Jumping the S-Curve

How to beat the growth cycle, get on top,and stay there

Chapter 2: A big-enough Market insight

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Years ago, Novo Nordisk had a shrewd insight. The global health-care company rightly recognized that the growing affluence of emerging countries like China would lead to changes in diet that would eventually result in a dramatic increase in diabetes. "As people become more and more affluent, and get less and less exercise, more and more are prone to develop diabetes," declared Lars Rebien Sorensen, executive vice president of Novo Nordisk's health-care business, in 1999. Back then, Sorensen made this bold prediction: "There will be 300 million diabetics 20 years from now, as opposed to 100 million today."1 Novo Nordisk's history certainly made its executives more attuned to having that insight—the company was formed from the merger of two businesses that had been involved in diabetes treatment since their founding in the 1920s. Still, when Novo Nordisk decided to make a global push for dominating the market, it was just a midsize player in the pharmaceutical industry. Even in its core business of diabetes treatment, it was an also-ran in some major markets. In the United States, for example, the company lagged far behind Eli Lilly, which controlled 80 percent of the insulin business.[2] Today, thanks to that insight into emerging economies, Novo Nordisk is the global leader, with 52 percent of the total insulin market.[3]

High-performing companies like Novo Nordisk tend to be in the right place at the right time. When a market opportunity knocks, they're at the door with the right product or service. But that's not because high performers are somehow luckier than their competitors. Indeed, our research has found that serendipity has little to do with the uncanny market timing of high-performing businesses. We observed that high performers don't just happen to be in the right place to take advantage of a large market opportunity; their skill is in arriving at that position by constantly being on the lookout for the big-enough market insight, or BEMI. By big enough, we mean that the market insight must be far larger than just an idea for creating incremental products. We're talking about a substantial insight that would enable a company to build a major business with the potential of considerable growth over a number of years. It might even lead to a game-changing product that totally rewrites the rules of a given market. BEMIs, in other words, provide companies with a growth path to launch themselves to new, higher planes of success. (See "Identifying BEMIs.")

BEMIs will rarely lead to a growth surge over the short term. That's because today's winners have already anticipated the current business environment. The real opportunities lie in seeing where a market is likely to head over a longer time horizon. In our experience, attacking incumbents head-on under stable business conditions is hardly a smart strategy. Rather, the more effective approach is to look for major trends that could potentially upset those conditions in some significant way. The ability to see those trends and how they might intersect is what having a BEMI is all about.

Novo Nordisk's insight about diabetes certainly had huge, long-term implications for the company, but BEMIs do not necessarily have to be as momentous or as far-reaching. Often they are much more immediate but equally hidden from view to all but the most careful observers. Consider Porsche's decision to sell sport-utility vehicles (SUVs). When the company announced its entry into the already-crowded market a decade ago, purists shuddered and skepticism prevailed. Why was Porsche risking the reputation of its mighty brand to go after the soccer-mom market? But the Porsche Cayenne wasn't simply going to be a me-too product. From the inside out, it was going to be a true Porsche, worthy of the company's long heritage in building top sports cars with superior performance and handling. In fact, when the 2.2-ton Cayenne Turbo was pitted against a sleek Mercedes ML 63 AMG sedan in a sprint to reach a speed of 100 kilometers per hour, the difference was just a tenth of a second (5.1 seconds for the Cayenne versus 5.0 for the Mercedes)—and the Cayenne had better handling. Porsche's BEMI—that the seemingly overcrowded SUV market still had room for a high-performance, sportster-bred entry to satisfy high-end consumers—might not have been earth shattering, but it was big enough to launch a major new business. By 2008, the Cayenne was Porsche's most popular model, outselling even the 911 and accounting for about one-third of the company's total sales.

In other cases, BEMIs enable companies to totally redefine a mature market. Take, for example, Nintendo. In developing Wii, the popular videogame console, Nintendo rightly recognized that the potential market was far larger than just adolescent boys and young men who were buying Microsoft's Xbox and Sony's PlayStation for their sophisticated state-of-the-art technologies. Instead, Nintendo re-imagined the market for videogames to include everyone from teenagers to senior citizens. After all, the original games were products like Pong, which was played across generations. So, instead of concentrating on flashy graphics and snazzy features, Nintendo focused on ease of use and good, old-fashioned fun. One of the company's hits is a tennis simulator in which the user hits a virtual ball on the screen by swinging the Wii controller (which contains a motion sensor) as the racket. Thanks to those types of products, the videogame market has exploded across demographic lines. According to the Entertainment Software Association, 40 percent of users are now adult women, and a quarter of U.S. consumers over the age of fifty also play.[4]

As we conducted deeper investigations into our high- performance businesses, a distinct pattern emerged. The high per-formers were the companies that had identified BEMI opportunities from various trends and had prepared to exploit these trends well before they occurred. In other words, their skill wasn't necessarily in envisioning a world that could be but one that would be. What seemed obvious and doable in hindsight was based on insight and early commitment to an important shift in market conditions. The high performers looked to win big, and they looked long term.

In contrast, low and average performers failed to see a trend that would inevitably transform their industry or they tended to have market insights that weren't big enough. These companies were far more likely to churn out one incremental product after another than to develop innovative blockbusters. (But that's not to say that high performers forwent incremental advancements altogether. In fact, many of them continued developing incremental products in their core businesses while simultaneously working on more radical innovations to take advantage of a BEMI.)

Indeed a common fallacy of low and average performers was the mistaken belief that they could achieve superior results by managing a large portfolio of existing businesses, an approach that often resulted in a regression to the mean: a few of the businesses might have excelled, but the overall performance of the portfolio (and of the organization as a whole) was, at best, average. In contrast, companies like Novo Nordisk were able to achieve high performance by betting big and focusing their resources on BEMIs—sometimes a single BEMI spanned the entire corporation; other times separate business units pursued their individuals BEMIs. But high performers never allowed underperforming businesses to dilute their success.

Another tendency of low and average performers is that they often overreached—they tackled BEMI opportunities that were beyond their capabilities, in essence, biting off more than they could chew. And that's why we stress the words big enough. The insight has to be big, maybe even huge, to propel a company to a higher level of success, but it must still be manageable, given that organization's capabilities.

But how exactly do high-performance companies repeatedly find BEMIs and take advantage of them? Our research uncovered three crucial attributes. First, they are committed to understanding the subtle but important shifts in customers, markets, and industries, and invest heavily to create that intelligence. Next, they maintain an unshakeable faith in the power of science and technology to solve a problem, no matter how difficult and seemingly impossible it might first appear. Last, they handle the complexity of an uncertain future by breaking it into manageable pieces so that resources can be deployed accordingly.

Identifying a BEMI

High performers don't wait for divine inspiration for their BEMIs. Instead, they make substantial investments to understand a market and the numerous trends that could influence it. Those trends could come from a variety of sources—demographic, geo-political, technological, societal, and so on. Consequently, high performers are continually on the lookout everywhere, trying to spot subtle changes and shifts in their business landscape. They leave no stone unturned, because they realize that BEMIs can sometimes arise from the most unlikely places.

Listen More

Obviously, customers are a good place to start when companies are looking for a BEMI, but high performers go well beyond just listening to customers; they take extra measures to ensure that the customer's voice is truly heard. Tesco, for instance, holds an annual Customer Question Time, which is attended by twelve thousand customers every year, to hear customers' views on everything, from products and prices to Tesco's role in the community.[5] Furthermore, through the company's TWIST (Tesco Week In Store Together) program, thousands of Tesco's head office managers are sent out every year to work in store for one week so that they can experience the products and processes that the consumers face and so that they can listen to employee suggestions.[6] Thanks to those and other efforts, Tesco has long been able to understand changing consumer attitudes, such as increasing concern for health and a preference for local produce, and to improve its own practices and offerings.

One way in which listening to customers led Tesco to exploit a new market opportunity was with Tesco's Fresh & Easy Neighborhood Markets, the chain of small food stores in western United States. Tesco executives came to the United States with the observation that smaller-size food stores were growing in many markets around the world but not in the United States. After speaking directly to American consumers, the executives indeed found a market niche for specialty fresh-food markets that would be located right in people's neighborhoods. This BEMI led to the creation of a new type of store that was based on insights drawn from listening to customers, and it proved to be a hit.[7]

Of course, customers aren't always able to articulate what they want, and that's why high performers go the extra distance to figure that out. Procter & Gamble, for example, invests more than $200 million each year on consumer research, and part of that effort consists of anthropological studies conducted in the field. Through a program called Living It, employees literally live with consumers in their homes, eating and shopping with them for several days at a time. Another program, called Working It, allows employees to work behind a retail counter to gain firsthand insights into what customers are—and are not—buying. And these immersion programs aren't just for staff employees and middle managers. In fact, roughly 70 percent of all P&G executives have participated.[8]

Moreover, high performers are well aware that the biggest market insights can often come from unlikely sources. Consider GE Healthcare's experience in emerging markets. In China, for example, doctors typically work in rural clinics, which can't afford pricey medical equipment like conventional ultrasounds that sell for more than $100,000 in the United States. So, to serve the Chinese market, GE developed a cheaper, portable machine that uses a laptop computer. Of course, the compact device isn't nearly as good as the bulkier, sophisticated equipment sold in the United States, but the performance is good enough for simple applications like detecting enlarged livers, and moreover, GE has managed to bring the price down to as low as $15,000. And that was just the beginning of the story. GE recognized that its compact ultrasound could be adapted for the U.S. market in applications where portability is crucial (for instance, for an ambulance crew at an accident site) or where space is an issue (such as in a cramped emergency or operating room). Thanks to that valuable insight, GE quickly grew the global sales of its portable ultrasound business from $4 million in 2002 to $278 million just six years later.[9]

In today's world, with the Internet and other information technologies, companies simply have no excuse for being out of touch with their customers. Crucial information about the market is out there, available to any business that expends the effort to look. Consider Dell, which actively monitors various blogs, Internet forums, and other communities to learn what customers are saying about the company. Not only does the information help identify common problems with products, but it also provides insight into the kinds of features and functionality that consumers might like in the future—data that could be crucial in helping Dell to identify its next BEMI. For example, after learning about the growing popularity of Linux from such sources, Dell launched a major initiative for the rapid development of a line of PCs to support this open-source operating system.[10] Is Linux going to be the company's next BEMI? Perhaps not, but at the very least, Dell has been aggressively searching for any such opportunities that could rejuvenate its business, which has been struggling for the past several years to recapture its earlier magic.

Listen Better

Of course, although information technologies might be well suited for collecting copious data, the resulting information will be of little use to companies that can't separate the proverbial wheat from the chaff. Dell has reported that through its various online initiatives, the company has 100 million interactions with customers every year.[11] Sifting through that mountain of data requires a powerful filter to detect signals (sometimes just faint ones) from the surrounding noise. Simply put, quantity is indeed important, because you need to listen to more numerous, varied sources of information, but quality is also crucial if you want to avoid chasing pseudo trends that lead nowhere.

One approach is to rely on the collective wisdom of a group of employees or customers, thus tapping into the so-called wisdom of crowds. Take, for example, Wells Fargo. Several years ago, the company was awash in a sea of data. Through an electronic suggestion box, the company was logging an annual average of eight thousand ideas. But how to make sense of that large, diverse data-set? The solution was to use wikis (open-source, participative Web sites) and other crowd-sourcing technologies. Wells Fargo implemented an application through which participants could develop seeds of ideas—anything from a suggestion for improving the customer experience at bank branches to a recommendation for making back-office operations more efficient. Participants continually develop and rate the different ideas, with the cream eventually rising to the top. The system is extremely scalable—anywhere from fifty to fifty thousand individuals can participate.[12]

Such technologies can be remarkable tools, but high-performance companies never discount the wisdom of a seasoned executive. Toyota's entry in the luxury-car market is a case in point. The origin of that BEMI came from Yukiyasu Togo, a Toyota executive with an intellectual and cultural curiosity that has become the stuff of corporate legend. In his first overseas assignment for Toyota, Togo learned about the Thai people and culture by shaving his head, dressing as a Buddhist monk, and begging on the streets of Bangkok. Later, when he was stationed in Canada as an executive vice president, he sold cars going door-to-door, visiting 150 homes, in order to understand why Toyota sales had been slow there.[13]

Back in the early 1980s, Togo was the head of Toyota Motor Sales USA. Living in Southern California, he noticed something that annoyed him—his friends who were also high-level execs tended to buy BMW and Mercedes-Benz cars but not Toyota. Why, Togo wondered, didn't his company have a luxury car that could compete?[14] And the problem extended far beyond Togo's circle of friends. The lack of a high-end vehicle left Toyota vulnerable to customer defections. As baby boomers were reaching their peak earning years and had more disposable income, many were stepping up from their Corollas, Cressidas, and Camrys and purchasing European luxury cars. In essence, those consumers were growing out of Toyota's reach.[15]

Togo brought his case back to the company's headquarters in Tokyo, appealing to then-chairman Eiji Toyoda. It was hardly a slam-dunk decision. In fact, many executives at Toyota felt that launching the Lexus brand would dilute resources such that the result would be two weak brands (Lexus and Toyota) instead of one strong one. The resistance was particularly vehement, with critics using the acronym NFL (for "no f—cking Lexus") to express their vigorous objections. But Togo persisted, at one point asserting that he would resign if Lexus flopped.[16] Fortunately, chairman Toyoda listened to Togo's BEMI, and Lexus has since grown into one of the world's strongest luxury brands. Of course, Toyota didn't rely solely on the insights of a single executive. The company conducted focus groups and found that each of the major luxury brands had a perceived weakness: one was judged to have poor quality and service, while another's cars were thought too plentiful on the road, thus diminishing their exclusivity.

Still other brands were considered either too boxy, having too small an interior, or having styling that was weak compared with another top competitor.[17] Thus Toyota confirmed that there was indeed room in the market for another entrant. But the point is this: the top brass at Toyota listened to Togo because of his proven track record. Under Togo's leadership, Toyota sales of new vehicles in the United States surged from around 720,000 in 1983 to more than 1 million just three years later.[18] And Togo was known for going above and beyond in his efforts to understand local markets, as evidenced by his experiences in Thailand and Canada. In other words, if any executive was primed to have a BEMI about the U.S. market, it was Togo. Fortunately for Toyota, the company pursued his insight about the luxury-car market instead of discounting it.

Having faith in the power of science and technology

Having a BEMI is all well and good, but taking advantage of that insight is an entirely different matter. From our research, we found that average and low performers often underfund BEMI projects and frequently quit too early when the going gets rough. High performers, on the other hand, tend to stick with a BEMI project through its ups and downs, with unwavering commitment and faith in the power of R&D to address the identified market need.

Consider P&G's development of Pampers. When P&G introduced the product in 1961, disposable diapers had already been on the market for decades. The Chux brand had appeared in 1935 and was a leader at the time. What P&G had managed to do, however, was to see how major societal changes in the United States could exponentially grow the market. Specifically, the company recognized two crucial trends. First, the growing affluence of consumers was driving their desire for greater convenience, and second, women were increasingly joining the workforce.

But P&G faced a huge challenge: in those days, disposable diapers had to be made by hand because the paper used in them rendered mass production impossible. Thus, although families might purchase a small supply for travel purposes, the product was too pricey for everyday use. To tap into the mass market's growing desire and ability to pay for convenient diapering, P&G had to concentrate on dramatically lowering the costs, and after five years of intense research, it managed to bring the price down to 10 cents a diaper. But that wasn't good enough, because diaper services were then about 3.5 cents per diaper and home washing was about 1.5 cents. Finally, the breakthrough came when P&G developed a machine that could mass-produce diapers at 5.5 cents apiece. More expensive than diaper services, but affordable to increasingly affluent consumers. Thanks to that innovation, the market ballooned from $10 million in 1966 to $370 million in just seven years.[19] Today, disposable diapers are a $10 billion industry that is still growing rapidly, as consumers in emerging markets increase their use of the product, thanks to their growing affluence and changing lifestyles.

Did P&G absolutely know that it could bring down the cost of disposable diapers to the right price point? No, but the company persisted in the face of that uncertainty because it had faith in the power of R&D. It worked tirelessly to act on its BEMI, persevering for years even through repeated setbacks. Of course, that kind of commitment doesn't come cheap. According to one source, P&G reportedly spent more to develop and test market Pampers than Henry Ford did to bring his first automobile to market.[20] But that's why high performers focus on BEMIs, because the potential pay-off has to be well worth the investment required.

Commit Fully

Often, a number of companies will have the same BEMI, but the winner will be the organization that is most willing to commit itself fully. Years ago, auto manufacturers were all aware that oil was becoming an increasingly precious commodity. But it was Toyota that wholeheartedly threw itself into seizing that market opportunity with Prius—a new type of vehicle that would reshape the industry. Back in the mid-1990s, the company launched a project called G21 (Global 21st Century) with a simple if daunting goal: build a car with a fuel efficiency of 47.5 miles per gallon, 50 percent more than that of a basic Corolla.[21] (In contrast, Honda, also a forerunner in developing hybrid technology, took a more restrained approach with Insight—a small, two-seat car that was never intended for high-volume sales.)[22]

The obvious solution was to work on improving the transmission and engine of existing cars. With that approach, Toyota engineers felt they could potentially improve fuel efficiency by as much as 50 percent. But Risuke Kubochi, general manager of General Engineering (and the former chief engineer of the Celica model), rejected the idea of leveraging conventional technology. So the Toyota engineers began looking at hybrid technology, which the company had been toying with for about twenty years. But the problem was that although a hybrid model could deliver dramatic fuel-cost savings, the technology was then prohibitively expensive. But Kubochi was undeterred. He ordered the engineers to create a concept hybrid car that would boost fuel efficiency by at least 100 percent and be cost effective. Moreover, he wanted the car in time for the 1995 Tokyo Motor Show, just twelve months later.

The project had Toyota's full commitment. The company assigned a thousand engineers to work on the initiative, and they investigated eighty alternative hybrid power trains, eventually narrowing the list to four. The engineers had barely gotten that far in the project when they received a new directive. In addition to having to develop a concept car within twelve months, Hiroshi Okuda, the new president, also needed a full-production vehicle within twenty-four months, roughly two-thirds the time it usually takes.

The obstacles were daunting. The battery that would drive the motor component of the vehicle, for instance, was a major headache. It had to be small but also have enough power. To complicate matters, the technology was very sensitive to temperature: the battery wouldn't work if it was either too hot or too cold, which was completely unacceptable for use in an automobile that might be driven in California or Alaska. (The solution? Put the battery in the trunk, away from the heat generated by the engine, in a location where its temperature could be more easily controlled.)[23] And that was just one of myriad major design issues that had to be addressed in bringing a novel technology to market.

But the development team literally worked around the clock, enabling Toyota to officially unveil the Prius in October 1997, two months ahead of schedule. And in the following December, just two months later, the car was already on the market. From the start, the Prius was a hit. It was the right car at the right time, appealing to the growing number of consumers who were becoming environmentally conscious and were beginning to identify themselves that way. (In a 2007 survey, the top reason that customers cited for buying a Prius was that the car "makes a statement about me." Interestingly, fuel economy was a distant third on that list.)[24] Thus, the hybrid automobile, which GM vice chairman Bob Lutz had once dismissed as "an interesting curiosity," had arrived.

The price of that success was not cheap. The total cost of bringing Prius to market was more than $1 billion.[25] The figure is all the more impressive given that, when Toyota was developing the revolutionary Prius, the company was not nearly as large as its main U.S. competitors. In fact, when Prius made its debut in 1997, Toyota was merely a fraction of their size, with annual sales of about $90 billion, versus $170 billion for GM and $150 billion for Ford.[26]

Perform Directed Research

Of course, companies should never just conduct R&D for the sake of conducting R&D. Otherwise, they could end up developing a technologically brilliant product for which no market exists. To avoid this, high performers always focus on performing directed research. They identify a BEMI and then figure out how best to serve that market. For P&G and disposable diapers, the company's research targeted one major issue: bringing costs down. And P&G had an unshakeable belief in the power of science and technology to do just that.

But that's not to say that high performers will stick with a technology through hell and high water. In fact, quite the opposite is true. High performers are focused on solving a BEMI market need through any means that work. That is, they don't wed themselves to any technology. Their primary concern is addressing an emerging market need; the technology is merely the means to accomplish it. So, for example, to satisfy the growing demand for "green" vehicles, Toyota is developing a number of alternatives, including hybrid, electric, and fuel-cell technologies. And even though the company has scored a huge hit with Prius, a hybrid car, Toyota is still making considerable investments in electric and fuel-cell technologies. "It's very important when you do R&D to widen the scope, to have several competing technologies or systems, and then to choose what is best," explains Masatami Takimoto, Toyota executive vice president. Even within hybrid technology, there are numerous types of systems, including several variations for the basic drivetrain. "We started our hybrid development work in 1969 and, since then, we've tried them all," says Takimoto.[27]

Not only are high performers flexible about the technologies they use, but they also avoid the not-invented-here syndrome. If a necessary technology or other industry know-how has already been developed on the outside, high performers might obtain it by licensing or by partnering with or acquiring the business that owns that intellectual property. Take, for instance, P&G, which was once considered a fortress of insularity. That closed approach to innovation used to be effective in an era when companies could control the flow of talent and knowledge. But around a decade ago, the company commenced a concerted effort to bring its walls down after realizing that greater employee mobility, the Internet, and other factors had led to a new age of open innovation.[28]

Now P&G freely reaches around the globe for new ideas and technologies to acquire. In fact, the company has some seventy-five innovation scouts located around the world, and its goal is that up to 50 percent of all new innovations should come from the outside. A huge success in that area was SpinBrush, a battery-operated toothbrush that sold for $5 and became the best-selling toothbrush in the United States. P&G got the idea for the product from four entrepreneurs in Cleveland.[29] Indeed, P&G will even partner with rivals: it competes with Clorox on cleaning products, but has partnered with the company to commercialize such innovations as Glad Press'n Seal (a plastic wrap that will seal to a variety of surfaces) and Glad ForceFlex (a plastic trash bag with a stretchable drawstring that keeps the bag in place), both of which have substantially grown their respective markets. Those products might not represent BEMIs, but they are evidence of P&G's commitment to the continual search for them.

Breaking the future into manageable chunks

Up to now, we've talked about how high performers identify and take advantage of singular BEMI opportunities. But high-performance companies are hardly one-hit wonders. Instead, they demonstrate a consistent ability to follow one BEMI success with another in a process that is not discretely sequential. That is, even while high performers are implementing one BEMI initiative, they are busy trying to identify the next BEMI to avoid any lags in business. Think of how Apple has moved smoothly from the iPod to iTunes to the iPhone. Ideally, as one BEMI market matures, high performers use its profits to fund their next BEMI initiative. But how exactly do they manage such orderly progression, given the myriad market, industry, and other uncertainties that can derail even the best of business plans? From our research, we found that the key is to break the future into manageable chunks.

Establish a pipeline over different time horizons

To understand how, consider Genentech, the San Francisco–based pharmaceutical company (which Roche Holdings fully acquired in 2009 after taking a majority stake in 1990). Founded in 1976, the company has successfully commercialized one major product after another, including Avastin (for colorectal cancer), Herceptin (for breast cancer), and Rituxan (for lymphoma and rheumatoid arthritis).[30] The impressive body of work is reflected in the company's financial performance: Genentech's sales revenue per employee was $1.11 million in 2009, a measure on which the company has consistently been an industry leader.[31]

To maintain a consistent flow of major innovations, the company has historically set ambitious long-term goals to ensure that its market insights are big enough. In 1999, for instance, Genentech conceived its "5 × 5" goals: five new products would be approved, and five significant products would be in late-stage clinical trials, all by 2005. After achieving both goals, the company announced its Horizon 2010 Vision and Goals, which set the bar even higher: Genentech planned to bring at least twenty new molecules into clinical development and at least fifteen major new products into the market by 2010.[32]

Indeed, Genentech has been the very embodiment of a product pipeline. As early as 2003, the company had already been recognized for its successful pipeline management and promising lineup.[33] In 2008 as it neared its Horizon 2010 target date, Genentech already had fifteen compounds ready to hit the market in two years and another thirty within five years.[34] Today the company's Research and Early Development center has thirteen new molecular entities in Phase I and four in Phase II.[35] (Phases refer to stages of clinical trials, with each phase involving progressively more extensive tests for safety and efficacy. Results must be approved by the FDA in order to continue to the next phase. Successful completion of Phase III is required by the FDA for the drug to be marketed). With parent company Roche, the combined counts are now thirty-seven in Phase I, fifteen in Phase II, and eight in Phase III.[36]

Meanwhile, the company also continually refines and reformulates its former winners. Its chief drug, Avastin, which was originally used to treat colorectal cancer, was approved in 2008 for treatment of breast cancer and in 2009 for a type of brain cancer, and further applications could include other types of cancers as well. In such ways, Genentech manages its development of both incremental and blockbuster innovations.[37]

But having fixed goals like those in its 5 × 5 initiative hasn't prevented the company from changing course quickly to move in promising directions. In 2000, after realizing that its Rituxan cancer drug might help rheumatoid arthritis sufferers, Genentech assigned a third of its one thousand researchers to the clinical trials and studies.[38] Six years later, the drug received FDA approval for use in treating rheumatoid arthritis. More recently, Genentech has been investigating the effectiveness of Rituxan for autoimmune diseases, including various types of lupus.[39] Because such diseases are not well understood by doctors, the research could be of great scientific (and commercial) importance.

Beware of all-or-nothing solutions

In addition to ensuring that their pipelines of innovation keep flowing, high-performance companies are also adept at breaking each individual project into manageable chunks. Like expert mountaineers, they create base camps at different elevations, never attempting to reach the summit in one trip. That way, they can remain flexible, doing heavy climbing when the conditions are favorable and resting at camp to wait out storms. All this might sound obvious, but far too many businesses have suffered, sometimes disastrously, from trying to do too much all at once.

Some companies will, for example, implement all-or-nothing technologies. The classic example here is Iridium, the multibillion-dollar satellite system that provides global telephony service. The original design for the system boasted impressive technology: when completed, sixty-six satellites would circle the earth in low orbit, providing complete telecommunications coverage anywhere in the world, even at the north and south poles. But the problem was that the handsets wouldn't work until the entire constellation of satellites was in place, thus requiring a massive upfront investment. The total price tag? No less than $5 billion.[40] Though the business plan may have been sound when it was conceived, it took eleven years (from concept through development) to launch the service, and during that time, cell phones had become increasingly popular, with cellular networks spreading even to emerging markets like China. Not surprisingly, in August 1999, just nine months after its service was launched, Iridium filed for bankruptcy protection. Today, the system is still operating under new ownership (which bought the assets for a mere $25 million), but serves a limited targeted customer base, including the petroleum industry, the scientific community, and the military.[41]

Not only should managers be wary of all-or-nothing technologies like Iridium, but they should also think twice about any business model that requires an all-out investment before it can be tested. Case in point: Webvan, the online grocery service that was launched in 1999. Backed by savvy investors like Goldman Sachs and Sequoia Capital, Webvan wanted to transform the way that people bought their groceries. Webvan's BEMI was certainly ambitious, and so was its solution. The company built a vast infrastructure of massive, automated warehouses, each of which cost $25 million. The problem was that margins in the industry are treacherous—on average, companies eke out a net margin of little more than 1 percent. Because of that, Webvan needed tremendous volume to make its business model work. Each of the warehouses required about four thousand orders a day just to break even. Unfortunately, Webvan never could attain that scale, and after burning through $1 billion in cash, the company was forced to close its doors in July 2001. "We made the assumption that capital was endless and demand was endless," admitted CEO Robert Swan.[42]

In contrast, the British retailer Tesco (one of our high performers) took a much more measured approach. It launched an online service through which orders are fulfilled from existing Tesco stores instead of from a network of warehouses, thus dramatically lowering costs. Of course, Tesco possessed a huge natural advantage: its considerable brick-and-mortar presence in the market. But the point here is that Webvan's business model was fundamentally unsound. Peapod, another dot-com startup, entered the online market by teaming with existing supermarkets in the United States.

In this chapter, we explored how high-performance companies consistently position themselves to be in the right place at the right time. But we purposely omitted something crucial. Yes, Toyota shrewdly recognized that the aging generation of baby boomers would present a huge market opportunity for selling luxury cars, but exactly how was the company able to bring Lexus to market, given that Toyota's history was in manufacturing reliable, economical vehicles and not classy, high-end products? In other words, being in the right place at the right time is a necessary but not sufficient condition for sustained business success. Indeed, many companies have had brilliant market insights but have flopped miserably because of poor execution. In order to implement a BEMI initiative, organizations need to acquire a distinct set of capabilities. In the next chapter, we'll explore how businesses can accomplish that through a number of effective processes.

Before You Jump to Conclusions, Ask Yourself These Questions:

1. What processes are used in your company to identify BEMIs?
2. Is your company currently working on a BEMI initiative?
3. If your company does have a BEMI project in place, is it adequately funded to overcome potential obstacles?
4. Is your BEMI initiative broken into manageable chunks so that various components can be tested before you launch the full system?

Identifying BEMIs

Alan Greenspan, the former head of the Federal Reserve, has said that the only way to definitively identify a market bubble is after the fact. The same could be said of big-enough market insights, or BEMIs. In essence, a BEMI is a considerable insight into a market that would enable a company to launch a major new line of business with the potential for years of solid growth. An example we'll explore in detail later is Nintendo's popular Wii game console, which was the result of the company's insight that videogames could be appealing not just to teenagers and young adults but also to older consumers if the products were easy to use and fun to play. And therein lies the rub: even though BEMIs might be identified with certainty only in hindsight, companies need to act in the present to prepare for what might eventually become a huge, lucrative market. At the same time, though, they can't be chasing every insight that comes their way. As a result, executives should use the following three criteria to identify a BEMI.

First, Is the Insight Big Enough?

Obviously, big enough is a relative term. For a large global conglomerate, annual sales of a new business might need to be $1 billion to justify a major investment. For a small startup, just a tiny fraction of that volume might suffice. Consider how two companies—Samsung and Ovideon Inc.—acted on the BEMI that advancements in plasma and liquid crystal display (LCD) technologies would enable the development of flat-panel TVs with such clear pictures that viewers would replace their conventional sets and pay a premium for watching programs in high definition. Samsung, the Korean consumer electronics giant, had to win big, so it bet big. It does its own TV manufacturing in order to control both quality and costs for its high-volume operations, and so far, the huge investment has paid off. In 2009, the company controlled about 17 percent of the total market, shipping more than 27 million LCD models and more than 3 million plasma sets.[a] In comparison, Ovideon's share of the market is minuscule, but that's just fine with the start-up from Aurora, Illinois. Ovideon doesn't need to move huge volumes, because it outsources its manufacturing and concentrates on small market niches, such as applications in offices and public spaces like airports. So, for both Samsung and Ovideon, flat-panel TVs were a BEMI, but in very different ways.

Second, Is the Insight Valuable Enough?

Specifically, what will customers be willing to pay for the new product or service, and how many such customers will there be? Admittedly, those are very difficult questions to answer. Few executives might have predicted the prices that millions of consumers would be willing to pay for bottled water or for a cup of coffee that's been freshly brewed by a barista, but those who could accurately anticipate this were able to build huge, profitable businesses. Companies need to test their assumptions, regularly and over time, about the prices that potential customers might be willing to pay. Otherwise, they could be setting themselves up for a disaster. Iridium, the satellite telephone service, is a case in point. When the system was envisioned in 1985, the insight was valuable enough. There was a lack of good cell phone service in many of the destinations visited by traveling business executives, Iridium's targeted customers.[b] But by 1998, the idea ceased to be valuable enough to justify the required investment in the face of advancing cellular technology. One telecom analyst accurately assessed the new market: "If all the revenue from international business travelers calling internationally from developing countries went to Iridium, Iridium would still not be able to cover its capital costs, let alone its operating costs."[c] Indeed, Iridium could not build a large enough customer base, and less than a year after starting service, it was forced to file for bankruptcy protection.

Third, Is the Insight Certain Enough?

Some fads seem to come out of nowhere. The hula hoop is the classic example. But other BEMI products have served a need that was all but inevitable, given certain technological, geopolitical, or demographic trends. Years ago, Novo Nordisk accurately predicted that the growing affluence and more sedentary lifestyle of people in China and other emerging countries would lead to a rise in the incidence of diabetes. In the United States, an aging population of healthy baby boomers with high disposable incomes has opened various market opportunities, such as vacation packages and retirement communities that emphasize an active senior lifestyle, including not just golf but tennis, yoga, bicycling, and daily physical exercise. Of course, timing is a huge factor. Apple was prescient in realizing that consumers would want personal digital assistant (PDA) devices, but the technology wasn't quite ready when the company introduced the Newton. A few years later, Palm, Inc., would bring to market a similar device to much success. Whatever the case, executives should be extremely wary of any insight that relies on a speculative potential trend. Remember the Segway Personal Transporter? Segway bet heavily (a reported $100 million in R&D) that consumers would adopt a revolutionary new form of transportation: a personal two-wheel electric vehicle that they could ride upright at speeds up to around 12 miles per hour.[d] When it was introduced to a fanfare of media hype in late 2001, the annual sales target of forty thousand units seemed almost cautious.[e] Six years later, though, a total of fewer than thirty thousand had been sold, mainly to niche applications, such as for law-enforcement agencies and theme parks.[f]

Finally, BEMIs don't necessarily require a huge technological innovation. Sometimes the insight is purely about an emerging market, such as Novo Nordisk's realization that diabetes would become an increasing health problem in emerging economies. On the other hand, technological innovations don't necessarily lead to BEMI opportunities. The Segway, which deploys a sophisticated self-balancing mechanism based on gyroscopes, is perhaps one of the most inventive devices in recent memory, but it is essentially a product that is still looking for its BEMI.

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