Article

CREATE BETTER BUSINESS

How product companies can tap into unparalled disruptive market opportunities

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Creating better business is about two things. Firstly, it is about how product companies can create significant new value by challenging their existing business, operating and mental models. Secondly, it is about the need for product companies to step out of the shadow from Silicon Valley and create the sustainable physical infrastructure and great solutions that the world needs in the years to come.

Why create better business?

The climate challenge is evident to almost everybody. Politicians and big company CEOs have committed to radical reductions of CO_2. Millions of people across the planet are ready to spend more on better solutions. Yet the gap between goals and real corporate action is substantial. Demand for better solutions grows much faster than supply. That spells disruption, which is always an opportunity for the fast – and a threat for the slow. And the opportunity is not a small one.

Very soon, the biggest market of all will likely be the one for new sustainable solutions. Green business is becoming big business – especially if viewed as more than a “compliance play”.

Big tech companies from Silicon Valley and other hubs have long been our disruptive innovation heroes. Their ability to organise around opportunity and move fast has disrupted countless industries and created a wealth of fantastic and almost addictive solutions and services.

CREATE NEW BUSINESS OR IMPROVE CORE BUSINESS?

IT IS NOT ABOUT CHOOSING BETWEEN TWO EXCLUSIVE OPTIONS

Our ability to shop from anywhere, experience/create great content and share our daily lives with others has never been greater. Big tech has made life more convenient for billions of people. Across the world they created millions of great jobs for developers and thousands of jobs for tax lawyers and political lobbyists. They also created an enormous wealth among hundreds of founders and early investors.

We cannot rely on big tech alone
However, we cannot rely on big tech alone to create the world that our children and grandchildren need in the future. Not even if they increasingly power their giant server parks with renewable energy. Currently, the global emission of CO_2 equivalents is roughly 51 bn tonnes per year. Bringing that to zero in key industrial areas such as heating/cooling (17%), road transport (12%) and livestock (6%) is a sizable task that also requires new physical solutions, products and services. It requires new processes at a giant scale to transform renewable natural resources into proteins, motion, electrical power and other types of energy. It is an enormous market opportunity that big tech would not necessarily be best positioned to solve.

Thousands of “traditional” product and service companies have a unique opportunity to grab a share of this growing market for sustainable solutions. Being awake when disruptive opportunities appear and being able to rethink current operating and mental models is the best survival insurance any company can make. Also, creating a fantastic workplace, being able to attract and keep top talent is a very solid argument for doing more or doing things differently.

If you are a successful leader in a big organisation, you may choose to reflect upon your impact on the planet while you are here. You could play it safe, by traditional measures, and improve the core business a bit every year, even if it is really not that easy. Or you could facilitate the creation of something that is noticeable a long time after you are gone. Something you would proudly tell your grandchildren about. Maybe no one is explicitly asking you to do that. But wouldn’t it be something?

New disruptive opportunities are underexplored by product companies
One reason that disruptive opportunities are underexplored is that the potential new business is often contrasted with the existing core business. Like “if our people should do this new thing, then they would have to focus less on the quality of our core business”. But it is not about choosing between two exclusive options. For instance, Amazon did not reduce focus on amazon.com to resource the creation of Amazon Web Service. They did both. If it is made into a choice, the existing business will often win. A serious growth strategy requires significant reinvestment – often, at the expense of short-term profits and shareholder dividends. Big tech companies have shown better than anybody else how this approach can drive the P/E ratio through the roof and establish a virtuous circle of available risk capital.

Another reason that disruptive opportunities are underexplored is that the notion of risk is often misunderstood. New disruptive business sounds like a big risk. But approached in the right way, that is not the case. Realising big visions in operationally stable environments often requires a great deal of capital expense upfront, e.g. to build a new factory or implement a new CRM system. However, exploring new disruptive opportunities is done by validating commercial and technical assumptions in iterative steps and linking funding to the results of these validations.

How to create better business?

Companies with an ambitious long-term vision need a continuous ability to renew themselves through creation of new disruptive solutions and business models. It is not enough to succeed with one project. Companies need to focus on how wider communities are incentivised to look for opportunity, how investment and governance is executed and how a portfolio of disruptive concepts is handled compared to the ordinary business and product development portfolio.

But if companies do not have the skills to do one project right, it may be premature to establish a portfolio, an organisation or an innovation lab covering several disruptive bets. There are extensive learning and improvement opportunities in “going all the way” with one opportunity. It will help surface a lot of fundamental challenges where real guts are required to make the right decision for the new venture.

Therefore, we would like to share a battle-tested process for creating a new venture. It contains five steps:

1. Define opportunity area and team.

2. Discover customer problems worth solving.

3. Generate a portfolio of solutions and design a road map.

4. Launch and validate the first version of your new business.

5. Scale and grow the business.

LOOKING FOR CUSTOMER PROBLEMS JUST BEYOND CURRENT PRODUCTS CAN LEAD TO RATHER DISRUPTIVE SOLUTIONS

For substantial opportunities, we advise you to spend a focused 12-18 months, tirelessly validating assumptions and improving, to achieve product/market and business model fit, before you initiate real scaling and growth.

Step 1: Define opportunity area and team
When you look into the corporate strategy and long-term vision, the opportunity area should be rather easy to find. It should not be too narrow since the opportunity area must ”open up” rather than “close down”. For many product companies, it could easily involve something relating to services/ subscriptions, performance delivery, digital insights or something around end-to-end influence on customer experience or value. But it can really be anything.

Sustainability is a very interesting “meta” opportunity area, even if it is very broad. Massive commitments and concrete investments are happening at EU, national and corporate level, and consequently it will not be too difficult to predict many shifts in customer behaviour and needs. In fact, many shifts are already in progress and will be amplified: move towards electric vehicles, towards plant-based proteins, towards energy renovation etc.

The single most important success factor when creating a new venture is probably the team, which includes both developers and investors. They will need skills and mental power to find a way through endless challenges and problems. So, an ability to cast and prep the team right is crucial. All team members need passion and accountability to create business and a very strong desire to address the opportunity area. The decision authority must be very close to the real insights, facilitating faster and better decisions. Members need a “just do it” mindset and knowledge to “work the existing system”. The team needs multiskilled people who can work outside a narrow functional area. The team members should not be “representation” from functions, as their number one loyalty must be the venture team.

Step 2: Discover customer problems worth solving
The most natural place for companies to look for new business is in the vicinity of current business or products. But here, it is key to explore what the customer needs in order to be successful. You cannot focus on your current product. Instead, you should ask what the customer needs before and after using your product/ service to achieve process objectives? And if that is not wild enough, ask what the customer needs to achieve their overall system or life objectives? Even if often coined “adjacency innovation”, this can end up rather disruptive, but when you move outwards from current offering and relationships, your company will at least have a powerful “ticket to play”.

Another place to look for unsolved problems is in new segments among new customers. Here, your "ticket to play" will have to be a specific company capability or asset that can be used in another industry. Look for industries that have either been stagnant for a long time or are in the midst of significant structural or demand changes. Imperfect markets and antiquated value chains where roles are ripe for redistribution.

Whether you look among current customers or in new industries, you must find problems worth solving. Most product companies can find some rather significant customer problems to address, and for sure the world has some rather serious problems that need solutions. When you address sustainability-related problems, it is very important that you are tough on commercial and financial evidence gathering, so that our desire to be good humans will not distort validation of the business potential.

Problems are not always easy to notice and size up. But it is important that you try to estimate how big different problems or opportunities are. That measure is called "Total Addressable Problem" or TAP. A useful formula is TAP = Cost of Problem x Frequency of Problem Occurrence x Number of Customers facing the Problem.

Step 3: Generate a portfolio of solutions and design a road map
A presentation of the TAP in various inspiring ways is the perfect point of departure for generating new value propositions. We will not tire you with different idea generation methods, but you obviously need the right mix of internal capacity and external (outside-in) inspiration.

You need to generate a large amount of possible value propositions. And naturally, some of these value propositions or ideas will be more substantial than others. Once you have a portfolio of potential solutions, you define what the big bet could look like. The unicorn solution, the big vision. Then it is time to build the business generation road map.

What would be some logical steppingstones towards the unicorn? What is the generation 1 business, generation 2 business etc. until we reach the unicorn vision (maybe generation 4 or 5) sometime in the future? The stepwise road map is a critical component in de-risking a disruptive vision.

Step 4: Launch and validate the first version of your new business
With a logical road map, including clear steppingstones, you are in a good position to launch and validate the first version of your new business. Your generation 1 business. Let's call that the Minimum Viable Product (MVP). The idea of an MVP is to launch fast because launch is what creates real evidence. For a professional and quality-conscious developer, it can be very counter-intuitive to launch fast. But you really must be slightly ashamed by your first launch. Otherwise, you will likely engage too slow with the real world.

Launching fast means positioning your offering in a real setting where potential customers need to make a real commitment related to your value proposition. Here, you are not looking for a customer opinion, or worse, internal opinion of powerful leaders. You need real evidence from the real world. The best evidence is obviously real customer purchase. But there are other leading indicators which are very valuable, for instance "fake door/split testing", "pre-order/reservations" or "conditional purchase orders".

Step 5: Scale and grow the business
When you have launched your first version of the new business and demonstrated solid product market fit, scaling and growing becomes important to take the volume market. You need to base the scaling and growth of the new value proposition on metered funding. Metered funding means that capital is only released as real evidence is provided. Asking the development team or investor team to invest their own money, for instance 1-5% of corporate funding, will greatly enhance their ability to evaluate evidence.

SERIOUS VENTURE INVESTMENTS REQUIRE A STRATEGIC AND LONG TERM CORPORATE GROWTH NARRATIVE

In the scaling and growth phase, you focus on three areas, which are all part of the same integrated system:

1. The core value proposition

2. The sales and delivery process

3. The organisation

To go from solution generation 1 to 2, 3 etc., you must improve the core value proposition relentlessly and continuously. A great deal of focus will be on improving customer value and on reducing "product cost". The sales and delivery system needs to increase capacity, reduce customer acquisition cost and move from manual towards automated execution.

The "organisation" is possibly the most challenging part to get right. If a new venture has successfully launched the first MVP, countless important managers from across the company will eagerly offer their help. This is all nice, of course. But members of the new venture team could be overly tempted to look good among their "old" bosses and forget what the new venture really needs to prosper. In our experience, top management often tend to overestimate the value of existing assets and capabilities when going into new ventures or business models. Using HR, IT or finance functions designed for big volume can easily kill a new venture that needs speed more than anything else.

Finding the right governance structure or place to live for a new venture will have a great influence on its success. The choice will depend upon the closeness to current business and operation. Assessing the potential growth impact vs commercial, technical and process uncertainty can help companies make the right decision.

How to keep creating better businesses?

Once the organisation has proven that it can move one or more disruptive opportunities to product market fit and initial volume market success, it is time to expand (scale) the growth capability across the company. It does not need to happen sequentially and can be done in parallel to pushing individual business ventures. But it is important to avoid "premature method scaling" in the form of superficial hackathons/design sprints, show-off innovation labs and other types of "innovation theatre". Scaling requires mastery in the science of venture building.

Leaders need to reflect on the big why. The growth strategy. If we build a "machine", we need to know what it should deliver. Where should the company play in 5 to 10 years? What is our play beyond product and volume growth? How much revenue should come from new sources and new business models? And how much investment is required to achieve this result. A serious and ambitious growth strategy will require great business creation methodology, of course, but it will very likely also require a higher reinvestment of profits into growth. Leaders need some good discussions with their boards and investors to make this possible, and they need a believable strategic growth narrative to free up capital for serious initiatives.

Even though new markets are won "one battle at a time", companies need to collect disruptive initiatives in a separate growth portfolio. The reason is that both the execution and governance of that is radically different from ordinary strategic initiatives and new product development. This portfolio should be established at the highest level because it is the single most important thing for the company future. It should also be placed at the top level, because only here does the line of sight make it possible not to get lost in current operational agendas of business units or other revenue entities. Most disruptive opportunities are disruptive precisely because they lie outside current practice. However, if a business unit is substantial in size, it may want to run its own growth portfolio.

Running a growth portfolio with success requires dedicated personnel. It requires a growth team. But remember, this is a new game with new rules, so just taking people from existing portfolio teams may not always work. However, it is clearly our experience that all companies have lots of great people with unrealised innovation potential and guts. It is just a matter of getting them to surface.

The job of a growth team is to help employees from all around the organisation to attack big customer problems that have not been solved yet. They also have the job of leveraging communities/professionals outside the organisation in finding and solving worthy problems. The growth team consists of a growth board (or investor team), growth coaches and possibly a few supporters for consolidating portfolio overview, growth metrics and process learnings.

The growth board reviews business initiatives just like a venture capital firm would do. By monitoring the Investment Readiness Level (IRL) across several business-critical factors, they provide a team with funding for the next time-box if sufficient real evidence has been provided. As executive growth drivers, they also play an important role in triggering interest and exploration in the direction set by the corporate strategy.

The growth coaches help specific teams of cross-functional business creators apply proven methods for validating and scaling their new business. The coach supports the founder, i.e. person(s) with the original idea and drive, in achieving his/her vision. The founder should be key in driving the effort all the way as "the start-up CEO". Possibly, once the new business enters volume scaling, it could be beneficial to insert management with more operational efficiency focus.

But too much responsibility handover is poison for commitment, energy and drive. Coaching one team can be more than a full-time job, especially in the beginning, and especially if the business creation team lacks entrepreneurial capabilities. But typically, after 6 to 12 months, surviving teams will have built up enough skills and internal capacity to relieve the coaches significantly.

The growth coaches and supporters have one more important job. With help from the growth board, they must generate interest, curiosity and energy around finding and solving big problems that are currently not addressed sufficiently. More specifically, they must help facilitate the creation of initial problem/solution candidates. This job involves organising, opportunity mapping, idea collection, boot camps/accelerators, inspiration events and knowledge sharing. It will take a great deal of reflections, skills and effort to do this as an adequate and measured effort that is powerful, pragmatic and real.

Better business

Creation of better business is something the world needs. It is also something most companies need to stay relevant in the future. It must be done with force and focus. The approach, on strategy, portfolio and project level, is radically different from growing through the existing business model. In our experience, it often takes longer than expected. But the great thing is that the risk will be lower than expected due to the iterative allocation of effort and capital based on real evidence.

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All authors are part of Implement's Corporate Venture practice.

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