individuals who promote a particular project for capital injection above alternatives. Frequent use of communication and interactivity tools such as project updates and two-way campaign commentary mechanisms are strongly correlated with success. Crowdfunding supporters are evangelists as much as they are investors or gatekeepers. Successful crowdfunding activity builds 'a crowd' rather than passively and randomly tapping 'the crowd'.

"People might be interested in the project but they are much more excited to have the opportunity to be involved in it with me. So when you go out on the campaign trail and you 'digitally' shake people's hands they suddenly start feeling connected to the project. And then surprisingly

By nurturing interaction with and among ‘interested visitors’, entrepreneurs seed a conversation centered around a shared vision, leading to the formation of a project-syndicate.

people start thinking that this is successful before it actually is.” (Cullinan)

Engagement transforms campaign ‘visitors’ into ‘evangelists’. Regular, open communication with supporters and non-supporters provides insight into what aspects of the campaign are resonating with the crowd. Potential supporters often adopt a ‘wait-and-see’ approach. Without active solicitation of non-supporter feedback, campaigns may become overly insular, relying on the reach of the platform. *Potential supporters may be invisible to the campaign and each other.* Active communication increases the visibility of committed and potential supporters. By nurturing interaction with and among ‘interested visitors’, entrepreneurs seed a conversation centered around a shared vision, leading to the formation of a project-syndicate.

Secret #3: Success is how you finish, not how you start

Online crowdfunding platforms (OCPs) appear to offer a somewhat mechanised and systematised fund-raising process. Entrepreneurs create the content, sort out the rewards or ownership offers, link up their social media networks, and then push the ‘launch’ button. Because the target stakeholders are, in most cases, either direct or indirect customers, the OCP looks like a shortcut – an efficient way to confirm target market interest while simultaneously acquiring needed resources. This also aligns with the “lean startup” methodology, in which entrepreneurs are encouraged to run inexpensive, fast experiments to test their value proposition and minimum viable product. For invariably resource-constrained entrepreneurs, OCPs seem almost too good to be true.

To be sure, OCPs have partly democratised small-scale entrepreneurial funding. Eventually, research will help clarify how many OCP-facilitated projects truly owe their provenance to crowdfunding. While we suspect many crowdfunded projects would have obtained funding through other means, at the margin OCPs fund some projects that would be abandoned otherwise.

Here we see yet another dilemma for the entrepreneur. On the one hand, the wisdom of the crowd assesses authenticity rather than project validity. On the other, the entrepreneur needs to build and inspire a syndicate within the crowd rather than passively tap the entire crowd and hope for latent, unrealised investment interest. How do entrepreneurs communicate an authentic identity without missing key crowd-segments?

Our research shows that entrepreneurs use two community interaction strategies to drive project-syndicate formation. Some entrepreneurs *surrender* to the emergent community and subjugate the crowdfunding campaign to its norms and beliefs. Other entrepreneurs *align* with the emergent community and strive to co-create the campaign with that community.

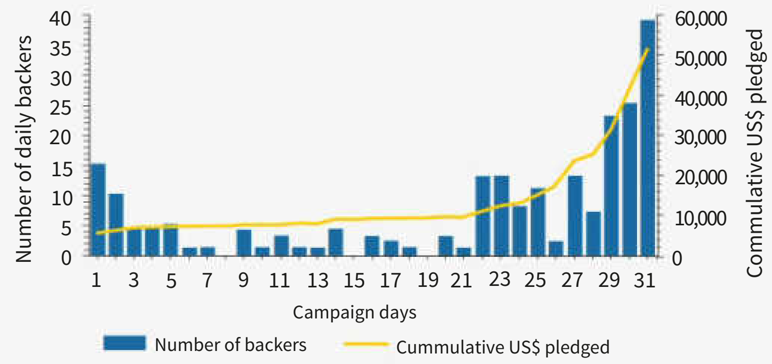
“I am connected to my supporters and I am inviting them to my shows but also to take active parts in the product realization due to some offered rewards. Interestingly, the co-creation process was difficult to implement at the beginning of the campaign because there was no activity. However, later throughout the campaign and also after the campaign succeeded, suddenly supporters wanted to actively be part in the production of the project as it is now perceived as a successful campaign.” (Cullinan)

Crowdfunding a creative project requires alignment and adaptation with the nascent syndicate. Again, if the entrepreneur knew the target segment in advance, why bother paying fees to use the online platform? The early days of potentially successful projects enable self-identification by members of a latent backer syndicate. But that is only the start of the process. Entrepreneurs that hope a few self-selected opinion leaders will drive the campaign to success are most likely going to be disappointed. Cullinan used the platform to reach out to his, including influencers, as the campaign drew to a close. He also reached out in person to key supporters and specific referrals they made. Their contributions came through the OCP, but at least some of the footwork was very real.

Entrepreneurs must identify and engage with these influencers, establishing an open and developmental dialogue. The narrative of the campaign may or may not require significant alteration to be aligned with the interests of the syndicate as it forms. Regardless, the entrepreneur needs to actively nurture the growth of the syndicate and either co-create or even re-create the narrative and project elements as the syndicate grows and its interests become clear. The successful crowdfunding entrepreneur invites backers to "join the band" and then works with them to agree on the music to be played. Figure 3 shows how the Doctor Noize campaign succeeded after Cullinan reverted to his authentic creative identity, shook backer hands 'digitally', and aligned the campaign narrative to the emerging syndicate.

Ironically, successful online crowdfunding is a social activity at heart. The drivers of success supersede the technology platform and highly-structured process. High quality campaigns may fail; projects lacking key characteristics may still succeed. After all, every entrepreneurial project is uncertain. If people choose to support creative entrepreneurs they have never met, it only makes sense to invest in the campaigns that reciprocate. Maybe it is only fair. Maybe it is karma. Or maybe the (online) crowd is wiser than we thought.

FIGURE 3. Who you are, who you inspire, and how you finish



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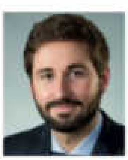

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DESIGN YOUR LIFE:

Leveraging Design Thinking For Better Executive Health

BY STEVEN P. MACGREGOR

Why does management development focus almost solely on the neck up, when the demands placed on managers and executives touch every facet of their lives? In this article the author discusses a design-thinking approach to sustainable leadership.

The designer constructs the world within which he sets the dimensions of the problem space, and invents the moves by which he attempts to find solutions.
– Donald Schön

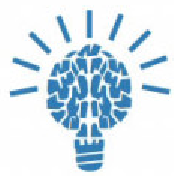
Jordi couldn't figure it out. He was sleeping well enough. He was exercising without excess. All the boxes were checked. The same habits and routines that had served him so well over the years, and which led to his recent promotion, were in place. But he was exhausted. Ever since he started in his new role, he was finishing each day physically and mentally drained. It had started to cause tension at home, where he was unable to fully participate in family life, and where he was able to recover just enough before starting work the next day.

And it was at the start of that workday where we uncovered the insight that was to re-invigorate his energy and performance. For years his daily commute had been a 35-minute journey on a moped in heavy city traffic. With the increase in quality and quantity of decisions in the new role we identified the issue of decision fatigue[1] as being a key factor, with much of that precious decision-making energy being used on a stressful (though accustomed) morning commute. We replaced the moped journey with a scheduled daily private taxi, allowing the executive to spend some free time, arrive at the office relaxed and with decision-making energy at optimum levels. Design thinking was used to re-engineer his day and improve his personal sustainability.

The business case for executive health

Why does management development focus almost solely on the neck up, when the demands placed on managers and executives touch every facet of their lives? Advanced skills in their profession are often undermined by their novice status in matters related to health and wellbeing, matters which provide the foundations for those advanced skills to flourish. As we progress through a career, we tend to increasingly live our lives on a purely mental level, with all of our emails and strategies and meetings and metrics, forgetting we have a body until something goes wrong with it!

In our work on sustainable leadership, we take a view of the whole person and *remind busy professionals that they have a body*. Not for better health and well-being but for sustained executive performance, thereby making executive health an actionable business strategy. The Sustaining Executive Performance (SEP) model[2] contains actionable common sense that links individual change to the business case at the organisational level and which also fits with wider societal needs. And we are all executives, regardless of job title. The modern-day



The modern-day professional is required to reason, solve problems and plan on a daily basis – executive function tasks carried out on the main by the frontal lobe part of the brain.

TABLE 1. Design-Driven Methods Are Different

	Design Methods	Traditional Methods
Time Dedicated to Study One Person?	4+ hours	1-120 min
Where is People Research Conducted?	Real context	Laboratory
Who Conducts People Research?	The core innovation team (internal or external)	Research team separated from core innovation team
What is the Primary Data Type?	Audio, video	Numbers, text

professional is required to reason, solve problems and plan on a daily basis – executive function tasks carried out on the main by the frontal lobe part of the brain.

There is no shortage of content and messages for health and performance in the workplace – from the seminal Corporate Athlete methodology,[3] to the recent tidal wave of mindfulness in the enterprise. *Yet content on its own is not enough*. We have found that executive health, regardless of the depth and breadth of the knowledge itself, will flounder unless accompanied by a deep consideration of individual context and behaviour change. Changing behaviour is of course a difficult task yet we have found that a design thinking approach can help immensely – in both uncovering the deep lying insights necessary to impact on an executive's life, as well as locking-in those new 'designed' behaviours.

So how may we apply design thinking to the challenges of health and performance in the 21st century enterprise? First, let's take a step back and look a little closer at design.

What is design?

On a simple level, design is the process whereby something is created. This creative process is followed by some manufacture or elaboration so that the design becomes reality. So design is about doing, quite ironic given the standard worldwide acceptance of the design thinking term. Design cannot be passively learned and so some practice in designing, whether that be through sketching, prototyping, observing or interviewing, is necessary to learn. Although there is freedom within a necessarily creative endeavour, structure and rigour are required for design to work, and to produce the desired end result. Design begins with a brief and follows a creative process, whereby potential solutions or concepts are generated and then evaluated, before the necessary details are elaborated to move that design toward reality.

Although we may argue that design has been part of human activity for millennia in terms of the world that we have created, as a field of science it is only about 60 years old. The birth of design as a research field can be traced back to the 1960s with the creation of the first design models, and the publication of *Design Methods*, by J. C. Jones in 1970 marked a milestone in moving design understanding to the masses. Basic methods, such as brainstorming and morphological analysis, were formalized and related to an understanding of the process of design. We now highlight three key features:

1 **Design is human:** Design is, above all things, human. It looks to create a world that satisfies the needs we have as human beings. These could be the products we use, or services we consume, of varying complexity, yet the key is to consider the dynamic nature of those needs which may change during the course of a day, or indeed, life. These needs may also exist on an 'extreme' level, of particular interest in design because these extreme needs are often characteristic of lead users, a part of the population who may offer insight into the future because they experience such needs ahead of the general population. Empathy is a key term related to the human nature of design. How may we fully understand the needs of another human being if we have not walked in their shoes?

2 **Design is hidden:** Such needs may be difficult to articulate, and designers question aspects of our human life that are often difficult to see or appreciate as being necessary to improve. Donald Schön said that "we know

Design is, above all things, human. It looks to create a world that satisfies the needs we have as human beings.

more than we can say" and the subconscious part of our brains often drive our actions. Gerald Zaltman, a Harvard professor, has stated that conscious activity represents only 5% of cognition.[5] The hidden 95% is therefore the target of design if we want to satisfy human needs.

3 **Design is enabled through methods:** Design is equipped through various tools or methods (see table 1 on previous page), employed at different stages of the process to progress toward an optimum solution. They may be used to understand the user, challenge assumptions, generate concepts, and essentially connect the need, user, and designer. Many of these methods have been taken from other fields including anthropology and engineering, which also relates to the diversity in design. Teams are almost always multidisciplinary and may contain engineers, MBAs, lawyers, and doctors, who pursue a broad, exploratory approach. Although such teamwork may advance within the workplace, methods are designed to enable their implementation in the real context or environment of the user, commonly referred to as the field.

Applying design to executive health and performance

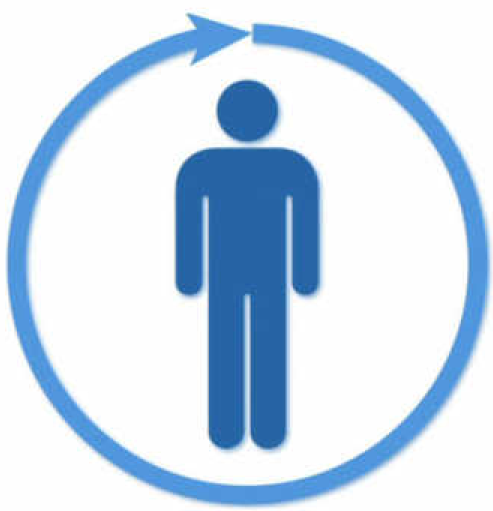
Design trades in *insights* – the deep-lying, non-obvious, yet often simple pieces of knowledge and understanding that drive next-generation innovations. Ethnographic fieldwork therefore represents a powerful tool in a designer's armoury. Our own experiences in using the shadowing technique for example, where we observe and interact with people in their real environment, have shown the power of uncovering small yet significant insights in a person's daily life. And we have taken this same approach to the issue of executive health, such as uncovering the commuting insight that transformed Jordi's post-promotion performance.

Think about how you spend your own day, by reflecting on a typical design thinking template as shown in Figure 1. How do you spend the minutes and hours of your day? What are the choices you make that drive your executive performance? We believe insights from seemingly innocuous or hidden places, sometimes the insignificant actions that drive the day of the user in traditional design research, could also hold the key to re-engineering the daily habits of the modern professional. If design thinking is so expertly leveraged by global champions such as Apple, BMW, and IDEO, why don't we turn this deep dive methodology inward? Ironically, this may leverage the sustainable performance of the very executives who approve the projects for the insights to be gained in the first place.

There are five characteristics of design that inform our approach, and which may also serve for any individual to reflect on their own professional life. Since we believe that design cannot be passively learned, we frame these concepts within the need for more practice.

1. Practice more environmental design: The executive environment is the equivalent of the field for the design researcher. We work on the premise that the executive environment has two main elements – the built environment and the social circle. Let us consider a simple example. At work, you want to commit to taking the stairs at every opportunity instead of the elevator. Your immediate environment will ensure you succeed, or fail. Consider your social circle first. Walking along in deep conversation with your colleagues, and you will more than likely be swept along in the usual flow towards the elevator. If you do

FIGURE 1. Design Thinking Template



Design trades in *insights* – the deep-lying, non-obvious, yet often simple pieces of knowledge and understanding that drive next-generation innovations.

Today's executive life is a complex affair where the boundaries between work, rest and play are blurred and ambiguous. Applying design thinking can help the sustainability of individuals and the teams and organisations that they lead.

happen to find yourself alone, the built environment takes over. In the vast majority of office spaces the elevator is the first thing you see, the space being designed to make that the natural choice. The staircase entrance, on the other hand, is usually hidden along a dark corridor. With your mind being full of emails, conversations, and deadlines, being mindful of that staircase entrance – just like taking a step out from your group of colleagues to be the sole stair climber – takes extra effort which is hard to sustain. In our client work we've re-designed the environment through simple things like the vending machine to improve workplace eating choices recognising the effect on decisions, more integral workspace design including the staircase and office furniture, and on an individual level, managing expectations through considering the peer group and direct report for the executive in question.

2. Practice more exposure to ambiguity: Experienced design thinkers are comfortable with ambiguity. And in today's complex professional life, ambiguity is an increasing feature. Although not the same concept we may reference opposing views in business. Whether it be operations and innovation or short-term versus long-term results, senior leaders have long been aware of the need to build an ambidextrous organisation.[6] And as stated by F. Scott Fitzgerald, "*the test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function.*" Looking to another recent management methodology, that of Adaptive Leadership,[7] managers are encouraged to hold back from rapid definition of a management task in the workplace so as to open up new and fresh possibilities. In a similar fashion, exposing both our professional and personal lives to more ambiguity, though uncomfortable in the short term, may help to uncover new practices and habits that drive superior health, wellbeing, and performance. The next time you're ready to action on one of your long-held beliefs or values, consider first the exact opposite view. Although you may not follow this opposite view, which may be perceived as a lack of authenticity by your colleagues, it at least opens up a whole range of possibilities and options that may never have been considered before. There is much to be said for *being comfortable with being uncomfortable* in today's rapidly changing environment.

3. Practice more observation: We encourage executives to employ a designer's eye, by reflecting on the rationale on why something exists and attempting to observe a commonly seen view as if for the first time. Mindfulness has been a part of the SEP program since the beginning and most of that is present in a dynamic sense. Mindfulness walks for example allow participants to appreciate the value of silence and the use of their full range of senses. We believe observation to help with mindful practice in general by taking a step back. Day-to-day business is characterised by a close-up view of many problems and we encourage managers to "get on the balcony" for fresh perspective and understanding. With more years of experience we accumulate skills and knowledge and operate to an extent on 'autopilot' – a sign of competence. Yet mindfulness in the enterprise is not just about taking time out to meditate, it also regards being more mindful of practice to ensure that autopilot mode still works effectively.

4. Practice more iteration: In design, iteration allows some element of testing to move more rapidly towards a robust solution. In line with some of the personal change commentary on 'hacking habits' we encourage an iterative approach to help understand the cause and effect of certain behaviours as well as gain greater comfort with experimentation, change and failure. As long as experimentation (and the failure which often results) takes place in a non mission critical context, just as with conventional innovation projects, this may offer significant value for personal change and development. Put simply, we encourage our executive clients to make small changes to their routines on a continual basis to find out what works for them, seek out things they can do for the first time, and embrace fear.

5. Practice more empathy: Running in the hamster wheel of daily corporate life can de-humanise the best of us. In SEP we emphasise the importance of basic human needs for long-term performance and positive leadership. For example, we trace on several levels the business case of physical movement which helps performance, and highlight the negative effects on human relationships and empathy that result from an irresponsible use of mobile devices. Practicing empathy may come in two distinct areas. First by taking a more holistic view of management to pay attention to the small signals coming from the teams we lead to include more notions of personal care. Noticing, and acting on, excessive weekend e-mail communication, skipping lunch at ones desk or a continual disregard of the importance of sleep may help create high performing teams as well as help fulfill an organisations duty of care. May we also apply empathy inwards? We often coach executives to be more kind to *themselves* and understand that work doesn't only need to be about suffering.

Conclusion

Applying design thinking to executive health may reap significant impact. Designing ones' life, or by considering Stanford Professor Larry Leifer's 2nd law of design "that all design is re-design" *re-designing* our life may be achieved by practicing these five simple design features. Design is about finding a better way. Not just a better product or service but a better way of satisfying human needs. So how may we best approach the needs of today's 'lead users' in business – managers and executives in need of improving their sustainable performance? Their needs should not be confined to knowledge acquisition, or even their professional selves, but to become better human beings. Design takes a system level view. Today's executive life is a complex affair where the boundaries between work, rest and play are blurred and ambiguous. Applying design thinking can help the sustainability of individuals and the teams and organisations that they lead.

About the Author

Founder of The Leadership Academy of Barcelona [LAB] and author of *Sustaining Executive Performance* (Pearson 2015) **Dr. MacGregor** has delivered over 1000 sessions the past 5 years in executive health and behavior change for clients including Telefónica, Danone, IESE, IMD, and the BBC. He holds a PhD in Engineering Design Management and has been a visiting researcher at Stanford and Carnegie-Mellon. His executive education teaching is informed by academic interest in sustainability and design and he is an article reviewer for, among others, *Industry and Innovation, Journal of Engineering Design,* and *the International Journal of Design Creativity and Innovation.*

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Design is about finding a better way. Not just a better product or service but a better way of satisfying human needs.

Why Focus-Based Leadership is Important to Huawei's Business Strategy

BY DAVID DE CREMER AND JESS ZHANG

Contemporary business develops at a rapid pace, with many uncertainties, internationally connected stakeholders, and little latitude to make mistakes. In such a dynamic environment companies need strong leadership to survive and build a long-term and sustainable reputation. But what does strong leadership mean?

Looking at companies with a clearly visible and strong leader present, the ability to focus and pursue this focus with a strong determination seems to be a crucial element. Steve Jobs, the late CEO of Apple, was known as a man who never lost sight of the ultimate goal. His reputation of setting priorities in almost any aspect of life is vividly remembered by those who worked together with him to make Apple the primary brand. Steve Jobs truly believed that a lack of focus can drag you down or at best will make you mediocre.

The main reason given why being a focused executor makes for great leadership is because in the minds of people it makes you a wise leader. In a 2011 Harvard Business Review article, Ikujiro and Hirotaka Takeuchi argued that in a world with an ever increasing pace of change, business leaders struggle to reinvent their corporations rapidly enough to cope with new technologies. As a result, many companies fail in their leadership to develop truly global organisations that operate effortlessly across borders. The reason for this failure is that most business leaders are all over the place and as such lack focus in what makes their company great. And, it is exactly this kind of leadership that is regarded as wise leadership. If we take the example of Steve Jobs again then we can see that in addition to being very focused on a few priorities he has been named one the smartest leaders around. It is as if he was able to predict what was needed in an ever changing world - a mystic idea that is covered by the concept of wisdom.

Recent business trends in the management area are pointing out that focus-based leadership may well represent the type of wise leadership contemporary business is crying out for. In fact, a key characteristic of wise leaders is that they are able to grasp the essence of things and decide what to do. As Ben Stein, an American writer, so nicely puts it: "The indispensable first

A key characteristic of wise leaders is that they are able to grasp the essence of things and decide what to do. As Ben Stein, an American writer, so nicely puts it: "The indispensable first step to getting the things you want out of life is this: decide what you want."

step to getting the things you want out of life is this: decide what you want." This advice is also applicable to many business leaders as their crucial role should indeed be to devote their energy as a leader to reminding their organisation what they are about and what goals they ultimately should strive for. If they can do this then their presence will be felt and allow directing the attention of their employees on the innovative outcomes that need to be created.

A company that has made the concept of focus with a strong sense of determination a defining feature of their business strategies and leadership is the Chinese telecom giant Huawei founded by Ren Zhengfei in 1987 in Shenzhen. Since Huawei became the world leader in the telecommunication industry when it surpassed Ericsson in terms of sales revenue and net profit in 2012 they emerged as the world leader in the telecom industry. They employ more than 40,000 non-Chinese employees (out of 170,000) and are the only Chinese company that receives more sales revenue from markets outside (67%) than from inside China, making them truly a Chinese global company. Drawing from a combination of Chinese roots and Western perspectives, Huawei considers focus based leadership as their main driver for the innovative products they put on the market.

The recent marketing campaign, which was launched early February 2016, at the international airports of Barcelona and London, is testimony to this focus (see picture on right for a picture of London airport). In this campaign that is targeted at decision makers, policy makers and opinion leaders, and which features in many international newspapers, magazines and airports, Huawei aims to present their business philosophy including the perspective of focused and wise leadership. In fact, the importance of setting priorities can clearly be identified as one of the main drivers of their philosophy. Take a look at one of the pictures used in this campaign of a Wagenia man fishing in the Congo River and maintaining a sharp focus to avoid being swept away himself.

This picture symbolises what the founder of Huawei, Ren Zhengfei, thinks about the way Huawei does business. In China, Ren Zhengfei is regarded as the example of what wise leadership constitutes. The reason this is, is that for him, doing business is a case of survival, of trying time and time again to get the best out of yourself and staying humble at the same time. As a case in point, in 1999, Ren Zhengfei visited the Voortrekker Monument in Johannesburg, which honors the Dutch immigrants who spent 19 years moving from Cape Colony to the continent's interior in the 19th century. After seeing how hard the lives of these Dutch immigrants had been, he thought of how hard Huawei had suffered during its first 10 years. Since then, in his speeches he has indeed consistently emphasised that Huawei must survive. On one occasion, someone asked him what Huawei's most basic goal was. He replied: "Survival." The person then asked what Huawei's ultimate goal was. Ren Zhengfei replied that it was also survival.

This view on business as a continuous survival requires an attitude reflecting a focus on well-defined priorities and a strong sense of determination to pursue those priorities relentlessly.

The recent marketing campaign, which was launched early February 2016, at the international airports of Barcelona and London, is testimony to the focus based leadership strategy as Huawei's main driver for the innovative products they put on the market.

From left to right: Huawei CEO and founder Ren Zhengfei walks inside Huawei's headquarters in the southern Chinese city of Shenzhen, Guangdong province (Reuters/Bobby Yip); Huawei engineers at work (huawei.com).

This view on business as a continuous survival requires an attitude reflecting a focus on well-defined priorities and a strong sense of determination to pursue those priorities relentlessly. As Ren Zhengfei noted in 2015 when defining Huawei's core business to seize strategic opportunities

"It's been a rough 28 years. Huawei has remained focused on our strategic business of ICT infrastructure development. Over the past 28 years, over 100,000 people have fixed our sights on a single opening in the gates, charging it over and over again. Huawei's investment strategy is just that: Fast beats slow. Focusing on one point is actually a fast-beats-slow strategy. That's why it generates results."

According to Ren Zhengfei, it is thus crucial to focus on one thing to ultimately become better. Known for being a company that tries to provide the best service possible to its customers, Huawei has always kept a strong focus on crucial and continuous investments in R&D to make their products better. Ren Zhengfei was never willing to compromise on this focus, which is quite exceptional given the fact that only in April 1988 at the National People's Congress, China's parliament approved that private companies were allowed to do business. This fact makes that in the eighties not too many telecom companies were around and growth profit for any company in this industry was very high by default. As money was so easy to make, most companies that were around at that time were not motivated to invest heavily in R&D. However, due to Ren Zhengfei's conviction that you have to keep focusing on one thing to become very good at it, Huawei chose the style of focused based leadership as a strategy to start generating impact already in the early years of their existence. Indeed, they invested heavily in R&D as soon as financial resources were available. Over the past 10 years, Huawei has invested CNY240 billion in R&D and innovation and of their 170,000 employees, over 45% are involved in R&D. In addition, Huawei has 16 R&D Centers around the world, and 31 Joint Innovation Centers. Finally, as of June 30 2015, Huawei has accumulated

Over the past 10 years, Huawei has invested CNY240 billion in R&D and innovation and of their 170,000 employees, over 45% are involved in R&D.

a total of 41,903 patents. As a result, this type of wise leadership with a focus on R&D is now referred to as key in their emergence as a global leader in the massive data transmission. In fact, as articulated by Chen Lifang at Huawei's 2015 Annual Media Salon, a clear focus is hailed within Huawei to have led to a moment of divine clarity in their sense of business purpose. Specifically he said that:

"The success of Huawei's mobile phones is a case in point. You may have seen the rapid progress that we have made in this area over the past several years, especially this year. This success was not achieved overnight. In fact, Huawei has been doing business in communications for over 20 years and has been working on mobile phones for over 10 years. We have improved our capabilities in areas such as chips, software, materials, design, and processes. So, our success in mobile phones is not just down to chance; it is the fruit of years of effort."

What makes Huawei's belief in focus-based leadership so strong? The central idea in their philosophy to focus on one thing is that even if you are initially weak, a continuous, powerful focus can make you ultimately very strong. Ren Zhengfei often illustrates this point by referring to the ultimate strengths soft elements like water and air can generate. Indeed, he once said: "Water is soft, but Germany, for example, uses high-pressure water to cut steel plate. Air is also soft, but rocket engines can use that same air to propel a whole rocket." Of course, a focus on one specific target and dimension makes that a conviction goes together with a strong sense of determination. The Chinese generation of entrepreneurs, like Ren Zhengfei, that stood up in the eighties, having experienced the cultural revolution, clearly do not lack this sense of determination.To persevere is a value that has been there since childhood. Ren Zhengfei was born in 1944 in South-West China's Guizhou Province, which was one of the poorest regions in China, a childhood experience that taught him not to take anything for granted. He had 6 brothers and sisters and the circumstances made it difficult for a family of 9 to survive. Poverty, hunger - they even had to eat grass at one point – was part of his early memories and serves as the foundation of his displays of perseverance and dedication. The memory of this hardship is nowadays used by Huawei's leadership to serve as a continuous reminder to be humble, self-reflective and determined to improve; a strength that is needed to lead to great moments of success.

THE CENTRAL IDEA IN THEIR PHILOSOPHY TO FOCUS ON ONE THING IS THAT EVEN IF YOU ARE INITIALLY WEAK, A CONTINUOUS, POWERFUL FOCUS CAN MAKE YOU ULTIMATELY VERY STRONG.

The message is clear: As Warren Buffett once noted that staying humble helped him to stay focused on what really matters, Huawei has become the embodiment of the idea that hard work and determination need to go together with a focus on strategic priorities. Wasting too much energy on non-strategic pursuits only distracts and breeds puddles of diversity that will divert rather than guide.

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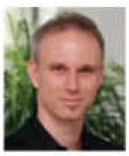

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THE MISSING PUZZLE PIECE?

How Action Learning Can Help Solve the Dual Challenge of Talent Development and Talent Sourcing

BY ALEX MAKAREVICH, CHRISTIAN ACOSTA-FLAMMA AND SIMON L. DOLAN

Becoming resourceful means making a lot of mistakes. It's an inherently creative process of trying, messing things up, learning, and trying again.

To win in the "war for talent", companies can no longer rely on conventional recruitment methods that put emphasis on formal credentials. Action Learning, seems to be a rising trend that imparts knowledge and instills resourcefulness by immersing participants into the action of solving real-life real-time problems. Action Learning can become a talent sourcing solution of the future and help solve the puzzle of developing and managing talent.

The promise of Action Learning programs

In today's environment of increasing global competition the challenge for companies is to source talent efficiently and flexibly, hiring the best people ready to tackle real-life challenges right from the get-go, whenever the demand arises. Many agree that we are entering an era of the "war for talent" (Fishman, 1998; Dolan and Hayashi, 2013). Sheng (2013) has defined this war in the following words: *"Forget about currency wars. The dollar may rise, the yen may fall and the renminbi could be the next big currency. But what determines the value of the currency will be the quality of talent. Real value is not gold or GDP, but sheer human power".* To win in this "war", companies can no longer rely on conventional recruitment methods that put emphasis on formal credentials, but instead they need a way of selecting talent that can find actionable solutions to vital and complex, rising and novels problems.

Intensifying global competition also presents a challenge for educators: talent that schools develop needs to be highly applicable, allowing graduates to translate knowledge gained in the classroom into marketable skills that make them employable in increasingly competitive job markets. One of the real challenges of business educators is to teach students the skill of resourcefulness. Many agree that jobs in the future are likely to be less attached to institutions (many of which are troubled in one way or another), but will be entrepreneurial, varied beyond a conventional corporate career, and to include all manner of teaching, coaching, and work that can be loosely called "public engagement." While business world's appetite for talent that combines sharp skills acquired at school with the necessary soft skills such as resourcefulness is growing, the real issue is whether resourcefulness can be taught. Academic institutions and especially the elite schools struggle to embed innovations and prepare their students for new opportunities. Becoming resourceful means making a lot of mistakes. It's an inherently creative process of trying, messing things up, learning, and trying again. On one hand, this sounds exactly like practicing music: try/learn. On the other hand, perfecting a piece of music for performance is also about learning not to make any mistakes.

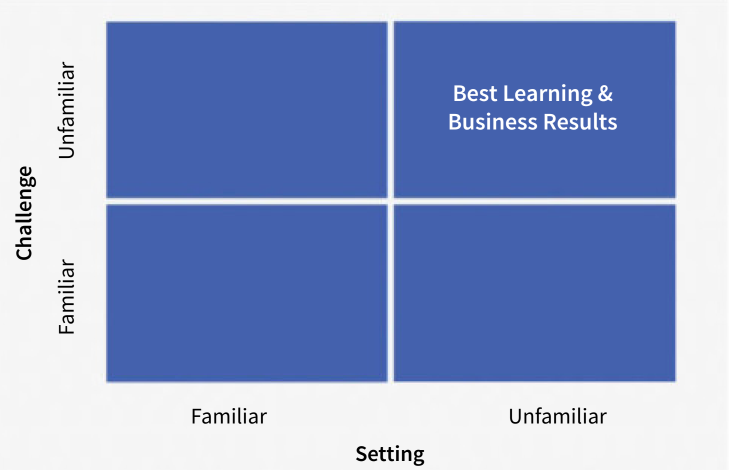
So, academic education itself, rather than any ancillary training, needs to be augmented if faculty want creativity and resourcefulness in their students to flourish.

Action Learning (hereafter AL), defined as "learning-to-learn by doing and from others who are also learning-to-learn by doing" seems to be a rising trend that imparts knowledge and instills resourcefulness by immersing participants into the action of solving real-life real-time problems. Thus, we argue that if properly managed, AL can be leveraged to successfully address the dual challenge of talent sourcing and talent development.

The value of learning through experience has been recognised by academics and companies alike. Companies have been creating AL programs aimed at developing capabilities of their employees. Educators have been striving to incorporate more "action components" (Fong, 2002) into curriculums in order to make the learning experience more practical and attractive to students, giving them the opportunity to solve real-time/real-world challenges. In the US, the National Business Education Association makes this approach explicit in its Policies Commission for Business and Economic Education Statement No. 98 published in 2016 (https://www.nbea.org/documents/PolicyStatement98_2016.pdf). Similarly, a recent survey by Telanto (2015) shows that the top 3 reasons for academic institutions to adopt AL program are: 1) to increase attractiveness of an institution to students, 2) differentiate from competitors, 3) and increase student satisfaction with their learning experience.

An in AL program, students' energy is not wasted on solving mock or past problems (which is the core of the older concept of "case studies") but focused on finding a solution to real companies' problems, in real time. The effects and implications of participants' work can be seen immediately and the level of creativity and pragmatism of the solution is assessed by real practitioners. By bringing reality into the classroom, AL programs put students in an unfamiliar setting and provide them with unfamiliar challenges. Telanto survey indicates that both academic and corporate respondent perceive it as highly valuable: learning achieved from this combination is bound to be highly valuable and solutions created - highly innovative (see figure 1 above).

FIGURE 1



While the value of Action Learning is evident in both business and academia, it has not reached its full potential as a solution to pressing challenges of either for the absence of sound management processes and respective tools to support them efficiently. The impact of Action Learning, can be significantly enhanced and have by far a better synergy between the corporate world and academic institutions if several challenges are addressed.

Challenges of Action Learning as a solution for talent sourcing and talent development

1 Action Learning programs pursued by companies independently from academic institutions. Recognising the value of AL and driven by the need to cultivate employees

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who are able to tackle complex problems that require special learning and experience, a number of companies have developed sophisticated AL programs. Many of these programs are created and maintained within the walls of a company and, as a result, suffer from two kinds of inefficiencies: First, given that participants who get into these program have been already employed by the firm, the potential usage of AL as an effective mechanism for selection (as opposed to a development) of talent is not realised; companies miss on the opportunity to pre-view talent in action before contracting it through usual HR selection methods. This limits flexibility in the selection process and creates HR-related costs that could be avoided. Besides, very often companies end up duplicating the effort of talent selection that academic institutions are already performing.

The second major kind of inefficiency is that companies miss a broader perspective on the problems they face. While companies may have found ways to solve problems that "work", they may be falling prey to "local maximum" solutions, i.e. solutions that can still be improved. By setting in such ways of finding solutions companies may develop a narrow view of problems and fail to identify "global maximum" solutions, i.e. solutions that provide superior results or are applicable to a wider variety of problems.

Very often companies end up duplicating the effort of talent selection that academic institutions are already performing.

2 Limited learning achieved and exposure of participants to real-life problems. Because of limited involvement of companies with academic institutions and other relevant actors in AL programs, the former face the difficulty of achieving quality learning (as well as sourcing quality solutions to their problems) and the latter – the difficulty of sourcing quality problems for their students. AL programs run by companies often suffer from limited learning because of a restricted participation in these programs. At the same time, AL programs that schools run, often suffer from ad hoc participation of companies that provide exposure to problems of limited scope. As a result, such programs may not allow students to fully apply and develop their skills and talents because of the insufficient scale and complexity of challenges available.

3 Organisation, communication, coordination barriers and project management challenges.

In those cases where companies and academic institutions do manage to set up a successful AL partnership, they face the challenge of managing the collaboration. A crucial issue here is not so much coordination and project management difficulties as such, but organising an AL program using collaborative methods that bring the most value to participants. There are several reasons for why this can be challenging.

For one, managing the business-academia interface can be tricky. Since many routines, ways of communication, and workflows differ substantially between academic institutions and business firms, getting a joint project on the way can become a real problem. But especially when the number of participants and their diversity increases, different interfaces, modes of coordination, ways of organisation, and communication present a real challenge for joint AL programs.

Second, embedding AL programs in a broader business-academia network creates value for participants and opens opportunities for better problem-solving, but also increases demand on the project management system. Not only communication and interaction need to be managed in real time and maximum efficiency for an AL program to be successful, but more intricate and sensitive issues, such as: who has access to what kind of information at what point in time, and how to manage the confidentiality of the data provided, need to be addressed.

Finally, our experience shows that while many companies possess project management tools, it is not the case for the vast majority of the academic institutions. At the same time, most companies do not have technological or organisational tools that help them aggregate, visualise, track and manage their academic involvements. There is a lack of transparency and efficiency in identifying talent as well as the methodology for searching for novel ideas within their organisations and academic collaborations.

How to Enhance Talent Sourcing and Talent Development via Action Learning?

A solution is a term that is used frequently by software companies. In this case, we employ the term in order to render the concept of joint corporate-academia AL programs (i.e. firm-school programs) as an answer to the dual task of talent development and talent sourcing. In particular, we propose an AL solution based on the following 3 key premises:

1. The premise of partnership between business firms with academic institutions (firm-school partnership), for access to talent, synergistic learning, and "global maximum" solutions
2. The premise of embeddedness of an AL program in business networks, for reach, scope and expertise diversity in AL programs
3. The premise of employing a digital collaboration platform, for project management, process organisation, scale, and efficiency of AL programs

Firm-school partnership should be the core of AL programs aimed at tackling the dual challenge of talent sourcing and talent development. However, the full potential of AL can be brought out when this partnership is embedded in a broader network of relevant actors (a business network) and relies on a collaboration platform that facilitates nuanced and sophisticated AL program management.

A business network valuable for an AL program can include other companies and academic institutions, apart from those operating a given AL program, as well as independent innovation specialists, technology providers, consultants, project managers, and other organisations and individuals whose contribution can help advance AL programs. Embedding a firm-school partnership in a broader business community provides several distinct advantages. It allows participants to access necessary tools to complete projects, which helps to accelerate participants'

Embedding a firm-school partnership in a broader business community provides several distinct advantages. It allows participants to acceåss necessary tools to complete projects, which helps to accelerate participants' learning and also deliver viable, modern, advanced solutions to the companies.

The learning value of Action Learning programs is enhanced when they are not limited to parti-cipants' application of their existing knowledge acquired in the classroom, but allows continued learning throughout such programs.

learning and also deliver viable, modern, advanced solutions to the companies.

Leading business schools have developed AL programs in the past years that vary in terms of content, scope, and management. MIT, for example has reached a collaboration agreement with 15 global business laboratories (see: http://mitsloan.mit.edu/action-learning/about/). ESADE, one of the leading global business schools located in Barcelona, Spain has developed the ALCP (Action Learning Consultancy Program). ESADE has started the program by taking advantage of its close ties with Creapolis, an Open & Cross Innovation Centre hosting over 70 start-ups and innovation units of established companies. The program capitalised on both physical proximity and institutional ties (ESADE Own 70% of ESADE-CREAPOLIS). Full Time MBA students participating in the ALCP program get a chance to learn how to assemble their own dream team and develop solution to real-life challenges that companies face by working in groups of 3-5 alongside company professionals and start-up founders. ALCP has become very popular amongst students and Creapolis companies, with both seeking participation in the program. Solutions reached within the three months activity have been fresh, creative, and pragmatic in over 80% of the cases, according to program evaluations. The program is now being expanded beyond the Creapolis site to involve companies in other regions of Spain and also in other countries (for a description and ALCP stakeholders see: https://www.youtube.com/watch?v=BAC4Bsgu7hg).

Today's business environment is characterised by greater specialisation of actors and greater dispersion of sources of innovation. New solutions can come from an R&D department of a global conglomerate or a dorm room where a couple of bright undergraduates tinker with the latest technology, as companies like Google or SnapChat demonstrate. To develop truly impactful and innovative solutions for real-life challenges, participants need to tap specialised pools of knowledge, access most relevant and appropriate technology, and learn implementation techniques that make their solutions viable. In the words of an ALCP program participant:

"*My* [AL program] *client is a technology start-up, hence the project exposed me to an area very new to me… To successfully do the project, I had to cover a lot of ground in understanding the technology first and then open my mind to the outside world to explore the potential economical uses of the technology my client has.*"

For this reason too, an encompassing network of relevant actors can bring extraordinary value to participants as it provides access to specialised knowledge. The learning value of AL programs is enhanced when they are not limited to participants' application of their existing knowledge acquired in the classroom, but allows continued learning throughout such programs. This lets academic institutions to provide their students with an enhanced experience, compared not only to traditional classroom-based learning, but other AL programs as well. Because learning in an AL program is based on a particular problem that participants are solving it often involves acquiring specific knowledge that may not be part of the traditional academic curriculum.

For companies, besides providing a talent sourcing solution, an AL program based on firm-school collaboration embedded in a broader business network allows to obtain superior solutions for their challenges. According to Telanto Survey, lack of resources is cited by companies as the most prominent reason for engaging in innovative collaborations. In addition, companies' find that the best results for their challenges are achieved in collaborations in which multiple actors are involved (this was mentioned by about 70% of respondents). Broader business network in which AL programs helps address this challenge.

The Need to deploy a specialised collaborative platform to enhance AL effectiveness

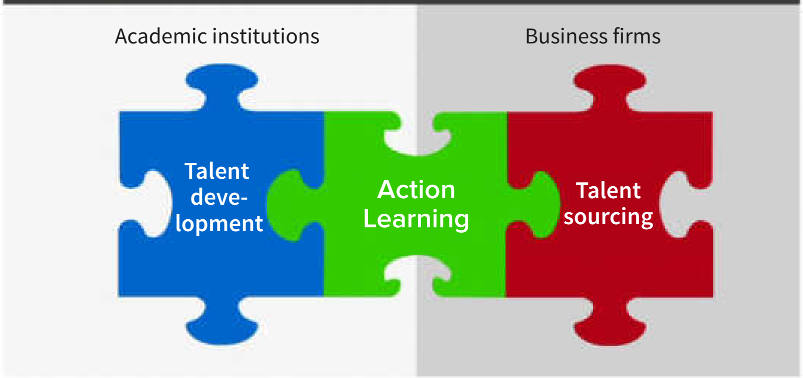
A collaboration platform that allows efficient access to diverse knowledge pools and a differentiated and nuanced project management can be a powerful underpinning of an AL program. A firm-school partnership embedded in an encompassing business network creates great value in itself. Combined with a collaboration platform, it can reach its full potential of a successful and vital AL program.

In particular, AL program participants need to be able to rely on state-of-the-art technological solutions to ensure dependability, access, and a high standard of information analysis and retrieval. For these reasons, for an AL program to be successful it needs to be based on a platform that permits effective organisation and coordination of AL projects. Several features of such a platform are especially valuable. A solution that fits the bill should allow to provide a flexible, efficient, and easy-to-operate interface for:

- supporting firm-school partnership in identifying important, critical and complex problems for an AL program
- organising, maintaining, and streamlining traditional and novel processes of coordination and communication among participants in an AL program
- supporting and developing a business network integral to an AL program
- incorporating proven, as well as emerging innovation management processes, such as crowdsourcing and crowd funding
- allowing novel talent management processes in conjunction with the goals and outcomes of an AL program
- providing academic institutions to track, monitor, and evaluate learning and talent development in an AL program

An example of a collaboration platform that incorporates many of these features is that developed by Telanto (see: www.telanto.com). The platform connects companies with academic institutions by allowing the latter to publish "call for challenges" indicating the need for real-time/real world problems for a particular course alongside the involved student profiles. Enrolled companies, on the other hand can visualise "call for challenges" on the platform marketplace and submit their challenges. After challenges have been evaluated and selected by the academic institution, students can bid for their preferred challenges and start to collaborate and solve these real-time/real-world corporate problems, typically during a 60 to 90-day period in teams of 3-5 as part of their course. The entire collaboration from calling out for challenges to awarding solutions is tracked on an digital network and all those roles forming part of the AL program, such as program administrators, professors, corporate personnel, coaches and students engage, share, discuss, review and award the impact of the proposed solution.

FIGURE 2



Conclusion

Action Learning is proposed as a means to address the dual challenge of talent development (faced by academic institutions) and talent sourcing (faced by business companies). AL programs based on the 3 key premises outlined in this article allow companies to get the double benefit of previewing new talent in action, working on the very problems they would grapple with if hired, before they get hired. This provides companies with an excellent way to source talent as well as to obtain solutions for the pressing challenges they face.

A collaboration platform that allows efficient access to diverse knowledge pools and a differentiated and nuanced project management can be a powerful underpinning of an AL program.

When these elements of an Action Learning program are created and executed well, Action Learning can become a talent sourcing solution of the future and help solve the puzzle of developing and managing talent.

AL programs need to allow academic institutions to get access to real-world problems and experts to help teach their students to apply their newly learned knowledge and skills as well as obtain additional learning. Thus firm-school partnership needs to be further enhanced by building extensive business networks, in which participation of additional actors (i.e. other schools, other companies, independent experts, etc.) increases the scope of learning and talent sourcing possibilities (see figure 2 on previous page).

Finally, in order to successfully manage this complex new learning experience based on firm-school partnership and enmeshed in a diversified business network, utilisation of a contemporary, advanced, state-of-the-art collaboration platform is necessary. The role of such a platform is to organise AL processes, allow instant interventions when needed, scale operations up (or down), provide measurement and clear benchmarks to make the process efficient, dynamic and highly interactive.

When these elements of an AL program are created and executed well, AL can become a talent sourcing solution of the future and help solve the puzzle of developing and managing talent.

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• The authors are affiliated with the Future of Work Unit at ESADE Business School in Barcelona –Spain. The FWC mission at ESADE is to detect and predicts paradigms, evolution and transformations connected with working in tomorrowland; respectfully, the FWC at ESADE develops concepts, methodologies and tools geared to educate people for succeeding in the future.

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MANAGING CUSTOMER SATISFACTION BETTER

BY JOHANNES HABEL

An *important* attribute has to be improved if it registers a poor level of satisfaction. Yet anybody investing heavily in an *unimportant* attribute with a low level of satisfaction is wasting money.

Many companies draw the wrong conclusions from their customer surveys. There is a simple method that can provide a remedy, leading to better decisions.

Ansgar Lindner,[1] Chief Marketing Officer of a trading concern operating internationally was at a loss to understand his predicament. His team seemed to be doing everything right. It regularly asked the customers about their satisfaction, worked out where there was a need for optimisation and concentrated hard on working to improve poor results. Yet whereas customer satisfaction rose, customer loyalty and turnover per customer were both stagnant.

Mistaken conclusions about moving from what is to what should be

Many other companies also go about things in the same way as Lindner's team: the marketing departments analyse how satisfied customers are with various performance attributes, such as product quality, delivery speed and friendliness of the staff. They then set to work on improving those attributes that customers are not satisfied with.

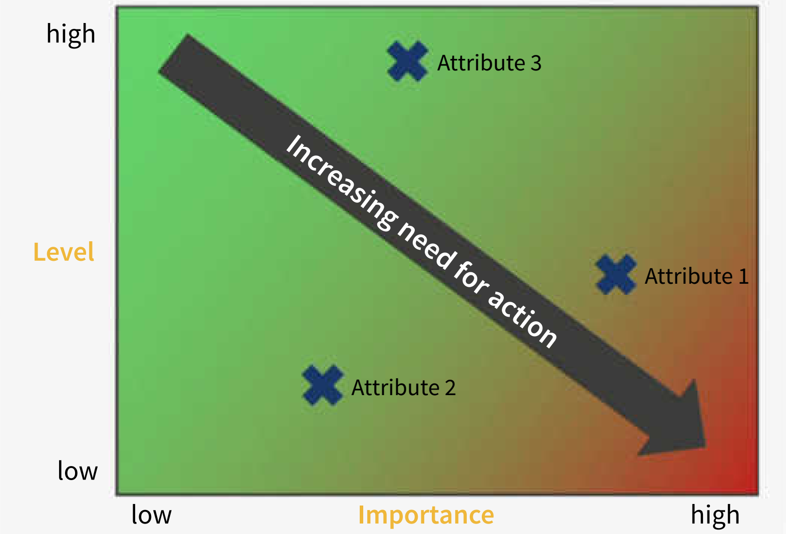
However, in the process Lindner and many other managers forget to take into account how *important* these attributes are for achieving marketing targets such as customer loyalty and customer turnover. Of course, an *important* attribute has to be improved if it registers a poor *level* of satisfaction. Yet anybody investing heavily in an *unimportant* attribute with a low level of satisfaction is wasting money. That is a fact that can be intuitively grasped but is still often ignored: of 100 companies that we recently surveyed on this topic (see infobox on page after the next), it is indeed the case that 95 of them record customer satisfaction with individual performance attributes. Yet 87 of these 95 firms (92%) state that simply a low level of satisfaction taken on its own leads to efforts aimed at improvement.

Matrix of customer satisfaction

In order to arrive at a meaningful evaluation of the results of customer satisfaction surveys they must be subdivided into two dimensions: into the level of the attributes – such as the average satisfaction or the Net Promoter Score – and the importance of the attributes. The lower the level and the higher the importance of an attribute, consequently the greater the need for action in the corresponding customer segment.

The two dimensions form a matrix (see figure 1) which enables simple conclusions to be drawn. Here what matters is not the absolute position of the attributes in the matrix – for example, whether they are in the "green" or the "red" section. The key issue is the position of the attributes in

FIGURE 1



their relation to each other. The attribute situated lowest down to the southeast must be more urgently improved than the other attributes. As soon as this attribute has been improved and it is moving northwards in the next customer surveys, another attribute will be lying closest to the southeast corner and will be requiring attention. This interpretation of the matrix leads to a continuous improvement process in which we always turn our attention to the attributes with the most urgent need for action.

Determining the importance of a performance attribute

Business enterprises employ various means in order to ascertain the importance of an attribute. The path most often trodden, namely by 49%, consists of getting the customers to evaluate how important the performance attributes are for them. That is pragmatic but assessments by customers should be subjected to critical scrutiny. Firstly, customers tend to assess a great many factors as of great importance. This phenomenon, which might be termed "inflationary expectations" in marketing, makes it more difficult to prioritise the attributes. Secondly, the customer assessment can be subjective and seriously distorted and can send market researchers down the wrong path as to which attributes they should improve.

It is more astute to determine the importance statistically – best of all by a regression analysis. This analysis shows by how much a target variable (such as turnover, profitability, loyalty or total satisfaction) increases, if satisfaction with one attribute (such as product quality or delivery speed) rises by one unit. The higher the relevant value,[2] the more important the attribute is – free from the subjective distortions of the customers.

Taking an example from the aviation industry, whenever asked directly what they consider important when flying, airline passengers place *feeling safe* in the number one spot.[3] In contrast, a regression analysis which we recently carried out for 8,000 customers of two German airlines demonstrated that the feeling of being safe and secure only has very limited influence on total passenger satisfaction with the airline. The biggest influence is actually exerted by the friendliness of the cabin staff, seating comfort and the catering on board.

It is only at first sight that this discrepancy can come as a surprise. It goes without saying that subjectively air passengers think that the feeling of being safe is the most important because when we fly safety is the clearly last thing we would want to do without. Nevertheless, (in Germany at least) a greater feeling of safety has hardly any effect on increasing our loyalty to an airline. There are two reasons which could account for this: first of all, for many air passengers safety is a so-called "hygiene factor" – less safety reduces customer loyalty but more safety does not increase it. Secondly, passengers who feel unsafe often do not blame this on the airline but on other factors such as the weather and their own fear of flying.

This example illustrates that the subjective rating of importance by customers is not always of any assistance to market researchers. A regression analysis offers a better way but is only applied by 11% of the companies we surveyed.

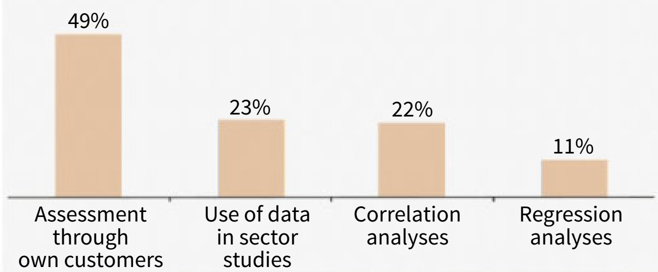
It is more astute to determine the importance statistically – best of all by a regression analysis. This analysis shows by how much a target variable increases, if satisfaction with one attribute rises by one unit.

INFOBOX: Details of the 100 companies surveyed	
Number of employess	
Medium-sized firms (50-249 employees)	43%
Large firms (250 employees and more)	57%
Turnover	
Up to 1 mm. €	22%
From 1 mm. € to 10 mm. €	23%
From 10 mm. € to 100 mm. €	29%
From 100 mm. € to 100 bn. €	21%
More than 1 bn. €	5%
Branch	
Retail	18%
Chemicals and pharmaceuticals	13%
IT and telecommunications	9%
Transport and logistics	9%
Health and social sector	8%
Automotive	6%
Construction industry	5%
Financial Services	5%
Hotels and catering	5%
Others	22%
Sales markets[a]	
Business-to-Consumer (B2C)	65%
Business-to-Business (B2B)	61%
Reason for customer satisfaction surveys[a]	
Carried out on a regular basis	78%
Particular reason (e.g. after transactions)	32%
Frequency of regular customer satisfaction surveys	
Less often than once a year	12%
Annually	35%
Half-yearly	23%
Quarterly	15%
Monthly	10%
More often than once a month	5%
Channels for recording customer satisfaction[a]	
Online	64%
By post	31%
Telephone	30%
Personal approach	35%

[a] Multiple responses allowed

FIGURE 2

How do companies determine the importance of performance attributes?



Note: Survey of 100 German companies with at least 50 employees. Multiple responses were possible.

Apart from customer assessments and regression analyses, use is also made of sector analyses (23%) and correlation analyses (22%) (see figure 2 above). Both are pragmatic approaches yet have serious disadvantages: in the case of *sector analyses* it is often questionable to what extent the way importance was determined is valid and how far the results can be applied to a particular company. In the case of *correlation analyses*, as a way of measuring importance, companies calculate the correlation coefficient between customer satisfaction with a performance attribute and a target variable. However, this is a dubious approach: a correlation coefficient does not indicate to what extent satisfaction with an attribute boosts a target variable but merely the extent to which this relationship is linear. That is to say, the correlation coefficient between attribute satisfaction and a target variable can be of the same size for both a very important and a very unimportant attribute.

Conclusion

In order to draw the right conclusions from customer surveys, we should give priority to improving those performance attributes which are important but were given a poor rating. We can determine the importance of the attributes by means of a regression analysis in which we explain the desired target variable (such as turnover per customer) through the customer grading of the attributes (such as product quality, speed of delivery).

Ansgar Lindner introduced the satisfaction matrix in his company and realised that for years his team had been investing in the improvement of attributes which tended to be of minor importance – such as in the layout of sales documents and sales seminars fostering personality development. Furthermore, it turned out that important attributes had previously not been investigated and therefore had not been prioritised, in particular processes in After Sales Service. Lindner's team is now focussing on the most important attributes and is pursuing a continuous process of improvement.

About the Author

Dr. Johannes Habel is a lecturer and programme director at ESMT. In his programme development, consulting, and teaching, he focuses on sales and marketing management.

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1. Name changed
2. More precisely, the standardized regression coefficients serve as importance indicators. All commonly used statistics programs (for example SPSS) display these regression coefficients.
3. Source: BDL Verbraucherreport 2013.


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MASTERING INNOVATION IN FAMILY FIRMS:

How to Resolve the Ability vs. Willingness Paradox

BY ALFREDO DE MASSIS AND FEDERICO FRATTINI

Family firms represent a highly ubiquitous form of business organisation globally and are the backbone of many industrialised and developing world economies. This article discusses how can family firm managers use Family-Driven Innovation and unlock the innovation potential of the organisations in which they work.

Family firms are businesses "governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua et al., 1999). Family firms represent a highly ubiquitous form of business organisation globally and are the backbone of many industrialised and developing world economies (Villalonga and Amit, 2009).

From decades of theoretical and empirical research (e.g., De Massis et al., 2012), we know that family firms have a highly distinctive behaviour in areas such as internationalisation, entrepreneurship, diversification, financing. This peculiar behaviour - which differs from that of non-family businesses - stems from the involvement of one or more controlling families in ownership and management structures and their orientation to ensure sustainability of the business across generations. This has profound impacts on the choice of the organisational goals to be pursued (Kotlar and De Massis, 2013), the level of acceptable risk in strategic choices (Gómez-Mejía et al., 2007), and the length of the time horizons along which investment decisions are evaluated (Lumpkin and Brigham, 2011).

Innovation is defined as the "successful implementation of novel and useful ideas for new products, processes, services, business models, and structures" (Amabile, 1988), and it is now acknowledged as a critical source of competitive advantage and an important determinant of superior firm performance (Calantone et al., 2006).

Given the prominence of family firms and the importance of innovation for competitive advantage, it is not surprising that much has been written about innovation in family firms in the last years. In particular, innovation and family business scholars have paid special attention to understanding whether family firms invest less or more in innovation, and whether they are more or less innovative, compared

with their non-family counterparts (De Massis et al., 2013). This notwithstanding, we have relatively limited knowledge about how innovation is managed in family firms and what are the good practices that work in this particular organisational form.

Very recently, theoretical and empirical research has pointed to the existence of a paradox in family firm innovation (Chrisman et al., 2015), whereby family firms are characterised at the same time by:

- a lower willingness to start innovation projects, due to their risk aversion, lack of skills in the family, desire to not share control with nonfamily managers who might have such skills, and inclination to minimise the use of external financing.
- a higher ability to successfully complete innovation projects, due to their greater discretion to act resulting from personalised control, low levels of formalisation and bureaucracy, long-term investment horizons, patient capital, altruism, and interest alignment between owners and managers.

Put it another way, family firms seem to innovate less, despite their ability to innovate more than their non-family counterparts. This has raised a very important question: *how can family firm managers resolve this paradox and unlock the innovation potential of the organisations in which they work?*

In the last years, we have conducted extensive empirical research to provide an answer to this question. Our analysis indicates that the family firms that find a way to resolve the innovation paradox are those that design and embrace innovation strategies that are aligned and consistent with their most salient idiosyncratic characteristics. Instead, adopting innovation strategies that work well in other organisational forms is likely to result in hampered innovation performance.

We call this approach to innovation - which is based on the fit between the characteristics of a given family firm and the components of its innovation strategy - ***Family-Driven Innovation*** (FDI). In the following we provide a more detailed explanation of the FDI concept (for more details please see De Massis et al., 2015).

Designing an innovation strategy requires any firm to take decisions along three main dimensions:

- The *where* of an innovation strategy. This decision refers to the directions in which a firm looks for the resources and knowledge it needs to feed the innovation process. A firm may search into its existing knowledge basis, across novel and unfamiliar technology domains, or into knowledge resources pertaining to the past and to the tradition of the firm or the controlling family.
- The *how* of an innovation strategy. This dimension concerns the approaches a firm uses to develop and commercialise its innovations, ranging from how it organises its innovation projects, whether and to what extent it accesses knowledge from outside sources - by following an open innovation model -, to how it motivates and rewards the employees involved in innovation projects.
- The *what* of an innovation strategy. This refers to the different types of innovations that a firm decides to invest in. A firm may choose to focus its efforts toward innovating its products/services or changing its business model, and toward pursuing incremental or radical innovations.

Adopting innovation strategies that work well in other organisational forms is likely to result in hampered innovation performance.

According to the FDI framework, the decisions a family firm makes along these three dimensions should be consistent and aligned with its distinctive characteristics. A way to map the most salient characteristics of a given family firm is to focus on:

- The *where* of a family firm. This dimension captures the family owners' goals and intentions and responds to the question *where do we want to go*? For example, some family firms may be more oriented to pursuing family-oriented goals such as family harmony, social status and identity linkage, whereas others may be more oriented to pursuing nonfamily-oriented goals such as pure profit maximisation.
- The *how* of a family firm. This refers to the authority of the family to direct, allocate, add to or dispose of a firm's resources and responds to the question *how can we get there*? For example, the family's strategic control of a firm's assets relative to its ownership may be enhanced through the establishment of pyramids, cross-holdings and dual voting class shares, and the family may be able to bypass the board when making strategic decisions.
- The *what* of a family firm. This dimension refers to the type of resources that the controlling family owns and needs to pursue its goals and lead the firm in the desired direction, responding to the question w*hat do we use/need to get there?* This dimension emphasises the role of the family firms' unique resources and capabilities - in terms of higher or lower stocks of social, human and financial capital - in influencing behaviour

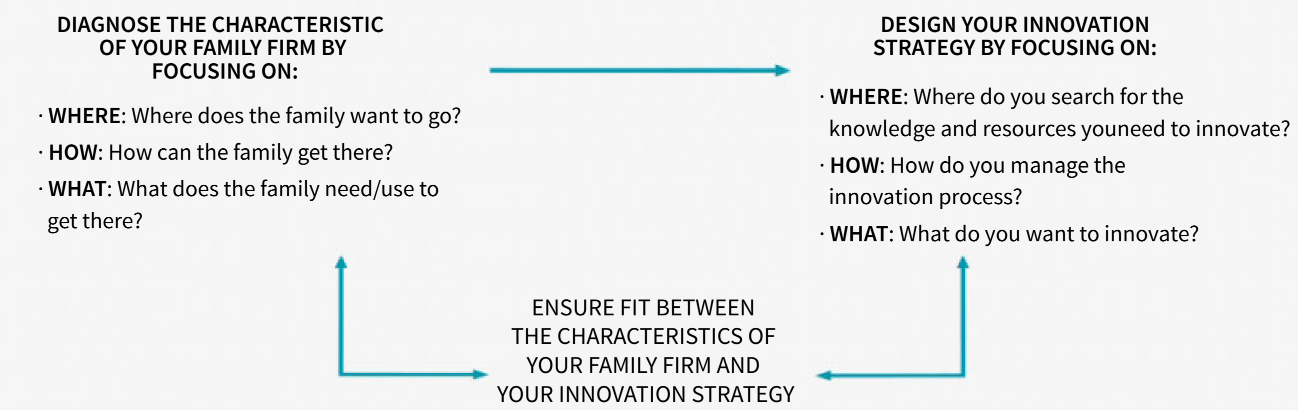
As shown in Figure 1 (see figure 1 on next page), only when the decisions taken along the three dimensions of an innovation strategy are aligned with the characteristics of a given family firm – as mapped along the "where", "how" and "what" dimensions mentioned above – FDI will be possible and the ability and willingness paradox in family firm innovation will be resolved. We summarise hereafter some examples taken from our empirical research, which illustrate how the FDI framework works.

One of the family firms that we studied manufactures and sells bio-medical devices. A few years ago, the newly appointed R&D manager (who was not a member of the controlling family) convinced the top management team to start an open innovation program, according to which the firm would systematically search for technologies, patents and know-how from outside the organisational boundaries, and acquire them (mostly through in-licensing agreements) to feed innovation projects. After about a year from the start of this program, the firm experienced poor performance due to unexpected cultural barriers, which slowed down the utilisation of the technologies bought from outside. Our analysis shows that the family managers did not support the open innovation program because they feared to lose control over the new product development trajectory, which was perceived as a loss of the family's ability to exercise unconstrained authority, influence, and power over all aspects of the business, and a threat to the achievement of non-economic goals such as maintaining control and strengthening the identification of the family with the products of the firm. After the poor performance that the firm experienced, the controlling family decided to come back to a more traditional, closed approach to innovation development, and to acquire external technologies only for non-strategic innovation projects with a strong intellectual property (IP) protection, ensured by a careful use of patents and other forms of IP rights. This change ensured a closer alignment between the goals of the family and the approach used in innovation development, resulting in higher innovation performance.

Another family firm in our sample working in the sporting goods industry was struggling with the organisation of the new product development (NPD) teams involved in the ideation and realisation of the new product portfolio. In a first stage – by following established good practices in innovation studies – they decided to use cross-functional teams to create, develop and commercialise their new products. However, this resulted in continuous tensions and animated discussions between department heads and team leaders, with negative impacts in terms of resource duplication, complex information flows, problems of accountability and cost control. Therefore, by following the suggestions of an external consultant, they decided to change approach and move toward a departmental organisation, where personnel from different departments of the firm were assigned to work part-time on the innovation projects, while continuing to perform most of their regular duties and reporting to the department heads. Surprisingly, this organisational approach worked much better and delivered more positive

Only when the decisions taken along the three dimensions of an innovation strategy are aligned with the characteristics of a given family firm, FDI will be possible and the ability and willingness paradox in family firm innovation will be resolved.

FIGURE 1. A model of Family Driven Innovation



Adapted from the Family-Driven Innovation model by De Massis et al., 2015

returns. Our analysis shows that this was due to the fact that a departmental organisation was consistent with the strong interpersonal bonds, internal social capital, and tacit knowledge characterising that firm. Thanks to this particular resource endowment, the departmental organisation favoured information flows and preserved the cohesion of the existing departments, while at the same time allowing sufficient autonomy to the NDP teams.

A firm active in the furniture industry provides another example of how FDI works. The firm was suffering from declining market shares and profitability, because of its inability to radically innovate the product portfolio. This was due to the low risk propensity of the controlling family, their unwillingness to use external financial capital, and the intention to preserve the control of the family across generations, something perceived as non-compatible with radical innovation efforts. The radical innovation approach the firm was trying to apply – although without positive tangible results – was based on introducing advanced, high-tech materials and components in their new products, to enable superior performance compared with competing solutions. The approach changed when the newly hired innovation manager realised that using extremely advanced and complex technologies – which often came from very distant fields – was perceived by family managers as too much of a risk. Instead, he identified an opportunity to bring to market something radically new, but without colliding with the goals of the controlling family. This opportunity required innovating the products of the firm by re-using designs, materials, and concepts belonging to the historical tradition of the furniture industry, combined with the most modern manufacturing technologies, to deliver state-of-the-art products. The new products based on this approach elicited very strong interest among prospective customers, because they revolutionised the reason why one would buy a piece of furniture, and made it an iconic good, embedding a set of values belonging to the past. This approach to radical innovation was consistent with the goals of the controlling family (geared toward non-economic utilities, instead of profits and other forms of economic wealth), and therefore was not obstructed by family managers who, instead, saw in it the opportunity to counterbalance declining shares and profits without loosing control of the firm, and maintaining risk at an acceptable level. At the very end, this change in the radical innovation strategy had very positive impacts on business performance.

In sum, family firm owners and executives should recognise that when there is misfit between innovation decisions and family firm characteristics, creating a competitive advantage through innovation in family firms is unlikely. Conversely, if innovation decisions match the characteristics of the family firm, then ***Family-Driven Innovation*** is possible and can lead to the creation of competitive advantage through innovation. Our research (e.g., De Massis et al., 2016) has shown that achieving this fit between innovation decisions and family firm characteristics can often lead family firms to avoid the standard best practices that are typically recommended in innovation management handbooks if these do not match their distinctive characteristics.

Avoid using traditional best practices for innovation if they do not fit your distinctive charateristics.

5 Pills of Advice for Family Firm Owners and Executives

1. Do not rest on your laurels, realise that innovation can play a crucial role to ensure the competitive advantage of your firm across generations

2. The good practices for innovation that apply in other organisational forms do not always work in family firms

3. Carefully diagnose the characteristics of your family firm before you take decisions about your innovation strategy

4. Avoid using traditional best practices for innovation if they do not fit your distinctive characteristics

5. A successful innovation strategy in a family firm is one that ensures consistency with the distinctive characteristics of that particular family firm

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Managing People in Mergers and Acquisitions PART 2: INTEGRATION AND SURVIVAL

BY GUIDO STEIN AND MARTA CUADRADO

In Part One, we addressed the key reasons why companies decide to pursue merger, the reasons why many of them fail, and the realities of mergers. In Part Two of this article, we will discuss human due diligence in Section 1. Section 2 will focus on the importance of merger and integration committees. Finally, in Section 3, we will offer a practical guide on how to professionally survive operations of this kind.

Acquisitions affect everyone involved to one degree or another. They are not neutral transactions in any sense: not from a financial, tax, legal, operational or commercial perspective, and especially not in terms of how they impact the people in both companies involved and other stakeholders (shareholders, suppliers, customers, etc.).

For many companies, mergers by acquisition have become a recurrent strategy for dealing with competition, gaining market share, or simply ensuring their survival. Their impact on stock markets is noted within hours, but their consequences for the people who live through them are rarely reflected in the media.

In tackling these issues, we will draw on the experience of managers who have gone through merger processes and ground our discussion in the scientific literature.

1. Real Due Diligence

According to executive participants in the IESE Business School's general management programs, most merger processes focus almost exclusively on the financial aspects of the deal and ignore the factor at the heart of any business: the people involved. All the effort goes into collecting financial, operations-related and commercial information, and very little time is spent on what we might call "human due diligence": analysis that focuses on the culture of the companies, the roles people play, and their skills, competencies, attitudes and values; in short, the elements that need to be handled with care to complete the merger without undue friction and without taking a needless toll on people.

Such an exercise, if carried out with skill, would put the acquiring company in a better position to decide who should stay in place and who should assume new responsibilities. Analyses of this kind, based on study of the business culture and organisational structure, are the best way to ensure that negotiations go smoothly and are less traumatic than is usually the case. But what factors need to be considered?

Most merger processes focus almost exclusively on the financial aspects of the deal and ignore the factor at the heart of any business: the people involved.

The actual merger process should be drawn out so there is time to include integration actions, such as cross-company teams and mentoring, that encourage cultural interpenetration.

1.1. Managing the Process: Actions to Be Taken Before and During the Merger

A. Identify Key People

A map of talent within the organisation should be made. The focus should be on identifying both individuals who play a key role in the functioning of the organisation and those who stand out for their low productivity or absenteeism. The latter can be offered the chance to take advantage of a voluntary exit plan. This is an ideal way not to 'inherit' these employees at the end of the process.

B. Draw Out the Process of Implementing the Merger

The actual merger process should be drawn out so there is time to include integration actions, such as cross-company teams and mentoring, that encourage cultural interpenetration. Up until now the view has been that a merger has reached an endpoint when it ceases to generate new synergies, and this is the message that has been put across. Yet this is precisely when the integration of people and cultures really begins. However, this process is often decontextualised and disconnected from the merger process per se. The difficulty is so great, and the decision to merge so limited in scope, that one of the cultures generally ends up disappearing. The 'winner' remains, although disfigured by the process.

C. Design a Retention Plan

Companies undertaking mergers generally use retention plans with quantitative objectives, offer bonuses or long-term incentives, and review contracts and non-compete clauses. These measures are taken because companies know the best employees will soon receive offers from other firms. It is the responsibility of the human resources department to offer these valuable employees an attractive retention plan as soon as possible. Companies would rather invest their resources in retaining key people than prepare plans for replacing them, particularly given that it takes three to five years to develop the members of an operations team.[1]

2. The Merger or Integration Committee: Functions and Characteristics

As mentioned above, the lack of a committee that focuses specifically on the merger process is one of the reasons why mergers fail. Even when special committees are set up, their dissolution at the end of the technical part of the process often leaves people feeling abandoned. Managing this post-merger period requires people who are able to expeditiously push the organisation, deal with all levels of the hierarchy, mediate between the different groups involved, and perceive and bridge cultural gaps.[2] Finding people with all these qualities is not easy, but the idea is not to look for a superhero. A number of companies that have gone through multiple mergers have developed specialised managers with the required skill set and integrated them in their organisations.

The main shortcoming of many mergers is a failure to define the role of the people involved in the process and specify how and to whom they should report.

2.1. Who Can Do This Kind of Work?

A. Knowledge of the Acquired Company

The leader of the merger committee must have a thorough understanding of the culture of the acquiring company in order to convey its cultural and organisational features to the employees joining the firm. He or she should be a point of reference for these employees and should therefore facilitate social connections between people from the two companies. People are often unsure about where the chair of the integration committee should come from: is it a good idea for someone from the acquired company to hold this position? The answer is usually no. The head of the integration committee needs to be a veteran who knows the ins and outs of the company and has held various positions at different levels and in different business units and geographical locations.

B. Ability to Deal With People at All Levels

There are two critical periods in a merger process. The first is from the announcement of the merger to the point when the process officially ends. The second is the first hundred days after this official endpoint. Those responsible for leading committees need to exercise their authority when they have to close deals or ensure that deadlines are met. Their work demands that they make effective use of their people skills and practice active listening, not only when dealing with employees whose jobs are affected by the changes underway, but also in their contacts with senior managers.

It is not easy to wield authority while at the same time genuinely engaging with people at different levels of the organisation. Each situation requires a specific leadership style. This kind of flexibility may be an innate skill up to a point, but it is one that can also be acquired. There is a risk that the person appointed as committee leader will want to play the role of big boss, but the real goal is something quite different: to act as a mediator in order to achieve integration.

C. Feeling Comfortable With Disorder and Uncertainty

The people who lead these committees need to be able to manage many different teams from different areas and countries and get them to follow a structured plan, with clear communication mechanisms and simple processes. Leaders should possess a certain 'mettle' for two reasons: 1) the people working on the processes underway are disoriented. They are unsure to whom they should report or whether they will have a place of arrival when the merger is complete. It is therefore important that the people in charge know how to motivate them and involve them in the process. This means encouraging them to participate in the new organisation and generating enthusiasm about the new project. 2) Integrating two companies is an appealing project. It involves a process akin to tearing them apart and then putting them back together from the ground up. But while this is going on, the businesses cannot actually stop working. In merger processes, those at the helm must constantly adapt and rethink their plans to keep pace with unfolding events.

D. Responsible Independence

Leading an integration process requires hours of work and many sacrifices. When a merger process is announced, it is common to hear things like: "Take your wife out to dinner because for the next few months it's going to

EXHIBIT 1. An Alternative View: Peter Drucker

In an article published in the *Wall Street Journal*, Peter Drucker identified five key principles to take into account when deciding whether to proceed with an acquisition and in designing and carrying out the process. In the guidelines set out below, we expand on Drucker's ideas while remaining faithful to the underlying spirit.

1. Financial reasons alone are not enough. The acquisition must be underpinned by something more fundamental that the companies have in common or an area where they are close to each other, such as customers, markets, technologies, processes, cultures, management styles, and so on. If there are no good reasons to pursue the merger other than financial synergies, it is unlikely to be a success.

2. The benefits of the acquisition should not accrue only to the acquiring company. The acquirer should also contribute to the company acquired. This means taking a close look at what form this contribution will take.

3. The attitude of the acquiring company's management towards the customers, products, markets and employees of the acquired company is a key factor for the success of the acquisition in the medium and long term. In the absence of a 'temperamental' fit, difficulties are bound to arise.

4. People's loyalty cannot be bought. Also, it is important to bear in mind that it takes time to develop a new team that is able to take a joint approach. A senior management team must be in place. In these cases, it should bring together members of the teams from both companies.

5. In the first year, a significant number of managers from each company should receive relevant promotions to positions in the other firm. When acquisitions open up opportunities for people, regardless of where they come from, this is an effective way to combat and reduce the sense of insecurity and uncertainty experienced by everyone involved.

Source: Peter Drucker, "The Five Rules of Successful Acquisition," *Wall Street Journal*, October 15, 1981: 28.

TABLE 1. Guide for Mergers
PROFESSIONAL SPHERE
Don’t take anything for granted or create false expectations.
Communicate specific messages, repeat them, and don’t feed rumors.
Reassure people and help them understand the new context.
Make sure the message is clear and coherent.
Anticipate the problems of the other company and create a climate of trust.
Adapt to change: resistance only creates unease and prolongs the agony.
Show initiative and resolve. Set clear short-term objectives for the employees of the acquired company and allow them to look to the future.
Practice discretion and prudence. The real merger will take time.
Make an effort to find out about the culture and philosophy of the other company.
Don’t let your concerns erode your authority.
PERSONAL SPHERE
Control your own attitude so you can be a positive model for others in the merger.
Be understanding of mistakes made by management.
Expect change and make yourself an agent of that change.
Don’t blame the acquisition for everything you find unpalatable.
Prepare yourself for psychological pain.
Go to visit the other company.
Use the acquisition as an opportunity to grow.
Keep your sense of humor.
Practice techniques for leading under pressure.
Focus more on your own work and tasks.
Source: P. Pritchett, “Top 15 Common Communications Mistakes in a Corporate Merger and Acquisition,” www.mergerintegration.com.

be impossible. Then grab your running shoes because you’re going to need them,” as one of the managers we surveyed told us. Most of the work involved is not supervised on a day-to-day basis, so team members need to show initiative and make sound judgments independently. They also need to know when to report or consult with their colleagues to confirm that the work is on the right track. It is therefore essential that those in charge of the integration committee have the backing of senior managers.

E. Emotional and Cultural Intelligence

When people say, “Integration processes would be simpler if there were no people involved”, this highlights the fact that people need to be given direction. It follows that they must be integrated as they are, not as they ‘should’ be, which is a chimera. Integration managers must also be able to orchestrate success quickly and in a tangible way. If this can be achieved in the first hundred days, it will generate a sense of confidence among members of the organisation and enable them to see the real point of the merger.

People in the acquired company expect the new owners to act quickly in line with their own agenda.

It may be useful to survey the staff of the acquired company once the deal has been formalised. The answers they give may be emotionally charged and paint a partially distorted picture, but the mere fact of conducting the survey will show that the acquiring firm’s management team is genuinely interested in the views, concerns and priorities of people from the acquired company, who will in turn be very attuned to this interest. If a third party conducts the survey, the advantages are even greater. Employees will feel entitled to speak out and say what they think, though some may take advantage of the cloak of anonymity to exaggerate or twist the truth. The survey will identify trends, problems and opportunities, and it will allow different perspectives to be integrated.

People in the acquired company expect the new owners to act quickly in line with their own agenda. If they also implement some of the suggestions that come out of the survey, the positive effect will be multiplied exponentially. Mergers provide especially fertile ground for the Pygmalion effect: the phenomenon whereby what we get out of people is to a large extent what we expect of them.

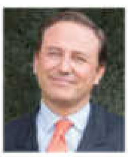
3. Final Remarks: Practical Guide for Surviving a Merger Process

Firms will continue to undertake mergers and acquisitions as a way to grow, solve internal and external problems, or feed the egos of company leaders. However, multiple factors need to be managed to avoid negative impacts. Porter[3] and Pfeffer[4] emphasise that multiple external factors influence the advisability of undertaking an acquisition and the probability of success. Drucker offers a series of principles aimed at increasing the chances of a successful outcome (see Exhibit 1 on previous page). Rumelt[5] notes that 80% of success is due to actions taken by the acquiring company while 20% of the outcome is explained by the evolution of the sector.

Academics and managers are increasingly warning that people (employees and customers) have not been properly taken into account and considered in analyses or subsequent decisions. This situation can be remedied by creating a dedicated team whose role is to thoroughly analyse the cultural issues that need to be addressed before integrating or acquiring a company. We also recommend that HR departments be given a much greater role from the start of the process. They should be aware of and, where appropriate, involved in decision-making. Decisions should not be taken exclusively by those in charge of business operations, sales or finance, because in the long term the outcome of a deal depends on what managers and employees make of it.

In Table 1, as a practical guide, we offer a number of suggestions on how to tackle a merger (while recognising that these points are far from constituting a foolproof formula). Alliances and personal positioning are cards that should always be played, regardless of whether or not a merger by acquisition is going to happen. Once the process is underway, it may be too late for some. In any event, mergers create a situation from which no one will emerge unaffected, whether for good or for ill – a situation in which not acting, to avoid making mistakes, is the worst kind of deception.

About the Authors



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Decisions should not be taken exclusively by those in charge of business operations, sales or finance, because in the long term the outcome of a deal depends on what managers and employees make of it.

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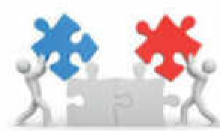

Leveraging Collaborations to Create Shared Value

BY HERVÉ LEGENVRE, FRANCOIS BACALOU & HUGUES SCHMITZ

In this article the authors discuss how the competitiveness of an organisation and the health of the communities around it are mutually dependent, connecting the two ideas and showing how to make them work through a series of case studies in the water and sanitation industry. This offers a thought-provoking perspective for redefining and achieving business performance.

We are on the verge of a change on how companies improve their performance and gain market advantages. Business leaders take with greater serious the idea that the competitiveness of their company and the health of the communities around it are mutually dependent. The same business leaders realise they can gain benefits from developing and strengthening collaborations with suppliers and partners.

In the midst of a change

Over the past decades, the management of suppliers has been dominated by supplier reduction, arm-lengths communication and short term action. It is now difficult for many companies to seize innovation opportunities along their supply chain (Choi, Linton, 2011). They need to attract and work collaboratively with existing and new partners to gain a competitive position.

At the same time, companies have become subject to the scrutiny of stakeholders for their social and environmental performance. This impacts business results through customer preferences, brand and people engagement. This offers opportunities to innovate and grow. Business leaders increasingly embrace shared value creation (Porter & Kramer, 2011) which means that well-thought value creation for business can simultaneously yields profit and greater social impact.

By conflating these two streams together companies can deliver value for the business while increasing their environmental and social performance. This can be achieved by developing and strengthening collaborations with partners along and beyond the supply chain. Through a series of four case studies in the water and sanitation industry we have identified five success factors that can help business leaders to embark successfully on this transformation.

Today social and environmental performance offers opportunities to innovate and grow.

THE 5 KEY SUCCESS FACTORS

Strategy and culture

Creating shared value through collaborations needs to be part of the company strategy. It has to become central to how decisions are taken and to how progress is reviewed. Two questions need to be revisited on an ongoing basis:

- How social and environmental issues can help us reengineer our offerings, our value chains and our business models?
- What are the opportunities for collaboration that can positively impact environmental, social and business performance?

This requires a continuous strategic dialogue between customer and supplier facing functions. Our tendency to continuously simplify our understanding of the external environment quickly brings people back to the old paradigm. Hence, perseverance is essential; you need to continuously remind people of the logic that underpins this emerging paradigm. If this new way of thinking is not yet part of the strategy one can harness an entrepreneurship spirit and show that it works through grassroots initiatives.

An open mind-set about collaboration

This transformation requires looking at partners from multiple perspectives. By understanding the trends at work in your industry you can foresee the players that will matter tomorrow. When potential partners have been identified, it is essential to assess if a strategic fit exist amongst them. This is not about mutual dependence but about sharing common agendas, interest and long term aspirations. In some instances you will strengthen collaborations with existing suppliers and partners to further improve. In other cases, when breakthrough changes are on your radar, you might have to work with new players. Some relationships might need to be abandoned, others have to be developed. Leaders willing to maximise the value they create need to look at collaborations with three questions in mind:

- If they strengthen their collaboration with us how can this contribute to enhance our performance and deliver our strategy?
- If we strengthened our collaboration with them how can this contribute to enhance their performance and deliver their strategy?
- Looking further into the future, what can we achieve together that we could not accomplish alone? Can we reach new levels of performance together?

Trust and Transparency

Creating trust and transparency were instrumental in the four case studies. First, it needs to underpin internal collaborations before extending it to external partners. After detecting where strategic fits exist, a shared vision has to be established. This requires facilitating iterative strategic dialogues where leaders from all sides adopt an open mind-set. Unceasingly preferential treatment needs to be earned by both parties. Reaching deeply rooted trust calls for patience, mutual understanding and common processes. The more progress you make together the more trust you have between the partners. Ultimately, you reach a level of transparency that offers real advantages. This generates value, leads to employee motivation, engagement and improved performance. Continuity of attitude is critical. As people change jobs, newcomers might be tempted to seek short terms benefits by using more combative approach; the collaborative approach needs to be continuously monitored.

When potential partners have been identified, it is essential to assess if a strategic fit exist amongst them. This is not about mutual dependence but about sharing common agendas, interest and long term aspirations.

Measurement and value sharing

Fourth, there is a need for a new measurement and sharing culture. Collaborations thrive on common ambitions and complementarities. All players can share common goals and targets but they also need to have specific goals and targets that reflect their unique contribution to the collaborations. These should be reflected in contracts using effective incentives such as revenue and risk sharing models. Jointly defined and transparent measurement related to performance, costs and revenues help to develop fair solutions. In the end, the overall value is shared amongst the partners, but everyone should keep in mind it is created together. For the projects presented underneath the social and environmental impact were also measured using relevant performance indicators. These results were presented next to the business results. This helps to maintain the shared value creation holistic perspective.

Specific skills are needed to support collaborations that create shared value. People need the right mind-set to work collaboratively within and outside the company.

People skills and leadership perseverance

Specific skills are needed to support collaborations that create shared value. People need the right mind-set to work collaboratively within and outside the company. They need a combination of business acumen, partnership management skills and soft skills. This can be difficult to find, develop or retain. Partnership management skills include the ability to identify and validate opportunities, to assess the strategic fit with partners and to continuously design and facilitate meetings that support the collaboration. From a soft skill point of view it requires an ability to empathise with internal and external players and to positively engage them in teamwork. This requires continuous attention from the leaders who need to take the long view and create a climate where people are encouraged to persevere and where error is accepted and considered as an entire part of the learning process.

THE FOUR CASE STUDIES

The following four case studies outline how shared value was created together with existing and new partners by SUEZ water activities in France. Each case outlines what was essential to creating shared value through effective collaborations.

The smart metering project

In the water utility business, metering is the corner stone for a fair billing capability (see table below). Historically reading was done manually once a year. Advanced Meter Reading (AMR) technology is a breakthrough. Availability of frequent and accurate data is an unprecedented platform to offer new services to customers. As water is a basic need it allows offering customised billing scheme and assistance programs to low income population.

Ten years ago, SUEZ won the service for a French city that was particularly interested in deploying AMR technology. No on-the-shelves solution existed, and ground-breaking developments were needed. A cross functional team scouted the ecosystem and looked for technology and partners. The final objective was to accurately collect, clean, analyse and communicate useful data to customer. Suez Water needed the expertise of both a meter supplier and a radio system provider. They would concentrate on data production, transfer and management, while the operator would boost its leadership by providing advanced services to the end customer such as on time leakage alerts and repairs. The stakes were high! An integrated solution calls for all parties to be jointly responsible for delivering the innovation and openly sharing their expertise. With three actors being regarded as market leaders, collaborating effectively was critical but demanding. This led to a 10 years partnership structured around five points:

- A co-investment in and a co-ownership of the technology.
- An innovative cost and profit sharing model. The partners shared the initial investment and the returns according to their respective contribution.
- A coordinated commercial strategy. The partners bring together their sales networks to boost the promotion of the solution.
- A royalty mechanism. Products were intended to be sold to new customers. The profit is shared among the partners.
- A periodical technology review to continuously challenge the roadmap and maintain a leading edge position.

The collaboration required open and transparent governance. It is sometimes hard to restrain people to favour short term gains at the expense of longer term benefits. All attempts to derail the collaboration had to be addressed in a timely manner.

Today a first generation of products has been launched and adapted to the gas market. Millions of units have been sold. A new generation is

THE SMART METERING PROJECT

This is a 10 years partnership to jointly develop and commercialise a disruptive technology that was improved over three generations of products.

Collaborations
The Project focused on developing new collaborative models like technology shared ownership and specific schemes to share costs, revenues and profits.

Shared value
- Innovation and Market differentiation
- Competitive offer to clients
- Effective water management
- Innovative billing schemes for low income population

under development. The value created benefits the three partners by creating a new technical standard on the market which led to differentiation. As implementation started, it also provided value to society by offering a more resource effective water management system and enabling the implementation of these billing schemes for low income population.

Joint Improvement Program for sewage cleaning services

The cleaning of sewerage networks is a core business activity of SUEZ (see table above). It can impact its performance and reputation. It requires a truck fleet equipped with high pressure pumps. They are operated by qualified operators who intervene in difficult conditions. Pressurised water is pulled through pipes to scrub the sides of dirty drains, break apart clogs and flush out residue. Security and compliance to regulation are of utmost importance. The French market is fragmented and lacks reliable service providers. The operator had developed relationship with one service provider. The quality of service and the productivity were not matching the expectation of SUEZ and the service provider was unsatisfied with its profitability. As all signals were turning to red, SUEZ decided to try another approach. A joint improvement program was offered to the supplier. This aimed at improving the overall performance through a long term collaboration focused on continuous improvement. The aim was to increase the competitiveness of both players through cost improvement and innovation without compromising with quality.

First, the key challenge was to convince the service provider to move from a focus on price to improvements. This happened through extensive dialogues. A fair approach to sharing costs and benefits was agreed. Targets based on shared value creation principles were agreed. A cross functional project team was established to manage this new-born collaboration.

The following months saw the development of a partnership supported from both sides. The team collected data and developed detailed cost models for each steps of the operation process that were shared openly to establish a common baseline. Value engineering techniques were used to identify improvement opportunities. Workshops helped scope and develop new ideas that led to new business practices, processes, equipment and organisational changes. This helped to determine the impact of each improvement on the final cost structure.

As a consequence, a new planning system was implemented by the operator. As visibility improved, the service provider was willing to invest in specific equipment and to redesign its organisation. A new contract was established between the two companies. It included a formal review process to follow up the joint improvement plan and the overall financial goals. Over the years this allowed the companies to meet their respective goals by moving from a combative to a collaborative logic. Both were able to gain a better competitive position.

This enduring partnership between SUEZ and its service provider created value for both. Results related to productivity gains and late interventions improved year on year. For the service provider, this guided them towards positive impact on its EBITDA. From a social and environmental performance perspective, the service provider could claim that it had helped a supplier re-gained a sound competitive position.

Working with key partners to positioning the operator as a key player of local development

Today French municipalities and local authorities are concerned with the development of small and medium enterprises on their territory (see table on next page). They are keen to help entrepreneurs grow their business. Their competiveness depends on their ability to gain access to competitive suppliers. However their buying

CLEANING SERVICES

Continuous improvement of the service overall performance based on an open-book partnership

Collaborations

The Project focused on developing collaboration with existing partners. It relied on a multidisciplinary structured joint improvement process focused on mutual benefits and measurable outcomes

Shared value

- Improved competitiveness
- Innovative processes and work organisation
- Strengthening of the local economy

Beyond its traditional core business of supplying utilities, SUEZ works with its clients on new initiatives to improve environmental and societal performance.

power and purchasing expertise is limited. SUEZ saw this as an opportunity. Thanks to its size and procurement expertise it benefits from established relationships with strategic partners who offer favourable terms and conditions. At the same time, a critical component of its strategy is to become the preferred partner of municipalities and local authorities. Beyond its traditional core business of supplying utilities, it works with its clients on new initiatives to improve environmental and societal performance. By connecting procurement capability and business development strategy it became relevant to offer small and medium size companies located on the territory of clients an exclusive access to competitive conditions on a large range of products and services. The benefits go beyond offering attractive prices; they enjoy premium services and environmentally friendly products.

The operator had to set up new partnerships with a sub-set of historical partners. The objective was to develop an attractive offer that matched the needs of small companies and provided them with a competitive advantage. This includes a wide range of general supplies and services as well as business specific mechanical, electrical, health and safety products. For each category, a medium term exclusive agreement was signed with a preferred partner outlining conditions to be proposed to future users.

For the partners this was an opportunity to develop their market share on the small and medium size market segment. The exclusivity agreement was perceived as a real opportunity to consolidate their position on the market.

In practical terms, the local companies subscribe to become members of the purchasing services. They can deal directly with the exclusive partners and benefit right away from favourable conditions. The objective is to propose this service to municipalities and to work closely with their economic development department to offer its added value to small and medium companies.

The first pilots were conclusive. Beyond favourable pricing, the companies that subscribed appreciated the quality of products and services provided. However, the most significant benefits were the time and resource saved by easily and immediately accessing relevant suppliers and products.

The Municipalities are enthusiastic and appreciate this unique contribution to support their own objectives. It is perceived as a positive contribution to Public-Private Partnership, indeed partners can investigate new avenues of collaboration and new opportunities to boost territory attractiveness.

Co-innovation with network equipment suppliers

In the water business, having innovative and simple network equipment is of utmost importance (see table on next page). This network connects the water production installation, the water transport and distribution network, reservoirs, storage tanks, fire hydrants, and the final users. Assets management and ongoing maintenance is a sensitive customer issue and new functionalities have to be frequently integrated to match customer's evolving expectation. Achieving standardisation is valuable but demanding and all operations including installations needs to be easy to perform.

Over the years, the relationship between SUEZ and its local network equipment suppliers consisted of discussions on price and volumes. No relevant collaboration on innovation existed across the value chain. The supply market was increasingly dominated by low cost country supplier. This was reducing local production, quality problems were on the rise and environmental impacts were not going in the right direction. Price pressure became exacerbated by inflation and raw materials price. Furthermore there was

LOCAL DEVELOPMENT

Offering purchasing services to small & medium businesses and positioning this as a value adding service to local authorities

Collaborations

The Project focused on developing collaboration with existing partners. It consisted in working together on the development of an innovative business model where all players within the ecosystem could gain benefits

Shared value

- New service offered to clients
- Differentiation opportunity
- Increase in revenue for partners
- Access to a difficult market segment for partners
- Improved competitiveness for SME's
- Strengthening of the local economy

LOCAL DEVELOPMENT

Development of two co-innovation projects with existing strategic network equipment suppliers

Collaborations

Open-innovation partnership based on mutual contributions and value sharing to leverage innovative co-developed solutions.

Shared value

- Improved margin, competitiveness and early access to innovation. Increased revenue
- Reduced environmental footprint
- Local employment

a lack of exchanges and subsequently alignment between the technology roadmaps across the industry. As concerns started to surge the operator decided to develop co-innovation projects with existing strategic suppliers. The operator wanted to position itself as a lead user that stimulates innovation. Benefits were expected in terms of performance and cost across the value chain.

The first project was investigating composite water surface box and the second one stainless steel connection collar for water network. Both started with a joint assessment of new ideas with the partner. The significance of the market opportunity and the technological compatibility with the industry were assessed. This included defining the product functionalities and the expected performance. Then some assumptions about the market potential and the target price could be developed. Cross-functional project teams were designed gathering all technical, operational and business needed skills from both sides. The partners signed with SUEZ Letters of Intent that included joint development goals and the IP. In the following step the project team integrated some of the supplier's engineers to develop a proof of concept based on value analysis and validations to be carried out during the design phase. After, long term contracts including commercial agreements specifying value sharing rules were signed with both suppliers. The team could then move to product design, industrialisation, qualification and deployment. Toll gates reviews allowed managing effectively the development.

As the raw material price appeared as a key issue for the supplier involved in these projects but also for other network equipment providers, SUEZ decides now to look further in its ecosystem and to extend its network of strategic partners to tier 2 polymers producers. The focus was to qualify innovative polymers for water applications to be used by the suppliers to bring significant cost and performance benefits.

The two Co-Innovation projects were a success. They allowed all partners to meet their goals in terms of cost optimisation and innovation. Investing in such projects offers SUEZ with productivity gains and increased expertise. On the societal side, the project delivered improvement in terms of environmental footprint and the development of local employment. Co-innovation with a local partner is a strong tool to develop local competitiveness. In these cases, one of the projects helped maintain employment in the country and in the other case it allowed to bring back production in the country. EBR

About the Authors

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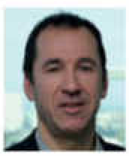


Francois Bacalou started to work with Suez in 2002 in the role of Chief Procurement Officer for Lyonnaise des Eaux. He joined Suez Australia as Chief Procurement Officer in September 2014. Prior to this, Francois held roles in operations, finance and sourcing with Motorola Electronic Group in France, UK and USA. Francois holds an engineering degree in electronics and an MBA from Purdue University (USA)

Hugues Schmitz has worked within the utility industry over the past 20 years in several procurement and logistics functions. He joined Suez Water France in 2007 as procurement manager and then as Chief Procurement Officer since September 2014. Hugues holds an international business degree and an MBA from EIPM (France)

Co-innovation with a local partner is a strong tool to develop local competitiveness.

Entrepreneurial Risks and the Joys that Come with Them

BY MYRA STROBER

Sometimes it is only with hindsight that one understands the benefits that come from taking an entrepreneurial risk. In 1974, Myra Strober helped to establish the center for research on women at Stanford, one of the first to be established in the US. These excerpts from Myra Strober's new memoir, published last month by MIT Press, show her reluctance to take on such a risk, the price she paid, and the joys she ultimately experienced.

A few weeks before I start teaching at Stanford's Graduate School of Business in the Fall of 1972, I get a call from Stanford's Office of Public Affairs. They would like me to participate in a press conference in San Francisco with two other new women assistant professors at the university – Barbara Babcock, the first woman ever to hold a faculty position at the Law School, and Lili Young, a new faculty member in the School of Engineering. I am the first woman ever to hold a faculty position in the Business School.

"We want to show off our women," my caller says, "show the whole world that Stanford has done the right thing."

I ask Barbara what she thinks we should wear to this press briefing.

"We can wear whatever we want," she says. "*We* are the dress code."

She's right. A study the year before found that women make up only 5 percent of all tenure-track faculty at Stanford, and 2 percent of all full professors. Of almost a thousand tenure-track faculty, only forty-seven are women and only nine are women full professors.

As a result of Stanford's press conference for new women faculty, there are articles about me in both the *Stanford Daily* and the *Palo Alto Times*. Not only does the GSB have women faculty members for the first time, they say, but imagine this: there's an economist there doing research on women!

One woman who reads these articles is undergraduate Cynthia Davis, and a couple of months later, she comes to see me during my office hours. Cindy has been taking a course called "Cross-Cultural Perspectives" with two new women faculty in anthropology, and she and some of the other women in that class have been meeting at the newly opened Women's Center to think about how to connect faculty at Stanford who are interested in women's issues, and, more generally, how to bring ideas related to women to the forefront of campus discussion.

Cindy is refined and soft-spoken, but decisive about her mission: "We don't want to create a place for consciousness-raising," she says. "We already have that at the Women's Center. We want to create a research center, maybe something like the Radcliffe Institute at Radcliffe College."

I have heard of the Radcliffe Institute, started in the early 1960s by Radcliffe's dynamo

A study in 1971 found that women make up only 5 percent of all tenure-track faculty at Stanford, and 2 percent of all full professors.

Michelle R. Clayman Institute for Gender Research, Serra House, Stanford University.

Photo courtesy: http://gender.stanford.edu

president, Mary Bunting, and I know that it is not an institute for research on women.

"Oh, well, then *not* like the Radcliffe Institute," Cindy says. "We don't really care. We want an institute for research on women."

"That's a terrific idea, Cindy. What can I do to help?"

"We need faculty members to start it. Can you help start it?"

I laugh as the memory of the recent debacle at my childcare seminar comes to mind, and I think about what my economist colleagues might say if they learned I was trying to start a research institute for women.

"What's so funny?"

"I'll tell you: assistant professors don't start research centers. You need senior faculty for that. I support you 100 percent, but I have to support you from the sidelines."

A few months later, when winter quarter begins, I start teaching my course on women and work. Two of my students, Beth Garfield and Susan Heck, have the same idea as Cindy: each wants to start a center for research on women at Stanford.

Beth is a junior, planning to run for student-body president in the spring and to go to law school when she graduates, and Susan is a first-year doctoral student at the School of Education (SUSE). Both are outspoken and funny. I also put them in touch with Cindy, and a few weeks later, the four of us meet in my office.

I reiterate that junior faculty don't start research centers and encourage them to brainstorm about senior faculty they know who might be helpful. Susan says she'll talk to organisations theorist James March and sociologist Elizabeth Cohen, both in SUSE. Cindy says she'll try to get an appointment with psychologist Eleanor Maccoby, and Beth agrees to set up a meeting with Leah Kaplan, Dean of Women, whom she knows from her work in student government.

A few weeks later, the three students and I meet with the four senior faculty and staff the students have corralled and in the course of the meeting, Eleanor and Jim agree to be co-chairs of a planning committee including all those at the meeting. They also agree to send a joint letter to the Ford Foundation requesting a small planning grant of $25,000.

When Mariam Chamberlain, the program officer at the Ford Foundation in charge of grants on women's issues, writes to Jim March and Eleanor Maccoby approving their request for a planning grant for CROW, and saying that she will be pleased to entertain a proposal

Eventually, there will be more than one hundred Centers for Research on Women in the US, but in 1974 Stanford and Wellesley College are the first two.

Clayman Institute Founders: Cynthia Russell, Beth Garfield, Myra Strober, Susan Heck and Jing Lyman.

Photo courtesy: http://gender.stanford.edu

for more substantial funding, Stanford's president and provost approve the center on an interim basis. We put together a nine-member Policy Board with Eleanor and Jim as co-chairs; and Elizabeth Cohen, Tom Ehrlich (Dean of the Law School), and I as additional faculty members.

At the beginning of fall quarter, we formally launch CROW at a well-publicised reception. Eventually, there will be more than one hundred Centers for Research on Women in the US, but in 1974 Stanford and Wellesley College are the first two. After the reception, full of excitement, we hold our first official Policy Board meeting. But a few weeks later, when the board meets for the second time, Eleanor and Jim report that they have done nothing to move a new grant proposal along and say they wish to resign as co-chairs.

"Myra, you should chair the Policy Board," Eleanor says. "You're the one with the enthusiasm for this."

After much soul searching, I violate my own rule that junior faculty don't head up research centers. It's one of the best decisions I've ever made.

My first step is a trip to New York to meet with Mariam Chamberlain. I've never been to the Ford Foundation and am hugely impressed by its soaring glass building and inner courtyard. But the most remarkable part of my visit is getting to know Mariam. Already in her fifties, she is a seasoned program officer. She's an economist with a PhD from Yale, and she wants to be not only my financial benefactor but also my mentor. She suggests that I ask Ford for $100,000 and tells me exactly what I need to do at Stanford to get permanent status for the center.

My two most important tasks, she says, are to get to know Stanford's provost and to start raising money from other sources. If Stanford wants money from Ford for a center for research on women, its provost is going to have to promise Mariam that Stanford will also put money into the center. In addition, I'm going to have to show that we can get funding from foundations besides Ford. Fortunately, Mariam has a list of those other likely foundations and is happy to share it with me.

What a challenge I've taken on! I spend the six-hour cross-country flight making a gigantic to-do list – all the people I need to talk to, all the ideas I need to gather. It feels overwhelming but exhilarating.

Sam is less than enthusiastic about my new role. He (rightly) doesn't see that a reduction in my course load is going to make up for the time I'll be spending starting the center, and he's not all that excited by my feminism. He much prefers the woman he married to the one he lives with now. He comes to hear me lecture and is appalled by the applause and "right on" comments in the audience when I talk about the need for women to take their careers as seriously as men do, the need for women to be admitted to men's careers, and the need for women to have paychecks equal to those of men. Although I see myself as struggling to attain power and influence, he sees me as radical and powerful, and he's not happy with that view of me.

I'm not sure what to do about Sam's concerns. I'm on a roll. I can't turn back. I redouble

I'm definitely no longer a woman who jimmies locked doors with screwdrivers; I'm a woman learning to construct new doors, wide open from the start.

my efforts to keep the house clean, cook food that he enjoys, be as sexy as I can in the evenings (hard when you're dog-tired), and be a super-mom. But I'm definitely no longer a woman who jimmies locked doors with screwdrivers; I'm a woman learning to construct new doors, wide open from the start.

And, of course, Sam is no longer the man he was when he first took my breath away at the Windsor Hotel. Years of seeing very sick patients have taken their toll. He was always serious, but now he's often somber, the world's distresses directly on his shoulders.

In 2009, CROW celebrates its thirty-fifth anniversary. It's now called the Clayman Institute for Gender Research because it has been endowed in perpetuity by Michelle Clayman, who received her MBA from the GSB in the mid-1970s, when I was on the faculty, and who has become extremely successful as the founder, partner, and investment officer of a money management firm in New York. When I started CROW, we had great difficulty raising money, in large part because there were few women of independent means – and those who did have substantial assets were generally not free to manage them as they wished. Today, there *are* women with the ability and desire to put their money into research on women.

In 2010, Clayman gets a new director, Shelley Correll, who invites me to serve as a life member of Clayman's National Advisory Board. In May 2011, I attend my first meeting of that board, along with the three former students who helped me start CROW back in 1972. I am stunned and elated by the progress Clayman has made since its first days. The budget is solidly in the black, and we have a close and cooperative relationship with Stanford's development office. We have a board of women and men who are managerially wise and generous in their gifts, and an associate director who is super-savvy about public relations and social media and frequently gets the institute's research into the public eye. We also have Shelley, an energetic, brilliant sociologist whose vision for Clayman's future is exciting and far-reaching.

WHEN AN OPPORTUNITY THAT YOU KNOW YOU WILL LOVE PRESENTS ITSELF, TAKE THE CHANCE! RISK-TAKING CAN PAY OFF AND BRING ENORMOUS SATISFACTION.

As these excerpts from my memoir indicate, I was a reluctant leader. And I paid a huge price for agreeing to be the founding director of CROW. When I came up for a tenure decision at the Stanford Graduate School of Business, I was turned down. But eventually I was offered a tenured position at the School of Education at Stanford (now the Graduate School of Education) and had a most satisfying and productive career there.

Also, my husband's dissatisfaction with my taking on a leadership position combined with his other dissatisfactions with our marriage led to divorce in 1982. But nine years later I remarried Jay Jackman, who has been not only a supportive and loving husband, but a co-consultant and co-author.

I hope my story is an inspiration to other young women and men. When an opportunity that you know you will love presents itself, take the chance! Risk-taking can pay off and bring enormous satisfaction.

Excerpted from *Sharing the Work: What My Family and Career Taught Me about Breaking Through (and Holding the Door Open for Others)*, by Myra Strober (MIT Press 2016).

About the Author

Myra Strober is a labour economist at Stanford University, where she is Professor Emerita. Her research focuses on gender issues at work, balancing work and family, women in the professions and management, the economics of childcare, and feminist economics, and she has been both an expert witness and a consultant on these matters.

THE ODDS OF SUCCESSFUL ENTREPRENEURSHIP

How to Overcome the Holy Grail Syndrome

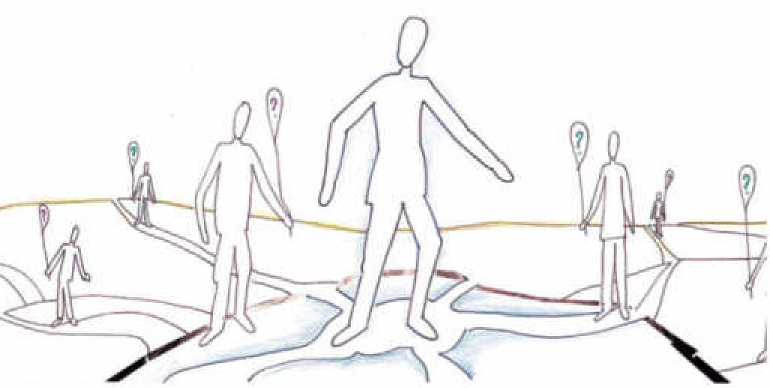
BY TIJS BESIEUX

In this article, Tijs Besieux discusses the four steps to overcoming the Holy Grail Syndrome, which could hinder an entrepreneur's road to success. Because what makes entrepreneurs successful is their ability to combine several talents and passions into one unique and valuable vision.

I want you to think about your favourite entrepreneur. What makes him or her so successful?

At my university I coach students. "Matthew" is one of them. As the end of his work toward his master's degree approaches, Matthew starts to actively think about the future. He participates in a highly competitive academic program. Matthew is a top percentile student at a top university. As you might imagine, the pressure is on, and he struggles when it comes to choosing a future career. Why?

One of the things I have observed that can limit people is what I call the "Holy Grail Syndrome". Matthew is relentlessly on the lookout for the one thing that will provide him with success and eternal happiness, the one talent that sets him apart from the rest and will assure a fruitful career. Matthew wants to be an entrepreneur. Whether in an existing firm (intrapreneurship), or by launching his own startup.



During our third coaching session, Matthew and I suddenly reached a breakthrough. Two insights kindled our discovery.

First, there is the author Malcolm Gladwell. I adore Mr. Gladwell, because he combines genius with the talent of storytelling. He taught us a valuable lesson about consumer goods; I gladly refer you to Mr. Gladwell's TED talk on spaghetti sauce in case you have not seen it. The key takeaway of his story is that the sum of consumers does not look for "the one spaghetti sauce". Rather, individual preferences can largely differ. Some like a lot of meat, others crave big chunks of vegetables. And thus, the entire spaghetti sauce industry transformed from "the one spaghetti sauce for all consumers" towards "spaghetti sauces for consumer clusters".

Second, we need to consider statistics in the equation. What are the odds that your native language is Spanish and the last digit of your phone number is 8? About 6/1000. How come? The probability that an event might occur depends on the multiplication of its separate odds. In this case, 6% of the world population has Spanish as its native language. Or, 6/100. And, 8 as last phone number digit has a likelihood of 1/10. Thus, the odds of (a) Spanish as native language and (b) 8 as last phone number digit equals 6/100 x 1/10 = 6/1000.

So, let us return to Matthew's third coaching session. Until then, he could not take his eyes off the Holy Grail. We had so far discussed his academic performance and what he values in a future career. However, his stern focus blocked Matthew's capability to embrace a broader perspective. With one question, we unlocked the conundrum. "What are the things you are passionate about?" I asked him. Not the one thing, but the multiple things. He immediately pointed out his love for Mergers & Acquisitions (M&A) – the domain of bringing separate companies together to form larger ones – from a legal standpoint. Matthew's Holy Grail Syndrome.

The shift from one talent to multiple talents can take off pressure. You are no longer obsessed with the Holy Grail that might grant you eternal success. Rather, you have opportunities for value creation.

After a long reflective pause, he opened up his scope of competencies. “Well, I’m good at presenting to audiences. Further I’m passionate about new technologies. Also, because of my upbringing I speak three languages fluently. And, last, I highly value two colleague-students at the university who want to make a difference as well”, Matthew shared. We continued our coaching sessions, taking into account Matthew’s unique set of talents.

Last week, Matthew presented his plan to me. He and his two colleagues will start a consultancy firm to provide legal M&A advice to tech-startups in Europe. Matthew looked thrilled. I was thrilled too.

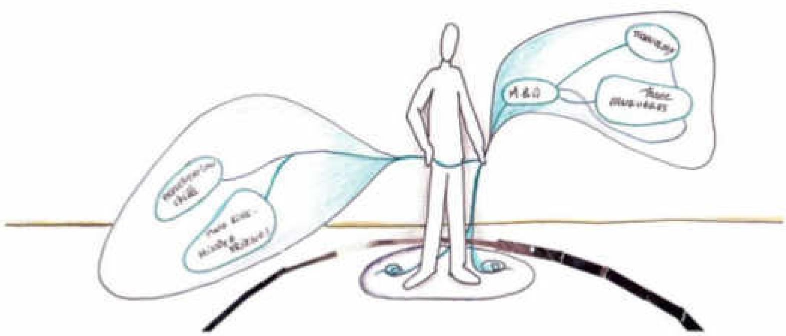
What can you learn from Matthew’s story?

Stop Searching for the Holy Grail

As Mr. Gladwell has taught us, we should not look for “the one thing.” Rather, there can be different products or services that relate to different groups of clients. This matters to us. Whether you are at the start of your career like Matthew or a seasoned entrepreneur, take a step back and map the things you’re good at. The things that make you happy and energised. What I’ve learned is that the shift from one talent to multiple talents can take off pressure. You are no longer obsessed with the Holy Grail that might grant you eternal success. Rather, you have opportunities for value creation. In our globalised and vastly developing world, there is plenty of space for singular business ventures.

It’s all About the Odds

The odds of setting yourself apart. The odds of shaping a particular business in which only you can excel. There are many tech-savvy people. There are also many minimalist designers. There is a handful of visionary businessmen. However, there is only one Steve Jobs.



Create a market in which you are unique, a market where your combined talents provide oxygen for growth. Matthew found competitive advantage by combining interests and talents.

Sure, many people have an academic background in M&A from a legal perspective. A lot of people are really good at presenting, and even more know about technology. Some people speak different languages fluently, others have a network of likeminded entrepreneurial friends. However, the likelihood of a person multiplying all these talents is relatively small. The odds are now in Matthew’s favour. He crafted a special service for a specific audience.

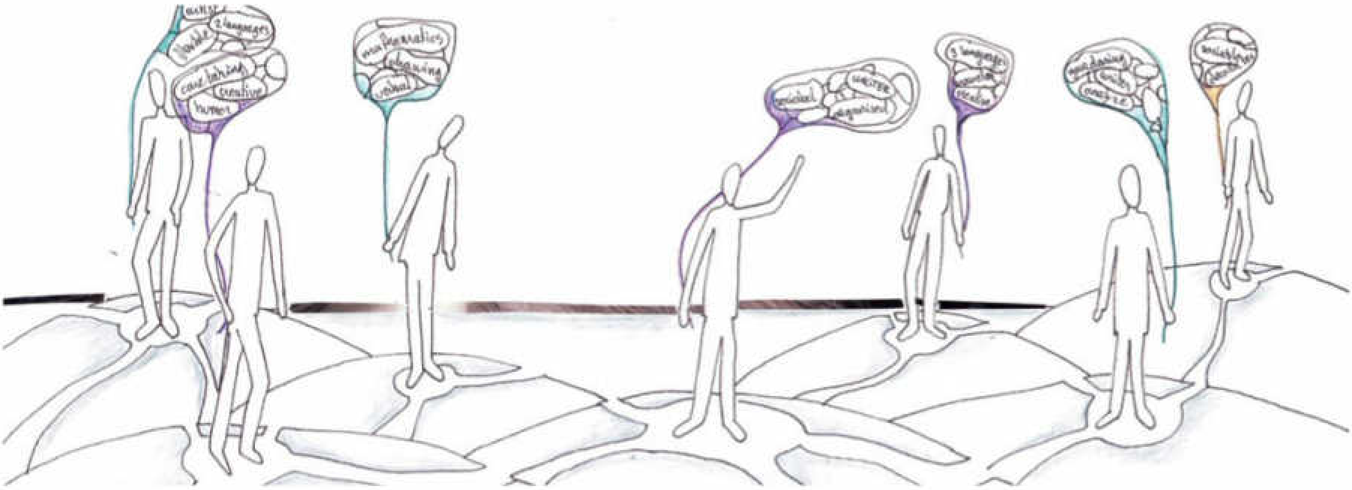
So can you.

Four Steps Towards Successful Entrepreneurship

The story of Matthew provides a blueprint for acting on entrepreneurial ideas. Whether you work inside an existing company, or you are on the lookout to start your own business. Below are four steps to enable you to craft your competencies into a unique and valuable business venture.

STEP 1. Identify the things that you’re good at or passionate about. Do not limit yourself to competencies that you might associate only with the professional environment. Write the words randomly on a single piece of paper. Matthew’s love for technology and his multilingual background at first might not seem to be related. Mr. Muhammad Yunus, the Bangladeshi founder of the Grameen Bank and Nobel Peace laureate, also combined odds – his deep care for the poverty-stricken people of Bangladesh with his PhD in economics. These links laid the foundation for a breakthrough innovation known as microcredit and microfinance.

STEP 2. Check with your peers, friends, and family on whether they agree about your talent list. Who knows, they might add more. Often we have blind spots, because we no longer actively reflect upon things we perceive as obvious. Matthew’s awareness of his presentation know-how came to him only when we broadened the competence scope. Because presenting was



something he was used to doing, he almost forgot to mention this particular skill. In order to facilitate step 2, simply ask the people around you: “What do you think I’m good at?”

STEP 3. Conduct a brainstorming session. What might be entrepreneurial ideas that combine some of your talents and passions? At this stage, we are envisioning a unique niche in which only you can excel. Never curb your enthusiasm during a brainstorming session. The more ideas, the better. Evaluation is irrelevant at this point. Are you good at surfing and do you have a passion for cameras? Who knows, a quirky idea is bound to emerge. Actually it did. It’s called GoPro. Draw lines on your piece of paper, connecting talents and passions. At first Matthew’s ideas were too general and unexciting. He realised his entrepreneurial potential only when he connected several of his talents and passions.

STEP 4. Evaluate, test, and implement your ideas. You may consult trusted peers and friends to discuss your ideas. Remember that if no one agrees with your idea, you either came up with something very dumb or you are about to change our future. Once you have crafted and tested your idea, the time has come for the big leap. You might pitch the business plan at the firm you work for. Or, you could set your own course with a new business venture.

In conclusion, a few examples: Ms. Anita Roddick combined her love for cosmetics, business, and activism. She instigated the ethical consumerism movement by founding The Body Shop. Mr. Jack Ma merged his understanding of Chinese culture, his business acumen, and his historical ties with Yahoo’s co-founder Jerry Yang to build an e-commerce behemoth known as Alibaba. In 2015, Alibaba raked in $14 billion. On a single day. And, Ms. Melinda Gates combined her business understanding, exceptional network, and care for humanity to redefine philanthropy through the Bill & Melinda Gates Foundation. What makes entrepreneurs successful is their ability to combine several talents and passions into one unique and valuable vision.

Will your name be next on the list? To find out, follow the four steps and overcome the Holy Grail Syndrome. May this be the start of a remarkable adventure. I know one thing for sure, Matthew’s journey has started. And I support him all the way.

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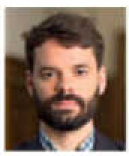
About the Author



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THE KEY LEVERS FOR SALES TRANSFORMATION SUCCESS

BY WARREN SHIVER AND MICHAEL PERLA

For a sales organisation to reach its "ideal transformational advantage" it needs to pull the right levers in the sales force and across the entire organisation to drive meaningful and significant improvement. In this article, Warren Shiver and Michael Perla discuss the six levers they identified that not only help to amplify and sustain change within a sales organisation, but that can be applied to almost any organisational change.

"Which levers do I pull to improve sales performance?" We hear that question a lot from sales executives. Just as a CEO is interested in revenue growth, operating margin, incremental investment, and other factors that impact the company's stock price, sales executives want to ensure they are leveraging the right things to improve sales performance.

As part of our recent book, *7 Steps to Sales Force Transformation*, we outline six key levers that can help to support, undergird and drive a sales transformation. These levers should be assessed before starting a sales transformation and throughout the initiative to ensure alignment and focus.

Before we describe the six levers of sales force transformation, let's take a brief look at what, exactly, a lever is.

Amplifying Change

The word "lever" comes from the French lever, "to raise". A lever amplifies, or raises, the force you put into it, and in this way it puts out an even greater force. The ratio of the output force to the input force is known as the lever's ideal mechanical advantage. When you invest money, or time, or effort, you are seeking a similar ideal advantage. You want to gain leverage. You seek a maximum return on your investment. It's the same with sales force transformation.

In almost every change initiative, resources are limited, and the transformation is expected to occur within a certain budget and time frame. And, perhaps most important, at the same time the sales organisation must continue to bring in revenues that fund the business. One of the big challenges is how to get the most return from your investment in change. So, when considering a major change or transformation of your sales organisation, what levers can you pull for an "ideal transformational advantage"?

We've identified six levers that not only help to amplify and sustain change within a sales organisation, but that can be applied to almost any organisational change. They are particularly valuable with sales teams, however, because sales professionals can be highly resistant to change. In every successful transformation we know of, the leaders pulled most (if not all) of these key levers. How might they apply to your organisation and which ones should be bolstered and reinforced?

Lever #1: Perspective

Much has been written about how the customer's buying process has changed over the past decade, mainly as a result of the Internet. In their book, *How Google Works*, Eric Schmidt and Jonathan

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Involving your customers and your sales team in the design of a solution is a great approach to leading change, and it is essential if you want to get this done successfully.

Rosenberg succinctly describe three technological drivers of this change. First, the Internet has made information free, copious, and ubiquitous – practically everything is online. Second, mobile devices and networks have made global reach and continuous connectivity widely available. And third, cloud computing has put practically infinite computing power and storage and a host of sophisticated tools and applications at everyone's disposal, on an inexpensive, pay-as-you-go basis.

We know the world is now better informed, but little has been written about what these better informed buyers want from their suppliers, vendors, or partners.

Sales teams need a perspective to understand *why* change is happening. An outside-in perspective provides leverage because you are listening to the needs of those who will buy more from you if you get it right. An outside-in perspective is one in which the company elicits feedback and listens to what their current and prospective customers want, need, and value, and then develops or modifies its offerings accordingly.

Involving your customers and your sales team in the design of a solution is a great approach to leading change, and it is essential if you want to get this done successfully. We've worked with numerous clients who have created both external customer boards and internal sales advisory boards. The key to success with both is to select members who are seen as influential by their peers and have credibility in their areas of expertise.

Lever #2: Alignment

Everett Hill, SVP for Customer Development at Sipi Metals, remembers when he was charged with transforming a 1,200-person on-premises sales team for Coca-Cola Enterprises, Coke's largest bottler at the time. The primary goal of the transformation was to standardise and simplify the organisation's sales approach that had grown unwieldy over time and had too many metrics and too many goals. As he set out to simplify the process, Everett quickly realised that no sales transformation would happen unless distribution made changes as well. In our interview with Everett, he told us, "One of the things we learned from the national data is you can't be successful in selling if you can't keep the promises you made to customers. This spawned the distribution transformation project".

This was exactly the same situation at Central Garden & Pet. In order to be successful from a customer's perspective, the sales teams needed to be able to deliver on their promises, and this required alignment with other business functions, such as distribution and supply chain. In Central's case, we saw a classic alignment gap: the sales team could sell certain products, but the supply chain couldn't keep up, resulting in stock-outs, long delivery times, and unhappy customers.

These examples represent a key theme from our research and our own experience: Sales can't be an island when it comes to successful transformation. If the sales organisation tries to go it alone, the transformation is unlikely to be successful, and by the same token, the organisation cannot transform unless the sales team is a willing partner.

Gaining alignment early on in your sales transformation provides significant leverage to your sales transformation, because your sales team (and customers) can immediately benefit from the support and resources offered during the transition, and specific requirements can be integrated (rather than waiting to see what sticks). Common examples include updating recruiting profiles and compensation with the support of HR, linking the sales pipeline and forecast to the manufacturing and product planning schedule, and updating messages and sales kits from marketing.

Lever #3: Leadership

Strong and engaged leadership is essential for any change initiative. In almost all of our interviews for our book, the importance of leadership came up. In short, most said that if the key leaders weren't committed to the change and helping to drive it, it was not going to happen. Ultimately, the vision and commitment must be top-down, and they must go far beyond new coffee cups or trite slogans.

Leadership comes from several different levels, certainly the top, but also the first-line sales leaders, where sales initiatives often live or die. In one telling example, a former client of ours – a health care consulting firm with revenues of $250 million – wanted to transform into a solution and outsourcing-oriented organisation based on changes its executive team saw occurring in the health care industry. Interestingly, the two sales directors in the United States (East and West) were split over whether to embrace a sales transformation initiative.

The sales director for the western region led the change from the front, facilitating key meetings, tracking and reviewing key metrics, communicating about transformation constantly, and coaching his team in new solution-oriented behaviours. The sales director for the eastern division did not embrace transformation. He didn't track key metrics, didn't coach, and was barely present with his team. Later, some in the organisation said he'd been on autopilot and didn't want to put in the work to transform. Ultimately, and not surprisingly, the western division grew its revenues by approximately 20 percent more than the eastern region.

Leadership and ongoing commitment provide the leverage to distinguish a sustainable transformation from a one-time training event. Beyond lip service, leaders at every level who can effectively model, coach, and reinforce the desired behaviours and practices provide the critical link between vision and implementation. By going beyond a one-time sales development effort, sustained and authentic leadership across all levels of the sales team provides a multiplier effect that helps to accelerate change.

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Lever #4: Sequence

According to Jim Collins's classic bestseller, *Good to Great*, to become a great company not only must you get the right people on the bus, but you also have to get them in the right seats: "First Who, Then What". Perhaps counterintuitively, many of our interviewees echoed this theme, but in the opposite sequence. In order to recruit, select, and hire the right people, you first need to know what they will be doing – what knowledge, skills, and abilities will be needed to support a new sales process or way of selling with your customers.

If the transformation involves moving to a solutions selling model or to a split focus between existing and new accounts, these sales strategies require different skill sets and, often, different people.

For example, we worked with a Fortune 50 company that had a lot of great products, but little direction and no roadmap. Most of the company's profits came from a commoditised product, and leaders had no plan for focusing customers on their strategic offerings, such as servers, IT services, and software.

The strategic offerings had significant competition from best-of-breed providers and other large technology companies. The majority of the business units lost money, and not surprisingly, a lot of their best people left those same units. In addition to a clear overall integrated business strategy, the marketing and sales organisation was missing the "what" of enablement and strategy, for instance, providing integrated solutions to their customers' enterprise business and technology challenges.

Lever #5: Measurement

The metrics you use to quantify the sales transformation should focus on the vital few things that will determine success or failure. In our research we found that the number one predictor

Metrics are a lever as they are a proxy for what is important to the company and sales organisation, and they focus leadership on what measureable targets they need to reach and exceed.

of success was whether or not a company measured progress. But keep in mind, it's a big world filled with data, and you can't measure everything.

In fact, if you try, you'll end up measuring nothing. One client we worked with was measuring 180 KPIs, but no one really knew where the business was headed. The client ended up doing a balanced scorecard approach and went down to seven key metrics to track. These metrics were intimately linked to the heart of their sales transformation effort – things like revenue growth greater than run rate growth, wallet share, and contract renewals.

Metrics are a lever as they are a proxy for what is important to the company and sales organisation, and they focus leadership on what measureable targets they need to reach and exceed. Almost all clients we've worked with have been interested in benchmarks and target setting so they can measure themselves against others and against a goal or target.

Lever #6: Communication

The greatest vision (or offering for that matter) in the world is useless if no one knows about it. We've worked with a number of clients where the sales organisation created some great new processes and sales aids, but because only a few people knew about them, those innovations "died" from disuse. In one case, a client created a robust buyer-aligned sales process that was launched at a global sales kickoff meeting at the MGM Grand in Las Vegas. We've all been there: semi-dark room, everyone's tired, or otherwise impaired from the festivities that went late into the night before, and the SVP of global sales takes the stage. In an incredibly well produced event, the SVP brought in several customers via a live video chat, including CIOs from global Fortune 500 organisations, to describe the value they received from this company and how much of that value was shaped by the interaction with the sales team.

Based on this type of customer feedback, the company was rolling out a new customer engagement process and supporting tools and training. It was a wonderful event and launch, but three months later, there was no visible communication regarding the changes, and there was no reinforcement through coaching and inspection from the first-line sales leaders. The sales leadership team was later reshuffled, and the process never got a chance to become institutionalised.

Communication may be the most essential piece of what leaders do in conveying their vision, commitment, and ongoing sponsorship regarding a transformation. The essence of sales and marketing is communicating your value and difference and compelling someone to act. As in a winning sales campaign, the right communications, at the right time, to the right people is critical to winning a competitive, complex deal or effectively making the internal sale for a transformation.

In conclusion, for a sales organisation to reach its "ideal transformational advantage" it needs to pull the right levers in the sales force and across the entire organisation to drive meaningful and significant improvement.

Warren Shiver and Michael Perla, "7 Steps to Sales Force Transformation", published 2016, reproduced with permission of Palgrave Macmillan.

About the Authors

Warren Shiver and **Michael Perla** are the authors of *7 Steps to Sales Force Transformation: Driving Sustainable Change in Your Organization (Palgrave MacMillan).* **Warren Shiver** is the Founder and Managing Partner of Symmetrics Group and has more than 20 years of sales, management and consulting experience.

Michael Perla is a Principal with Symmetrics Group, and has more than 20 years of sales effectiveness consulting and strategic marketing experience.

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