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This article originally appeared
in the 2011, No. 2, issue of

Outlook

The journal of
high-performance business

High-Performance Business

Strategy at the edge

By Paul F. Nunes and Tim Breene

When companies sense the need to find a new growth business, many turn inward, searching to extend core competencies and relying on centralized planning. High performers, on the other hand, look outward, focusing on the edge of markets and the perimeter of their company for insights and opportunities.

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What was the brand manager thinking?

There he was, thousands of miles from the home office, pitching an idea for a product that would be expensive and require the company to develop new manufacturing capabilities. Surely the idea would get vetoed by headquarters . . . right?

Wrong. Against much opposition but at the urging of two of his lieutenants, the CEO of the global manufacturer of household, health and personal care products Reckitt Benckiser Group listened to that distant brand manager. The payoff: the most successful new-product launch in the company's history.

High-performance businesses understand that sometimes you have to live life on the edge. Put another way: When it comes to strategy, you have to be edge-centric.

To do that, high performers upend traditional strategy making in several ways. To start, they take a different approach to the customer. Rather than respond only to small changes in what customers want, high performers go beyond what they already know about customer needs and desires. They look for the very edge of those needs and

desires to find a market insight capable of spurring the development of a major new business.

Next, in seeking those kinds of insights, they shift their focus from internal planning processes at headquarters to the organization's periphery, looking for ideas from groups and people far from the corporate center and the core business. And they make strategy not in an overly formal and mechanistic way but in a manner that operates on the edge of control, rejecting centrally planned and centrally managed processes in favor of more dynamic and free-flowing approaches.

They use several methods of strategy making, often simultaneously, without committing to a specific program or schedule. In doing so, they outwit those who would attempt to game a more systematic approach to serve internal politics or the status quo.

An edge-centric approach does not replace traditional strategic planning; it complements the long-established methods. To keep both running simultaneously, the corporate center must make good use of formal planning while at the same time keeping things edge-backing entrepreneurial leaders, protecting fledgling businesses and providing seed funding for important new ideas.

Strategy at the edge of the market

Companies have always tried to figure out what customers want, often simply by asking them. But dangers lurk: Research across large numbers of current customers can produce market information that is of little use. Almost by definition, the average customer is mostly satisfied, and is rarely pushing a product or service to its limits.

Companies like 3M have found one solution to this problem by learning

from "lead users," customers who are using a product in the most demanding conditions. For example, when 3M investigated how to decrease the infection rate for surgical patients, it didn't go to typical hospitals but to mobile army surgical hospital (MASH) units. While this approach has been around for more than a decade, companies are finding new ways to learn from a range of customers that goes well beyond their current base.

Consider another example. One recently developed way to get to the edge of customer needs is through so-called knowledge innovation zones. Modeled after free trade zones, innovation zones encourage the collaboration and transfer of knowledge among groups that are usually not in close contact with one another, such as customers, academics and government agencies. Drugmaker Novo Nordisk's global program to improve diabetes care, DAWN (Diabetes Attitudes, Wishes and Needs)—originally launched in 2001 as a study—has thousands of participants from more than 30 countries, including primary care physicians, nurses, specialists and policy makers, in addition to diabetes patients and delegates from associations such as the World Health Organization.

The initiative has led to important insights for Novo Nordisk. For instance, the company learned that more than 40 percent of diabetics also have psychological concerns, and that an estimated 15 percent suffer from depression. Such findings have led Novo Nordisk to focus increasingly on disease prevention and treatment in addition to drug development and manufacturing.

It's far too early to tell how Novo Nordisk's basic business will evolve. But the company didn't wait for its financial S-curve to peak before figuring out new ways that drug companies might compete in the future (see sidebar, page 4). Although healthcare is a particularly complex industry, characterized by countless public-interest considerations and a wide variety of interested parties, companies in other markets could also benefit from a similar approach.

A toy manufacturer could, for example, establish a knowledge innovation zone that consists of

children, parents, teachers, pediatricians and child-development experts. The key is to include not just the end user of a product but also other associated parties because they, too, can provide valuable insights.

Welcoming outsiders

The basic premise of Novo Nordisk's DAWN program and other similar approaches is that companies can no longer go it alone. Gone are the days when R&D was conducted almost entirely within a company's walls until a new product was ready to be launched. But while most organizations nowadays are aware of open innovation, they may still struggle with exactly how to bring outsiders into the process. Hosting open competitions is one effective mechanism.

Consider Cisco Systems. For years, the company ran an internal competition to find the best ideas for future innovations. Then in 2007, management decided to invite outsiders to participate in its I-Prize competition. By offering a prize of \$250,000, Cisco made it clear that it wasn't interested in incremental innovations. "Our goal was to find an idea that would spawn a new billion-dollar Cisco business," Guido Jouret, chief technology officer of Cisco's Emerging Technologies Group, wrote in *Harvard Business Review*.

Altogether, Cisco received about 1,200 ideas from innovators in 104 countries. The winner: a "smart" electricity grid that deploys sensor technology. Whether that idea will lead to a major new business remains to be seen, but Cisco has already reaped ancillary benefits from I-Prize. "The competition gave us a global view of potential new business opportunities," noted Jouret. "By mapping the ideas to the 104 countries that produced them, we gained perspective on what solutions would be more relevant for, say, China or India than for Spain or the UK."

Jumping the S-curve

Truly great companies show the world that their first trip to the top was not an accident. To do this, they accomplish a difficult feat: They "jump" the S-curve of business performance. When we say *S-curve*, we simply mean the pattern of revenue growth in which a successful business starts small with a few eager customers, grows rapidly as the masses seek out the new offering, and eventually peaks and levels off as the market matures. The size of the business's revenues generally follows the same pattern, in what we call the financial S-curve.

High performers not only manage to successfully climb S-curves, they then jump from the flattening curve of one business performance curve to the start of another. This series of jumps between the S-curves of business performance is what separates high performers from those that never manage to translate a brief period of accomplishment with a single winning offering into a string of business successes.

A second I-Prize competition was held in 2010, with an idea to help individuals connect their activities in the physical and virtual worlds emerging as the winner.

Of course, one risk of bringing outsiders into a company's innovation process is the possibility that proprietary information could be leaked. Because of that concern, some firms have limited the participation to just a group of trusted parties, suppliers or business partners. Other companies work with outsiders, but in a controlled environment.

3M, for instance, has established customer innovation centers near its research labs to collaborate with key corporate customers, such as the automotive supplier Visteon Corporation. Together, 3M and Visteon worked at one center to develop a concept vehicle that uses 3M technologies in novel applications like 3-D navigation systems.

Customer laboratory

In addition to learning through collaboration, companies can come to understand the edge of customer needs by running experiments. This is especially important, in an era of information (and data) overload, as a way to separate signals from

noise. Indeed, the initial operations of many successful businesses were very different from what they eventually became. PayPal, for example, was conceived to develop security software for handheld devices before it became the popular online payment service.

Under CEO Gary Loveman, Caesars Entertainment Corp. has become a powerful laboratory for testing assumptions about customers. The gaming company routinely runs experiments to determine, for example, what types of discounts and coupons would most likely entice hotel guests to extend their stay from two days to three, or the work practices that the service staff could implement to best enhance a customer's experience.

At Whirlpool Corp., employees are trained to work on fast, low-budget experiments that can be completed in 100 days. For example, a team with a promising idea might develop a business case for it and apply for \$25,000 to conduct proof-of-concept research. That emphasis on greater experimentation and the nurturing of many small potential opportunities is a sea change from the company's previous focus on large, million-dollar initiatives.

Strategy at the edge of the organization

At high-performance businesses, strategy is a more organic process that frequently emerges from the periphery of the organization.

At low- and average-performance businesses, strategy is typically devised and dictated from the center of the organization. Top executives meet on a regular basis and determine which markets to enter (and which to exit), and they try to predict how the organization's basis of competition will evolve in the future.

At high-performance businesses, strategy is a more organic process that frequently emerges from the periphery of the organization. Frontline employees might, for example, have key customer information that leads to an idea for a new business, or a regional office might have noticed some important demographic trend. Accordingly, high-performance companies have processes in place to ensure that those peripheral sources are incorporated when the firms are devising and developing strategy.

To nurture successes that come from the edge of the organization, companies must avoid consensus decision making; otherwise, an important minority opinion might get silenced in the process. That's the philosophy at Reckitt Benckiser. Noted CEO Bart Becht last year in *Harvard Business Review*: "If we have 10 people in a room, eight of them agreeing on one thing and two passionately believing something else, we don't try to resolve it to everyone's satisfaction." Instead, Reckitt Benckiser allows those two employees to conduct small-scale experiments that would confirm (or disprove) their belief. "Sometimes our biggest ideas come that way," Becht wrote.

A prime example is Air Wick Freshmatic, a product that automatically sprays freshener into the air on a schedule. The idea for that product originated about seven years ago with a brand manager in Korea, but the proposal was initially met with

considerable internal skepticism. For one thing, Reckitt Benckiser had little expertise with the required technology. "This would be our first foray into something electronic, with wires, batteries, interval switches," noted Becht.

But the CEO was eventually persuaded: "If somebody wants to stand up under stress and say, 'No, I passionately believe in this. You guys are all wrong . . .' then I'm willing to take a chance."

Today, Air Wick Freshmatic is sold in 85 countries, generating annual revenues of more than \$250 million, which makes it the most successful product launch in the company's history. The success is all the more remarkable, given how easy it would have been for senior executives to table the initial concept in favor of other, less risky proposals.

But that's one reason why Reckitt Benckiser has been able to develop new products at such a fast clip: Typically, between 35 percent and 40 percent of the company's net revenue in a year comes from products that have been introduced within the past three years.

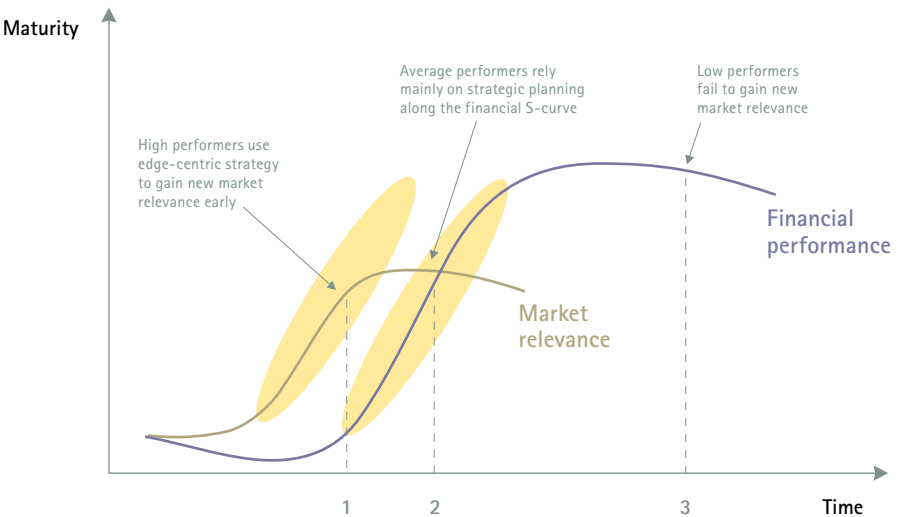
Local empowerment

To take advantage of any opportunities that might come from peripheral businesses, many top performers have given managers at local business units the flexibility they need to quickly capitalize on market opportunities.

When the manager of a Best Buy Co. store in New York City discovered a large Brazilian community nearby, he went about catering to that market segment, first by hiring employees who could speak Portuguese. Then, after learning that large cruise ships of Brazilians often stopped in New York

He who hesitates . . .

Companies that wait for financial performance to taper off before making strategic decisions will not have enough time to create the change needed to successfully jump to the next financial S-curve. That's why high performers supplement traditional strategic planning processes—which operate and evolve along the company's financial performance S-curve—with *edge-centric* strategic processes that occur along the trajectory of the company's market relevance and that lead the company's financial fortunes. Edge-centric strategy helps high performers discover insights and opportunities on the periphery of the organization and existing markets.



Source: Accenture analysis

City, he contacted the travel company; before long, busloads of the tour groups were visiting the store for shopping sprees.

“If we waited for someone in Minnesota to come up with that idea, we’d still be waiting,” said former CEO Brad Anderson in a 2007 interview with *Fortune*, referring to the company’s Midwest headquarters. “I believe that some of our best ideas have come from the people who are furthest removed from the CEO’s office—those line-level employees who interact with our customers each and every day.”

A similar philosophy permeates Illinois Tool Works. In fact, decentralized decision making is so much a part of the culture at ITW that it is essentially a holding

company, with literally hundreds of independent business units.

When Jim Farrell was CEO of ITW, he didn’t require monthly reports from those self-supporting businesses. Corporate headquarters was a bare-bones operation, providing just accounting and other financial functions, investor relations, minimal HR support and an R&D group that developed applications for the individual units. Moreover, whenever a particular business unit became too large (the cap was \$50 million in revenue), ITW split it to maintain an overall organizational structure that was sufficiently flat and decentralized. This ensured that the executives making important decisions were never too far removed from the markets they served. David Speer, CEO since 2005, maintains the same basic approach.

For further reading

Jumping the S-Curve: How to Beat the Growth Cycle, Get on Top and Stay There by Paul Nunes and Tim Breene (Harvard Business Review Press, 2011)

"Jumping the S-curve: How to sustain long-term performance," *Outlook* 2011, No. 1

"Connecting for competitive advantage," *Outlook* 2011, No. 1

"Open innovation: How to create the right new products, the right way," *Outlook*, October 2009

"Rise of the chief strategy officer," *Outlook*, January 2008

"Picking winners at Reckitt Benckiser," *Outlook*, October 2005

"The Best and the brightest" (Best Buy), *Outlook*, February 2005

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Strategy at the edge of control

When Accenture looked at the strategy processes companies followed to find big new markets—such as the Air Wick Freshmatic—the initial impression was that they seemed random, even chaotic and out of control. But further investigation revealed a definite pattern and logic. First, strategy was made episodically but continuously. Second, it required a permanent commitment but not a permanent process.

Consider Samsung. In the 1990s, the company underwent a dramatic transformation, emerging within a decade as a global corporation known not just for products with reliable quality at affordable prices but also for innovative design.

But in early 2010, Samsung's chairman, Lee Kun-hee, told employees that the company faced a crisis: "Most of Samsung's flagship businesses and products will become obsolete within 10 years. We must begin anew. We must only look forward."

Yet when Lee issued his warning, the company was arguably at the top of its game. Based on revenues, it was the largest technology company in the world, with innovative flat-panel TVs, mobile phones and memory chips. But that's typical of high-performance businesses: They don't wait for their sales to stagnate and profits to dwindle before they adopt a new strategy that alters the basis of competition.

To bring about such continual change, companies take a variety of approaches. For example, some have set up an office of strategy management—a central body responsible for strategy across various business units and market cycles. To supplement that office, increasing numbers have also created the position of chief strategy officer, or CSO. Still others have established

innovation councils, temporary task forces and business incubators.

What surprised us, however, was the extent to which high performers do all of these things at one time or another, using whatever is likely to work best under the circumstances.

A portfolio of strategies must be devised to account for differences in business units, geographies and so on, but this also means that the range of available approaches to making those strategies must be similarly broad. The need for multiple strategies also makes the crafting of strategy a much less predictable process; consequently, executives, middle managers and employees will have greater difficulty gaming the system to their advantage.

If, for instance, the CEO always devises strategy, everyone will hone his or her skills to influence that individual. Or if a strategy is always determined by a biannual conference of top executives, subordinates will expend undue time and effort to steer that agenda.

To avoid these constraints on strategic thinking, high performers vary their approach to strategy making and incorporate multiple sources to keep the process from becoming too predictable. Or they will specifically implement countermeasures. They might, for instance, temporarily have a shadow CSO replicate a strategic plan as a check against the information sources, assumptions and logic of the original plan.

Although high performers might not use a permanent process, their commitment to strategy making and execution is permanent. Such commitment can be surprisingly difficult to maintain, even for top innovators.

At one time, 3M could boast that at least one-third of its sales came from new products—those released within the past five years. But when new management imported GE's Six Sigma program and imposed tighter fiscal controls after 2001, that percentage fell to one-quarter. The new focus on efficiency was overshadowing 3M's longtime emphasis on innovation.

In 2007, nearly two years after becoming 3M's CEO, George Buckley explained to *BusinessWeek* that "invention is by its very nature a disorderly process. You can't put a Six Sigma process into that area and say, well, I'm getting behind on invention, so I'm going to schedule myself for three good ideas on Wednesday and two on Friday. That's not how creativity works."

As 3M discovered, even the best-intentioned initiatives and programs, like Six Sigma, can have a detrimental effect on an organization's strategic goals. In our research, we have found that many companies make another common mistake that can be just as damaging, if not more so, by equating strategy making with long-range planning.

To be sure, long-range planning is a necessary task. But it does not equip companies with the ability to identify and make transitions to new competition S-curves. It is, almost by definition, heavily numbers oriented and rarely the forum for the open-ended exploration of potential opportunities. In other words, long-range planning rarely (if ever) leads to creative new thinking.

And that's exactly why we advocate the use of an edge-centric approach to strategy making. Strategy itself is about renewal, and renewal is about innovation—not just technical or product innovation but also managerial, organizational and process innovation.

Edge-centric strategy making enables the types of dramatic transformations that keep high performers consistently at the top.

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