

Experimental execution for innovation

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Execution for new businesses being created around innovation requires very different approaches, skills and metrics to execution for established, mature businesses. For established businesses, execution is focused on implementing a clearly defined plan and business model, achieving revenue and profit objectives, and earning the target return on investment. By contrast, new innovation-based businesses must focus more on experimentation and learning, with rapid, flexible evolution of the business model until such time as the innovative business begins to gain traction.

Execution challenges for new innovation-based businesses

Many new businesses launched around an innovation struggle with an execution approach and mental model that is better suited to established businesses. Typical issues include the following:

- *Wrong criteria:* executives and investors use criteria that are more relevant for established businesses, and thus evaluate initial execution results incorrectly. Frequently this means interesting business opportunities are killed off within large companies before they have had a chance to begin to realize their real potential. This leaves the field open to start-ups unconstrained by established business metrics and evaluation criteria.
- *Suboptimal business model:* many companies fail to explore a wide range of markets and business models for their innovations. Such companies essentially settle for the initial business model, even if it is suboptimal, and then develop all their execution plans around this model. This “hardwires” the suboptimal model into the business, making it very unlikely the business will ever reach its full potential.
- *Inappropriate processes:* established business execution processes favor discipline, focus and sustained commitment to a defined set of objectives. These processes are critical to success in the established business – and may be a prime cause of failure in a new innovation-based business, by forcing the business to persist with a failing business model.

Execution best practices for new innovation-based businesses

Rather than trying to execute using the same approaches and processes as established businesses, successful new ventures adopt the following execution practices:

Approach innovation execution as experimentation

The best approach to launching a new innovation-based business is to see it as a series of experiments, rather than as the execution of a detailed plan. The initial concept and business model of any innovation is really a collection of hypotheses – about markets, customers, needs, competitive options, solutions, ability to make, market and deliver, and the resultant economics. The appropriate mentality, therefore, should be that of proving or disproving these hypotheses – in every element of the business model. Depending on your goals, resources and investor

expectations, this can be done relatively informally, or it can become a systematic, scientific process, using sophisticated analytical tools.

Focus on learning, not profitability, as the primary goal

Like any set of experiments, the important goal in the early stages is to learn as much as possible, by exploring a wide range of business model options. If you focus too early on short-term financial results, you may miss many opportunities to make the innovation and its business model more compelling, differentiated and valuable in the long-term. It is critical that top management (and in some cases the board) understands and supports this approach, and demands fact-based insight and knowledge, rather than financial results, from its early-stage innovation-based businesses.

Separate new business ventures from your main business

Launching and growing new ventures, particularly within a large company, requires a separate organization from the main business. Peter Drucker wrote years ago in *Innovation and Entrepreneurship* about the need to nurture these “infants” in the nursery until such time as they grow strong enough to survive as part of the main business. Clayton Christensen addressed the same point as the *Innovators Dilemma* – that the very characteristics that drive success of mature businesses work to undermine new, disruptive innovations – and that the only way to evolve these new innovations in a large company is as a separate organization. Such an organization needs different, people, skills, processes, compensation and metrics from those that drive the main business.

Test quickly and cheaply to start

In the early stages of launching a new innovation-based business, focus on testing every aspect of the business model as quickly and cheaply as possible. Do as much on paper as you can. Use prototypes and mock-ups to get initial feedback. Do everything on a small scale, constantly refining each element, from product features and pricing to sales, marketing and operational practices. Only once you are sure through repeated testing that you have an aspect of the business beginning to firm up should you commit real investment to build it up to full production scale.

Gather and review feedback constantly

Feedback is central to experimental execution. You cannot have too much of it. Identify and track a wide range of metrics, not just financial results. Seek as much feedback from as wide a range of stakeholders as possible. Customers are naturally the most important – involve a range of customers every step of the way. In addition, seek feedback from all other market participants – channel partners, alliance partners, vendors, market analysts and other influencers, investors, even competitors. In doing so, seek to understand the realities as they are, not as you wish them to be. Compare feedback and actual results of your product, market and operational tests with your initial assumptions and expectations.

Continually adapt and refine your business model

As you progress through the initial stages of business launch, flexibly adapt and refine your original concept. Perhaps the initial target customers were not as interested as hoped – but there is another market that is interested, and you may not have originally considered. Or the “whole solution” customers need requires you to refine your offering and find a partner. Perhaps your initial sales and marketing strategy proves unsuccessful – but a completely different approach begins showing results. Or your economic model needs significant adjustment to reflect the real economics of the business. This approach should be strongly encouraged - rather than stakeholders objecting to “we’re always changing”, the core values of the new venture need to emphasize a continual search for a better way.

Look to extract maximum value from all experiments

Not all your innovations will succeed as you might hope. Some will do so – perhaps better than your dreamed. More will probably fail to deliver the value you expected. Regardless of whether a particular innovation is a success or failure, your goal should be to generate the maximum value possible from each innovation. Successful innovations should become significant businesses. Unsuccessful innovations can still be valuable in terms of lessons learned, under different owners, or for their component elements.

Transition the best of your portfolio into the main business

Over time, you will develop a large number of innovations, possibly in all elements of the business model. As you nurture, experiment with and develop each one, you also need to balance total resources and results across the portfolio. Your goal should be to identify which of the portfolio has grown to the point where it is both valuable and sustainable, and then transition those select few into the main business, where they will be subject to the normal metrics of the main business, and where they will have the potential to grow into substantial businesses in their own right.

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New innovation-based businesses require a different approach to execution. By understanding the challenges and following the best practices presented in this article, you will maximize your ability to launch exciting new markets, products, business models and ventures successfully.

Additional reading and resources

Funding Growth in an Age of Austerity

http://harvardbusinessonline.hbsp.harvard.edu/b02/en/common/item_detail.jhtml;jsessionid=I0JYB2PC202WMAKRGWCB5VQBKE0YOISW?id=7227&_requestid=492

by Gary Hamel and Gary Getz

How to Design Smart Business Experiments

<http://hbr.harvardbusiness.org/2009/02/how-to-design-smart-business-experiments/ar/1>

by Thomas H. Davenport

Value Captor's Process: Getting the Most Out of Your New Business Ventures

http://harvardbusinessonline.hbsp.harvard.edu/b02/en/common/item_detail.jhtml?id=R0705J&_requestid=1303

by Rita Gunther McGrath and Thomas Keil

Ten Rules for Strategic Innovators: From Idea to Execution

<http://www.amazon.com/Ten-Rules-Strategic-Innovators-Execution/dp/1591397588>

by Vijay Govindarajan and Chris Trimble

Innovation to the Core: A Blueprint for Transforming the Way Your Company Innovates

http://www.amazon.com/Innovation-Core-Blueprint-Transforming-Innovates/dp/1422102513/ref=pd_bbs_sr_1?ie=UTF8&s=books&qid=1208965198&sr=8-1

by Peter Skarzynski and Rowan Gibson

Innovation and Entrepreneurship

http://www.amazon.com/Innovation-Entrepreneurship-Peter-F-Drucker/dp/0060851139/ref=pd_bbs_sr_1/102-4382554-2727328?ie=UTF8&s=books&qid=1187103415&sr=1-1

by Peter F. Drucker

The Innovator's Dilemma

http://www.amazon.com/exec/obidos/tg/detail/-/0060521996/qid=1124731747/sr=2-1/ref=pd_bbs_b_2_1/102-9017290-7780153?v=glance&s=books

by Clayton M. Christensen

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