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COLLECTIVE DISRUPTION:

A NEW MODEL FOR TRANSFORMATIVE INNOVATION

> 'VALUE CREATION,' 'VALUE ADDED' AND OTHER BUSINESS CLICHÉS: DOES VOC HAVE ANYTHING TO DO WITH THIS?

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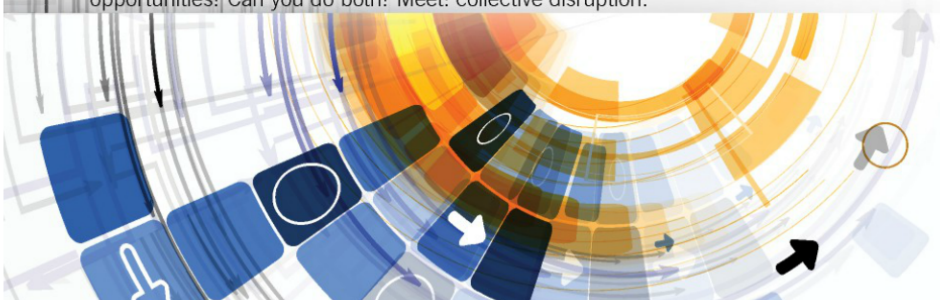

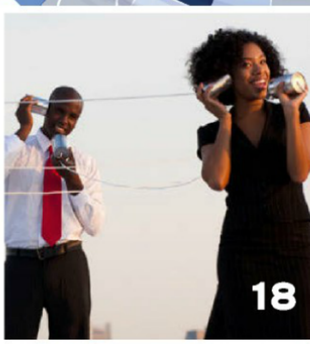

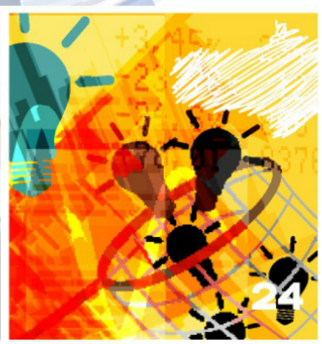

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COLLECTIVE DISRUPTION:

A NEW MODEL FOR TRANSFORMATIVE INNOVATION

BY MICHAEL DOCHERTY

Collective distruption is a new perspective on addressing the challenges of creating transformative new businesses and business models within large mature organizations. Leading companies are finding creative ways to engage with entrepreneurs and startups to co-create new businesses.

I remember a particular event years ago when I was vice president of new products for Sunbeam Corporation, having joined as part of the turnaround team in a very difficult Chapter 11 reorganization. The new CEO was giving a speech and held up a McDonald's Happy Meal in one hand and one of our Sunbeam hand mixers in the other. "Which of these do you think costs more?" he asked the audience.

The answer, of course, was the Happy Meal. It was a visceral way to demonstrate the state of the small-appliance industry at the time. Not only were we in bankruptcy — the industry itself was also in a race to the bottom, driven by intense retailer pricing pressure.

Meanwhile, startups from Silicon Valley and elsewhere were starting to introduce smart, connected home devices (early predecessors to today's Nest thermostat) and wearable health monitoring products. These startups were disrupting both the traditional product companies like Sunbeam and the retailers in our industry.

This is when I realized the old definition of innovation was dead (Figure 1). Core innovation was not enough. At best, it kept you in the game. In the new game, transformative innovation was needed to create new sources of growth. But transformational innovation in a mature and declining business seemed impossible (Figure 2). Whatever label we give it, I'm addressing the type of innovation that can redefine companies and industries and is about helping to transform companies by creating whole new businesses or growth platforms.

While you may be in a very different business or situation, I'm guessing you can identify with at least a portion of this story. Is your company struggling with how to protect and expand a core business that is under pressure, while simultaneously learning to develop transformative growth opportunities? Can you do both?

FIGURE 1: THE OLD DEFINITION OF INNOVATION, CORE INNOVATION, IS NOT ENOUGH.

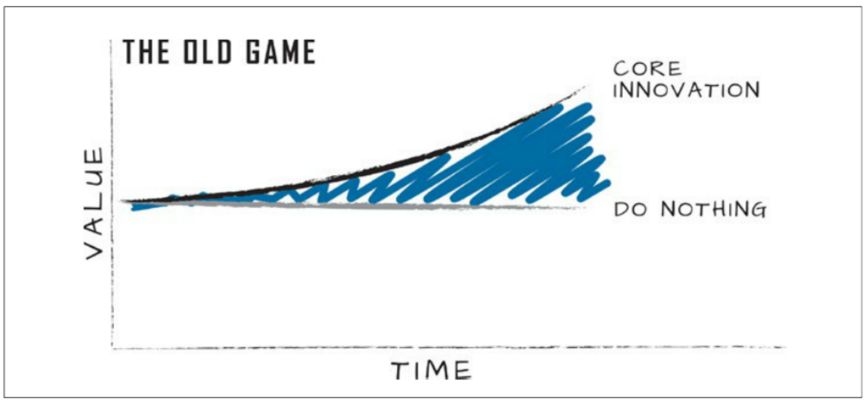
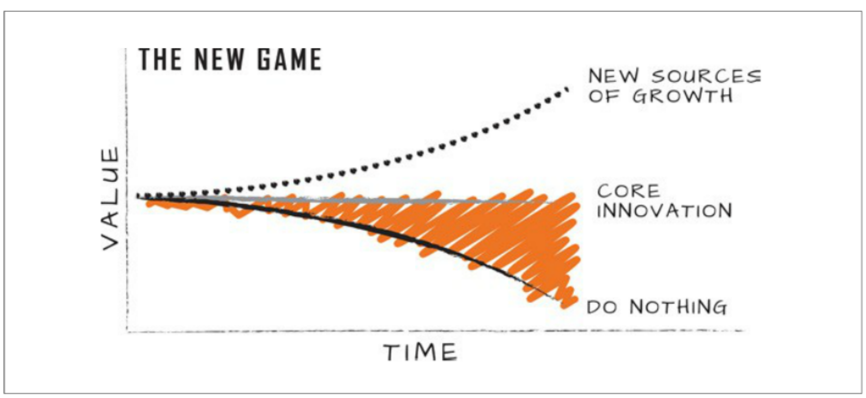


FIGURE 2: TRANFORMATIVE INNOVATION IS NEEDED TO CREATE NEW SOURCES OF GROWTH.



THE MYTH OF THE AMBIDEXTROUS ORGANIZATION

Back in 2004, authors Charles O'Reilly and Michael Tushman made their case in a Harvard Business Review article for the ambidextrous organization.[1] They argued that companies should be focused on developing strategies, cultures and organizations that support both incremental innovation and discontinuous innovation. Around the same time, two other academics, Costas Markides and Paul Geroski, challenged that theory with a claim that the skills, mindsets and competencies needed for breakthrough innovation were in conflict with those needed for mass-market optimization.[2] They pointed out that few companies in the world were capable of sustaining both models and made the argument that large consolidator companies should acquire and scale the discontinuous innovations developed by pioneering firms. The debate continues even today.

So which pair of authors was right? Neither and both.

The ambidextrous model has it right in saying that companies must be able to orchestrate and deliver both incremental and transformative innovation for long-term growth and success.

1. "The Ambidextrous Organization" by Charles O'Reilly III and Michael Tushman, *Harvard Business Review*, April 2004
2. "The Two Cultures of Corporate Strategy" by Costas Markides and Paul Geroski, *Strategy+Business*, Issue 32, Fall 2003

The problem is with the assumption that a single company can successfully manage contradictory structures and processes in the same firm, *and do it all internally*.

You might know of some companies capable of being ambidextrous. However, they are the exceptions, not the rule. For the rest of us, the ambidextrous model requires support from entrepreneurial partners.

The colonizer and consolidator model has it right, as transformative innovation has to be about engaging external entrepreneurs. The problem is that the approach promotes a purely transactional mergers and acquisitions model for consolidation. It misses the opportunity to "reverse-engineer" startups by influencing their direction and aligning them toward your strategic goals and growth aspirations.

EMBRACING COLLECTIVE DISRUPTION

Collective disruption is about applying the power of collaboration to the strategy of transformative innovation and new business creation. It's about building and nurturing a network of entrepreneurs, technology startups and other creative minds that work in concert with your internal resources in a networked approach to rapidly envision, incubate and commercialize a pipeline of transformative opportunities.

Based on my work with companies that are leading the way in co-creating with startups, I've outlined a framework for collective disruption (Figure 3) in four iterative and collaborative phases summarized below:

1. Discover (Engage the Ecosystem)

In this phase, you engage the innovation ecosystem to identify new business opportunities and assess them in support of your goals. What makes discovery unique in our context is the focus on providing practical ways that you and your teams can actually engage with partners in identifying and exploring breakthrough growth opportunities.

Example: Mondelez International (previously Kraft's snack business), found a new way to partner with emerging digital technology startups. Through the Mobile Futures[3] program, Mondelez publicized a series of innovation challenges, selected promising startups and then paired them with their brand teams to pilot solutions within 90 days.

2. Define (Opportunities and Business Models)

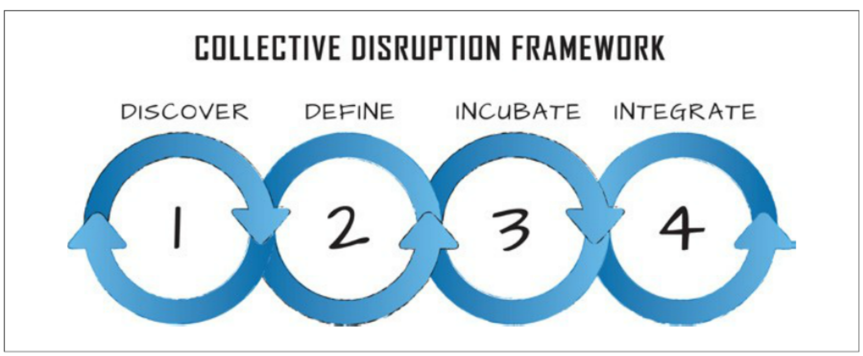
This phase harnesses a business model mindset to turn ideas into new business concepts. Engaging business partners in business modeling can be challenging but also powerful. Venture capital models for opportunity screening and funding are valuable here to help guide the decision-making process and determine whether that new idea is actually an investable business.

Example: When P&G launched its Align brand of probiotics, they defined the business through an entrepreneurial team that leveraged direct engagement with online communities of digestive disorder sufferers as well as physicians. They took this learning to P&G management and gained funding for incubation and scale-up.

3. Incubate (Evolve and Accelerate)

This is the application of a modified version of lean startup methods, adapted for collaboration between corporations and startups.

FIGURE 3: THE FOUR ITERATIVE AND COLLABORATIVE PHASES OF COLLECTIVE DISRUPTION.



3. Ed Kaczmarek (Brand Accelerator, previously with Mondelez Int), interview by Michael Docherty, June 2014

Collaborative incubation allows teams to rapidly prove-out and evolve the opportunity with the best corporate and startup approaches.

In the book "Collective Disruption," I discuss and provide examples of how incubation can be done in at least three ways:

Inside-In (e.g., integrated): This model is focused on internally managed efforts, supplemented by external partners. A corporate team manages transformative innovation efforts with the autonomy, skills, focus and partnerships to create breakthrough opportunities and new businesses. IBM has its Emerging Business Opportunities (EBO) group that has delivered $26 billion in incremental revenue for IBM since it was created in 2000.[4]

Inside-Out (e.g., accelerators): Dedicated corporate accelerators and corporate tie-ins to existing accelerators are hot trends today. In the book, I provide practical advice on the pros and cons of the corporate accelerator model and examples of several variations on the model. Lowe's Innovation Labs has partnered with Singularity University, along with a variety of startups, to explore big ideas outside of Lowe's traditional R&D organization.[5]

Outside-In (e.g., imbedded entrepreneurs): Another approach is to imbed external partners and entrepreneurs directly into corporate venture teams. It's difficult to pull this off without the right entrepreneurs who can navigate the corporate landscape and avoid the landmines. Jarden recruited a food tech entrepreneur to lead an internal venture when it entered a category for which it lacked the experience and risk profile.[6]

4. Integrate (Transition and Scale)

A critical task is designing these new teams and structures as both separate and connected — islands with a bridge to the mainland. They need enough separation to allow them to operate outside of the tight financial controls of the current business. At the same time, they need enough engagement with the main business to ensure they're being designed for eventual integration. In this phase, the new business is parallel scaled and ultimately integrated into the business.

Example: This is how Jarden Corporation handled the creation of its Margaritaville Frozen Concoction Maker business. First, the Margaritaville team was set up as a completely separate business incubation team, independent from the core business priorities, structures and reporting lines. As the initial products were launched and succeeded in the market, Jarden began to integrate the product line, first from a market-facing standpoint and then finally reintegrating the entire business.

EMERGING LEADERS IN COLLECTIVE DISRUPTION

Johnson & Johnson (J&J) is embracing many of these new forms of collaboration and co-creation for transformative innovation. In four innovation centers (California, Boston, London and Shanghai), J&J is identifying and engaging with early-stage startups and entrepreneurs in mutually beneficial collaboration.[7] While equity investment is common, it's not a requirement. The entrepreneurs gain critically important support from J&J's scientific, regulatory and business experts residing in these innovation centers. Through its Entrepreneur Innovator Program, entrepreneurs can bring interesting technology or business ideas to the company. If J&J sees significant value in the idea, it might assist them in company formation, support business plan development,

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4. "Organizational Ambidexterity: IBM and Emerging Business Opportunities" by Charles O'Reilly III, J. Bruce Harreld, and Michael Tushman, *California Management Review*, Summer 2009
5. Kyle Nel (Lowe's Companies), interview by Michael Docherty, July 2014
6. Asoka Veeravagu (Jarden Consumer Solutions), interview by Michael Docherty, May 2014
7. Johnson & Johnson Consumer Product Companies executive, interview by Michael Docherty, November 2014

provide office and incubator space, and provide additional financial and advisory support — all while the entrepreneur retains 100 percent ownership. Why? Because J&J understands the importance of early engagement and positioning itself as the partner of choice.

Coca-Cola has been expanding a very interesting corporate accelerator program of its own called the Coca-Cola Founders Program.[8] Coca-Cola has taken a unique position by focusing on co-creating with startups, making its assets available to proven cofounders and then bringing Coke's amazing ability to scale. By recruiting external founders and then letting them build new companies around Coca-Cola's assets, relationships and resources, Coca-Cola gets early access to new opportunities, and the founders gain an unfair advantage through their relationship with this leading brand company.

Cisco is embracing collaboration and cocreation at every level. Cisco's Hyper-Innovation Living Labs (CHILL) brings together other peer companies and strategic customers to study key areas, such as the "Internet of everything."[9] In long-term collaboration projects, these companies seek to cocreate transformative opportunities, and leverage the startup ecosystem for both ideas and incubation.

These are a few examples of emerging leaders that are demonstrating the future of collaboration and cocreation: the virtual enterprise. This coming virtual enterprise world is one that's connected in a web of relationships with customers, suppliers and a curated group of entrepreneurs and startups who matter to each other — all of this supported by crowdsourcing and open innovation for access to even larger groups of ideas and resources in the world at large.

MAKE A DIFFERENCE

The message I want to leave you with is that this process begins at home. You are capable of tremendous things and can have an amazing impact on your company, your customers and your career.

At Sunbeam, our management team navigated through Chapter 11 reorganization, rebuilt the business and returned it to profitability. A few years later, Jarden Corporation acquired the business. The experience changed my personal path as well, and has helped inform the approaches that I've championed in my ventures and with my clients. Since leaving Sunbeam, I've founded several startups, led a venture capital firm and worked as an adviser and partner to many inspiring entrepreneurs and visionary corporate innovators.

Nearly all of us involved in corporate innovation and entrepreneurial endeavors are driven by a sense of purpose. We want to create something new and meaningful, something that can improve people's lives. In spite of all the challenges and naysayers, we want to be champions for big ideas that can change the world. Learn to lose some control and embrace new approaches to collaboration and business building and you'll be both inspired and amazed by what can happen. **V**

Michael Docherty *is the author of the new book "Collective Disruption: How Corporations and Startups Can Co-Create Transformative New Businesses." As* ***CEO of Venture2****, Docherty and his organization work with leading companies to develop transformative innovation capabilities, build innovation ecosystems and accelerate the commercialization of breakthrough new products, services and business models.*

8. Coca-Cola Founders Program (**www.coca-colafounders.com**)
9. Kate O'Keeffe (Cisco), interview by Michael Docherty, October 2014