Design a Business Model that Disrupts your Competition ... Not Your Company

How the “Business Model” Came to Be

While today the term “business model” slips readily off the lips of entrepreneurs and is as easily understood by investors and bankers, the concept is actually less than 20 years old. In 1954 Peter Drucker started pointing out the need to understand business models when he suggested leaders started asking questions like, “Who is the customer? And what does the customer value?” The suggested strategy should answer questions like, “What business are we in? And what business should we be in?”

It took a while for businesses to catch on to Drucker’s advice. For the next forty years, businesses happened upon their business models by luck. As Gary Hamel wrote, “Fact is, inventing an innovative business model is often mostly a matter of serendipity.” There was simply a given approach to how any business in your industry made money. You chose a customer, met a need, and charged them for it. If you were in the apparel business, you predicted fashion trends, made clothes that matched those trends, and sold them to retailers. If you were a retail bank, you attracted depositors, offered them interest on their deposits, then loaned their cash to borrowers at a higher rate. Most companies just happened into, or accepted, what today we call a “business model.”

There were a few exceptions of course. Some companies experimented with new business models and, when they got the new model right, were extraordinarily successful.
For example, when in 1892 the president of American Express had trouble getting his letters of credit converted into cash during a vacation in Europe, he figured this had to be a need that others, who could not claim leadership of one of the most respected companies at that time, must share. So he urged his company to offer letters of credit under the American Express name.

The product on its surface was no different than the letter of credit offered by any bank at the time except for one seemingly minor thing: customers purchased the letters of credit in advance, for a small fee. This subtle change to the business model set off a chain reaction of advantages.

Most importantly, because customers paid for the letters of credit ahead of time, American Express built a completely risk-free model. They collected payment for the inventory (letters of credit) before the inventory was used. Then, because they promoted their “traveler’s checks” well, American Express was able to induce merchants to accept American Express traveler’s checks because doing so would attract more customers. The merchants who accepted American Express traveler’s checks induced other merchants to do the same or risk losing more customers.

The “Traveler’s Check” business model didn’t exist before American Express created it. Their experience exemplifies the immense opportunity available to those who are willing to consciously think through questions like who you serve, what need you meet, how you deliver your value, who pays, and how you charge.

But it wasn’t until the 1990s that companies really started to think this way. It’s no coincidence that the old “the way you make money is just the way it is” perspective suddenly changed during the dot-com boom. Traditionally only about 100 companies went public in the US every year, but that number suddenly shot up in 1991 when 250 companies issued IPOs. The already historic level of new business activity swelled to more than 572 companies in 1996.

Source: Jay Ritter (University of Florida), “Some Factoids About the 2001 IPO Market”
The frenzy of investor interest combined with a need for these new internet businesses to in essence start from scratch in defining “what business we are in” set the perfect context for companies to start exploring the concept which today we call “business model.” The internet suddenly made new approaches possible – new ways to reach customers, source supplies, communicate, and distribute, and even entirely new business categories. The new types of businesses tried to model themselves off of existing business models but the historical metaphors for “what business we are in” could not offer a complete blue print.

- eBay was modeled after an auction, but traditional auction businesses offered limited insight for a team building an always-on, global, virtual version
- PayPal was seeking to create a new, virtual currency, an effort for which paper currency models, introduced first in China in 600 BC, offered little guidance
- Amazon.com’s business design could draw but limited inspiration from a bookstore

“The same products, services or technologies can fail or succeed depending on the business model you choose. Exploring the possibilities is critical to finding a successful business model. Settling on first ideas risks the possibility of missing potential that can only be discovered by prototyping and testing different alternatives.”

- Alexander Osterwalder, Author, Business Model Generation

So business builders and investors had to start designing from scratch how their companies would make money and the “business model” concept was born. Suddenly a “business model” strategic concept was more than an interesting idea that explained the past. It became a critical tool for designing the future of business.
Business Models Matter

Each choice you make in designing your business model is critical. If you make the choices right, you win. If you make even one wrong choice, you can fail. PayPal, for example, was not the only dot-com company that aspired to build a digital currency. It was competing with well-funded and admired players like Flooz, Beenz, and SpeedyBucks. All of these companies targeted a similar customer and need: the shopper who wants to purchase online. But while PayPal’s competitors adopted a business model that was sort of a gift card without a retail chain to stand behind your deposit, PayPal focused on transferring value between a buyer and seller. PayPal was sold to eBay for $1.4 billion in 2002. Its competitors are defunct.

The business model you choose to put around your product is arguably more important than the product itself. Michael Feiner, former chief people officer of Pepsi and author of The Feiner Points of Leadership, tells the story of the Pepsi snack business unit Frito-Lay,
which had developed what they thought was the ultimate cookie. Their new product designers had combined just the right mix of crispy exterior and chewy interior. Taste tests, focus groups, and surveys conducted by Pepsi’s marketing team proved it. Pepsi had a hit on their hands.

But their product – called “Grandma’s Cookies,” a name that scored remarkably well in market tests – today is relatively unknown. Why? Because this breakthrough product did not line up well with Frito-Lay’s business model.

To deliver Grandma’s Cookies to stores, Frito-Lay truck drivers would have to service a new aisle in the grocery store. They would have to march over from the snack aisle (where Frito-Lay’s chips were stocked) to the cookie aisle. And they resisted doing this.

To sell the cookies, Frito-Lay’s sales force would have to sell to a different customer. Grocery store managers who buy chips are different than those who buy cookies. The sales force would have to substantially start their sales process from scratch. The challenge of getting the sales force to embrace the new product or service is one of the most-cited frustrations of the corporate intrapreneurs I interviewed.

Grandma’s Cookies was a failure. Not because of a lack of customer desire or because of an inferior product. But simply because the Grandma’s Cookies business model conflicted with Frito-Lay’s existing one.

The Next Evolution of “Business Model”

Entrepreneurs have been playing with unique business model designs for nearly three decades now. They have creatively applied the concept to design disruptive frameworks that challenge incumbents, forcing large companies into what Clayton Christensen termed “The Innovator’s Dilemma,” in which to match an attacking model
means having to damage the current business model on which your core business depends.

But the winds are slowly shifting. As large organizations move into more agile forms – adopting open architectures – and start to shift their definition of strategy as no longer being about choices and commitments but as building the capacity to change, they’re beginning to unlock ways to design disruptive business models from within existing organizations.

They are doing this in part because they are starting to learn how to do it, and in part because the most important problems to solve in the future will require the scale and power of companies already in operation. Steve Case, founder of AOL, argues that the biggest opportunities for businesses to impact society now lie in complicated, highly regulated markets like healthcare, education, financial services, and energy. To take on these opportunities will require scale.

**How to Unlock Disruptive Business Models without Disrupting Your Current Business**

The challenge of designing disruptive models inside organizations is more complicated than that of the entrepreneur. While start-ups must think through only a few stakeholders – customers, investors, partners – those seeking to innovate from within must design for more complicated entanglements. They must not only introduce something new that the market wants but must additionally think through and manage the already existing norms of their companies: what customers their sales force visits, which cultural norms their organization accepts, the policies and procedures around marketing, compliance, legal, and operations.

One innovator we interviewed who runs the incubation group of a global consumer products and technology firm likened the challenge to implanting an organ. The new
organ can be quickly rejected if the surgeon does not think the process through. You must think carefully about what to attach and what to keep separate. Successful intrapreneurs think carefully about the business model issues. They don’t see the challenge as evidence that existing companies cannot innovate. They see it as simply part of the innovation challenge. They assess all the key dimensions of the business idea’s model – from core customer to pricing structure – and assess if and how to align each one to what their company is already doing.

One intrapreneur we interviewed described the process this way: you have to understand your company and build allies in all the major functions – marketing, finance, operations – then for each element ask yourself:

- Which rules and norms should I accept?
- Which can I bend?
- Which should I change or ignore?

To do this well, you need to understand the rules and norms of your organization well. Nevertheless, researchers find that because intrapreneurs must often innovate in unsupportive environments, their efforts raise ethical issues. Intrapreneurs often bend the rules of their organization ... but do so in the pursuit of what they think is the organization’s best interest. We see this pattern repeated in nearly every case of successful corporate entrepreneurship we have found. The innovator sees an opportunity that their organization should pursue, rules or procedures or norms prevent the innovator from pursuing them, so the innovator decides to ignore or bend the rules.

The idea that incumbent companies are bound by an “innovator’s dilemma” that has them protecting their core businesses at the cost of disruptive new ones, we have found, is an interesting simplification of a far more complex and intriguing truth. Were the “innovator’s dilemma” universal, we would rarely see large incumbents innovate. Yet we know the history tilts in the other direction. The great majority of the most

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"You have to learn the rules of the game. And then you have to play better than anyone else." - Albert Einstein
transformative innovations of the last three decades have been born out of large incumbents.

A thoughtful, strategic intrapreneur can design innovative business models that will disrupt their markets, without disrupting their business. The key is to dismantle eight elements, which we will delve into in detail later, of the business model and redesign them in a way that customers will love, competitors will resist copying, and the organization you are building this for will accept.

The Trick: Disrupt without Disrupting

In 2004, George Day, a professor at the Wharton School of Business, noticed something strange happening. Corporations were pursuing few major breakthrough innovation projects while at the same time were launching more small, tangential ones. In other words, they were increasing their activity of what George calls “little i” innovations—small changes to existing products, continuous improvement efforts, adding features to your existing car, for example. But they were reducing the rate at which they pursued “big I” innovations—initiatives that led the company into new markets or technologies.

What he found was that companies were scared of pursuing “big I” innovations because they believed them to be too risky. So George went about to actually measure how much riskier it is to pursue very different, “big I” innovations as compared to smaller, “little i” innovations. He found that if you are trying to launch an innovation that targets a market (e.g., targets a core customer) that is entirely new to your company using a product or technology that is also new to the company, you can expect to fail 75-95% of the time. If, however, you are seeking to introduce an innovation to an existing customer segment using a product or technology that is the same as your company’s current offerings, you can reduce your failure rate to only 25-40%.
His conclusion was that in order for companies to drive sustained growth, they needed to pursue a portfolio of ideas across the spectrum.

I’d like to take this insight and offer a slightly different conclusion: that you can radically improve your idea’s chance of success by pursuing an innovation that challenges the competition but is not disruptive to your core current business.

We apply the term “disruptive” lazily. First of all, as Christensen wrote in the Harvard Business Review in December 2015, “too many people who speak of ‘disruption’ have not read a serious book or article on the subject. Too frequently, they use the term...
loosely to invoke the concept of innovation in support of whatever it is they wish to do. Many researchers, writers, and consultants use ‘disruptive innovation’ to describe any situation in which an industry is shaken up and previously successful incumbents stumble. But that’s much too broad a usage.”

Our lazy application of the term disruption leads us unnecessarily into a Catch-22. If an idea is disruptive to the market, then it must also be disruptive to our own business. This logic leads directly to the false, but broadly accepted, conclusion that large incumbent companies cannot innovate.

The key to helping your organization disrupt the competition is to free yourself from the lazy, self-defeating talk of what disruption means, and embrace the idea that the best way, perhaps the only way, to truly be disruptive is to create business models that will challenge the competition but that are quite natural for your own organization.

You can disrupt your competition without disrupting your business.

**How the Xbox Disrupted the Market While Minimizing Disruption to Microsoft**

In 1999, on a flight home, Seamus Blackley was thinking about the announcement that Sony was going to launch a new PlayStation game console that was predicted to be so powerful, it would destroy PC gaming. A physicist who fell in love with gaming at a young age and, while working for DreamWorks Interactive, produced a breakthrough video game based on Jurassic Park, Seamus felt distraught by the idea.

At the time, video games generally existed in two forms. You had game-console games, which you played on hardware built by Nintendo or Sony. Gaming companies would have to develop specialized games that fit the tight controls of game console makers. Gaming companies had less freedom but could design consoles for big audiences.
Alternatively, gaming companies could develop for the PC. This developer-friendly environment offered greater freedom, better tools, and communities of other developers that supported each other’s work, but, since fewer gamers played on PCs, gave them access to a smaller market.

If Sony really did kill off the PC game business, it would be a loss for the rich, free community of PC game developers.

He had the idea that his new employer, Microsoft, was perfectly tailored to step in and take on Sony. As he said, “Very few companies could do something as bold as take on Sony than Microsoft.”

Microsoft had the capital and technology talent to launch a game console that sought to compete head-to-head with the PlayStation. But that would be to push the company into the top right, high-risk quadrant of George’s failure graph. New customers (games), new developers (console gaming companies), and new technology (closed, consol-centric), would mean a 75-95% failure rate.

Instead, Seamus intuitively saw a different approach, one that would simultaneously differentiate Microsoft’s console from that of the competition (making it more disruptive in the market) while doing it in a way that played to Microsoft’s strengths thereby making it less disruptive for the company. He said, “We had the opportunity to make something which had the business potential of a game console, but had the tools support and power for artists of the PC and the sort of traditional off-line rendering community. And that was really a spark.”

In other words, Microsoft would target a new end-user market – gamers – but stay close to its core community of PC game developers who were already used to designing games within the Microsoft ecosystem and often using Microsoft software tools. Since a
game console generally lives or dies based on the quality of its games – consoles that have the best games win – sticking to serving the PC game developer community would not only make the Xbox a less disruptive effort for Microsoft, it would also turn Microsoft’s strength with PC game developers into an impressive advantage to wield against Sony.

The rest of Seamus’ journey was long. It followed a path nearly identical to the one outlined in this book, the intrapreneurial journey. He gathered a small team, worked internal politics to build support, balanced day jobs with scaling a new business, strategically separated key elements of the business model from Microsoft’s core business, etc.

The results have been remarkable. Because of Seamus’ intrapreneurial approach, what many believed to be a big, geeky, business software company now commands the largest online gaming community and sells the second most popular game console in the world, far ahead of number three and beyond.

The foundation for their success was born by Seamus recognizing that by playing to Microsoft’s strengths – their ability to build high-quality tools that help developers build applications, designing for high-power systems like the PC, understanding and supporting developer communities – they could introduce an offering that was less disruptive to their core business than it would be to competitors’ businesses, were they to try to copy.

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<th>Four business model choices</th>
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You can think of it this way. Your business model can either be disruptive to your competition or not. It can either be disruptive to your business or not. Breaking down your choices in this way gives you four options:
• **Copycat**: A new innovator appears on the scene with a new business model. The model is working, so you want to copy it. You are a taxi company and you decide to simply copy the Uber model. You are a traditional car company and you decide you are going to launch a new business to compete directly with Tesla. You are essentially copying the success formula of someone else. That model is likely to be disruptive to your core business without offering much a challenge to the competition because the competition has already adopted the new model. Much of the frustration we hear from would-be intrapreneurs stems from ideas in this “not disruptive to the competition but disruptive to us” category. You see something changing and think “We should be doing it to!”

• **Business-as-usual**: If your idea for a new business model is neither disruptive to you or your competition, it may produce short-term gains for your company, it may even be admired as innovative for some time, but the competition will be quick to copy it. On September 2, 1969, for example, Chemical Bank was the first bank to install an Automatic Teller Machine (ATM) in the United States. It was hailed as a breakthrough … for a brief while. Within ten years most major US banks had done the same and the ATM, while radically improving the lives of consumers, did little to alter the competitive position of banks.

• **Radical**: If your business model is both truly disruptive to the competition and is also disruptive to yourself, then you are pursuing something radical. You probably should consider whether your company really is the right one to pursue the innovation. McDonald’s, for example, launched Redbox – a business that operates DVD-rental kiosks primarily outside of grocery stores. It proved to be a successful innovation, but not one that McDonald’s had any particular advantage in pursuing, which is why it was eventually spun out as an independent company.

• **Strategically disruptive**: This is where you ideally want to play. You want to design the business model behind your idea so that it complicates your competitors’ ability to copy you while at the same time it plays to your company’s strengths, approaches, business model. This is what the Xbox team was able to do.

So how do you gear your business model so that it can disrupt the market without disrupting your business? The key is to dissect your business model across at least eight dimensions, anticipating where problems might arise and seeking clever opportunities to disrupt your competition without disrupting your business.
Eight Dimensions to Untangle Your Business Model

There are numerous viewpoints on what composes a business model. One school of thought proposes your business model should consider four areas: your value proposition (what need you meet), value architecture (your organizational and technological design), value network (the inter-organizational relationships needed to deliver your value), and value finance (how you fund and share the risk of your venture). Others say you should think about distribution channels, customers, capabilities, and revenue model. Some say the model should answer who (we serve), what (we sell), and how (we deliver). One of most popular models today, The Business Model Canvas, breaks a model into nine components: partner, activities, resources, value propositions, customer relationships, channels, customer segments, cost structure, and revenue streams.3

We see little value in debates about which of these are right or wrong. Rather we believe concepts, like “business model,” are simply language tools that help better solve a problem and what matters is which concepts work better. We have found considerable success using a framework we call the 8Ps. We’ve used this with companies in software, heavy technology, financial services, consumer products, retail, and many in between. This model suggests you consider eight distinct, but interrelated, areas of your business:

- **Position**: Who your core customer is and what position your brand holds in their mind
- **Product**: What you sell, including your core product/service and all ancillary products/services
- **Promotion**: How you communicate to your core customer including marketing, sales, public relations, and corporate communications
- **Placement**: How you deliver your product/service (e.g., channels, store locations, distribution methods)
- **Pricing**: How you price your product/service

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3 See “Business Model Canvas” by Alexander Osterwalder.
• **Process:** The internal processes that allow you to deliver on your value proposition

• **Physical experience:** The physical experience you create for your customer, including what they see, smell, hear, taste, and feel when interacting with your company and brand

• **People:** Who you hire, how you organize them, and your culture

This checklist works. It is particularly helpful in thinking through how to design a model that can disrupt your industry without disrupting your business. Here we break down each dimension and suggest the key considerations for a company wishing to build a business within a business. We will spend more time on the first two, as they really set the direction for your business model.

**Positioning**

“Authentic brands don’t emerge from marketing cubicles or advertising agencies. They emanate from everything the company does...”

— Howard Schultz, *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time*

Great business models begin with sharp clarity on the positioning of their offering. They specifically make three clear choices:

1. Who your core customer is … and is not
2. What value you provide to them (or what possibility you help them achieve)
3. Which associations they have with your brand

If you can make a strong, unique stand across these three, every other element of your business model – how you price, distribute, market, etc. – can be equally unique. This is true whether your end user is a customer or an internal stakeholder. Even if you are in a support function – IT, legal, compliance – your innovation will have a business model and that business model will have a core customer (e.g., the business partner using your internal service), a value proposition (e.g., the problem you help them solve), and a
brand association (e.g., what they think of when they think of your department or service).

Start-up entrepreneurs have an advantage over intrapreneurs in that they can design their brand positionings from scratch. But intrapreneurs must work within years, and, in the case of companies like Kellogg’s or GE, centuries, of branding history. As Jeff Bezos, CEO of Amazon, said, “A brand for a company is like a reputation for a person.” If your company has spent decades building its corporate brand (=reputation) you cannot expect that they will readily allow you to innovate in a way that could erode their reputation-building work.

But working from inside a large organization also offers several advantages that start-ups would salivate over. You already have brand awareness and knowledge to leverage, you already have a portfolio of unique brands.

Success comes from working with what you have, rather than against it. As Theodore Roosevelt said, “Do what you can, with what you have, where you are.”

Consider Brendan Ripp. He grew up in the advertising business. When he was about 8 years old, his father joined Time Inc. as assistant controller, where he then enjoyed a diverse, fast-rising career, becoming CFO of Time Inc. the same year Brendan graduated from college.

When Brendan graduated, he naturally felt a pull to advertising. He joined the advertising agency J. Walter Thompson because “they had a renowned training program for account executives.” After a year at J. Walter Thompson, Brendan joined his father’s firm, Time Inc., as a junior sales representative and “never looked back.”

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Like other successful intrapreneurs, Brendan loves his work. He seems motivated not (only) by career advancement but by an intrinsic passion for building things. As Brendan put it, “This may sound cliché, but when I wake up in the morning, even at 4am, I can’t wait to go to work. I love building teams. I love getting a chance to represent these really amazing brands, to use creativity to actually grow them and make them better.”

When it comes to leveraging your employer’s existing brand positioning to innovate new ones, few can claim a track record as impressive as Brendan’s. He most recently served as group publisher of the Sports Illustrated Group, where he led the development of nearly two dozen brand extensions, including a new film production unit, a college sports vertical, consumer events for Sports Illustrated Swimsuit and most recently the launch of SI Overtime, a branded content studio. He also formed content, media and marketing partnerships with WebMD and Wired, prior to which he served as publisher of Time, Fortune and Money.

During his time with Money (also a Time Inc. property), a shift in market forced him to quickly rethink their strategy. One of his key advertisers shared that they were cutting budgets overall and planning to move what was left entirely to digital properties. They were not alone. Several other critical financial clients had similar plans. Yet, Money had few digital products to offer. To make matters worse, advertisers no longer saw personal finance, Money’s historical category, as interesting.

Brendan realized, “We needed to build something unique, [something] never done before, that would appeal to both our readers as well as a new advertising base.” If they didn’t, Money would be in trouble.

He began looking for partnerships with other Time Inc. media brands to create entirely new platforms that could “break through the clutter” and allow advertisers to reach larger audiences.
Money convinced the leadership of Real Simple, a magazine and media property for women, to create a new print, digital and video series blending Money’s audience with Real Simple’s, called “Money Management for the Time-Pressed.” The series proved a breakthrough. It became a feature on the Today Show, the most popular morning show, and Chevrolet jumped at the chance to pay $1 million to become a multiplatform sponsor. A partnership with This Old House, another Time Inc. business, enabled Money to open up an entirely new market: homeowners dealing the financial issues around improving and paying for a home.

Each combination of brands unlocked new customers, markets, and revenue. When he took over as publisher of Sports Illustrated, for example, he persuaded the popular technology magazine Wired to partner in the creation of a new initiative at the intersection of science and sports. They quickly drew interest from two big advertisers – Gatorade and Microsoft. His editorial team could interview Gatorade scientists to highlight the work they are doing to enhance athletic performance.

Microsoft, a heavy advertiser of the National Football League (if you watch American football, you have probably noticed coaches and reporters reading from Microsoft Surface tablets), saw an opportunity to further deepen its exposure to the audience. It quickly signed on.

It’s hard to estimate the value Brendan’s ideas have produced for Time Inc. What is perhaps yet more valuable is to look at how we apply Brendan’s approach to build new business models in our own businesses.

Brendan’s approach – and that of most intrapreneurs – is in a way fundamentally opposite of the way that start-up entrepreneurs define the positionings of their businesses.

- Entrepreneurs think: What unique positioning (customer, value proposition, and brand) does the market want?
• Intrapreneurs think: What existing positionings (customers, value propositions, and brands) can we combine or build on to create something the market wants?

Entrepreneurs start with the market. Successful intrapreneurs find the market by building with what they already have.

We can think of it this way. A successful business model begins with a unique positioning: (a) you target a different core customer than your competitors will want to service and/or (b) you promise a value proposition your competitors cannot or will not want to promise and/or (c) you link your brand to associations or attributes competitors will not be able to or want to emulate. One way to find a unique positioning is to start with the market, as most entrepreneurs do, and ask “what does the market need?” There is great support for this “customer-centric” or “outside-in” approach.

But the universe of potential positionings the market would support is far vaster than the universe of potential positionings that your organization is uniquely able to provide. The circle on the left of the diagram below is larger than that on the right. This is perhaps why the intrapreneurs I interviewed who took the “customer-centric” or “outside-in” approach often felt frustrated. They complain, “I know this is the right positioning for my idea, but my company, the marketing team, won’t let us take it.”

The intrapreneurs that seem energized by the positioning challenge seemed to take the opposite approach. They begin with the unique positioning assets their company already had (the core customers already loyal, value propositions already being delivered, and brands already known) and explore how they could combine or build on these to find the magical intersection between what their organization could uniquely command and what the market wants. In this way they are not competing or thinking as traditional entrepreneurs (the left side of the graphic) or managers (the right side), but rather, as one branding expert described the process to me, they keep exploring different entry points until they reach the magical middle, where the position
is both compelling to the market and one the organization is uniquely able to deliver on.

For example, Brendan could have approached his challenge of generating new revenue sources for *Money* magazine in three ways:

- **As a start-up entrepreneur:** He could have asked, “What does the market need?” That might have led to any number of ideas and categories. He could have put *Money* magazine’s resources – writing talent, sales force – against one of those new categories. He could have said that the magazine should launch an entirely new title targeting technology or real estate or travel. But they would be competing as a well-funded start-up with any number of other start-ups. Many would-be intrapreneurs seem to fall into this trap. They value what the market wants over what their company has and so try to drive the company to do what any other start-up would want to do.

- **As a traditional manager:** He could have looked at ways to expand *Money’s* core business, sticking to its core customer, value proposition, and brand positioning. This might have led to new features, hiring more salesmen, or reducing advertising rates.

- **As an intrapreneur:** The idea of amalgamating *Money* magazine with *Real Simple* stemmed from looking at the unique “positioning” assets Time Inc. already had and looking for ways to combine them to find innovative new core customers (women who are concerned about money), value propositions (tailored money management practices for women), and brand associations (money and women).
How do you know when you have found the magical middle? Brendan says it will be obvious. The idea will make sense ... immediately. The positioning – customer, value proposition, brand – should create a “no brainer” response from those in your organization, in which your inner dialogue says something like, “Of course! Why didn’t we think of this before?!?!” Money for Real Simple women and Wired for Super Bowl enthusiasts, for example, are obvious ... but only after you have conceived of them.
Having chosen a distinctive positioning, you set the stage to make a number of disruptive choices as you design the rest of your business model. In doing so you will repeatedly encounter the tug between what the market ideally wants and what your organization – its rules, norms, assets, commitments, etc. – will support. Here I offer some tips gleaned from successful corporate innovators on how to navigate through.

Key questions:

- **How can you pick a core customer or customers that your company already serves?**
- **What associations do customers already have about your company, products, brand(s), and how could you use these to secure a powerful positioning for your idea?**

**Product/Service**

Having chosen a unique positioning, it becomes easier to design an equally unique product. The more different your product is, the harder it will be for your users to compare your offer to the alternatives, and the easier it becomes to charge more, sell more, or otherwise create value.

This is true whether your customer is external (e.g., a consumer) or internal (e.g., an internal user of a product/service). For example, the head of an internal IT group was concerned because, despite hard work and good intentions, their team was viewed internally as slow and expensive. Internal clients were strongly incentivized to use the internal IT group whenever they needed work done on their technology systems, but they increasingly were turning to outside technology vendors like Accenture and Cognizant. The group decided they needed to reposition themselves not as “expensive” and “slow,” but as “innovative” and “strategic.”
They then turned to redesigning their product/service to match their new desired position. They thought through all of the elements of their service offering. At the core, they provided technology talent – programmers who knew the business and could step in to build customized apps and design interfaces for their internal clients. But there are other things around that core service they also did, like consulting to help their clients understand what they needed, advice on the latest technologies, tracking of projects so clients knew when they could expect delivery, hotline and other support after their programmers had completed the initial service, etc.

While outside vendors could claim to match their core service, the IT department had a clear competitive advantage for many of these ancillary services. They knew the business better than outside vendors, for example, because it was the only business they worked in. They could have resources on a client’s site in minutes. You didn’t have to sign a new consulting agreement to pick up the phone and call them.

By emphasizing the services in which they had a competitive advantage and by bundling some of the services, the group was able to innovate their internal service offering. Customer satisfaction of internal clients began to grow, clients increasingly viewed them as trusted technology advisors rather than slow and expensive vendors, and their clients turned less often to outside vendors.

You want to differentiate your product. Every entrepreneur and business owner knows that. But the intrapreneurs I interviewed indicated that they think about the product differentiation challenge slightly differently. While start-up entrepreneurs think primarily about what the customer values, intrapreneurs put additional weight on what product attributes their company is uniquely able to deliver. Since as an intrapreneur you starting with more material – your company already some unique capabilities, norms, strengths to leverage – you will likely want to more assertively pursue attributes that your start-up competitor will not.

Think Beyond the Core Product
To fully capture the opportunities to disrupt without disrupting, it helps to think expansively about what your product/service is. You want to consider the often overlooked related services that you offer as part of your core product. For example, a hotel does not just offer a bed for a night, it offers a portfolio of other elements that create a bundled experience – online registration, valet, porter service, check-in service, in-room Wi-Fi, cable, room service, etc. These ancillary products/services generally fall into two categories:

- **Facilitating**: Products/services that facilitate your customer accessing your core product/service, such as registration, scheduling, price listings, payment, and developer tools (in the case of Xbox).
- **Augmenting**: Products/services that enhance the value of your core product/service, such as customization, premium add-ons, and customer support.

**How to do it**

We have found that by following four steps, you can systematically define a product/service that will (a) be disruptive to competitors while (b) limiting the disruption to your organization.

**Step 1: Brainstorm your full set of product/services**

Start out by brainstorming a full set of products/services that your customer (internal or external) wants or needs. Think about facilitating and augmenting products/services.

**Step 2: Create a prioritized list of attributes**

Looking at the list of products/services, put together a prioritized list of the attributes that your core customer (as defined by your positioning, above) most cares about. Walmart, for example, is quite clear about what attributes of the shopping experience its core customer most values – low prices and selection across categories are at the top – and least values – ambience and sales help are at the bottom. Look at your list of
product/services (from Step 1) to make sure you have covered all the important attributes.

Step 3: Identify business model issues

For each attribute on your list (from Step 2), ask yourself:

- Where might we run into issues (e.g., where our current approach will conflict with our success)?
- What would happen if we stuck to our current business model? Would it hurt us or could it help us?

Step 4: Decide what you might want to accept, bend, or change

Create three lists of attributes or elements of your product:

- Which should I accept (e.g., because they are too hard to change or because doing it our way would create an advantage)?
- Which should I bend?
- Which should I change?

This process should give you a good idea of what flavor of product, what mix of product attributes, has the potential to be disruptive in the marketplace (i.e., be something your core customers will love and that your competitors will choose not to copy) and yet less disruptive to your organization.

Pricing

In Chapter 7 we met Chester Carlson, the law school student who, with his hand cramped from transcribing by hand textbooks he couldn’t afford, dedicated himself to finding an inexpensive way to duplicate documents. Though he did not have an
engineering degree, he eventually found a solution. His technology – “xerography” – eventually evolved into Xerox.

This may on the surface appear to be a traditional entrepreneurial story but for two differences. First, the reason Chester’s technology succeeded was because he was able to tap the scale and power of two large organizations: the Haloid Company and the United States Army.

Secondly, Xerox was not the only document duplication technology available. Numerous other companies were attempting to convince offices to adopt their duplication machines. But while others sought to sell machines, Xerox adopted a radically different pricing scheme. They offered to install their machines for free and only change offices a per-copy fee for use.

This pricing scheme created two significant advantages. First, it radically reduced the cost of offices to install a Xerox machine. Second, it could, for the right customer who made a lot of copies, enable Xerox to eventually collect considerably more in revenue per customer.

Many of the most successful business innovations of the past and present succeeded not because their product/service was superior (although after the section above, you may now have a truly unique product/service offering), but rather because they offered a different pricing structure. Consider, for example:

- **Affinity**: MBNA decided to pay royalties to some large organizations for exclusive rights to offer credit cards to their members, and thereby shook up the credit card issuing business by introducing affinity clubs.
- **Service level**: Sprint (a US mobile phone carrier) surprised their competition by being one of the first to charge different rates for different levels of service.
- **Partial ownership**: NetJets (a private business jet company) switched from charging per-flight and instead decided to charge for a “partial ownership” right.
- **Subscription**: Today companies like OneGo (www.onego.com), Surf Air (www.surfair.com/us/) and Jumpjet (www.jumpjet.com/) are offering unlimited
flights between specific destinations in exchange for a subscription fee. The subscription model is being adopted across a broad spectrum of industries from software (e.g., both Microsoft and Adobe have shifted to subscription models from license models) to food (e.g., HelloFresh and Blue Apron).

- **Fremium:** The “fremium” model, through which you offer a basic service for free then charge for a premium, has contributed to the success of numerous successful business models including those of LinkedIn, Skype, and Dropbox.

- **Leasing:** In the 1980s, Ford Motor Co. adopted the “leasing” model, by which drivers could, rather than buying and owning a car, get access to an automobile for a discrete time period (e.g., three years) for a monthly fee. This pricing innovation was quickly adopted by the industry and today nearly 25% of new vehicles are leased rather than sold.\(^5\)

- **Membership:** By asking customers to pay up-front to get access to discounted services, you can transform their buying psychology. Amazon, for example, introduced Prime, by which customers can pay an annual membership fee in exchange for free two-day shipping and other benefits. As soon as someone pays the membership fee, their psychology changes, and that they seek to extract as much value as possible from the fee, resulting in them buying much more through Amazon. Discount retailer Costco creates a similar dynamic by selling annual memberships to their shopping club.

- **“Milk” pricing:** Grocery stores know that customers tend to judge the relative prices they pay in one chain versus another based on the price of milk. If they can offer low milk prices, they get customers in the door and create the perception that everything else they sell must be similarly competitively priced. This is also why the milk in your grocery stores is located as far as possible from the front door to force you to walk past as many shelves as possible before you reach it (they know you will stop and buy something).

- **Product to service:** Similar to the leasing or partial-ownership models, this approach shifts customers from buying products to buying services. Zipcar, for example, shook up the car rental business by offering a car-sharing service that gave members access to cars when they needed them.

- **Community access:** Companies like Angie’s List (www.angieslist.com) charge members for access to a community rather than selling the services the community has assembled to share reviews on.

While entrepreneurs can start from a blank slate and create any pricing structure they think the market would most likely adopt, intrapreneurs must set a pricing structure from within an established organization. It is tempting to think of this as a limitation (it may be harder to convince leadership to accept membership fees rather than the per-unit fees

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the business has grown up charging), but your size can equally become an advantage. The scale and assets your organization wields allows you to shift more easily into diverse pricing structures. While start-ups are motivated to collect revenue now, an established, resource-rich organization can more readily accept revenue later.

For example, one team we worked with in a leading consumer-products company had the idea of offering a bundle of products and services (a product innovation, arrived at from the process suggested in the prior section) as a subscription service. Their vision was that of a food subscription service for pet owners that incorporates elements of wearable and implantable technology (think Nike’s Fuelband) and a community with a point system (think Facebook “likes”).

The team built out a business case, arguing that many industries were shifting to subscription services from per-unit models. More importantly, they showed this was not a “copy-cat” pricing model like other subscription service offerings emerging because there was no other company that could pull together the breadth of products and service offerings or assemble the industry partnerships needed to pull this off. Furthermore, setting the price of a new subscription service is tricky because you don’t know how much consumers will use. You can easily get into trouble if you set the subscription rate too low and suddenly find consumers are demanding more of you than you expect. But because this company would make profit from the venture in other areas (e.g., in the business units that sold the products), they could practically guarantee profitability.

The company’s European-based CEO came to visit the US. The team behind the idea got a chance to pitch their idea directly to him. Within a matter of months, they got approval to assemble a team and start building the business.

You want to explore interesting pricing models in order to move your business model into the “strategically disruptive” quadrant. Don’t simply jump in and copy what the newest, hottest innovator is doing. Think about cable companies who were derided as out-of-date as TiVo introduced the US market to the DVR. Many wrote cable
companies off as behind the times. Suddenly cable companies woke up and started offering DVRs themselves. But instead of charging for the devices, as TiVO was doing, cable companies figured out they could give them away for free, simply installing them into the cable boxes they were already placing in customers' homes, because once a customer got a DVR they tended to upgrade to a higher-priced cable package.

Application questions:

- **What is the accepted way of pricing your product/service?**
- **What would be the natural way that your organization would think of pricing this product/service?**
- **What interesting options do you see for changing the basis on which you price your product/service?**
- **Where will internal resistance to this new pricing model come from?**

**Placement**

“Placement” is simply a way to put a “P” in front of the word “distribution” so that the “8P” model doesn’t have to be “7Ps and D.” Think of it as how you deliver your product or service to your core customer. If you are considering an external innovation (e.g., something you will distribute to external customers), your placement decision means things like where you place stores, whether you use kiosks, how you rout trucks, the design of your logistics system, etc. If you are considering an internal innovation, your “placement” decisions include things like whether you interact with internal users face-to-face or digitally, whether they self-serve or you do the work for them, where your team members are located in the building, etc.
Making a unique “placement” choice has been the central strategy behind numerous breakthrough companies including Dell (go direct rather than through retailers), Walmart (place stores in rural areas rather than metropolitan), Southwest Airlines (fly point-to-point rather than through a hub), and Salesforce.com. Marc Benioff, for example, left his executive position at Oracle to start Salesforce.com driven by the idea that there was a better way to distribute software. Rather than pay armies of integration consultants to install software on customers’ servers, he realized you could install the software on your own servers and give customers access to the software through a web interface. Indeed his stated mission of Salesforce.com was The End of Software®. What became later known as “cloud computing” was born.

Start-ups have considerably more freedom in designing their “placement” strategy than intrapreneurs. The fact that Marc took leave of Oracle to start Salesforce.com, and that Oracle’s CEO, Larry Ellison, invested in the start-up, illustrates the double-edged sword of placement. On one hand, making a unique placement choice can create an incredibly powerful competitive advantage because incumbent companies, having invested so much in their distribution channel, will usually resist changing. On the other hand, and for the precisely same reason, introducing a placement innovation inside your organization is likely to be met with resistance.

The intrapreneurs I interviewed often cited distribution as a particularly vexing innovation problem. The distribution norms of your organization have likely become ingrained over many years, as the Grandma’s Cookies team discovered. The distribution assets that compose your logistics chain – your distribution centers, trucks, inventory systems – required heavy investment that your organization will want to protect.

From the cases we have studied, your “placement” choice offers less flexibility than the other business model choices. You either:

- Accept your company’s current distribution model,
- create an entirely different one, or
- separate your product into parts.
Accepting the current distribution model would be to put your product through the distribution chain, making it another item on the shelf of your warehouse, another box on your trucks. If you can design your model so this works well for the market and your customers, then you will have removed considerable risk of your idea being rejected.

Creating an entirely different channel would be to establish an entirely different business as Salesforce.com did, or a different business unit as Microsoft’s Xbox team eventually did.

To separate your product into parts means to break down the services of your product and distribute some of them using the usual model and some of them using a new model. For example, a company we worked with that sells picture frames has a well-established distribution channel developed over several decades. They manufacture in their plant, distribute to regional centers, put the frames on trucks, then deliver them to retailers and frame shops. They decided they wanted to offer a new product of customized frames that would be integrated into photo-sharing websites. At first they thought they would have people order the frames online and ship the frames directly to their house.

But they soon realized this would eventually create a dual-distribution system – traditional and online – between which tensions could build. Retailers would grow angry thinking the company was competing with them, for example.

So instead, they separated their product/service into two parts: a customization service and frames. They decided to distribute the customization service via kiosk instead of online because that would allow them to distribute the frame using their existing channel. They created a kiosk and placed these kiosks in retailer locations. Customers could log on, customize their photo and frame at the kiosk, then order the frame from the retailer. A few days later the customized frame would be delivered to the retailer, who would mount the photo.
This approach quickly gained traction. Very soon one of their largest retail customers signed on to the program.

Implementation questions:

- Thinking through your current distribution model, where might issues emerge?
- Should you accept the current distribution model, create an entirely new one, or separate your product into parts?

Promotion

Promotion involves everything you do to communicate your product/service to prospects, customers, partners, and beyond. It specifically involves marketing, sales, corporate communications, and public relations.

In my interviews, promotion was often cited as the primary barrier that intrapreneurs face. The challenges most often fell into two categories:

- **Marketing:** Your marketing department will impose on you strict brand guidelines that will limit your flexibility; they will take too long to approve advertising imagery, copy and brand designs
- **Sales Force:** Your sales force will have a predisposition to selling what they already know; it will be hard to make them aware of the new innovation you want to offer, make them care enough to bring it up with customers, and incentivize them to sell it when they feel that they could more easily sell what they already know

Marketing

Heather Cox is the kind of marketing leader you wish you had ... but, unfortunately, don’t. She didn’t come up through marketing or advertising. She grew up selling cattle,
on a family farm in Illinois. From there she went into a string of operational roles in financial services. She served as head of North America operations at E*TRADE then head of card operations at Capital One Financial Corporation.

It may seem an unlikely move for her to go into a lead marketing role for Citibank’s consumer banking business. But, until she was recently promoted, Heather served as their chief client experience, digital, and marketing officer.

The title is a long one, but there is a reason for that. It illustrates how the role of marketing is shifting and why one of the most important barriers to your intrapreneurial success will be presented by your marketing department.

It today’s fast-paced, agile, digital economy, we are seeing a shift in how companies' orientation is moving from a functional mindset – one division produces, another sells, and another markets – toward a user- or customer-experience mindset. There are reams of research, calendars filled with conferences, and rosters of university courses now exploring this shift. You may call it “user-centered design” or “human-centered design” or “experience marketing.” But the central idea is that companies are realizing that by breaking down and understanding the emotional journey their customers go through as they step from becoming aware of your offer to considering it to trying it to telling their friends, and thinking about orchestrating all of the touch points needed to ensure each moment is powerful, you can dramatically improve the value you create and thereby the health of the business.

Heather’s long title illustrates the importance of integrating marketing and technology (digital) behind a mindset of delivering a powerful client experience. She has now been promoted to head a new division focused on financial technology (FinTech), but during her two years in marketing she drove Citi to launch a new app with open architecture so that other tech companies could integrate into it, launched a version of the app that allows people to see their balances and recent activity without entering a password, ensured Citi had an app available for the Apple Watch before the
smartwatch was even released, and accelerated a stream of digital marketing initiatives. She was named Digital Banker of the Year in 2015.

This is the kind of marketing department you want to work with. One that is driven to be open, is tech-friendly, moves quickly, and is willing to explore the boundaries. This kind of mindset is particularly uncommon in highly regulated environments like financial services. As Heather said, "I understand that it might be tempting for some to point to regulation as a barrier to innovation, but frankly that's a losing mindset for banks. We have an obligation to adhere to regulations and innovate at the same time, and we can do it."

Regardless of the industry, the intrapreneurs I interviewed described a very different kind of marketing department. They expressed frustration that often marketing moved too slowly, was too rigid, and was too limited in the scope of what they could or were willing to do.

This is true even if your innovation is an internal one. Even if you are launching a new internal program and want to design an interesting internal communications plan that might incorporate specialized language, framework, or imagery, you are likely to find an internal corporate communications group that will either energize and activate your effort or slow and water it down.

I have not found a silver bullet for dealing with marketing, but here are five tips shared by intrapreneurs searching for one:

- **Develop friendships:** Take your marketing partners out for lunch, get to know them personally, so that when you need them they will move more quickly on your request and give it special attention.

- **Engage early:** Knowing lead times can be long, that your marketing department may have a backlog of work, engage them long before you need them to act. Your start-up competitors may start thinking about marketing a few weeks before launch. You need to start long before that.
• **Co-create:** Just as companies have power in co-creating innovations with customers (applying what is now called “Open Innovation”), let your marketing department co-create with you. Bring the idea to them when it’s still in its infancy. Invite them to help design the business model with you. They will often help you address marketing barriers and opportunities ahead of time. In Chapter 9 we will talk in more detail about this.

• **Know the rules:** Every established brand has carefully defined brand guidelines. Educate yourself on them. Try to work with them, rather than against them.

• **Create an informal marketing committee:** Since marketing decisions are increasingly merging with those of technology and operations, one intrapreneur I interviewed suggests creating an informal committee composed of allies in marketing, technology, and operations. Share your vision with them and set a regular meeting rhythm so they can efficiently provide you with cross-disciplinary guidance (see Chapter 10).

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_Salesforce_

Convincing your sales force to support your innovation was one of the barriers most cited by intrapreneurs. One intrapreneur had gotten approval from his company to pursue the launch of a new business line. The company was in pharmaceuticals and this new service line would involve selling a genetic solution. While the technology was completely new, the target customer – the prospect that the sales force would visit – was the same. So, it seemed natural to think that if the sales force is visiting the customer anyway, it should be fairly easy for them to talk about and start selling this new product line.

In one region the product line was strongly supported by regional leadership. In another region, it was not. In the supportive region, salespeople were given an extra incentive for selling the product (e.g., they would get higher commission), they got special training, and, most importantly from the view of the intrapreneur, the sales force heard repeatedly from the regional leadership that it was important they try to sell this new product. In the less supportive region, the sales force got none of this.
The results were as you would anticipate. Even though both regions had similar situations – the same company, core product, core customer, new product – in the supportive region the new offering was deemed a great success. In the less supportive region, it failed.

Had they only tried the product in the less supportive region the company may have concluded the innovation would not work because, perhaps, the market would not supported. But actually, the only reason the product did not work in that region was because the sales force was not effectively engaged.

It is critical that you, as an internal innovator, think carefully about how you are going to effectively engage your sales force. Success or failure may hinge on that.

We can break down this challenge by predicting where you may find issues in order to address them ahead of time. One intrapreneur I interviewed shared a well-structured, effective model composed of five sales force areas to assess:

1. **Target customers**: Who specifically is your sales force visiting? Just because they are visiting the same company that you want to target with your innovation does not mean that they will be able to effectively sell to your target customer in that company. If they are visiting the purchasing manager and you want to sell to the CFO, as one of our clients recently attempted to do with an innovation, your sales force may not provide any advantage at all. It is not easy for a salesperson to leverage a relationship in one area of a company into establishing a relationship with someone in another area.

2. **Coverage and capacity**: Does your sales force have sufficient coverage (do you have salespeople touching enough target customers) and capacity (do they have enough time and resources) to effectively promote your innovation? If you know you need to talk to 1000 customers in order to get the initial sales that would indicate your innovation is a success but your current sales force only has regular contact with 500 customers, you will have a problem. Similarly, if you find your sales forces already overwhelmed, struggling to maintain their call and visit schedules, you are likely to face a bandwidth problem.
3. **Incentives and performance management**: By what metrics is your sales force measured and how is their compensation calculated? For example, if your sales force is selling established products, their incentive structure may encourage them to increase “share of wallet” by focusing on selling more follow-on products to existing customers. You, by contrast, want them to sell new things and capture new customers. If they don’t get as much credit for selling your new thing as they do for selling more of the old thing, you will face a problem.

4. **Sales tools**: Every well-run sales force has a toolkit that they arm salespeople with. It includes things like sales processes/checklists, sales scripts, product descriptions, and access to support (e.g., experts that provide product details to help the salesperson close a sale). Because your innovation is new, your tools are likely to be less developed than those the sales force is used to. You therefore want to invest strategically in rapidly developing a few high-quality tools that you think will make the most difference in empowering the sales force to support you.

5. **Culture**: Finally, consider the rules and norms of your sales force to assess whether they will drive the behaviors that will help your innovation succeed. Does the culture value learning? If not, you may have trouble getting salespeople to spend the time to learn about the new offering. Does the culture encourage proactivity? This has been shown to be a critical driver of innovative organizations. If your sales force primarily responds to requests rather than proactively seeks to create opportunities, it will limit your innovation’s chances.

The same holds true if you are driving in internal innovation. You may not have a formal sales force designated, but there is some population of people who will be responsible formally, or informally, with building buy-in for your innovation. Perhaps you want to introduce a new human resource policy or a new technology interface – who will be promoting this idea to the internal users? Do they already visit the target user? Do they have the coverage and capacity? Will they have the right incentives? Will you provide them with the tools needed? Does the culture motivate to become advocates of the innovation?

**Implementation questions:**
• Have you done the things needed to build the level of collaboration and support you need from your marketing department?
  o Have you developed friendships?
  o Are you engaging early?
  o Have you invited them to co-create with you?
  o Do you clearly understand the rules?
  o Have you created in informal marketing committee?
• Have you anticipated and are you addressing the sales force barriers you are likely to face?
  o Target customers?
  o Coverage and capacity?
  o Incentives?
  o Tools?
  o Culture?

Processes

In a workshop with a leading consumer products company in which we are exploring new ways for them to compete against amassing small start-ups, I was shocked by a complaint one participant, a senior member of the global marketing team, shared with me in the hallway. “I think we have come up with a pretty breakthrough idea here, but there is a much more basic problem we face. It takes us weeks just to produce an invoice for one of our [retail] customers. Our small competitors take hours.”

Because your business processes were developed over years, designed to create predictability and consistency, engineered to optimize for efficiency over speed, you are likely to find your innovation get caught on the thorns of the rules, checklists, and policies, formal and informal, scattered throughout your organization. As with the other business-model elements, successful intrapreneurs seem to circumvent the frustration born from an “it should not be this way” mindset by instead embracing, understanding, predicting, and preempting the obstacles. They know operation issues are simply a natural outcome of their pushing their organizations’ limits. As Nobel Prize-winning political scientist Herbert Simon wrote, “One finds limits by pushing them.”
Operational barriers are consistently identified in research as one of the most critical barriers to internal innovation. Most of the research on the process of removing operational barriers to innovation is targeted at senior leadership and suggests ways that the CEO and top-team can change the internal structures of organizations in order to unlock great entrepreneurial and innovative behavior. As an intrapreneur, you likely have limited influence over the processes. Indeed, many of the intrapreneurs I interviewed expressed little interest in taking on a campaign to change processes and procedures. Their attitudes could be summed up by one person’s comment: “I don’t want to transform the company; I just want to make this project happen!”

If you similarly want to better navigate, rather than change, the operational processes that may stand in the way of your innovation, then you have a greater chance of prevailing. As Winston Churchill wrote, “Let our advance worrying become advance thinking and planning.”

So, which processes should you plan for?

In 1985, Harvard Business School Professor Michael Porter introduced a breakthrough framework, now broadly known, called the “Value Chain.” His concept has proven enormously influential and can be used to help solve a number of business problems, including designing an operational plan that will disrupt your competition without disrupting your organization.

If you have studied management or strategy you may already be familiar with the framework. Since it’s more than three decades old now, you may be tempted to think of it as less effective. But it is a powerful checklist that, if you follow it systematically, can save your innovation from being blindsided down the line.

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Porter suggests that any organization must perform certain activities in order to deliver a valuable product or service. Porter breaks these sets of activities into two categories: “primary” and “supporting.” As you work through these nine sets of activities, ask yourself two questions:

- What, if any, process issues will I face here?
- Is there an opportunity to create a “strategically disruptive” situation?

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<thead>
<tr>
<th>Process area</th>
<th>Description</th>
<th>Issue?</th>
<th>Opportunity?</th>
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<tr>
<td><strong>Primary</strong></td>
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<tr>
<td>Inbound Logistics</td>
<td>Anything your organization does to take in materials, inputs, parts, or inventory, in order to produce your product/service</td>
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<tr>
<td>Operations</td>
<td>How your company manages the process of converting inputs (raw materials, labor, energy, etc.) into outputs (the product/service you deliver)</td>
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<tr>
<td>Outbound Logistics</td>
<td>Storing, moving, and delivering your product/service to customers or end-users</td>
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<tr>
<td>Marketing and Sales</td>
<td>We have already covered this in a prior section; take a second look specifically at processes related to marketing and sales</td>
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<tr>
<td>Service</td>
<td>How your company helps keep its product/service working effectively after the customer buys it</td>
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<td><strong>Supporting</strong></td>
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<tr>
<td>Procurement</td>
<td>How your company acquires what it needs from external sources to operate</td>
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<tr>
<td>Human Resource Management</td>
<td>This will be covered in more detail later; here, look at the processes your company uses to hire, develop, and incentivize people</td>
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<tr>
<td>Technology Development</td>
<td>Broadly speaking, this includes everything your organization does</td>
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related to equipment, machinery, and information technology to help transform inputs into your final product/service

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<tr>
<th>Infrastructure</th>
<th>This includes activities of areas such as accounting, legal, finance, compliance, and general management</th>
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**Physical experience**

Physical experience has to with what your core customer (whether an external customer or internal stakeholder) experiences with their five senses when they interact with your innovation – what they see, hear, smell, taste, or feel. This dimension of your business model is overlooked in most business model frameworks. But that is a mistake. It can be enormously important, if only precisely because you and your competitors are likely to discount its importance.

Apple, for example, has for decades invested more than competitors on physical experience. They over-invest in package design, making sure the boxes in which their products are wrapped have just the right color, weight, and texture. I've heard they even analyze the level of suction their boxes create when one opens them. All of this because they know that the physical experience they create for customers when they first unwrap their products creates a powerful brand association. One reason they launched the Apple Store was to have complete control of the environment in which their products were displayed.

Many of the most cited examples of breakthrough intrapreneurship in the last few years have been focused on improving the physical experience customers have when they interact with the brand or product/service. Alaska Airlines, for example, was lauded for being the first to introduce fingerprint identification into their check-in experience. They recognized the physical experience of fumbling with documents caused stress and frustration. Now travelers need only press their finger to a reader.
The physical experience of the work environment also has powerful influence on the level of innovativeness and creativity you and your team will experience. This is why companies like furniture manufacturer Steelcase are investing heavily in designing furniture that can encourage greater innovativeness. Adobe recently introduced a program call “Kickbox,” which we discuss again in Chapter 12. By providing employees with a bright red box (Adobe’s corporate color) that includes things like a $1,000 pre-paid credit card, instruction cards with a checklist of actions, a Starbucks gift card (for caffeine), and a candy bar (for sugar), Adobe was able to create what it calls “innovation in a box.” They have deployed the program across the company. They won the 2015 Best Innovation Program from Corporate Entrepreneur Awards. Recognizing the potential of the program, they then opened it up to the public, making it an open-source program any company can access. The power of this visual – innovation in a bright red box – activates a sense of adventure and fun that noticeably changes behavior.

To address physical experience, some companies adopt broad, company-wide efforts. MasterCard’s headquarters, for example, once resembled that of a bank. Today you will find fussball tables and scooters. At Ernst & Young’s headquarters in the heart of bustling Times Square in Manhattan, you will now find Common Grounds, a sort of coffee shop, toward the top of their building, overlooking Manhattan, with spaces for people to spontaneously sit down as if at a Starbucks or even book a glass-encased team workroom. Other companies carve out separate spaces for driving intrapreneurial ideas. BNY Mellon, for example, created a high-tech innovation space in Jersey City and EY is building out a new space for a team of internal venture capitalists in a hip part of Manhattan.

Implementation questions

- **Thinking about the physical experience your core customers undergo as they interact with your company, brand, or product/service, what issues do you see your innovation may face? What opportunities do you see to create a “strategically disruptive” opportunity?**
- **Thinking about the physical experience of your co-workers, what issues do you see? What opportunities do you see to create a “strategically disruptive” opportunity?**

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The final component of the 8P business model framework is people. We list it last not because it is least important but precisely for the opposite reason. Much of the most recent research in innovation has identified people policies – who you hire, how you organize them, your incentive system, and your culture – as the most important determinants of whether an intrapreneurial effort will succeed or fail.⁹

Aetna, the 160-year old healthcare plan provider, earns about $60 billion per year primarily serving employers. In mid 2005, however, Laurie Brubaker recognized the company was missing an opportunity. At the time she was an SVP overseeing a few non-core markets like Pharmacy and Behavioral Health. Nearly 45 million people in the US were uninsured and another 20 million were under-insured. She felt that Aetna had an opportunity, and obligation, to serve them. She created a business plan, showing the potential for Aetna were it to start selling health insurance to individuals.

Brubaker helped Aetna pilot its new individual healthcare program and within two years Aetna was offering it in 30 states, to 250,000 members. It became the second-fastest-growing business within the company. Brubaker had helped the company both make a profit and have a significant social impact, because many of the Aetna-insured individuals had previously gone uninsured.

But the innovation could easily have failed had she not thought carefully about the “people” dimension of the program’s value proposition. She recognized that Aetna was good at estimating the future medical costs needed to set the price of its policies by applying statistical methods to its corporate customer base. But in order to accurately price policies for individuals, one would have to estimate medical costs based on an individual medical evaluation. To do this would require having people with a very different set of skills, including Internet marketing so that the company could reach individuals.

To overcome this potential business-model conflict, Brubaker assembled a team composed of two types of people: those who came from the core business (what Tuck Business School professors Vijay Govindarajan and Chris Trimble call the Performance Engine team\textsuperscript{10}) and a team of innovators who would represent the needs of the new business. This team helped fill the capability gaps while also making sure they leverage the people advantages Aetna could bring to bear, Brubaker created a “strategically disruptive” business model that played to Aetna’s strengths and ultimately succeeded.

**Implementation questions**

To help ensure you are able to predict and prepare for potential “people” issues, as Brubaker did, and engineer your business model so that you create one that is disruptive to your competition, but not to yourself, search through four different areas of conflict/opportunity\textsuperscript{11}:

<table>
<thead>
<tr>
<th>Tasks: What specific activities implementing your innovation will require</th>
<th>Where might conflict arise with the tasks people in your organization currently perform?</th>
</tr>
</thead>
<tbody>
<tr>
<td>People: The types of people your organization hires and develops (considering skills, personalities, etc.)</td>
<td>What opportunity exists to create a “strategically disruptive” situation?</td>
</tr>
<tr>
<td>Formal structure: The organizational structure in which people work including reporting, business units, incentives, and decision-making approaches</td>
<td>Where might conflicts arise?</td>
</tr>
<tr>
<td>Informal structure (Culture): The values, norms, common behaviors prevalent within your organization</td>
<td>What opportunity exists to create a “strategically disruptive” situation?</td>
</tr>
</tbody>
</table>


\textsuperscript{11} Based on the “Congruence Model” developed by Columbia University professors David A. Nadler and Michael L. Tushman
Conclusion

As a passionate, action-oriented intrapreneur, you likely are eager to get going, to do something. While moving quickly to action may give you a sense of forward movement, the early momentum you build can easily smash against a conflict with your current business model. In frustration you may decide, “My company simply cannot innovate,” and so resign yourself to the conclusion your organization should simply carve out the innovation and copy the business model of whoever the leading competitor is today. But this can only lead you to mediocrity.

To create something of truly transformative potential, explore how you can move your business model into the “strategically disruptive” quadrant. Think through each element of the business model – positioning, product, pricing, promotion, placement, processes, physical experience, and people – assessing for each (a) where conflicts may arise and (b) where opportunities exist, and then (c) deciding what you can accept, bend, or change in order to design a model that will disrupt your market without disrupting your business.