

# Growth in the Face of Uncertainty







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# *Growth opportunities are everywhere, but are often missed...*

It could have been...	But it ended up being...
Time Warner capitalizing on Internet-based advertising and promotion	
Sony taking advantage of its access to great content and fantastic engineering to serve up on-line music	
Local newspapers and media companies creating on-line alternatives to classified ads & directories	
Established book sellers or content providers dominating the market for digital books	?????
High end department stores extending their reach to new channels for personal items such as shoes	 the web's most popular shoe store!

# *What do these typical barriers to growth have in common?*

- Lack of incentives
- The existing business is too powerful
- Management wants near-term success
- Too many silos
- Lack of customer focus
- Fear of failure
- It's 'no one's job'
- Innovations don't get big enough fast enough for us
- We are focused on our quarterly earnings
- We are afraid of cannibalizing our successful businesses

***From a Conventional Mindset  
to a “Discovery Driven”  
Perspective***

# A few from the flops file



Revlon  
Vital  
Radiance



AOL/  
TimeWarner



Google  
Radio



Condé Nast  
Portfolio.com



Motors



Kodak/  
Sterling Drug



PAX tire



Webvan



Millennium  
Dome



CargoLifter

# *The core problem...*

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- Assumption : Knowledge ratio
  - Coupled with how we are hard-wired to make decisions
    - ▶ Confirmation
    - ▶ Anchoring
    - ▶ Affirmation preference

# *Five disciplines, working together*

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- Define success before you start
  - Impose market and competitive discipline
  - Lay out clear operations specifications
  - Articulate and document assumptions
  - Plan to checkpoints
- 
- Used for startups, corporate ventures, services businesses, governments & NGO's, IT projects, B2B businesses...anything with a high assumption: knowledge ratio

# *Begin by defining the prize*

- 
- Profits - For an established organization, say 10% increment in profits overall plus improvements in profitability
  - Position - Clearly defined contribution to position, share or penetration
  - Or transformation potential - For a new business, what would make all the trouble worthwhile?

# Simple illustration: A Toy Story



# *Reverse income statement (for profits)*

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- Required Profits = necessary revenues minus allowable costs
- Required ROI = required profits / allowable investment
  - ▶ Start with profits and permit costs, not start with costs and hope the profits will flow

# *Internal & Not for Profit Situations*

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- Typically, you are looking for maximum returns for some kind of input.
- So, consider,
  - ▶ Return on Time invested
  - ▶ Return on Dollars invested
  - ▶ Return relative to other opportunities
- That can help with tradeoffs – our favorite example of a pastor and flock-building, very similar to your challenges

# Unit of Business: Toy Store



By the unit

# What does success look like?

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Required Before-Tax profits	\$ 250,000.00
Return on Sales	50%
Required Revenues	\$ 500,000.00

# Preliminary “reverse” income statement

Average price per item	\$25.00
Number of items required	20,000
Average items per purchase	2
Required purchases	10,000
Weeks during peak season	8
Required purchases per peak week	1,250

Total size of store? 3,100 square feet

***What do you think of this idea  
at this point?***

# *Second discipline: Discipline of the Market*

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- Critical market assumptions
  - ▶ Apparel venture
- Critical technical assumptions
  - ▶ PAX run-flat tire

# Benchmarks: Toy Store?

- Average purchase in a Toys R Us store
  - ▶ \$10 or just under
- Average size of a Toys R Us store
  - ▶ 20,000 square feet



# *Hmmm...not looking so good*

- But what about Build a Bear Workshop?
  - ▶ 3,000 average store size
  - ▶ \$700 average revenue per square foot
  - ▶ \$2.1 M revenue potential per year per store
  - ▶ That works!



# Or the American Girl Place?



- A day at American Girl Place can easily run about \$300 for one adult and one child. It starts with the purchase of an \$87 doll and paperback book.
- Visitors spend on average two hours at the store--watching the musical American Girls Revue at the in-store theater (\$28 each), having lunch at the pink-and-black polka-dotted tea room (\$20 each), visiting the doll hair salon (\$10 to \$20), posing for a picture at the photo studio (\$23 to \$35), perusing the doll museum (no charge), and shopping for doll outfits, doll furniture and doll accessories.

<http://www.prophet.com/newsevents/news/story/20070116story.html>

# *Third discipline: Specify operating challenge & document assumptions*

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- Questions along these lines:
  - ▶ How many units do I have to sell to achieve my profit goals?
  - ▶ Will this volume support a cost structure that achieves my profit goals?
  - ▶ What kind of people infrastructure do I need to achieve my profit goals?
  - ▶ How sensitive will my profits be to changes in the assumptions I am making?

# Operating Specs – Toy Store 3

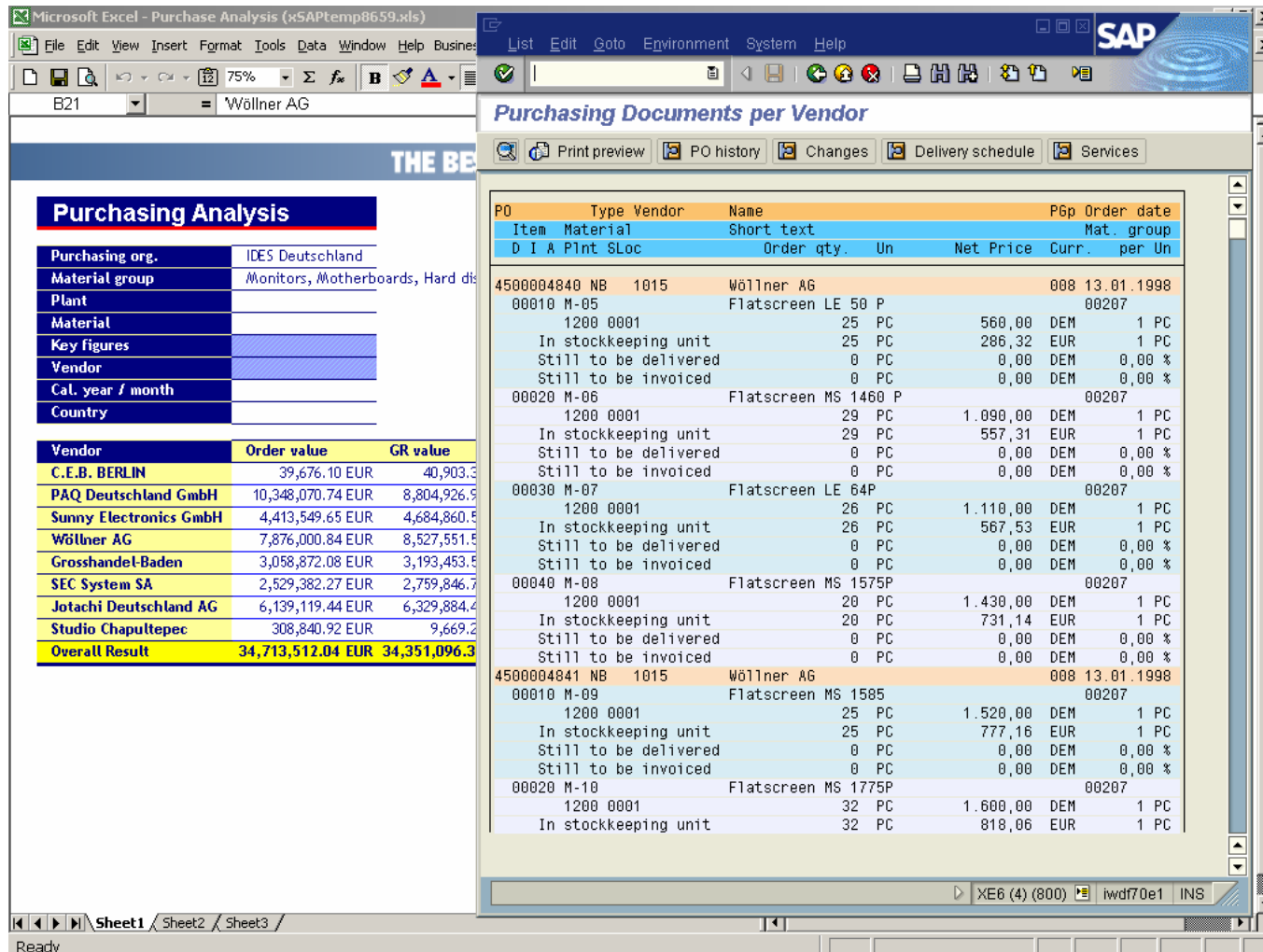


		Source
<b>Allowable cost analysis</b>		
<b>Advertising/Marketing Expense</b>	<b>\$ 30,000.00</b>	<b>From above</b>
<b>Rent</b>	<b>93,000</b>	<b>From above</b>
<b>Inventory costs</b>	<b>\$ 50,000.00</b>	<b>From above</b>
<b>Sales expenses per year</b>	<b>\$ 33,280.00</b>	<b>From above</b>
<b>Total Anticipated Costs</b>	<b>\$ 206,280.00</b>	<b>Calculation</b>
<b>Allowable Costs</b>	<b>\$ 250,000.00</b>	
<b>Anticipated Costs</b>	<b>\$ 206,280.00</b>	
<b>Cost Buffer</b>	<b>\$ 43,720.00</b>	<b>Calculation</b>

# An Assumption Checklist

Element	Data	Source	Last Checked	Assumption #
Market Size	20,000+	Local survey	Internet 6/2006	1
Operating Cost	No more than 75% ROS	Assumption	6/2006	2
Merchandise mix	Old Fashioned	Mfg report	August 2006	3
Price range for product	\$25-50	Prototype session	Customer focus group	4
Spread across year	Even	Calculated	Other biz experience	5

# You can quickly generate major insights: Consider SAP and SaaS



The screenshot shows a SAP Purchasing Documents per Vendor report overlaid on an Excel spreadsheet. The Excel spreadsheet displays a 'Purchasing Analysis' table with columns for Vendor, Order value, and GR value. The SAP report shows a detailed list of purchase orders (PO) with columns for PO, Type, Vendor, Name, P6p, Order date, Item, Material, Short text, Order qty., Un, Net Price, Curr., and per Un. The report is filtered for Vendor 'Wöllner AG' and shows multiple POs for various materials like 'Flatscreen LE 50 P' and 'Flatscreen MS 1460 P'.

Vendor	Order value	GR value
C.E.B. BERLIN	39,676.10 EUR	40,903.3
PAQ Deutschland GmbH	10,348,070.74 EUR	8,804,926.9
Sunny Electronics GmbH	4,413,549.65 EUR	4,684,860.5
Wöllner AG	7,876,000.84 EUR	8,527,551.5
Grosshandel-Baden	3,058,872.08 EUR	3,193,453.5
SEC System SA	2,529,382.27 EUR	2,759,846.7
Jotachi Deutschland AG	6,139,119.44 EUR	6,329,884.4
Studio Chapultepec	308,840.92 EUR	9,669.2
<b>Overall Result</b>	<b>34,713,512.04 EUR</b>	<b>34,351,096.3</b>

# Some SAP Financials (2007)

Revenues (€M)	10,242
Operating Income (€M)	2,732
Operating margin in %	27%
Percent revenue from software sales	33%
Percent revenue from support activities	37%
Percent revenue from other professional services	27%
To grow 10% per year, additional annual revenue needed by 2010 (€M)	1,239
Implication: They need to have businesses capable of generating an additional 1.2 billion of revenue, ideally at same or better operating margins	

Source: financial data from the SAP web site

<http://www.sap.com/germany/about/investor/reports/GB2007/financials/consolidated-statements-of-income.html>

# *SAP's own definition of success, circa 2007*

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- \$1 billion + in revenue
- 10,000 new users
- By 2010



# *You can see the problem coming...*

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Revenue target, 2010 (assumes most company growth from SaaS offers – see earlier) (€M)	1,239
Charge per user per month (current actual price)	\$149
Months in year	12
Charge per user per year	\$1,788
Number of required users (dividing)	693,111

# *Final discipline: Checkpoint planning*

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- Focus on converting assumptions to knowledge (plan to learn)
  - ▶ Driven by checkpoint events
  - ▶ At each checkpoint, revisit the assumptions and business model - what has been learned?
  - ▶ Experiments and probes prior to full scale commitment, if you can

# Map assumptions to checkpoints (no empty rows, no empty columns!)

Assumptions	Checkpoints						
	1	2	3	4	5	6	7
1	✓	✓					
2			✓				
3	✓			✓	✓		
4	✓	✓	✓	✓	✓	✓	✓
5		✓		✓			

# Using CheckPoints to Sequence Risk

**Manufactured Product CheckPoint/Assumption Table**

CheckPoint number	CheckPoint event	Assumptions tested	Cost
1	Market study	All	\$3K
2	Industry analysis	All	\$10K
3	Feasibility study	All	\$25K
4	Product samples	1, 3, 4, 5	\$6K
5	Focus groups studies	1, 3, 4	\$14K
6	Advertising study	2	\$25K
7	Human resource and manpower study	7, 8, 12, 13, 14	\$25K
8	Market research: Conjoint analyses	1, 3,	\$25K
9	Trials with Beta users	1, 2, 3, 4, 5	\$50K
10	Focus group discussions with beta users	1, 3, 4,	\$25K
11	Pilot plant	9, 10, 11, 15, 16, 17	\$100K
12	Pilot marketing campaign	1, 3, 4, 6, 7, 8, 17	\$80K
13	Plant design and site acquisition	18, 20, 21	\$4M
14	Pilot sales recruitment and training	1, 4, 5, 6	\$75K
15	Plant construction launch line 1	9, 10, 11, 20, 21	\$3M
16	Manufacturing recruitment and training	12, 13, 14, 15, 16, 17	\$200K
17	Plant commissioning	9, 11, 12, 15, 16, 17, 18, 20	\$150K
18	Sales recruitment and training	1, 3, 4, 5, 6, 7, 8	\$250K
19	Product launch	All	\$750 K
20	Full-scale plant construction launch	All	

# What about G. Willikers?

- Still operating with their concept – more theme park than toy store – but partnering with sister concept: Stage 9 Entertainment



# And what about SAP and SaaS?

- SAP co-CEO Leo Apotheker says that Business ByDesign, the application giant's high-profile software as a service product, was delayed because of its total cost of ownership for the company.
- That's a fancy way of saying SAP hasn't figured out how to make money at its \$149 per user per month price point. SAP confirmed that it was delaying Business ByDesign when it reported its first quarter earnings. "We've announced a price point and now we're working backwards," says Apotheker.
- "What we did discover in the last five or six months is that while we made progress on our TCO model we're not where we wanted to be (a 10 times TCO reduction)," says Apotheker, in a meeting with a group of Enterprise Irregulars Monday at SAP's Sapphire conference in Orlando.
- Apotheker plays down the delay adding that "it's not like we put this thing in the freezer." Apotheker didn't go into too much detail about what was derailing TCO, but did mention that "there's a lot of engineering involved." Apotheker says SAP is working through upgrades, hot patching and hosting costs, but isn't cutting expenses quickly enough to hit its rollout targets.

Source: <http://blogs.zdnet.com/BTL/?p=8724>

# *An SAP Observer concludes the following*

1. BBD not originally designed as an SaaS application
2. Over-ambitious scope
3. Too “heavy”
4. Internal collaboration failed
5. Focus on ‘engineering excellence’ rather than shipping
6. Reduction in force limited sales team and ability to break into the market

Source: Dennis Howlett - What Really Happened to Business ByDesign?  
(<http://blogs.zdnet.com/Howlett/?p=999>)

# *Practical take-aways*

- Discovery driven planning is no less disciplined than conventional planning
- But the difference is that the disciplines are appropriate to situations in which you just don't have information
- Plan, but plan to learn!

***Now: How can you anticipate potential traps and roadblocks?***

**DRAT**

**(Delay and Resistance Analysis Table)**

# *Common External (customer or other) barriers*

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- Power of Incumbent Stakeholders
- All adversely affected stakeholders with power to resist
  - ▶ Transition from paper mail to electronic records management
  - ▶ Opposition to adoption of 'spend management' program

# *Common External barriers*

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Risk to decision makers

All possible conditions which would cause reluctance on the part of decision makers because of potential risks they could be taking

- Outsourcing

# *Common External barriers*

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## Reaction from advocacy groups

Potential reaction from advocacy groups who might perceive success as eroding their cause

- Monsanto, Morning after pill, new financial market regulations

# *Common External barriers*

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Inertia or indifference of recipients

All factors which would cause the potential beneficiaries to be more comfortable with the status quo, or which would benefit those who don't have to make the effort for implementation

- Labor Tape Reading Training

# *Common External barriers*

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- Embeddedness required by offering  
Instances where your offering requires  
major changes in the user's system
- RFID baggage handling

# *Common External barriers*

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Changes of standards or regulations required

- Credit cards in South Dakota

*DRAT Table: Most Common External Barriers to Execution*

<b>Barrier</b>	<b>Need to anticipate</b>	<b>Challenge</b>
<b>Power of incumbents</b>	<b>All adversely affected stakeholders with power to resist</b>	<b>Anticipate response and plan to contain opponents</b>
<b>Risk to decision makers</b>	<b>All possible conditions which would cause reluctance on the part of decision makers because of potential risks they could be taking</b>	<b>Strategies to absorb the risk for those decision makers</b>
<b>Impact on advocacy groups</b>	<b>Any advocacy group that feels project success will diminish their cause</b>	<b>Strategies to prevent/cope with resistance</b>
<b>Inertia of recipients</b>	<b>All factors which would cause the potential beneficiaries to feel more comfortable with the status quo</b>	<b>What you need to do to move them off their condition of comfort</b>
<b>Embeddedness required by offering</b>	<b>Instances where your offering requires major changes in the customer's system (product or operations)</b>	<b>What major changes will be required in the system and how to motivate the customer to change them</b>
<b>Changes of standards or regulations required</b>	<b>Instances where changes of standards or regulations are required</b>	<b>Strategies to orchestrate change and counter blocking attempts</b>

# Common Internal Barriers

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## Internal political maneuvering

- Individuals who may feel politically threatened by your project's success
  - ▶ Loss of authority, position, influence
  - ▶ Threat to staff, budget
  - ▶ Fear of competence
  
- “The Civil War Inside SONY”

# Common Internal Barriers

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## Reluctance by those needed for active implementation

- Individuals whose active involvement is needed for implementation but may be reluctant to participate
  - ▶ Additional effort, complexity – I already have too much to do!
  - ▶ Lack of understanding, confidence
  - ▶ Passive resistance
- Time Warner: Why should we lift a finger to help AOL?

# *Common Internal Barriers*

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## Resource constraints

Possible shortfalls in the resources needed to implement

- Budget
- Capacity overload
- Headcount
- Fear of cannibalization
  
- SAP: Had a reduction-in-force just as they were about to launch Business ByDesign, their SaaS offering.

# Common Internal Barriers

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## Platform changes required

- Disconnects between the current major platforms and the new platforms needed to render your strategy deliverable
  - ▶ Human Resource/Skills
  - ▶ Logistics
  - ▶ IT and Databases
  - ▶ Technology
  - ▶ Assets and operations
- What would YOU do if you were the CEO of Blockbuster entertainment????
- Or printer RR Donnelly?
- Or owner of land-line phones Verizon?
- Or...

## ***DRAT Table: Most Common Internal Barriers to Execution***

<b>Barrier</b>	<b>Need to anticipate</b>	<b>Challenge</b>
<b>Internal political maneuvering</b>	<b>Individuals who may feel politically threatened by your success</b>	<b>Strategies to cope with their likely moves</b>
<b>Reluctance by those needed for active implementation</b>	<b>Individuals whose active involvement is needed for implementation that may be reluctant to participate</b>	<b>Key implementer analysis and strategies to “convert” potentially reluctant individuals</b>
<b>Resource constraints</b>	<b>Possible shortfalls in resources needed to implement</b>	<b>Strategies to assure that resources will be forthcoming if needed</b>
<b>Platform changes required</b>	<b>Disconnects between the current major platforms and the new platforms needed to render your strategy deliverable</b>	<b>Specific plans to close the gaps between the current platforms and the following platforms needed to deliver strategy:</b>
		<b>Human Resource/Skills</b>
		<b>Logistics</b>
		<b>IT and Databases</b>
		<b>Technology</b>
		<b>Assets and operations</b>

# How to use these ideas to identify threats – External Table

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Stakeholder	Adversely affected?	Feels risk?	Against advocacy agenda?	Requires effort?	Requires change to systems?	Requires changes to standards/ regs
1						
2						
3						
4						
5						

# Same questions for internal players

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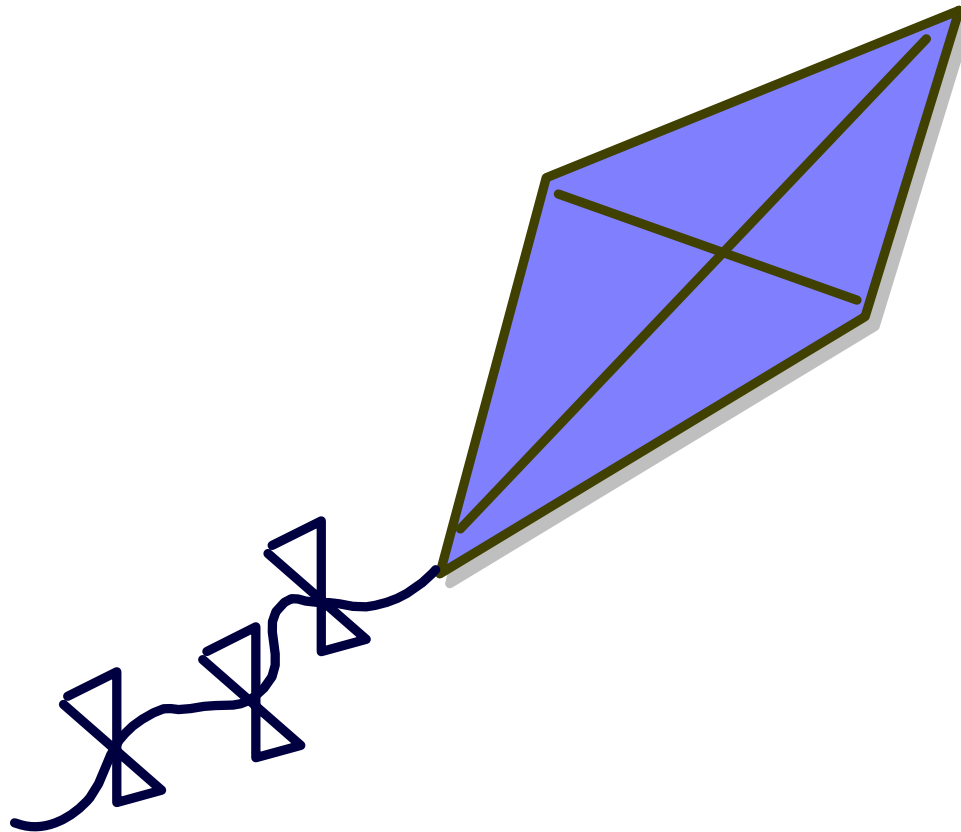
Stakeholder	Political threat?	Reluctant participant?	No resources	Major platform change?
1				
2				
3				
4				
5				

# ***Finally, checking for internal alignment***

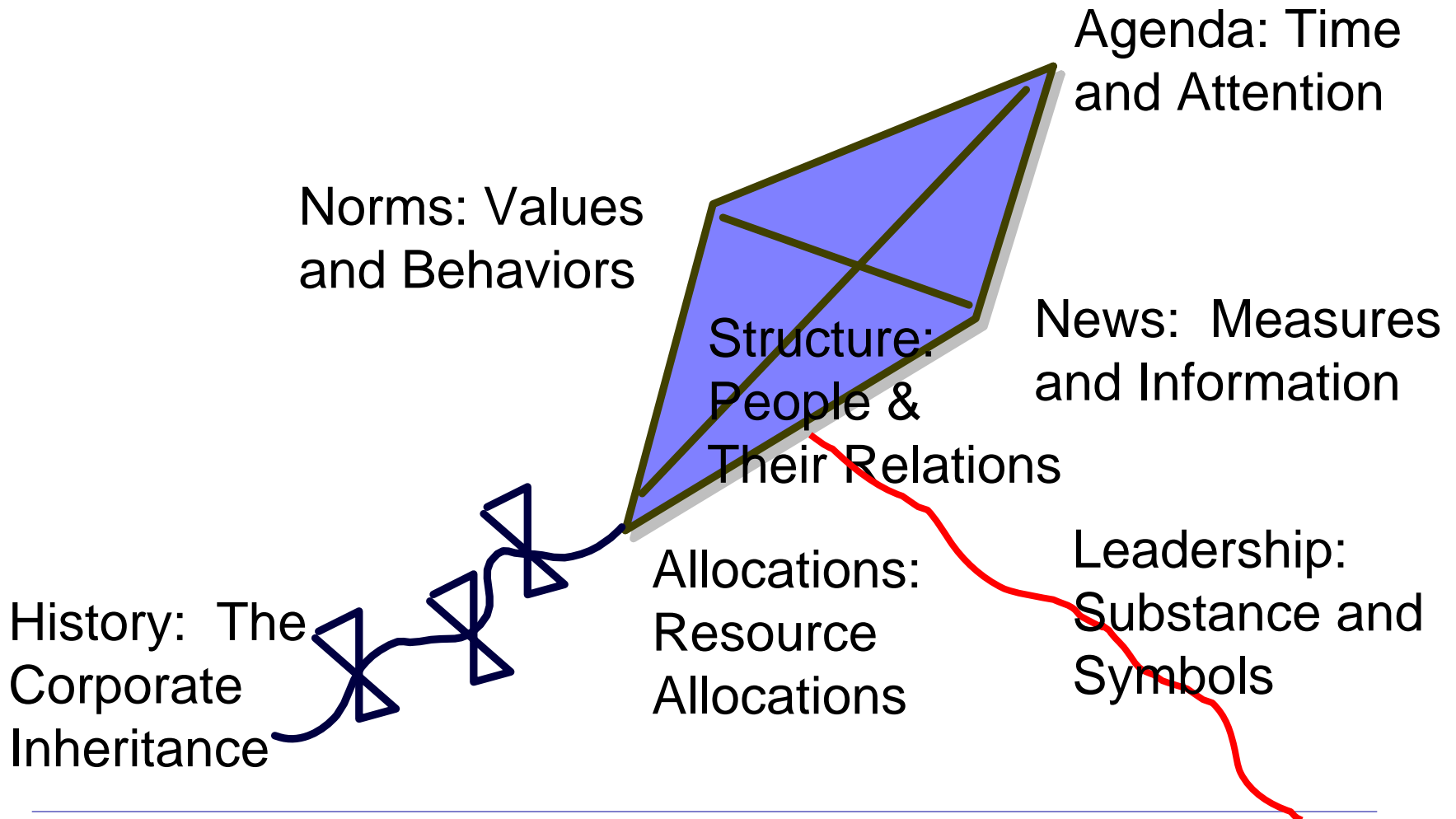
Do all the pieces of your organizational systems work together effectively?

# *The “Kite”:* A Metaphor

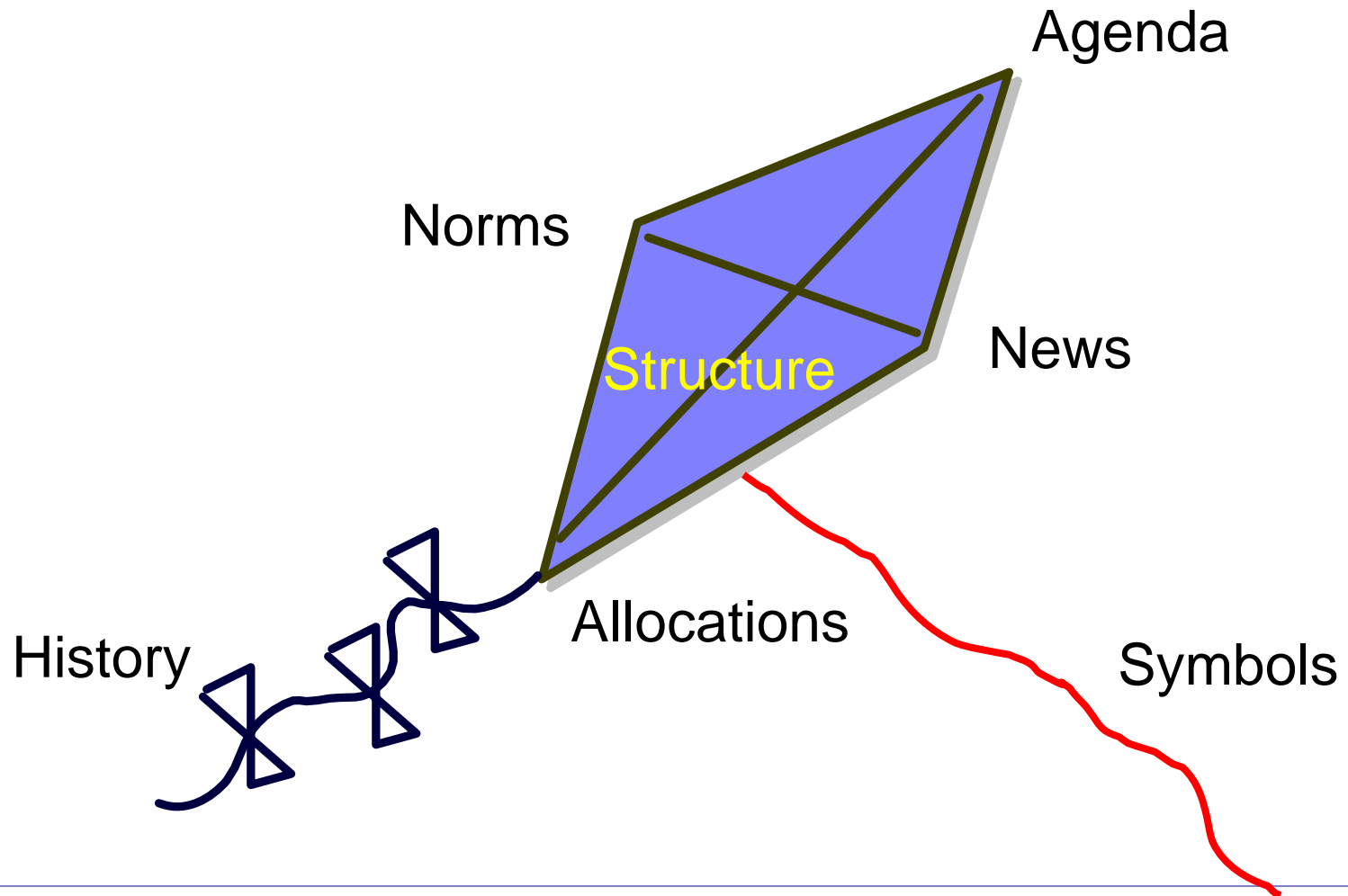
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# The main points: *Comprehensive and coherent*



# Leadership: Symbols give the drivers meaning and power



***All too often we focus on the substance, when the meaning is equally (or more) important***

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- The Postal Service “wake”
- The poor-quality bonfire
- The logo coffin
- A display of work gloves



# *Effective symbolism can dramatically advance your agenda*

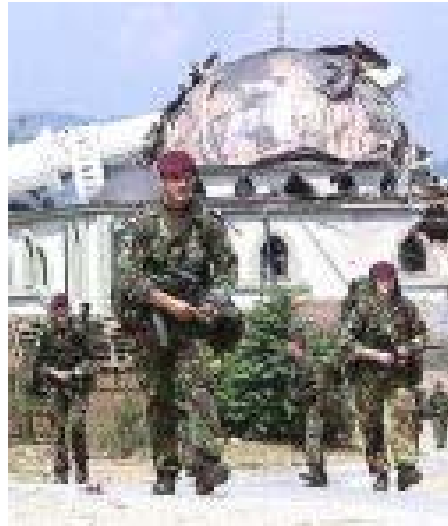


# *And the opposite...A symbolic Chernobyl*

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- Rudolf Scharping
- German Minister of Defense
- August, 2001

# *Macedonia, to which German soldiers are being sent*



# Mallorca, where Scharping is on vacation



# *How to use these ideas*

- Complete the “kite” assessment for a particular change in a particular group that is either underway or that you are considering.
- Evaluate the pattern – are there places where key organizational elements need to be lined up? What steps can you take to do this?

# *To conclude*

- Achieving growth in turbulent times is not out of reach
- But you won't get there with the same practices that make sense when things are more predictable
- Three actionable ideas that can help:
  - ▶ Planning Differently: Plan to Learn
  - ▶ Anticipate Obstacles: DRAT
  - ▶ Align the organization: Kite metaphor