Business901

Podcast Transcription

Implementing Lean Marketing Systems

Innovation Power Tools

Guest was Dave Powers

Related Podcast: Innovation Power Tools

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Transcription of the Podcast

Joe Dager*: Welcome, everyone. This is Joe Dager, the host of the Business901 podcast. With me today is Dave Power. Dave is the CEO and President of the Perkins School for the Blind and author of a recent book The Curve Ahead. It's an excellent book on scaling as an organization. Dave, I would like to welcome you and instead of an introduction, could you give me that elevator speech about yourself and how you came about to write the book The Curve Ahead?*

Dave Power: Great, Joe. Thanks so much for inviting me on your podcast.
The elevator pitch on me is: I've discovered a long time ago that there're two questions that matter for any growth organization. Number one is, "Who's your customer?" and the second is, "What problem does this solve for that customer?"

I found (as an operating executive, as a venture capitalist, in many different roles) organizations keep asking themselves that question and answering it are the ones that keep growing and stay relevant. Organizations that can't answer that questions often find themselves without a growth story.

Joe*: What's the connection between being a leader of a non-profit and writing a business*

book?

Dave: Well, it happened to, of course, in the other direction. I spent twenty-five years with technology in fast growing companies as an operating executive investor. I observed that private growing companies, this big problem, which is, growth companies stop growing. Twenty, thirty, fifty million dollar companies that were once promising companies that everybody wanted to go public get stuck. I came up with my own way to tackle that issue both for my own companies as an operating executive and as an investor. I've seen it so many times that I finally decided I need to write this down in a book. I was excited about writing it in a book. That's what *The Curve Ahead* is about.

I did all that last year and then earlier this year, a non-profit that I've been involved with for a very long time, a hundred eighty-five year old Perkins School for the Blind, which educated Helen Keller in the 1800s, was looking for a new CEO. It turns out, I have a son that graduated here, I've been a trustee for many years. So I took on the role I never thought I was going to be doing at the end of this year. That's how I got here. Interestingly enough though, I've discovered that the concepts in *The Curve Ahead* are as applicable for non-profits as they are for private companies.

***Joe**: I think that's interesting and I stand out and welcome you back for a conversation about that in itself. I need to get back to your book.*

Dave: Great. Sure.

***Joe**: As the book suggests, there's curve in the book. Can you introduce that S-curve and the relevance that it has in this discussion?*

Dave: Yeah. If you plot the revenue of a growth company over time – let's start from startup: from zero to ten million (that's start-up stage) and that curve in a successful company is just going up, up, up – to get to ten million, I think, it is a heroic achievement for any entrepreneur. I applaud it. It can take years and years. The problem is what comes next.

Most entrepreneurs that have crossed the ten million or twenty million mark (somewhere in that range), when they put together their two-year growth plan, they have that line just going straight up rocket ship to the moon. Give me more sales people, more capital, more leads. We've figured this puppy out. We're going to take off.

Unfortunately, the shape of that curve matures. It flattens out and looks more like an S. What's really going on there is that business maturity happens to any growth model faster than entrepreneurs expect.

***Joe**: Is the S-curve a prescribed journey? Are there certain milestones in it or certain things that happen to a company that are familiar or is it just a revenue growth curve?*

Dave: Revenue growth is the curve that is observable. However, underneath that curve, are a number of factors that all add up to what economists call diminishing returns. The reason that curve is shaped that way and every business audience I've been in front of, I

said, "Have you seen this curve before?" They all nod, "yes."

So why does the revenue curve start to tail down? You saturate your early market. You get competitors who bring in price competition. There are some other organizational factors. The business model outgrows the team that got them the early growth and now, you need a different set of skills.

Also, as the organization becomes larger, there's complexity. You used to be able to fit the whole team in a room. Now, you're getting conference calls and managing multiple offices. You have to do customer support in the beginning when you're launching a new product. There were no customers to support. Now, you're taking care of the last generation product while you're designing the next generation product. All those things weigh down that rapidly growing thirty or fifty percent annual growth curve.

It's inevitable. It's like debt and taxes. Every business model matures generally faster than the executives expect to see it.

***Joe**: So there's some mindset that needs to be changed?*

Dave: It is a mindset. Think of it this way. You can take that S-curve that your business is on and you can think as you stretch that curve, you get more mileage out of your current business model. You can go overseas. You can find new customer segments to sell that new product to. But here's the thing.

If you want to sustain growth over the long run, you're going to need to find the next S-curve. What a sustainable growth strategy really looks like is one S-curve followed by another S-curve and followed by another S-curve. The new S-curve represents a new product or service that opens up a brand new market and that the growth in the new market offsets the declining growth from the current business model. If we could do this podcast visually (but I think the book does a great job of giving you the graphics and helps organizations get this idea), it's just one S-curve followed by the next S-curve. That's what sustainable growth looks like.

The challenging thing is that, each of those S-curves has a different managerial challenge. One is about sustained innovation and growth for the current business model. That's the business model that pays the bills. You have to pay attention to that. Just like they say in the airplane, "Put your own oxygen mask on before you help the person next to you."

But you also have to invest a little bit of your seed capital (a little bit of your entrepreneurial energy) in searching for the seeds of that next S-curve. If you don't do that, you'll never have that next business model that drives that sustained growth.

Joe*: I think you hit on a point really well. To be an innovative company, you have to have a large percentage of your work being standard to support that. You have to have something to put groceries on the table.*

Dave: Yeah. Now, here's the tricky thing. It's easy for you and me to draw these S-curves and say, "Well, that's the current business. This next S-curve, that's the new one we're

launching." But the problem is, in real life, it's extremely difficult to predict the shape and the timing of those S-curves.

That's in two different ways. One, let's talk about the existing business model. It's nearly impossible for any executive to say precisely where they are on the current S-curve. A lot of people will say, "Well, I know where we are. I can tell our growth is slowing or speeding up or going down." But really? You don't know how much gas you have left in your current business model.

I tell the story of LoJack. The company that protects your cars from theft. LoJack was predicted by Businessweek to be the next hot growth company just a year before the revenue. That's a slowdown to decline. It was the end of the line for LoJack and the executive team didn't realize that that's the point where they fully saturated the market. Then, if I go to a high tech example, Groupon, it was almost the next month after the IPO was the beginning of the flattening of the growth of Groupon still to this day.

It's very hard to know the growth and shape of your current S-curve and when you're going to run out of gas. It's also just as equal as difficult, maybe more difficult, to predict how long it's going to take you to come up with a new source of revenue that's going to contribute meaningful growth to your business model.

You almost have to do a venture capital just to make just to make lots of debts and hope one of them can pay off. If you just think about all the unpredictability of knowing the shape of your current S-curve, the maturity of your current business model and how long

it's going to get you to your next S-curve, I think the only thing we can conclude is that you can't predict any of this.

So the only rational thing to do is to have a continuous innovation process. A continuous search for something new to the business because innovation can never be a fire drill.

Joe: *So would you say that incremental improvement is out and you really need innovation or disruptive innovation happening all the time?*

Dave: You need both kinds, right? You need the incremental innovation because you want that business that we have today paying the bills to grow and grow and stretch and stretch as far as you can. I mean, I really applaud Heinz Ketchup. How many ways can we keep reinventing the ketchup bottle? They do a fantastic job! That's one business model and that's not going to give you sustained growth for a long period of time.

We love incremental innovation but you need a few disruptive innovation ideas if you're really going to open up brand new markets the way music and phones opened up the markets for Apple and got them a lot of this operating system market or the PC market where they were doomed to be second place to Microsoft forever.

Joe: *What kind of happened was they brought Sculley in to lengthen the original S-curve maybe? Then, they had to bring jobs back to disrupt it and start another S-curve.*

Dave: I don't even know if they were that clever about what they were doing. I think when

they brought in John Sculley, they were looking for professional management and I think they might have left innovation behind.

Sculley did try to come up with one of the original personal communicator devices. It was poorly designed, of course. But really, under Sculley, I don't remember Apple deviating very much from their core business. It took Steve Jobs to really step back and say, "What's an entirely different market where we can bring digital know-how and assets where we can solve a different problem for the Apple customer?"

They picked an adjacent stage, music, and said, ""I think Apple customers would like to solve this problem that mp3 players are essentially unusable for most humans, and yet, music is the next market to be disrupted digitally. We could look back and say, "of course." But that was a big, big debt at the time. That was a huge S-curve for Apple.

Joe: *Sure. Bringing that up, you talked about it in the book which I thought was really unique that leaders form departments now for innovation. That's what you need. There are these all these famous partnerships: Jonathan Ive and Steve Jobs.*

Dave: Yeah.

Joe: *I thought that was really unique because, in a startup, that's just usually one person: the founder. Is that one of the transitions that need to be made?*

Dave: The connective tissue between the current S-curve and the next S-curve or the

curve ahead is an innovation process. You can't rely on the lone genius in the lab. You can't rely on the fact you're going to find in the next brilliant Steve Jobs. You need a way, on a regular basis, to uncover new problems to solve and new areas you can explore. To do that, you need an innovation process. The way to do that is somewhat knowable from a domain called Design Thinking.

Designers – and I'm talking about architects, artists, people who design clothes, people who use principles of design – have, for a long time, had us problem solving process that's very different from the rest of this us analytical or decision thinkers (the kind of people who get MBAs and engineering degrees).

What's happened over the last five to ten years, businesses looking to innovate have been drawing on the problem-solving approach of design thinkers. That approach is bringing a lot of innovation to the company. Just to your point about partners, Steve Jobs hired a guy named Jonathan Ive who's a classically trained industrial designer, but brought the design thinking process.

By the way, if you look at fast companies that did a great job of tracking this phenomenon of design thinking and business coming together; but if you look at the leaders Nike, Airbnb, and frankly, even Coca-Cola, you'll the that many of the CEOs are bringing in chief design officers. I'm not talking about chief technology officers, but people who have the skill of doing human-centered design thinking.

What I tried to do in the book – because I really wrote the book through the many, many

mid-sized companies who faced this phenomena of stalling before they reached their full potential; I tried to bring, to mid-sized companies, a very simple 4-step process for bringing design thinking and innovation into your business as a process you can manage.

That's this process which you'll see is learn, design, test and model. Obviously, I go into more depth into it. I didn't create this out of anything. I looked at every great innovative company. I looked at design approaches from Stanford d-School, Ideo, and Jeanne Liedtka of the Darden *School* of Business. I read more design books than you would imagine.

I saved everybody the process by saying, "you know they have something in common." They have a sequence that they go through. The sequence always starts with the customer.

***Joe**: I think that's very interesting. One of the other tools that you use in there is the Lean Startup™. You also reference Osterwalder's Business Model Canvas.*

Dave: Absolutely.

***Joe**: Can these same tools be used in scaling the company versus just in a startup?*

Dave: There's a tremendous amount of overlap and commonality between the thinking that I'm outlining and the work of Eric Ries, Alex Osterwalder, Steve Blank and frankly, a lot of other great design thinkers. Here's the thing. I'll give you this simple four-step model.

Learn means from the customer. What is the next business problem worth solving? Start with your own customer base. Why not? You know them. Why not sell a product to them? That's where you get innovation. Not in the lab. Innovation starts with uncovering a worthwhile problem to solve for your customer before somebody else does.
Now you have a design challenge and you bring that into the design process which is that's where your engineers and product people can say, "How might we solve this problem?"

The next step is really where you bring in Eric Ries' the Lean process. Before you go spend six months to a year in a lot of venture capital (or other capital from your company) building a finished product, just create a lightly, low-resolution representation of that product so that you can get feedback from the customer. That's the minimum viable product or sometimes I say minimum viable offer because it applies to services businesses as well.

When you get feedback from customers, as you inevitably will, that you got it partially right but not completely right, that's when you take your pivot and you go back to the design step and improve the pieces that aren't right. You cycle between design and testing, the second and third steps until you get it right.

So, MVP and pivot, maps where I'm talking about the design and testing stage. When you've done that, when you've tested and pivoted enough that you think you're pretty close and ready to take some into market, now you have to take the step that Alex Osterwalder has advocated for so many people. Take a fresh look at the business model,

the go to market model, or in a non-profit, you might say the delivery model. How are you going to bring this to the customers so that they can actually use it? What's your channel of distribution? How are you going to handle the economics (price it, package it, scribe, message it)?

Too many companies assume that they should use their same business model for their current products with new products. That's that model piece fits in nicely with a lot of the thinking that Alex Osterwalder has championed.

Joe*: How much of these innovations and stuff are, we talk about, being user-centered. I talk about values determined by the use of the product. Are we more about taking our business and building platforms down, building this use model and finding out that we have been being product centering and building new products… Do you discuss that in your book at all?*

Dave: I guess where I'm coming from is when you're building product and platforms, what I think there's been too much of is starting with the product rather than starting with the problem. If you start with the product, you run the problem of, in the software industry, we call it "technology in search of the market." The Segway may be the most technologically sophisticated product that's been built in the last decade, but commercially, it's been a failure. There's no really well-known market for the Segway beyond mall cops and tours of Paris that I'm aware of.

Dean Kamen, himself, has solved some fantastic problems by following his technical

instinct. But that's not an efficient way. You have to wade capital and time if you go at it that way. What he did is, he skipped the first step, the learn step. He went right to the design step. That's a step skipped most often by companies. They assume, "We know what the customer wants. We just need to build it."

If I had to say one thing to every company, it's spending more time getting out of the office and flushing out what Steve Blank calls customer discovery step. Discover a problem that hasn't been solved that really matters to the customer.

It's a messy process. You have to sit through a lot of nuggets to get there. That's the frequently most missed step.

The second most frequently missed step is the third step. The testing step, which is, before you go build the Segway, why don't you just test the simple prototype and just see if people can think of a way they're going to use this product that you're conceiving for them. You can save yourself a lot of time doing that.

One thing you'll observe is that steps one and three, the steps that are most frequently missed between learn, design, test and model, those learn and test steps that are frequently missed, there's a customer facing steps. People are afraid they won't find the time to spend time with customers either to uncover a problem or to validate their ideas. If we could just get everybody out of the office a little bit more, we might get a little closer to the innovations we're looking for.

***Joe**: When I'm a ten million, thirty million dollar company, I'm probably pretty successful. I'm doing well. Not a lot of people build a company that far.*

Dave: Yeah.

***Joe**: I probably have a certain ego to go along with that, at that point. If feels good or bad. I'm there.*

Dave: Yeah.

***Joe**: What you're saying is necessarily, don't follow your own instincts. You need to prove your own instincts. Explain that a little more to me.*

Dave: No, I respect the entrepreneur that build a twenty million dollar company from scratch. No issue there. The question is, "Are you done? Is that what you're in it for?" If you are, then what you built is a lifestyle company and if you want to sell it to somebody, they'll pay you a reasonable multiple. You didn't take on too much capital. You're done, that's going to be a life-changing event.

But many people who go off to start businesses, like want to do something more than build a twenty million dollar company, they want a company that can have a better impact to grow, create jobs, create value, and create wealth for employees. To do that, the milestones you start thinking about is seventy to eighty million in revenue so you can go public. The capital of the public markets to build a five million dollar company and a billion

million dollar company go beyond. That's where all the real wealth creation and value creation is. The jobs that are created in our economy, two-thirds are created by growth companies. I'm talking about companies between twenty and two hundred million. Not zero to twenty.

Startups destroy almost as many jobs as they create and even if they grow a hundred percent that can mean going from twenty employees to forty employees.
You get a company that's hundred million with three hundred employees and that company grown twenty percent, that's sixty people. That's sixty jobs. There's much more firm weight behind the growth of that middle market.

Then, we head off to big companies. The Global 1000 or Fortune 500. There's really almost no new net job growth. Those large companies destroy as many jobs as they create. If you really want to move the needle in economy, create jobs, create wealth, it's getting those mid-market companies to get beyond twenty to thirty million and reach their potential as a public market. That's why this idea sustains growth and how you do it really matters.

Joe: *What have you seen is the biggest thing that prevents people from understanding and taking that next step?*

Dave: What happens is, even if you intellectually understand everything that I've been saying, when you're running a growth company, you're running like mad making the next quarter, hiring more people, figuring out what's the next way to execute on the operating plan of your fast growing company. It doesn't give you any time to think about what's

next.

On the other hand, if you let that happen to you, what'll happen is, your business model will mature faster than you expect and you haven't done anything to lay the groundwork for your next step's curve.

If you or any of your listeners have read Stephen Covey, who talks about the importance of paying attention to things that are important, but not urgent; we pay a lot of attention to things that are unimportant but urgent like email. But things that are important and not urgent are things like strategic planning. They're like doing research with your customers to uncover a problem worth solving. Spending time with R&D and looking at potential new technologies. Those slow processes that builds you your future.

If you want six pack abs and you don't do your sit-ups today, no problem. In fact, if you don't do your sit-ups tomorrow, no problem either. But at some point, if you don't start doing your sit-ups, you're never going to have six pack abs.

Let me bring it back to this sustainable growth energy. If you didn't get out to see your customers and find out some problem they have to solve today or tomorrow, no big deal. But if you don't look at your calendar every month and say, "These three days, I'm going to be out of the office talking to my customers and understanding how their world is changing, the new problems they're going to be dealing with and what are the new problems that are going to be the basis for growing my business in the future," then I don't think you're going to sustain the growth of your company over the long run.

Joe: *One of the things that I have to ask is you mixed your book. You have a fiction and a non-fiction book within one of them. One is, why did you do that? Two, did you write the story separately and which one did you start first?*

Dave: I was very inspired. This is my first business book and I read a ton of business books. So I thought about, “What’s a business book I want to read?” One of my favorites of all time is The Five Dysfunctions of a Team from Patrick Lencioni. It’s a fable. It’s a story of a growth stage company in Silicon Valley.

Through the story of this company, which has a team that’s very dysfunctional and they nearly crash and burn and they should fix themselves, he teaches a set of lessons about how to create high-performing teams.

Initially, my first draft of the book was going to be all fiction. But on the good advice of my publisher, they said that can be a long and torturous way to get lessons across. To tee up the problems that people recognize in context, fable’s great for that. You could sort of see what it looks like. Just before your business stops slowing down, you think it’s never going to stop growing and then boom, you hit the wall. That’s what it looks like. Here’s the dialogue of the CEO and the salesperson or marketing.

I put that in there so that people could understand the context. What’s it like in a growth company just before the bad news starts hitting you and how do you re-build it?
But the concepts, there’s a couple of decades worth of learning and concepts about

strategy for a growth company that, frankly, the best way to write that was put it in diagrams and lay it all out in the same form. We decided on the hybrid and I hope it works for you.

***Joe**: I thought it was an excellent book. I think, going back, and I may just read this story itself separately after reading it the first time just to try it. Just to see how it flows. Those were my instincts after I got done reading that.*

Dave: One of the things they allowed me to do is give me some liberty on the fiction. In other words, if you read a little bit about the company on chapter two and then read the rest of the concepts, by the time you get to chapter three, time has elapsed. I don't really fill in all the gaps for you in the story. I really take you to the essential event, which is, now they're in a trade show showing a prototype to a customer and the last time you saw them, they were at their offsite. I draw on your imagination to fill in the blanks between the two-time periods. I think that made the whole thing more readable, frankly.

***Joe**: I think so, too. I think you did an excellent job. Is there anything else that you'd like to add that maybe I didn't ask?*

Dave: Maybe the one thing that I would add to the tail end of this is that all these concepts of innovation, I'm sure they work. I have lots and lots of examples throughout the book, details, and the roadmap. But here's the thing. None of this works without leadership. So the leader is a person who creates the room for innovation to allow it to happen, allows failure to be celebrated and lets an organization to actually run with their

ideas. Without leadership, there will be no innovation. Innovation is the easiest thing to kill. Particularly in a hard driving operating organization.

If you want this to take place and you're the leader, you have to make it a priority and protect it. Or if you're in an organization, you need to get the support of a leader to have the kind of organization that can only be identifying the next curve ahead.

Joe: *Is there a book website and how could someone contact you?*

Dave: Yes. The simplest way is if you go to www.powerstrategy.com, you'll find a website that was my former consulting practice with growth stage companies, which was named Power Strategy. It's all about the book. It has a profile of me. I put a short three-minute video about the book and all the information about getting the book. If anybody wants to reach me, they can reach me at dave@powerstrategy.com.

Joe: *Well, I would like to thank you very much, Dave. This podcast will be available in the Business901 iTunes store and the Business901 blog site. Thanks, again.*

Dave: Thanks so much, Joe!

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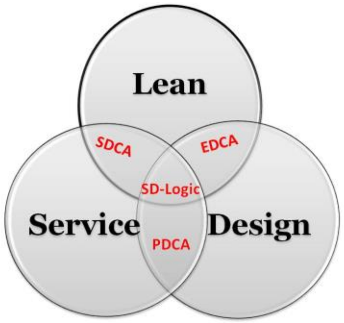

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Joe Dager is president of Business901, a firm specializing in bringing the continuous improvement process to the sales and marketing arena. He takes his process thinking of over thirty years in marketing within a wide variety of industries and applies it through Lean Marketing and Lean Service Design.

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