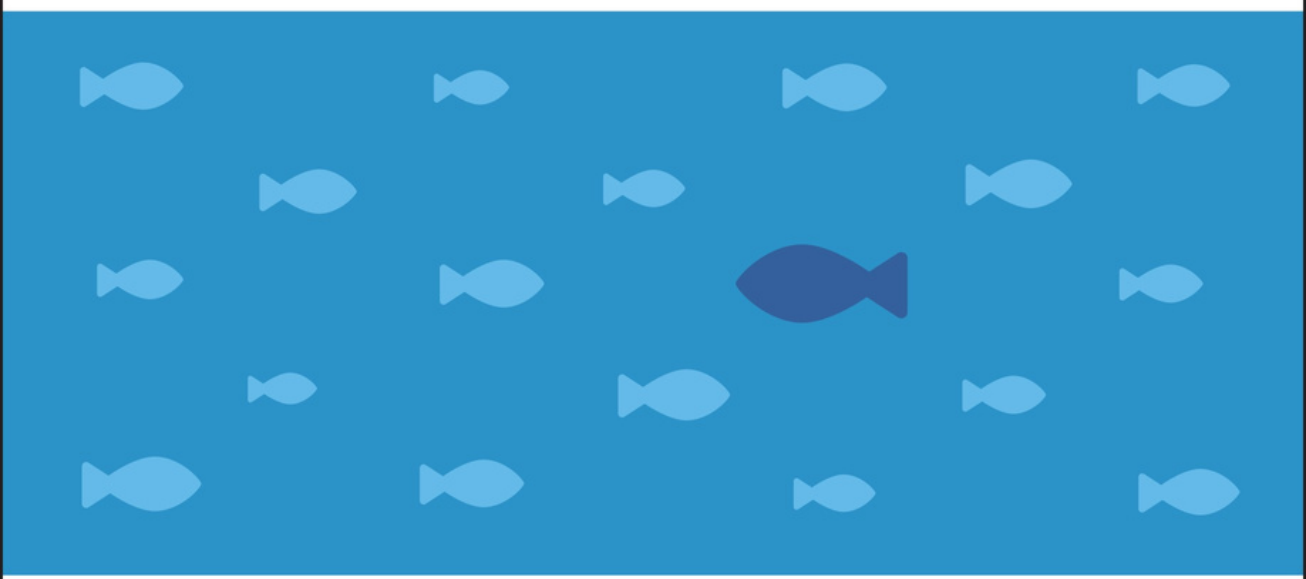
UPSTREAM MARKETING

UNLOCK GROWTH USING
THE COMBINED PRINCIPLES OF
INSIGHT + IDENTITY + INNOVATION



TIM KOELZER & KRISTIN KURTH

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CHAPTER 6

CREATE, TEST, AND LEARN (STRATEGY & PROCESS)

"Innovation distinguishes between a leader and a follower."

—Steve Jobs, *co-founder, chairman, and CEO of Apple, Inc.*

"Creativity is thinking up new things. Innovation is doing new things."

—Theodore Levitt, *professor, Harvard Business School*

"Few ideas work on the first try. Iteration is key to innovation."

—Sebastian Thrun, *innovator, entrepreneur, educator, and computer scientist*

WALT DISNEY SAID, "I ONLY hope that we don't lose sight of one thing—that it was all started by a mouse."[52] What began as a cartoon sketch on a twenty-minute train ride has morphed into the largest media company in the world, with assets in movies, television, publishing, resorts, and theme parks.

Beginning with animation, Disney has entered new markets and businesses across a host of products and services. Innovation occurs on multiple levels—both across businesses and within them. All the while, new products and brands are developed and extended to fuel growth.[53]

Figure 6.1, inspired by Walt's growth plans published in 1957, shows the strategic thinking behind them.

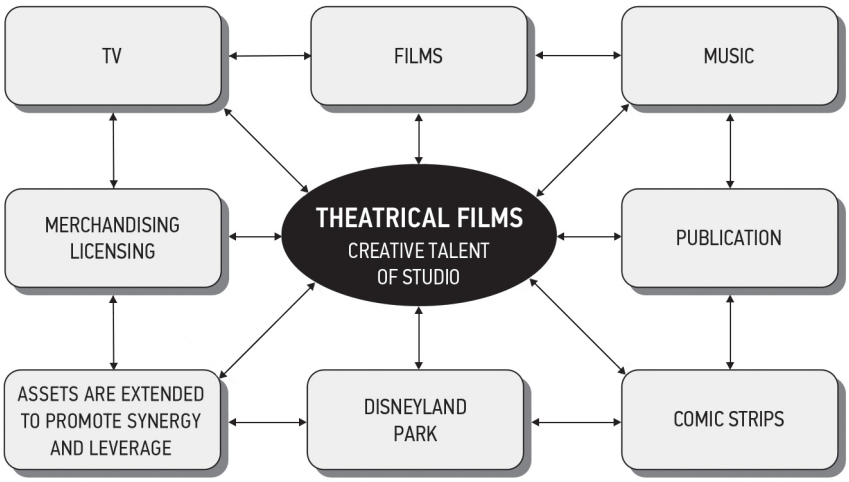

Figure 6.1

At the center is the creative talent of the studio, which creates the movies, from *Snow White and the Seven Dwarfs*, first shown in 1937, to the more recent *Frozen II*. Other assets extend from the center—Disneyland attractions, merchandise/licensing, and media, including TV, music, and publications. The arrows show how the assets relate to one another. In many cases, arrows go both ways: Assets infuse value ("feeds in raw material"), and value transfers back ("plugs Disneyland").[54]

Over time, Disney has found new ways to grow. Historically, assets were created in a film (*Toy Story*), then extended into other areas (Toy Story Mania, the theme park attraction). *Pirates of the Caribbean*, though, went in the opposite direction. It started as a Disneyland attraction and later became a blockbuster film franchise.

Innovation and brand extensions are also occurring at a faster rate. Take the animated film *Frozen,* released in 2013 as the fifty-third animated feature.

From there, it expanded to include a soundtrack, books, costumes, toys, an attraction, and the sequel film, *Frozen II*, launched six years later, in 2019. Compare this with the over fifty-year gap between the launch of *Mary Poppins* and *Mary Poppins Returns.*

Through it all, Disney employs upstream marketing brilliantly. It understands its target, designs winning value propositions and brands, and delivers a continuous stream of innovation.

Design thinking and concept iteration—storyboards, prototypes, and models—are used to develop and deliver magical experiences. Today, the company still employs many of the same principles and methods formulated by Mr. Disney all those years ago.

HOW DISNEY INNOVATES

Walt Disney said, "Of all the things I've done, the most vital is coordinating those who work with me and aiming their efforts at a certain goal."[55] Strategic focus—aiming the team—is crucial to the company's success.

The company's approach to innovation is in lockstep with upstream marketing. At The Walt Disney Company, deciding where to focus and how to win is a strategic resource allocation decision. While Imagineers and creative types receive a lot of attention, Disney's strategic planners, accountants, and technologists drive much of its success.[56] Though the company is one of the most creative in the world, it's also one of the most disciplined and strategically driven.

Disney uses where to play segmentation to define the playing field and tailor offerings. Within Disney Parks, for example, consider how a customer framework can help identify portfolio gaps to fill, as summarized here:

To Whom and For What? (Portfolio Gaps)	How to Win? (New Products/Offerings)
Teens (thrill seekers)	Tower of Terror/Guardians of the Galaxy, Star Wars Attractions
Cruisers (experience seekers)	Disney Cruise Lines
Seniors, spouses (R & R focused)	Golf resorts, Downtown Disney
Corporations (professional development)	Disney Institute, convention hotels

While Disney Parks performs well with certain segments—young families, in particular—it has struggled with other groups. Attracting thrill-seeking teens, for example, proved difficult in the early 1990s. Then, newly opened Universal Studios, with its roller coaster and thrill rides, cut into Disneyworld's attendance.

Disney could have created a taller, faster corkscrew roller coaster. While this may have been a hit with teens, it would have been incompatible with the "Disney Way" of delivering magical experiences.

Disney instead placed its how-to-win bet on the hugely successful Tower of Terror. Guardians of the Galaxy later replaced it (basically the same ride, with a new skin) as a Disney-owned film property. More recently, the company acquired other brand assets—Star Wars and Marvel, to name two—to fill the gap in target appeal.

The Dreamer, Realist, and Spoiler

The Walt Disney Company's approach to creativity and innovation has three parts, which stem from Walt's inspiration. According to Ollie Johnson, Disney animator, "There were actually three different Walts: the dreamer, the realist, and the spoiler. You never knew which one was coming into your meeting."[57] Embedded in Walt's creative approach are classic examples of create, test, and learn.

The dreamer comes up with new stuff without any filtering. Dreamers use blue-sky thinking and brainstorming to generate lots of ideas, without limits or judgment. Of course, many ideas at this stage are not that good. However, a spark of an idea can fuel other ideas. Bad ideas can become good ideas.

The realist takes the core ideas from the dreamer and makes them into something practical that works. This step involves prototyping concepts and testing them to see if they are even feasible. Concepts, in whatever form, are optimized to obtain feedback. The question here: How might we execute this vision?

The spoiler, or critic, shoots holes in the concepts. Focus shifts to the framing question: What would have to be true to succeed? The spoiler's job is to point out what's working and what's not and to feed that learning into the next round of iteration.

While "dreamer, realist, and spoiler" is classic Disney form, ideation (create), iteration (test), and screening (learn) is common across the profile companies.

Here's a look into how Google, Amazon and Apple create, test, and learn.

Google on Innovation[58]

Google views innovation as an ongoing process, rather than an episodic event. Google leadership uses a set of pillars to inform and support innovation across the organization:

Know the user involves getting out of the office, and into the field and talking to people—watching, listening and building customer empathy, then building on this insight. This is consistent with Google's overarching principle of focusing on the user, knowing that all else—including sales and profits—will follow.

Think 10x serves as an internal mantra to push the thinking far beyond incremental innovation. Simply put, Google believes

breakthrough innovation occurs when trying to improve something by ten times instead of ten percent. This forces transformative thinking—resulting in big, bold and crazy ideas.

To support this, during brainstorming sessions, pictures are used to instill creative thinking and represent ideas. Concept statements are prepared, including short, six-word headlines designed to capture the essence of the idea. Also, as there's plenty of time to weed out bad ideas later, focus is on idea and concept generation, instead of concept screening. The goal is to move beyond "no but" to "yes and" thinking to build on and improve ideas.

Prototype. Design thinking and five-day design sprint sessions are used to create quick and dirty prototypes bringing ideas to life. Iteration is key. Ideas in the form of written concepts, mocked-up websites and other stimuli are developed, shared, and improved upon to gain insight.

Launch and learn. "Ship and iterate," "beta products," and "soft launch" are terms used to describe Google's approach to getting ideas out there quickly, obtaining market feedback and making on-going refinements.

> The concept of a "soft launch," borrows from the restaurant business in opening new establishments. Rather than a grand opening to the general public, a new cafe will have a few days or weeks when they invite only family and friends. This provides a chance to learn what works, iron out the kinks, and prepare for full-scale launch.

In Google's case, they'll launch software product 1.0 along with built-in feedback loops to address problems and expand functionality, followed quickly with version 1.1 and other iterations. This approach provides product development teams with real-time, real-world customer insight.

Amazon on Innovation

Amazon's "standard playbook" is to launch a product or service quickly, not make too big a deal of it, and spend almost nothing on marketing. Jeff Bezos said, "If you double the number of experiments you do per year, you're going to double your inventiveness." Amazon uses customer feedback to make adjustments or cut projects quickly.

Amazon uses an approach called "working backward" in developing new products. The process starts with the end customer rather than starting with an idea for a product and trying to bolt customers onto it.[59]

A product manager initiates the process by writing an "internal press release" directed to end customers and announcing the finished product and associated benefits. The press release draft centers on customer problems, and how the new product addresses them.

The product manager keeps iterating on the press release until critical benefits are identified and confirmed. Once the concept is approved and moves into development, the press release serves as a touchstone to achieve the confirmed customer benefits. Writing an early press release is beginning with the end in sight.

Apple's New Product Process

Apple's approach to innovation is codified in the Apple New Product Process (ANPP), which details every stage of the design process, including the various steps of development, who is responsible for delivering the final product, and when the product is expected to be completed. This includes weekly product reviews with Apple executives to assess progress.

Iteration is key throughout the design and development process. Products are built, tested, and reviewed, then the design team improves on them and they're built all over again. These cycles take four to six weeks at a time and may be run many times over a product's development life cycle.

Apple design teams are separated from the larger organization, both physically and organizationally. Design teams have their own organization structures and report directly to the executive team. This gives them freedom to focus on design rather than the day-to-day minutiae.

COMMON INNOVATION PRACTICES

A deep dive into the profile companies reveals that each has its own innovation strategy and process, which makes sense as they operate in different industries. Across the lot, they share the following five end-in-sight sub-principles:

- Focus innovation on strategic opportunity areas
- Generate ideas through creative problem solving
- Develop and optimize concepts iteratively
- Determine "What would have to be true?" for success
- Use a portfolio and pipeline approach to manage innovation

Let's explore each sub-principle in detail.

Focus Innovation on Strategic Opportunity Areas

As seen in the Disney, Google, Amazon, and Apple examples, innovation is more than "I have an idea." It needs to be aimed strategically, using a structured, disciplined approach. Replace the "fuzzy front end," as it's sometimes called, with clear direction (see figure 6.2).

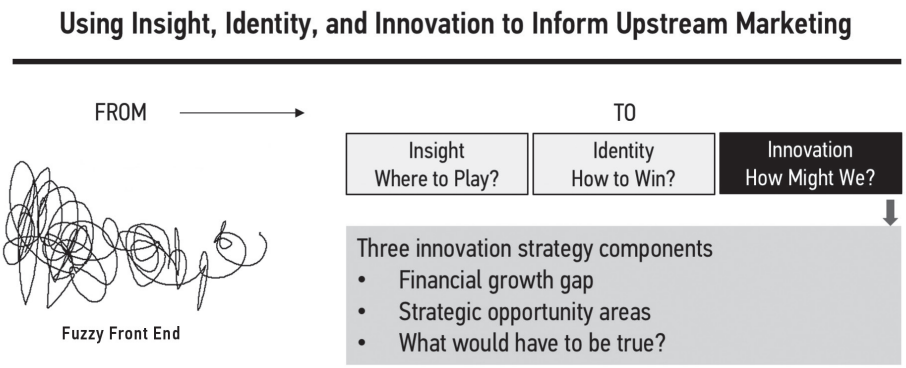

Figure 6.2

In establishing strategic direction, there are a few places to look for inspiration. Two we've talked about, insight and identity. The third ties to innovation, and consists of three interrelated elements—the financial growth gap, strategic opportunity areas, and what would have to be true business screening.

Financial growth gap defines how much revenue is needed beyond base business growth to achieve your goals. Are you looking to improve the business 10 percent, 100 percent, or like Google strives to, by ten times? Knowing this figure helps you strategically manage the innovation pipeline and portfolio.

In general, the larger the growth gap, the greater the need for innovation. Later in this chapter, we describe a range of innovation types, from incremental to transformational, that need to be strategically managed to help close the gap.

Consider that downstream marketing aligns with the base business, with upstream marketing required to fill the larger economic gap (see figure 6.3).

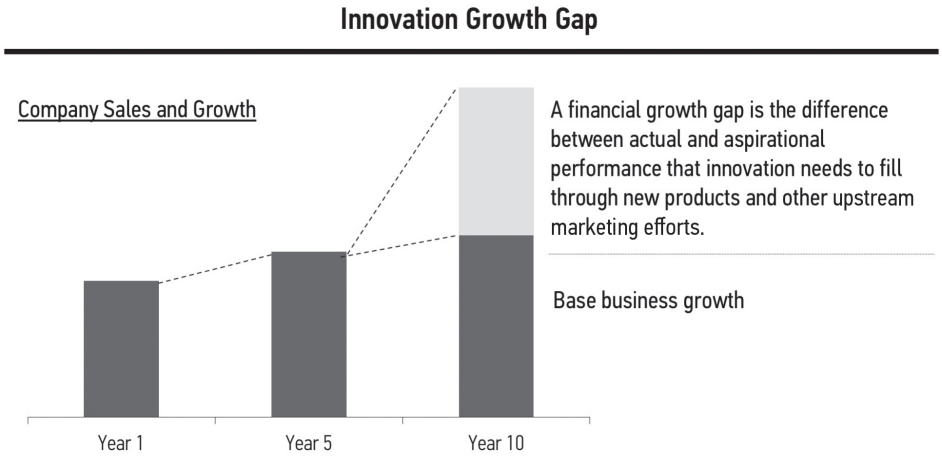

Figure 6.3

Strategic opportunity areas (SOAs), as described in chapter 3, align with the growth gap and help pinpoint potential areas of growth to focus strategy, planning and customer research. A roll-up summary of individual SOAs should begin to fill the growth gap. If not, revise SOAs or add more to align with corporate growth objectives.

What would have to be true considers the business conditions necessary for success, including strategic, customer, financial, and operational screens, described later in this chapter.

These three elements—the growth gap, SOAs, and business screening—should come together in an upstream marketing plan and business case.

Exactly what to include in the planning template/business case depends on the industry, category, and SOA being considered. In creating Disneyland, for example, Harrison "Buzz" Price, who advised on operationalizing the park, created an entirely new set of business metrics in planning. Harrison said, "Over time, for Walt and his brother Roy, and those that followed, we invented an all-new vocabulary that is

today the mathematical language of attraction development. It would include subjects like site analysis, concept development, market size, market penetration, attendance targets . . . and profitable economic performance."[60] Many of these metrics may apply to innovation planning within your own organization.

Once the strategy is in place, focused ideation is used to develop a range of benefit-based solutions to deliver on the opportunity.

Generate Ideas Through Creative Problem Solving

In truly innovative companies, free-flowing exchange of ideas happens naturally every day. Creativity extends beyond the marketing, strategy, and R&D departments. Brainstorming occurs outside the annual offsite planning session.

Still, there are times when dedicated problem-solving sessions make sense—for corporate planning, new products, and other efforts.

These problem-solving sessions can occur over a few hours to several days or longer, across two broad forms: focused ideation and design sprints. Both types focus on solving a particular problem within a specified period:

- Focused ideation is used to come up with an array of benefit-based solutions around a particular problem. Informed by deep insight and creative exercises, focused ideation sets the stage for meeting customer needs.
- A design sprint is a specific approach to ideation, often over five days, used to address business questions through design, prototyping, and testing ideas with customers.

These two methods work well alone or combined. Focused ideation takes a venture capitalist approach—develop and optimize a portfolio of concept areas.

Design sprints align with a startup mindset—iterate a single concept within a defined space. Combined, the methods spread risks and increase the chances of new business success.

Also, both methods rely on similar problem-solving techniques, defined as *convergent* and *divergent* thinking. Here is a typical ideation session agenda, made up of three parts.

Part 1. Define the problem, including "how might we" statements. Tee up the problem and share customer and market background. Present the to-whom, for-what framework, customer insight, and the benefit hierarchy. Cover market trends, technical insight, and initial hypotheses. List specific jobs to be done (or benefits sought), making sure to look at the job from the customer's perspective, not the company's.

Next, translate customer pain points, gain points, and jobs to be done into how-might-we questions. Rephrase problems into opportunities to encourage a free-flowing exchange of ideas without filtering.

For example, rather than relay the problem, "We're not selling enough baking mixes," restate the opportunity: "How might we deliver a specialty bakery experience at home?"

It's okay to have multiple how-might-we statements: "How might we deliver a healthy, portable breakfast ready in five minutes?" Or "How might we offer speed scratch, homemade cooking?" The deeper the insight, the better the questions, and the better the answer. Said another way, don't skimp on insights!

Wrap up Part 1 by sticky-dot-voting high-potential opportunity areas and ask two other questions: "Why should we address this?" and "What is stopping us?" Get it all out, then take stock of what's listed. This helps illuminate what to consider in ideating potential solutions.

Part 2. Conduct focused ideation exercises. Now, diverge and converge.

To diverge: After confirming the opportunities to focus on, table them, at least temporarily, to encourage breakthrough thinking.

When ideating too closely to defined problems, typically only incremental improvements result. Conversely, when broader perspectives are introduced, transformative solutions emerge.

Use creative exercises and projective techniques, time clocks, sticky note pads, and dot voting to facilitate the session. Here are some proven exercises.

PROVEN FACILITATED IDEATION EXERCISES

Brainwalking is a great exercise to surface an initial set of ideas. Most session participants have ideas they've been thinking about before the session itself. Put up large, self-stick flipchart paper around the room and assign one sheet to each participant. How might we solve this problem? Write the answers you came with on the sheet. Then, rotate a couple of times to your neighbors' stations to build on their ideas and create new ones. As a twist, write down the absolute *worst* idea, and then turn the bad idea into a good one.

Great Inventors is designed to bring in outside thinking. Brainstorm a list of inventors, entrepreneurs, and rule breakers, then list top-of-mind associations with those individuals. Working alone or in groups, create new concepts by viewing things through the inventors' eyes. How might Walt Disney, Steve Jobs, Jeff Bezos, or other creative thinkers solve the problem? How might we, through their eyes?

Picture Prompts uses outside stimuli to infuse new thinking—a picture is worth a thousand words. Participants peruse a wide range of magazines and "rip" pages of inspiration, then "rap" about why these caught their attention (no singing or dancing required). Photos, article headlines, and ads help unlock new ideas. Have team members create a print ad inspired by the scraps of headlines, photos, and copy.

Benefit Hooks consider customer needs, benefits sought, jobs to be done, and trigger words to stimulate creativity. First, list target benefits (speed, comfort, simplicity, etc.). Then, list things (nouns not verbs) that embody those benefits (speed = stopwatch, comfort = blanket, simplicity = fly swatter) including associated words. Finally, consider what's listed and brainstorm solutions to the identified problem. In removing yourself one or

continued

two steps from the problem—how might a fly swatter inspire a simple solution—breakthrough ideas emerge.

Metaphorical Baiting uses comparisons (e.g., time is money) to express and generate ideas. Comparing two unlike things based on something they have in common creates rich imagery to stimulate creative problem solving. Another example: Use other brands to inspire new ideas. We're the Uber/Amazon/Airbnb/YETI of (insert category here).

Then, converge: After the ideation exercises, relate ideas to the job to be done and solve it. Use ideation templates to collect and organize the ideas for contrast and comparison. Figure 6.4 provides a sample worksheet.

Core Idea: How Might We?

Headline/Core Benefit		Illustration/Sketch
Target Problem/Needs Addressed		
Idea Description/ Proof Points/ Reasons to Believe • • •		
What would have to be true to be successful?		

Figure 6.4

Part 3. Prioritize the winners. Toward the end of the session, identify and converge on high-potential areas. Dot voting and the

impact-effort matrix described in chapter 2 are great early ways to narrow the list of ideas. Other methods for screening ideas are described later in this chapter.

WHO ARE THE IDEAL SESSION ATTENDEES?

Carefully consider who to invite to ideation and design sprints, including a mix of three types of people:

Expansive thinkers. Open-minded individuals are vital to generating out-of-the-box thinking. Be careful with people who are apt to say, "We've already tried that." This is the idea generation phase and things change. There will be plenty of time to screen out bad ideas later.

Knowledgeable thinkers. People with in-depth insight into the business are good to include; cross-functional input infuses the session with varying points of view. Specialized insight is particularly valuable if the problem to solve has specific technical aspects, such as unique product characteristics and complex customer requirements.

Creative thinkers. The best sessions involve an element of humor and "playtime." While department heads may thrive on problem solving, if they'd rather not participate in the session, don't press them. Preferably, include them in the concept review process, as described next.

Be sure to use a combination of *individual* and *team* exercises, recognizing that people thrive in different environments.

Develop and Optimize Concepts Iteratively

After focused ideation and prioritization, put high-potential ideas into concept form—or tangible, testable propositions—to clarify thinking, obtain feedback, and iterate concepts. Use verbal concepts, visual imagery, and prototypes to "bring the concept to life" and seek input.

The concept optimization process itself is not linear but rather

back-and-forth—learn as you go to get closer to the right solution, as shown in figure 6.5.

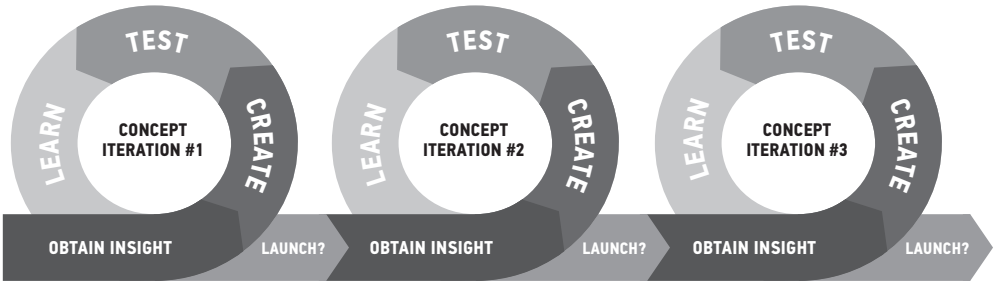

Figure 6.5

There are three iteration loops here, though there could be more or fewer, depending upon the business. What to optimize also varies (from concepts to minimum viable products) with timing ranging from several days to months or longer. The main thing? Use customer feedback to *shape* the answer, not just validate it afterward.

When optimizing concepts, expose one idea at a time to assess appeal and differentiation. Ask target customers, is the idea appealing—why or why not? What would it replace or add to? Use probing questions. What do you like about the idea? What don't you like, and how can it be improved? Across all areas, which concept is best, and why? If a concept is going to fail, have it fail fast and apply resources elsewhere.

A/B TESTING IN UPSTREAM MARKETING

The principles and practices described in *Upstream Marketing* work in online and offline environments. The idea of concept iteration, for example, can be automated through online A/B testing (also called split testing).

With A/B testing, two versions of a concept or a website are exposed to customers—a "control" version and a "test" version. For example, this could be one ad with two different headlines, with changes made based on test performance.

While A/B testing can be a powerful way to optimize offerings, this method has its limitations. For example, while A/B testing can indicate *which* concept is preferred, it does little to inform the *whys*—the insight behind the behavior.

Also, in evaluating concepts, it's often more effective to look beyond the "average" customer used in typical A/B trials to better understand customer segments.

Finally, it is useful to consider the long-term, cumulative effect of a *series of changes* instead of a single change.

When using A/B testing, artificial intelligence, and other automated methods, balance your findings with a qualitative understanding of the *whys* behind the preferences to obtain deeper insight.

CONCEPT OPTIMIZATION BENEFITS

The premise behind concept optimization is that it's easier and cheaper to develop, optimize, and test ideas in concept rather than final finished form. This test-and-learn approach offers several benefits:

More and better solutions emerge from exposing multiple concepts to customers. Locking in on one solution limits choice. Rather than optimize a single solution, cast a wide net using concepts as bait.

Customers can readily list problems and concerns but often find it difficult to identify solutions. Prototypes are easier for customers to react to and suggest refinements.

Concepts in unfinished form naturally invite interest. Often, the cruder the description, the better, at least initially. There's a natural desire to want to smooth out rough edges so respondents eagerly engage and provide feedback.

Concept development is more cost-effective than developing functioning products. Preparing a basic concept description requires maybe a day of focused ideation and another day of concept creation. Also, it's psychologically easier to kill a bad idea when sunk costs are a nonfactor.

When preparing concepts or prototypes, stress clarity and strategic benefits over creative appeal. While concepts should be neither boring nor bland, distill ideas down to their benefit essence and reason for being. Avoid "ad copy"—the turn of a phrase that can oversell a concept void of customer merit.

WHAT TO TEST AND OPTIMIZE

Stimuli to test and learn from depends on several factors, including cost and timing. The goal is to gain as much insight as possible relative to costs incurred. There is a range of testable propositions, as shown in figure 6.6.

	Alternative Concept Testing Propositions			
Type	**Whiteboard Concepts**	**Visual Concepts**	**Physical Prototypes**	**Minimum Viable Products**
What is it?	Verbal descriptions, either on paper or a computer screen	Mock websites and marketing material to simulate end products in context	Physical models to bring the idea to life in a tangible way	Final "bare bones" products (with one or two main functions)
When used?	One-on-one research settings and surveys	Website /online settings and surveys	Feedback on physical, 3-D models	Proof of concept and next-level refinements
Cost to Create	Low	Low	Low to Medium	Low to High

Figure 6.6

In determining what to test, consider working your way from the left to the right, balancing quality feedback with keeping costs low. As certainty increases, invest in more involved testing methods.

Written whiteboard concepts are a great place to start. Distill

ideas down to their benefit essence to assess whether the ideas address real needs.

From there, progress to visual concepts and physical prototypes. There's an added cost of next-level experiments but also richer insight.

Finally, consider minimum viable products (MVPs), creating and then testing the first form of a functioning product. Said another way, launch and learn.

The stimuli to use depends on the industry and product category. Going with an MVP or "soft launch" makes sense for software, services, and other sectors where iterations are cost-effective. MVPs, though, may be impractical for other categories. A commitment to iteration is more important than what's tested. The real value is in obtaining insight to get closer to the end solution.

CREATE, TEST, AND LEARN AT EQUIBRAND

Numerous methods exist to work backward and test early business ideas using concept statements and other prototypes. With EquiBrand engagements, we almost always begin with simple, benefit-based whiteboard concepts. They're inexpensive to produce, are easy for customers to react to, and help get the organization "on the same page." Next, we favor website prototypes, adding visual interest and look-feel detail.

In creating *Upstream Marketing*, in addition to concept optimization, we used the following mini tests to assess market appeal and improve the end product:

- Created a simple *Upstream Marketing* website, including an initial draft of chapter 1. This clarified our thinking and established an initial online presence to track website traffic.
- Generated a book mock-up (prior to finishing the manuscript), shown on the website along with a preorder form for email capture. Potential readers could select from "I'm interested in reading an advance copy of the book" or "Notify me when the book is published."

continued

- Set up Google Alerts so that whenever the words "upstream marketing" appeared in a new article, website, or news release, we were notified by email. This free detection service allowed us to track customer and competitive activity.
- Used Google Trends to chart the popularity of "upstream marketing," including graphs that compared search volume over time with other terms.
- Wrote and placed alternative "upstream marketing" Google pay-per-click ads to research and optimize the title and subtitle, through A/B ad conversion.
- Prepared advance reader copies and sought advice and feedback from professional contacts and prior clients on key themes and company examples.

Determine "What Would Have to Be True?" for Success

Imagine the discussion Nike executives had in 1984 deciding whether to sign Michael Jordan out of North Carolina to a seven-year, $6.3 million contract.[61] What proof did company leaders have that the investment would pay out? Zero.

Fortunately, Nike's culture promotes innovation and healthy risk taking. It's one of *just do it* rather than *just prove it*. Today, the Jordan brand generates billions in sales annually for Nike, hitting its first $1 billion quarter in 2019.

Of course, Nike protected its downside through an out clause: If Jordan didn't sell $4 million worth of shoes by the third year, Nike could cancel the deal.[62]

Nike established this threshold based on certain "what would have to be true" assumptions. They needed to ensure investing in the rising star wasn't a complete bust. As it was, Nike sold $70 million worth of Air Jordans in the first two months of 1985, and the rest is, well, history.

A CAUTION AGAINST "PROVE IT" AND "SHOW ME THE MONEY"

The death knell of innovation is "Prove it." Many executives want proof that a new business idea will achieve an economic payback before investing in it.

In most cases, though, the proof won't come right away. So, companies never pull the trigger. They never realize the benefits of upstream marketing. They stagnate and lose.

While desired, financial forecasting too early in upstream planning is risky for a couple of reasons. First, truly new ideas have never been done before, so no real data exists regarding their potential. Absent historical data, analysis paralysis sets in—creating a business case becomes a project in itself.

Second, predicted numbers provide a false sense of security. Most projections will be wrong, yet creating them makes them seem more real than they are.

MINI CASE EXAMPLE

Be cautious about total addressable market (TAM) projections and spreadsheet calculations. These can be sensitive to minor changes in assumptions. We worked with a Silicon Valley software startup that used an elaborate formula to calculate market potential. Changing one number in the spreadsheet, from a 10 percent market share projection to 20 percent, substantially altered the forecast.

Nothing changed in the company's strategy, other than plugging in this one number. Yet the company—at least on paper—went from losing money to being wildly profitable within twelve months.

While many investment decisions require financial pro formas, treat upstream forecasts differently. Rather than seek a wild guess on economic potential, use a test-and-learn approach, periodically asking: What needs to be proven to proceed?

WHAT WOULD HAVE TO BE TRUE?

Our team first heard this question while working on a growth strategy project for the leading home services company. The client executive, a former McKinsey partner, kept asking, "What would have to be true?" when assessing alternatives.

It seemed like an odd way to phrase a question, and a bit confusing, but we figured the language was intentional.

Like other upstream marketing tools, this question requires that you begin with the end in sight and think through ahead of time what's needed to succeed.

Go upstream and assess the situation: What are the success parameters—building a sales force, securing retail placement, or commanding a specific price? Once you know what would have to be true, use mini tests and trials to either prove or disprove your hypotheses.

By way of example, let's revisit the lemonade stand case from chapter 3. Say you've done some research and created a plan to build the stand in the desert. Customers want the product, so it clears that hurdle. For the venture to succeed, though, it requires serving an average of fifty customers a day, each spending $5. Is it true you can charge that amount?

Also, the concept requires solar energy to power operations. Can this be delivered operationally? What else would need to be proven before proceeding with the idea? Screening ideas with questions like these is a critical aspect of strategy development.

FOUR SCREENING AREAS

The impact-effort matrix (described in chapter 3) is a useful starting point for assessing growth potential. As business ideas take shape, though, you'll want to apply greater rigor in evaluating ideas. Approach the analysis from four perspectives—strategic, customer, financial, and operational—to cover all bases.

These same four screening areas can be used at different times in

prioritizing opportunities: initially in determining where to play, and then again in screening how-to-win concepts.

Figure 6.7 lists the four business screens on the left side. At the top are potential concept areas (labeled A, B, C, and D). Each concept is evaluated against each screen.

What would have to be true?					
Screen	Sample Criteria	A	B	C	D . . .
Strategic	• Fit with company mission, vision, strategy	◒	◔	◒	◔
Customer	• Customer need intensity (relevance) • Uniqueness (differentiation)				
Financial	• Relative size of opportunity (metrics TBD)				
Operational	• Degree of business efficiency; operational fit and leverage				

Figure 6.7

In evaluating concepts, use shaded circles to delineate high-to-low rankings across screening areas. These circles (sometimes called Harvey balls, named after the Booz Allen Hamilton consultant who created them) can add an element of structure and fun to the process of weeding out bad ideas.

At the early stages, compare and rank strategic opportunities based primarily on experience and judgment. Closer to launch, strive for more objective and quantifiable measures in refining the offering. Assess concepts early and often to weed out bad ideas and improve existing ones.

During early screening of strategic opportunity areas, evaluate *relative* rather than *absolute* measures. Instead of providing a tight forecast number—this opportunity is worth X dollars—ask, which alternative is best?

Later on, use quantitative research to size the market for concepts

that pass initial screens. You can then measure concepts against a database of earlier ideas to determine potential success rates.

ENGAGE EXECUTIVES EARLY AND OFTEN

Upstream marketing can have a huge impact on a company's future direction, so it pays to involve senior stakeholders early in strategy development.

Unfortunately, many lower level managers wait too long to involve top executives, seeking "buy-in" after the slide deck has been prepared, polished and presented.

This is a bad approach, as it ignores executives' experience and broad perspective. Also, it can signal you don't value their contribution.

Walt Disney, Steve Jobs and Jeff Bezos are notorious "control enthusiasts," and it's hard to argue with their success. The reality? Most executives want to be involved in strategy formation. So, seek their alignment, feedback and contribution as early and often as you can.

After assessing ideas, it's time to put them into the innovation portfolio and pipeline, as described next.

Use a Portfolio and Pipeline Approach to Manage Innovation

It's been a while since consumers literally camped out overnight at an Apple store to purchase the latest iPhone. And while Apple launch events still generate buzz, the real magic occurs in how Apple strategically manages its innovation development cycle. Apple ensures a steady release of products, resulting from its planned portfolio and pipeline approaches.

Similarly, Google carefully manages its innovation portfolio by employing a careful product strategy, including the use of its 70/20/10 model.

GOOGLE ON ITS USE OF THE 70/20/10 MODEL

We're firm believers in a concept first introduced in the early days of Google: the 70/20/10 model. Simply put, it means:

- 70 percent of our projects are *dedicated* to our core business
- 20 percent of our projects are *related* to our core business
- 10 percent of our projects are *unrelated* to our core business
- We [Google] have a few goals in mind here. One is that this model is a helpful way to allocate resources as we think about the big picture of our business each year. It keeps the focus on core needs while also encouraging a healthy stretch into new and related areas.

Just as importantly, the 70/20/10 model supports a culture of "yes" rather than "no." It promotes what-if, out-of-the-box thinking. This positive framework feeds our core business while also encouraging new ideas and big dreams that can become huge wins for the company—those 10x moonshots we were talking about earlier. In the long run, a few of those unrelated 10 percent ideas will turn into core businesses that become part of the 70 percent. And that's good for business and the bottom line.[63]

Best practice companies take both a pipeline and portfolio view of their innovation, ensuring a consistent stream of new product ideas, including a mix of incremental and transformational ones over time. This strategic, balanced approach allows them to develop and manage ideas of all sizes and at various stages of development.

This approach also conditions customers and internal team members to expect a continual stream of innovation. It's a virtuous cycle—insight-led innovation enhances a company's identity. The upstream marketing principles build upon and reinforce each other, expanding a company's branded assets (see figure 6.8.)

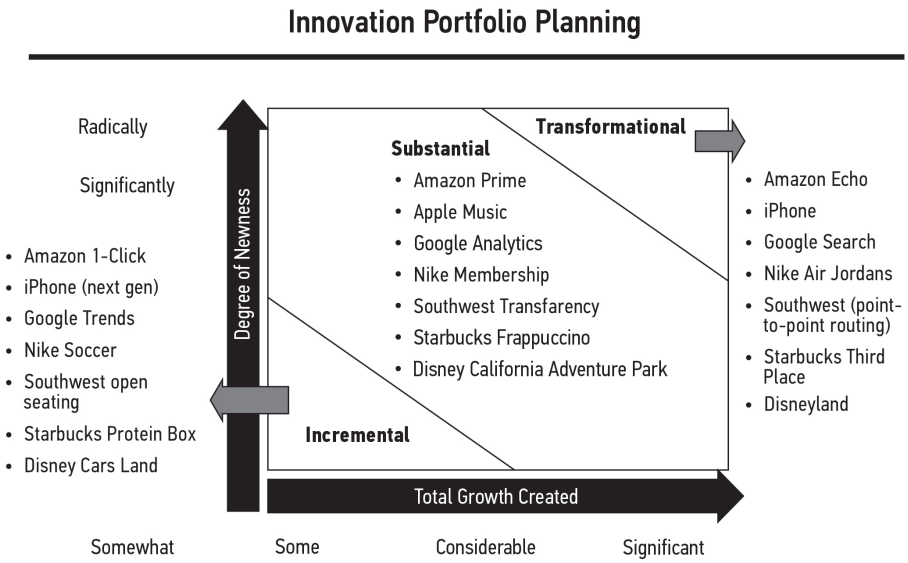

Figure 6.8

Consider the three broad types of innovation, as shown above:

1. **Incremental innovation** provides continuous improvement to a company's core business and existing capabilities in the short term.
2. **Substantial innovation** extends a company's business and core capabilities to new customers, markets, or targets.
3. **Transformational innovation** establishes new capabilities and new business, responding to disruptive opportunities.

Given business requirements and associated risk, a balance of incremental and transformational "big ideas" is necessary. Having multiple irons in the fire helps diversify risk and ensure a continuous stream of innovation over time.

In managing growth, be mindful that transformative innovation requires different focus, tools, and goals from the core business. This has organizational implications, as will be discussed in the next chapter.

Also, upstream marketing portfolio planning should be a top-down and bottom-up process. The executive team outlines broader business goals consistent with the corporate strategy. Individual SOA team leaders should then own their work and update executives on project goals, plans, and business case details to ensure alignment.

While the planning process should anchor annually to ensure a corporate-wide view, hold monthly meetings to track SOA progress. Markets are dynamic, so consider strategy as a journey. Track and monitor the portfolio and pipeline of upstream initiatives on a rolling basis, and adjust accordingly. Encourage continuous executive engagement on strategy using a four-page planning template, as described in chapter 8.

Of course, you don't arrive at a well-managed innovation portfolio overnight. It takes commitment to numerous things—identifying strategic opportunity areas, using creative problem solving to develop and optimize concepts, and determining success conditions.

STRATEGY AND PROCESS MEETS CREATIVITY AND CULTURE

Each profile company has well-honed innovation processes. But that's only half the equation. The counterbalance to process discipline is creativity and culture.

Apple's Steve Jobs talked about the balance this way: "Apple is a very disciplined company, and we have great processes. But that's not what it's about. Process makes you more efficient. But innovation comes from people meeting up in the hallways or calling each other at 10:30 at night with a new idea, or because they realized something that shoots holes in how we've been thinking about a problem. It's ad hoc meetings of six people called by someone who thinks he has

figured out the coolest new thing ever and who wants to know what other people think of his idea."[64]

Jeff Bezos held similar concerns about being overly dependent on process, saying, "The process is not the thing. It's always worth asking, do we own the process, or does the process own us?"[65]

Some companies view culture as the "soft stuff" that doesn't matter. However, creativity and culture (as described in the next chapter) are the aspects that most distinguish world-class innovators.

QUESTIONS TO CONSIDER

1. Is there an innovation strategy that aligns with the corporate strategy and promotes a continuous stream of new products?
2. Does a confirmed list of strategic opportunity areas exist to focus the organization?
3. Is there internal commitment to experimentation and concept iteration as ways to achieve growth?