

October 2016 Newsletter

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RITA GUNTHER | **MCGRATH**

Author. Speaker. Consultant.

Dear Colleagues,

Growth has been on the minds of the senior executives who participated in two Innosight-sponsored CEO **Summits**, which, I'm honored to say, were co-chaired by Clay Christensen and myself. The first was held at **Innosight's** very cool headquarters in Lexington, Massachusetts, and the second at the elegant Adlon hotel in the very center of Berlin. The guest lists read like a 'who's who' of leading companies.

The customer rarely buys what the company thinks it's selling him

This fantastic quote, from Peter Drucker, set the stage for the first session in both programs which were led by Clayton Christensen. As he has long argued, understanding characteristics of a customer lead to very little insight about why they make purchases. Instead, **customers 'hire' products and services to do 'jobs' for them**. By understanding the jobs the customer seeks to get done, he suggests that

companies can innovate with greater insight and increased predictability. He suggests that innovators need to think about what experiences we need to create in order to do the job perfectly.

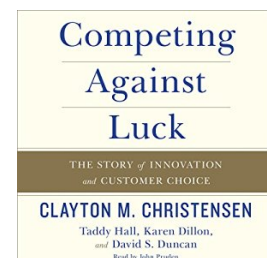
There are great examples of companies that have captured the essence of jobs to be done all around us. OpenTable, the restaurant booking service, addresses the perennial problem of needing to find a suitable place to host a dinner when you don't necessarily have the knowledge. For example, a company is bringing a large group to visit or you are in an unfamiliar city. The service goes further, in providing restaurants with an easy way to connect to completely new customers, as well as automate a lot of back office processing involved in the reservation system. IKEA has successfully done the job of "I need to furnish my apartment today" for decades, appealing to an entirely different customer need than has historically been the business of furniture stores.



"Understanding the Jobs" theory can also help us understand when a job is negative, as in "the last thing I want to do is _____". Such negative jobs on the part of incumbents can provide real openings for entrepreneurs. For instance, DollarShaveClub.com identified the hassle of purchasing shaving blades. Without Dollar Shave Club, the customer has to get to a store, most likely find an employee to unlock the shaving cabinet for their purchase and then line up at the checkout counter to pay. A big part of their breakthrough business model was turning this product sale into a service. The company was just bought by Unilever for a cool \$1 billion.

Jobs can also help predict when an offering is likely to become unbundled. Clay uses the example of the New York Times, which at one point provided solutions to jobs such as looking for employment, selling your car, providing information about the weather, and of course providing news. When focused entrants such as Craigslist or Monster.com do those jobs better, more simply, or less expensively, the bundled offer starts to disintegrate.

Clay's readable and compelling new book, *Competing Against Luck*, provides lots of guidance and examples to help drive effective innovation and growth. I highly recommend it!



How the numbers we live by destroy our ability to innovate

Almost universally, the participants observed that the typical metrics that are used to measure company progress are often useless, **even dangerous**, when one is trying to drive new growth. Particular villains are measures that are couched in terms of ratios, such as Return on Net Assets, Return on Invested Capital or concepts such as Internal Rate of Return. Such ratios tend to incent behavior that is not in line with creating new value or growth. For instance, if one's goals are couched in terms of decreasing assets, then the logical thing to do is, indeed, to use fewer assets. This can create pressure to outsource and otherwise get rid of assets that may actually be critical corporate growth drivers.

Clay has pointed out how these incentives interfere with growth investments as a payoff that only takes place in 5 to 10 years, can't realistically be captured by key ratios today. Instead, I have long recommended that we think of such investments in terms of creating options for future growth; **an approach** that many companies recognize intuitively, but all too few act upon.

At the Berlin CEO Summit, Clay showed how challenges, with respect to metrics, contributed to the collapse of a whole series of companies in the computer business. Consider the challenge of incumbents, in either the mainframe or the minicomputer business, with the advent of the first PC's. In mainframes, one could make a 60% margin on a \$500,000 purchase. In minicomputers, one could make a 45% margin on an average \$250,000 in sales. But PC's? Something like a 20% margin on \$2,000 in sales. From the perspective of the incumbents, the cost to enter such a seemingly unattractive market would not seem to be warranted. Add to that a culture which **regarded the PC** as nothing more than a "toy" and it isn't surprising that the minicomputer companies collapsed en masse.



Interestingly as well, when the companies were successful in their early days, business writers couldn't say enough wonderful things about the talent and shrewdness of their management teams. When the businesses got into trouble, the ineptitude of the management teams were blamed. This is a phenomenon that my colleague Phil Rosenzweig has **documented extensively** and yet, we still fall into the trap of attributing success to management attributes.

A few key takeaways

A few key ideas seemed to flow through the many conversations at the conference:

- Disrupt yourself, rather than be disrupted – easier said than done!
- Manage new things, to some extent, separately from your core business, particularly, if they prove disruptive to it.
- Questions by senior leaders are way more important than statements.
- Don't forget to do low-commitment testing before you fall in love with your idea.
- The jobs to be done theory has enormous power to guide your innovation investments.

The good news is that we have begun to develop very powerful tools to, **as Scott Anthony put it**, build a “growth factory” in our existing organizations.

I find that one of the biggest problems my course participants and workshop attendees face is how to scale what they have learned about innovation-led growth ‘back at the office’. While they find inspiration in our classes, such as **Leading Strategic Growth and Change**, it's hard to convey all that they have learned to others in their organization. Another issue is, that in today's fast-paced organizations, there are always new members joining teams and you have to bring them up to speed from the beginning. Or, an entire group of executives need to learn the techniques for innovation quickly and the company can't afford to stop everything while they are sent away to expand their toolkits.

The Launch of Mastering Corporate Entrepreneurship Online

Therefore, after far more work that I ever realized would be involved, I'm delighted to announce that our first on-line course dedicated specifically to the challenges of corporate entrepreneurship is now ready to accept registrations. **Here is the link.**

The course focuses on best practices in ideation and features popular and well-regarded faculty leading rich, carefully designed segments. Among them, in addition to myself, are:

- **Ian C. MacMillan**, my longtime collaborator

- **Trish Gorman**, wonderful collaborator and inventor of the “killer ideas” process
- **Jared Earl Grusd**, an adjunct professor in our marketing department, but also the CEO of the Huffington Post, with major stints at AOL and Spotify
- **Orin Herskowitz**, Executive Director, Columbia Technology Ventures; VP of Intellectual Property and Tech Transfer, with great advice for how you can commercialize your own intellectual property
- **Oded Netzer**, a colleague at Columbia and resident big data guru
- **David Rogers**, director of our “Digital Business Strategies” program and author **The Digital Transformation Playbook**
- **Adam Royalty**, a key faculty member in Leading Strategic Growth & Change and head of the Columbia Design Lab
- **Jeffrey Sears**, Associate General Counsel and Chief Patent Counsel at Columbia and expert on de-mystifying intellectual property matters

Because we understand how time-pressed many of our participants are, we offer the course with three different levels of intensity. The fundamental path makes sure you get the essentials, but in a way that minimizes the time you need to spend. The comprehensive path offers additional activities and experiences. And, for those who want more, we offer an immersive path with many deeper dive activities. The course is designed to run over 7 weeks, with an expected time commitment of about 4 hours/week (although you're welcome to spend much more if you have the bandwidth!).

The course will be moderated by experts, and I'll be weighing in regularly to make sure we are all on track. We will be running a beta program later this month and launching 'for real' in January.

Have questions? Feel free to reach out to me at rdm20@gsb.columbia.edu.

Global Peter Drucker Forum 2016: The Entrepreneurial Society

The Drucker Forum has grown into one of the most prestigious gatherings of major thinkers from academia, consulting and business, now in its 8th year. This year's theme is near and dear to my heart, with panels, plenaries and talks on many different aspects of entrepreneurship. The speaker list is a regular who's who of people knowledgeable about all things entrepreneurial, including Clayton Christensen, Alexander Osterwalder, Steve Denning, Julian Birkinshaw, Herminia Ibarra, Tammy Erickson and many more. It's a bit like being at a **Thinkers50** or **World**

Economic Forum event.

I will be moderating a panel on the topic of "Time to Change the Practice of Management" with panelists Tim Brown, the CEO of IDEO, Julian Birkinshaw of London Business School, Sara Armbruster of Steelcase and Rosemarie Ryan, co-founder of co:collective. We'll be looking at how new technologies and business models are fundamentally reshaping organizational operating systems.

Upcoming Events

Keynote talk at the **Healthcare Leadership Conference** at Kaufman Hall in Chicago. We'll be discussing what healthcare companies need to do in a world of increasingly transient advantages. I love the title of the speaker immediately before me: "Something Wicked This Way Comes".

SHIFT: Accelerating Corporate and Venture Partnerships - October 28th in New YorkSHIFT This intensive full-day program for corporate venture capital investors will be full of opportunities for ideas and networking.

Leading Strategic Growth and Change - October 17

We have a big group of incredibly diverse participants at the program this time. I'm really looking forward to it.

Advanced Management Program: Columbia's flagship senior executive program is a transformative, **once in a lifetime experience designed to bring leaders who are already successful to their next level.** Focusing on content but also on the softer side of things, it leverages Columbia's unique strengths and New York City location for a unique impact on its participants. I'll be talking about transient advantage in this version of the program.

In the News

- Re-writing the book on competitive advantage – perspectives **from Inc.** Magazine
- **Why Twitter** is relaxing strict limits on character counts for some communications
- Small business financing – **Wall Street Journal** Experts

- [More on Amazon's](#) 30 hour workweek
- Calling all my Norwegian friends – this [overview in Aftenposten](#) was a lot of fun where we discuss how Norway may be like the U.S. in the 80s.

More links to recent press mentions can be found on the [Press section](#) of my website.

Getting smarter about innovation-driven growth

One big conclusion from the various events of the last month or two is that innovation, which used to be sort of light entertainment for a firm's operating divisions, is starting to come into its own. People are now aware that they need to be innovating regularly, and a host of us are developing tools and practices to help make the process more systematic, less risky and more predictable.

Toward that end, colleagues and I are going to be launching a new company which will offer a variety of tools and solutions with respect to the growth process. More to come in the next newsletter!

Rita

Password for the “Tools” Section of My Website

To access the tools part of the web site (downloadable diagnostics, quizzes, spreadsheets and other cool stuff) go to the [RitaMcGrath.com website](#) and use the password - **mcgr8th!** *(the exclamation point is part of the password).*

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