

Quick takes

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These brief summaries highlight the key points and action steps in the feature articles in this issue of Strategy & Leadership. Larry Goodson, an S&L contributing editor, is a veteran strategy consultant based in St. Louis, Missouri. He is a Partner at LDGA Consulting, which offers Lean operations and strategy development services (ldgoodson@msn.com).

Customering: the mindset of a revolutionary model *B. Joseph Pine II*

Companies are starting to learn a revolutionary lesson: as information technology and digital networking advances, success increasingly means designing offerings that respond to customers as the unique individuals they are – whether consumers or corporations – with specific needs and preferences. The systems and technology for doing this provide a new model for doing business: customering. Its simple purpose: efficiently serving customers uniquely. Therefore, we must stop “marketing” as it has been practiced and instead embrace principles that together form this new model of customering.

Customering seeks to create a customized offering that meets the individual wants, needs and desires of each particular customer, both at a specific moment in time and on into a future relationship.

The critical mindset shift from push to pull

In contrast, marketing, as it is commonly practiced in most enterprises, takes an offering that is generally already hanging on a rack, lying in a lot or sitting on a shelf somewhere and seeks to push what it already has made onto a customer.

Cultivating learning relationships

Customering’s goal is to offer a relationship that grows and deepens over time. The better you

customize to each customer the more that customer is going to benefit – customization has value, and experiencing that value means clearly understanding the benefits.

From product-centric to customer-centric

Customering must be customer-centric: that means placing the one who pays you money at the center of everything you do.

Mass customizing

Product or service modularity makes being customer-centric efficient; it enables you to mass customize your economic offerings.

That’s what the system of Mass Customization is all about, for you must meet the co-equal imperatives of mass – high-volume, low-cost, efficient operations – and customization – serving that individual living, breathing customer. It’s about giving each customer exactly what they want at a price he or she is willing to pay.

Customering aims at eliminating economic waste

There’s another benefit to this whole schema of interaction that modularity enables: eliminating economic waste by getting closer and closer to doing only and exactly what he or she wants.

How Amazon uses metrics to drive success

Stephen Denning

How can you accurately measure customer sacrifice?

Most marketers measure customer satisfaction, a measure of what customers perceive they received from an offering relative to their expectations of that offering. Customer sacrifice identifies the ideal offering for this particular customer. Customer sacrifice is a way of measuring the difference between what a customer settles for and what he or she wants exactly.

Multiple markets in each customer

Customering companies can also create customer-unique value when they realize that every customer can also be multiple markets and want particular offering categories differently at different times.

Metrics are intended to reveal the truths that need to be learned if an organization is to prosper. Sadly, the operating action metrics in most big organizations today often are being used to confirm the hopes and beliefs that the senior managers have about the recent business past—in effect, driving forward while steering using the rear-view mirror.

At Amazon, by contrast, metrics are established in advance of every activity and specify what actions are expected to happen in ways that can be measured in real-time. Every activity is in effect a genuine scientific experiment focused on whether it is delivering the value to customers.

There are many elements needed to make Agile metrics work properly, but one of the most important—and most neglected in most businesses—is getting agreement in advance as to the metrics that will measure what every activity or initiative is expected to accomplish so that action can be taken if it doesn't, or do more of it, if it does.

Genius platforms

By embracing a customering mindset, companies will be able to go beyond mere smart products embedded with chips to finding their role on one or more genius platforms. Smart products customize to the individual, while genius platforms anticipate needs and individualize to the job to be done.

Customering in your enterprise

That is the full promise that customering holds for your enterprise. But it all comes down to mindset. Can you abandon the old mindset of marketing and put on the new mindset of customering?

Four levels of metrics

Metrics in organizations operate at four levels:

1. **A good idea:** an activity that is undertaken because enough influential people believe that it is likely to have some benefits.
2. **An output:** something internal, measurable but not necessarily related to any external customer.
3. **An outcome:** something external, such as customer satisfaction in relation to value delivered.
4. **The impact:** changes in customer behavior that the product or service is intended to elicit.

Thinking through impact in advance

Why don't more smart organizations continually measure impact? Thinking through impact in advance is hard. At Amazon, work on an activity or capability can't start unless and until the team has figured out how it will measure customers' response.

The hurdles to pre-established metrics

In big corporations, there are of course often detailed project plans showing cost, time, risk, benefits and so on. But when things start to go astray in a huge project, the risk of failure is tied up with the fate and careers of powerful executives; bad news may be down played and hard decisions don't get taken. Amazon takes the opposite approach.

Ten steps that Amazon takes to measure impact:

1. An obsession with customer value, not shareholder value.
2. Shared responsibility for customer focus.
3. Customer-focused metrics.
4. The metrics are correlated with a coherent narrative.

5. Activities report to the organization, not the unit.
6. The organization budgets activities, not its units.
7. Work is done in small teams working in short cycles.
8. Budgeting is a subset of planning, not vice versa.
9. Managing impacts instead of just controlling spending.
10. Rewarding value creation.

Amazon's compensation structure is focused on incenting long-term enterprise value creation. The focus is on achievement, big and small, with responsibility for getting to "Yes," which is everyone's job.

Using institutional knowledge to answer puzzling questions about novel challenges and opportunities *V.K. Narayanan*

In an age of continual technological change, outsourcing of operations and corporate restructurings and mergers, organizations frequently lose access to valuable institutional knowledge.

Institutional knowledge accumulates over many years and resides in the experiences of managers who have tackled specific challenges.

Institutional knowledge is critical to the effective functioning of corporations, even though incumbent managers may not be aware of the full range of its applications and the value it provides.

Institutional knowledge is an umbrella term for the learning and insights that managers and associates of an organization have gathered over the years as they confronted various operational and strategic challenges.

Ongoing operations. Most organizations have standard operating procedures (SOP's) and processes for the conduct of various facets of their operations. However, a typical organization also has ongoing projects that cut across departments and interface with customers,

regulatory agencies and internal funding sources. Seasoned project leaders take advantage of their organizations' institutional knowledge to avoid blunders on the road to implementation of these projects.

Transitions. Organizational transitions are often uncertain times when politics can become polarizing and old culture clashes with the desired new one. Freshly promoted managers and individuals hired into the organization from outside benefit most from tapping into institutional knowledge during transitions.

Factors driving the use of institutional knowledge

Four factors need to come together to harness institutional knowledge on a regular basis:

1. Individual agency.
2. Senior management facilitation.
3. Enabling systems.
4. Supportive culture.

Senior management facilitation.

Although individuals and teams instigate most efforts to search out institutional knowledge, senior managers can both encourage and facilitate this activity in three ways:

1. Encouraging project leaders to tap institutional knowledge by referring them to individuals who can help.
2. Establishing systems to promote access, use, collection and preservation.
3. Enabling a supportive culture.

Steps toward harnessing institutional knowledge

Senior managers can seek to establish and promote the process of utilizing institutional knowledge as a normal business practice in their organizations through several key leadership actions.

1. Introduce the concept that the organization's institutional knowledge is major asset.

2. Highlight its utility in the context of major initiatives.
3. Broker the relationships between leaders of major initiatives and potential pockets of institutional knowledge by putting them in touch with each other.
4. Dramatize the utility of harnessing through institutional knowledge by storytelling of actual events in their own organizations' immediate past.
5. Model the behavior by seeking institutional knowledge in the case of special events and transitions. For example, when confronted with a complex multi-part initiative, a senior manager made it an element of his normal operating procedure at each stage to ask, "Who in our organization knows about this issue?"

Interview

Scott Kupor explains the new realities of accessing venture capital
Alistair Davidson

Venture capital promise is to finance innovations with the potential to create exciting new markets. But the reality is that venture capital investment analysis' practices – some that startups are not fully aware of – determine whether promising innovations get funded, how money is raised and how a growing startup needs to be managed.

Scott Kupor is a managing partner at Andreessen Horowitz (AH Capital Management LLC), a private American venture capital firm founded in 2009. Kupor's book, *Secrets of Sand Hill Road: Venture Capital and How to Get It* (Portfolio, 2019), can be used as a handbook for strategizing about venture capital deals, how to partner with multiple venture capitalists and how to assess new business ideas and market opportunities. His

interviewer is Alistair Davidson, a contributing editor to *Strategy & Leadership*.

Strategy & Leadership: Why did you write the book, and who is its intended audience?

Scott Kupor: I have observed that there is a great deal of friction or miscommunication between venture capitalists and the companies they invest in. Clarifying how venture capital works and the incentives under which VCs operate is a good way of simplifying the issues and of informing entrepreneurs about when and how to engage with VCs.

S&L: How is the venture capital market changing? Why is it more difficult to start a business today from the perspective of competition? What makes a

competitive advantage worthy of investing in?

Kupor: The most important trend today is that the cost of starting a business is much lower than in the past. Startups have to expect that their company will have to deal with multiple competitors. Although it's easier to start a business, getting to scale is often more expensive now and requires more capital.

S&L: In terms of filtering ideas, your book describes the pressures under which venture capitalists

operate. How do these pressures influence areas that the firms will invest in?

Kupor: The markets in which we invest are more competitive than ever. The corollary of more competition is that our evaluation of the team becomes paramount. The team in many ways can become more important than the original business idea, particularly since we know the market and product will evolve over time.

Overcoming cultural resistance to open source innovation

John Winsor, Jin H. Paik,
Mike Tushman and Karim R. Lakhani

When David Jones, the CEO of Havas Creative ad agency, led the acquisition of the small Denver-based agency Victors & Spoils in 2012, his idea was to bring V&S's revolutionary crowdsourcing technology and culture to one of the world's biggest advertising, digital and communications groups. V&S was the first advertising agency built on crowdsourcing principles.

Jones's vision was to link V&S's crowdsourcing methods to Havas' creative-centric approach to advertising. He installed John Winsor, a founder of V&S, as the Chief Innovation Officer of Havas and asked him to integrate V&S's digital way of doing business into the culture and practices of the global agency.

Winsor's tenure at Havas was brief and frustrating. Havas's senior team, which saw the open source model as a threat to their prestige as creative talent, simply rejected the new ideas and approaches. Jones left his CEO post and Winsor resigned shortly thereafter. Havas was acquired by Vivendi in 2017, a French mass media conglomerate, and in 2018 it closed V&S.

Addressing threats

In retrospect, many mistakes were made when V&S was brought into

Havas. The acquisition disrupted the status quo. Havas executives perceived V&S to be a threat to the traditional team's budgets, talent and individual professional identities.

Havas's disastrous experience trying to introduce open sourcing certainly is not an isolated example. As the history of attempts to scale open innovation at venerable organizations like NASA show, cultural threats are an enormous problem. Unit managers who have invested career time in a brand or a market are concerned that technology innovations may change the core identity of the firm. Rather than promote the introduction of the open system with a dramatic announcement and mandate, followed by a public relations blitz, it's essential to sensitively tend to a company's internal culture, listen more and request one-to-one conversations.

How to introduce open source innovation

Here is a step-by-step process to facilitate adoption:

1. Emphasize that the traditional employee base will remain intact.
2. Begin small, by working with an internal crowd.

3. Next, tap individuals from the freelance market.
4. Last, introduce external crowds and contests once the company has become comfortable tapping talent using open tools.

Despite initial cultural resistance to their adoption in some cases, the

overwhelming evidence is that open source systems work and that they are complements to traditional systems.

Banking on the platform economy

Sarah Diamond, Nick Drury, Anthony Lipp, Anthony Marshall, Shanker Ramamurthy and Likhit Wagle

Banking and other financial services are in the midst of unprecedented rapid change. Digital technologies have now reached a level of sophistication and ubiquity where they drive major disruptions in fundamental market definitions, operations and business models. Banks – or at least those that are innovative and likely to be successful – are rapidly evolving beyond traditional organization structures to define or build inclusive, flexible ecosystems of financial and other capabilities.

There are several types of business platforms that can form within and across ecosystems:

- Technology platforms provide agile and resilient infrastructure that can help banks succeed in the “as-a-service” economy – for example, cloud infrastructure providers and traditional outsourcing providers adopting new cloud technologies.
- Business process platforms that support redesigned and often intelligent processes that can solve problems that might be shared between various participants in an ecosystem, including banks.
- Market platforms that can become a vehicle for trusted economic and financial exchanges between multiple parties across ecosystems at global scale.

The platform future: disruption as opportunity

The IBM Institute for Business Value, in collaboration with Oxford Economics,

surveyed 850 banking and financial markets executives worldwide.

The survey sought answers to three key questions:

1. What impacts are the changing currents around ecosystems, business models and business economics having on banking and other financial services organizations?
2. What strategies are likely to be most successful for banks to adopt over the next few years?
3. What steps can banking leaders adopt today to accelerate their progress toward obtaining a leading competitive position?

Almost 79 percent of banking executives globally – say that adoption of platform business models will help them achieve sustainable differentiation and competitive advantage with benefits across multiple dimensions. They identify profitability, innovation and access to markets as the top-three areas where platform models can drive advantage.

Benefits of business platforms

Banking executives say that adoption of platform business models yields significant benefits to customers as well as to banks themselves and 78 percent say platforms enable greater innovation of products and services.

Platform-oriented visionary banks

Researchers divided the surveyed organizations into three distinct

groups, each comprising a third of all respondents. A group designated as “visionary banks” recorded the highest revenue from cross-industry platforms. The other two groups are more traditional banks.

There are relevant differences between visionary banks and traditional banks across eight specific dimensions: strategy, customers, innovation, operating model,

partnering, investment, measurement and regulation.

Achieving success

The article offers guidelines to performing the radical transformation required across business and operating models and to the way resources, business processes and technologies should be assembled to create value.