



Learning Session

Disrupt or Be Disrupted: How Established Enterprises Can Innovate Like Lean Startups

Steve Bell

Wednesday, March 5th 1:00 PM – 2:15 PM

Thursday, March 6th 1:00 PM – 2:15 PM

Location: Narcissus/Orange Blossom (Mezzanine Level)

About the session:

The ability to effectively innovate is essential to the health, and perhaps even the survival, of the modern enterprise as established organizations seek to protect and leverage existing assets and develop new products and markets, while startups aggressively attempt to disrupt established organizations and create a place for themselves in the new economic order.

Lean practice enables us to incrementally improve the value we deliver, but we can adapt and expand our lean practice to help us achieve breakthrough, disruptive innovation-- significant increases in value, serving both existing customers and attracting new ones.

The key to fast innovation lies beyond the tools and techniques, and is found in Lean Leadership practices. In this learning session, Steve Bell will discuss and share examples of the key leadership practices for disruptive innovation and offer an overview of lean innovation and startup tools and techniques. He'll also guide an A3 learning exercise to help you to:

- Gain a deeper understanding of your enterprise's need and capabilities for innovation
- Recognize the barriers to innovation in large enterprises, and learn ways for leadership to overcome them by engaging people at all levels, tapping creativity and promoting collaboration
- Understand how start-ups use techniques like persist or pivot, split testing, and minimum viable product to innovate, disrupt, and deliver new products and services faster, and anticipate what customers really want next
- Develop a "Do Monday" list of potential countermeasures to begin experimenting right away



Steve Bell

Steve Bell is the founder of Lean IT Strategies, LLC, specializing in coaching senior IT leaders as they partner with their business colleagues to meet the challenges in the rapidly changing, technology-enabled business landscape.

He also is the founder of Lean4NGO (www.Lean4NGO.org), providing humanitarian aid organizations with access to lean thinking and practices to more effectively utilize scarce resources.

He is the author of *Run Grow Transform: Integrating Business and Lean IT*, (Productivity Press, 2012), co-author of *Lean IT: Enabling and Sustaining Your Lean Transformation* (Productivity Press, 2010) and author of *Lean Enterprise Systems: Using IT for Continuous Improvement* (Wiley, 2006) which first introduced the term "Lean IT" in publication.

Steve holds a degree in finance from the University of Michigan, a CFPIM certification from APICS, and is a Fellow of the Lean Systems Society. He serves as a faculty member for the Lean Enterprise Institute and is a recipient of the Shingo Prize for Research.

Disrupt Or Be Disrupted



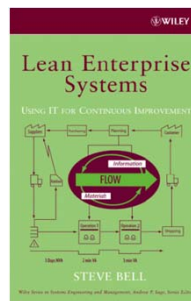
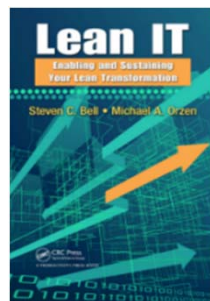
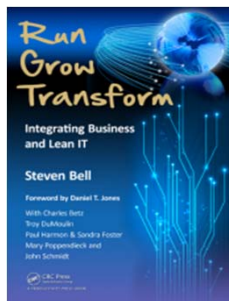
*How Established Enterprises can
Innovate like Lean Startups*

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Steve Bell



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Agenda

1. Why is innovation vital?
2. Why is it difficult for an established enterprise to be innovative?
3. Lean startup toolkit fundamentals
4. Lean leadership lesson wrap-up
5. A3 Exercise
6. Q&A

Poll #1



On a scale of 1 to 5, how would you rate your organization in terms of being *deliberately and effectively innovative?*





**How can a giant
reinvent itself to
survive and thrive
in a changing
world?**

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Giants *should* be Paranoid



We don't compete against competitors, we compete against market transitions

John Chambers, CEO, Cisco Systems

In an industrial company, avoid software at your own peril . . . a software company could disintermediate GE someday, and we're better off being paranoid about that.

Jeff Immelt, CEO, GE



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Physical-Digital Convergence



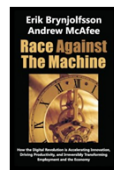
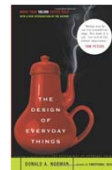
Evolving from Software to Devices and Services

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Why is innovation so difficult for large enterprises?



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Two types of innovation

1. **Sustaining** - does not create new markets or value networks but rather evolves existing ones with better value
2. **Disruptive** - helps create a new market and value network, and eventually disrupts an existing market and value network

Different mindsets and contexts

Sustaining	Disruptive
Problem relatively well understood	Problem not understood
Improves performance or profit (Kaizen)	Game changer (Kaikaku)
Customer/segment known	Customer/segment suspected
Product value proposition known	Product value proposition suspected
Market behavior is well understood	Market behavior may be a mystery (we may think we understand it, but that could be a pitfall . . .)
Traditional business models and methods are satisfactory to deliver innovation	Traditional models and methods are irrelevant and potentially distracting



Creative Destruction



*You need to be your own
greatest competitor in the race for
innovation and market share*

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Poll #2



Those in Poll #1 that responded with "good" or better, are you better at Sustained or Disruptive innovation?

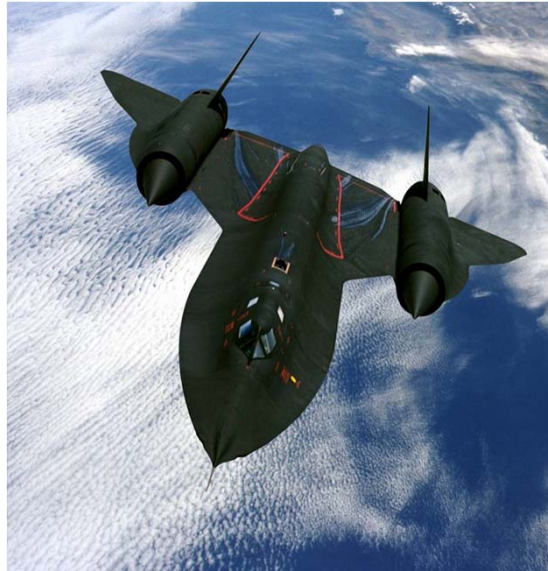
Why?

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What are the challenges for an established enterprise to **think and act like a disruptive startup?**



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Do you focus on protecting assets?



Customers, Products, Intellectual property, Suppliers, Brand, Channels, Operating model, Shareholders, Proprietary technology, Legal Protections, etc.

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Do you focus on protecting assets?

Lean Leadership Guidance:

- Focus on customer value
- Think from the customer needs backwards, not your assets forward

Where is ownership? Purpose?



Who disrupts whom . . . ?



Where is ownership? Purpose?

Lean Leadership Guidance:

- Clarity / Constancy of Purpose
- Value Stream Management
- Respect for People

As technology exerts more influence some are experiencing CxO overload

- Chief Information Officer
- Chief Technology Officer
- Chief Marketing Officer
- Chief Product Officer
- Chief Innovation Officer
- Chief Digital Officer
- Chief Data Officer
- Chief Big Data Officer
- Chief Social Media Officer
- Chief Info Security Officer
- And more . . .



As technology exerts more influence some are experiencing CxO overload

Lean Leadership Guidance:

- Focus on customer value
- Value Stream Management
- Role Clarity

Scale: what return are you expecting through your innovation portfolio?



Scale: what return are you expecting through your innovation portfolio?

Lean Leadership Guidance:

- Focus on customer value
- Clarity / Constancy of Purpose
- Management by Fact

Manufacturers: *Physical-Digital Convergence*

- What % of your value proposition is digitized?
- What impact will Extreme Manufacturing, 3D printing, and other advanced manufacturing technologies have on your core business?
- How well do you integrate emerging technology capabilities with your existing skills and operating model?



Manufacturers: *Physical-Digital Convergence*

Lean Leadership Guidance:

- Focus on customer value
- Extended Value Stream collaboration
- Experimentation

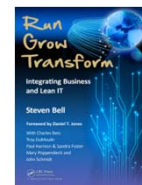
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Relationship of "IT and the Business"

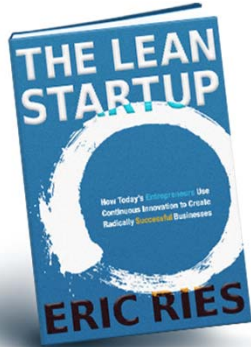
- Lean/Agile IT is essential for most innovation efforts
- In small startups IT is part of the air they breathe, there is little distinction
- In larger, established enterprises there is often a huge chasm separating them . . .



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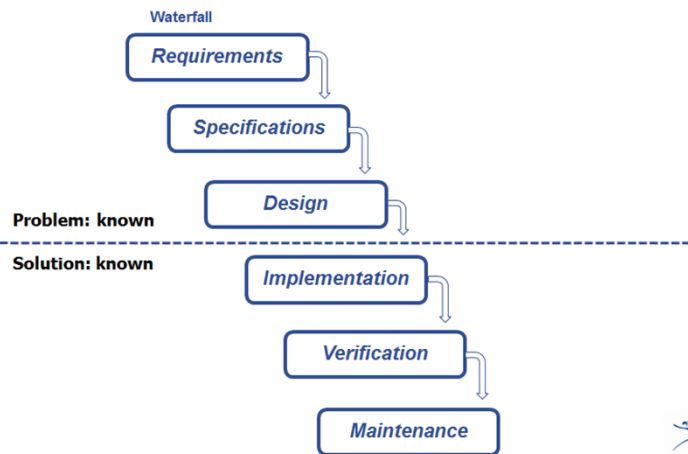




What does Lean Startup offer to this discussion?

Traditional Product Development

Unit of Progress: Advance to Next Stage



Source: LEI Lean Startup Webinar 2010



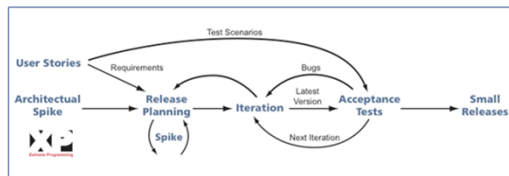
Agile Product Development

Unit of Progress: A line of Working Code

"Product Owner" or in-house customer

Problem: known

Solution: unknown



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Source: LEI Lean Startup Webinar 2010

Product Development at Lean Startup

Unit of Progress: Validated Learning About Customers (\$\$\$)

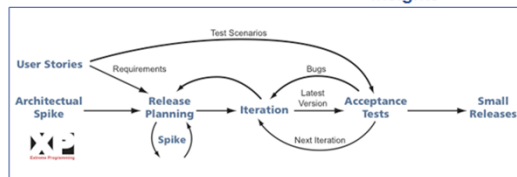


Problem: unknown

Solution: unknown

Hypotheses, Experiments,
Insights

Data, Feedback,
Insights



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Source: LEI Lean Startup Webinar 2010

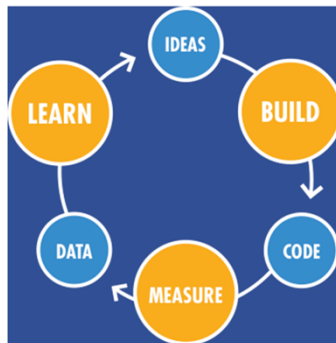


Models for new product development

	Product	Customer
Traditional	Known	Known
Agile	Unknown	Known
Lean startup	Unknown	Unknown

Lean startup = extreme uncertainty

Minimize TOTAL time through the loop



This is the same “learning loop” idea as PDCA

Source: LEI Lean Startup Webinar 2010

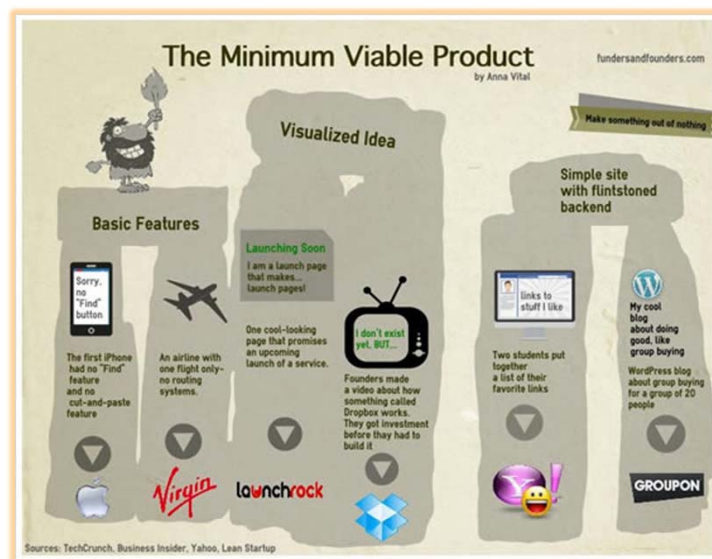


Key Lean Startup ideas

- Extreme uncertainty
- MVP
- Split Testing (A/B)
- Validated Learning
 - Value hypothesis
 - Growth hypothesis
- Pivot / Persist

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Split (A/B) Testing



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Split (A/B) Testing



4 button variations
6 media variations
24 possible combinations
310,382 visitors
~13,000 saw each combination



Combination	Status	Est. conv. rate	Chance to Beat Orig.	Observed Improvement	Conv./visitors
Original	Enabled	8.26% ± 0.5%	—	—	1088 / 13167
★ Top high-confidence winners. Run a follow-up experiment >					
Combination 11	Enabled	11.6% ± 0.6%	100%	40.6%	1504 / 12947
Combination 7	Enabled	10.3% ± 0.6%	100%	24.0%	1340 / 13073
Combination 3	Enabled	9.80% ± 0.6%	99.7%	18.7%	1277 / 13025
Combination 10	Enabled	9.23% ± 0.6%	95.9%	11.7%	1203 / 13031
Combination 8	Enabled	9.03% ± 0.6%	91.6%	9.28%	1178 / 13046
Combination 9	Enabled	8.77% ± 0.6%	81.8%	6.10%	1111 / 12672
Combination 6	Enabled	8.64% ± 0.5%	75.3%	4.58%	1108 / 12822

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Split (A/B) Testing

The Winner



The outcome

- 40.6% signup rate increase
- 288,000 additional volunteers
- \$60M additional donations

Source:
<http://blog.optimizely.com/2010/11/29/how-obama-raised-60-million-by-running-a-simple-experiment/>

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Validated Learning

- Value Hypothesis
- Growth Hypothesis

Which do you validate first?

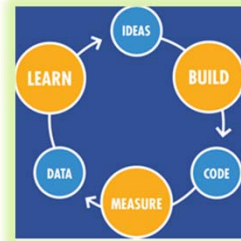
Pivot or Persist?

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Key Lean Startup ideas



Learning SPEED!

- Extreme uncertainty
- MVP
- Split Testing (A/B)
- Validated Learning
 - Value hypothesis
 - Growth hypothesis
- Pivot / Persist

Emergent Strategy

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Rapid Innovation Example

Nordstrom Innovation Lab



*In the eyes of our customer,
the Nordstrom Experience
is the future of retail.*

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Need for Lean Leadership to overcome enterprise impediments

- Creative destruction / Protecting assets
- Ownership Ambiguity and Conflict
- Investment portfolio expectations
- Extended Value Stream collaboration
- Relationship of IT and the Business



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The Bottom Line:

How do you lead your established enterprise to continuously improve and disruptively innovate *at the same time?*

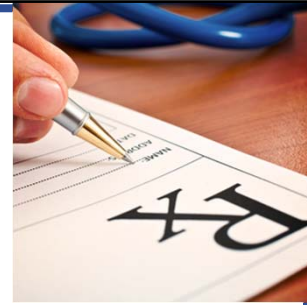
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This is a “wicked” problem – complex and idiosyncratic

- No prescriptions! - every situation is different
- Use the A3 problem solving method to figure it out for yourself!

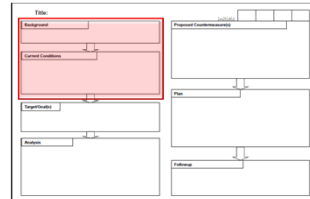


Start your A3

Why is this important?

What is your current state?

- *How are you structured for innovation?*
- *Do you have a different approach for incremental and disruptive?*
- *What does someone do when they have an idea?*
- *What % of your revenues are based on products less than two years old? Do you have other innovation metrics or targets?*



Target State

- How do you want to innovate with your customers?
 - New product development
 - Production and delivery
 - Service and support
 - Partnering/open innovation
- What disruptive directions could your primary market go?
- How do you leverage your strengths to get there first and remain a viable entity?

The diagram shows a process flowchart with several boxes. The 'Support' box is highlighted in red. The boxes are labeled: Title, Development, Current Conditions, Support, and Plan. There are also boxes for 'Physical Constraints' and 'Value'.

Choose one



Analysis

- What is keeping you from your innovation desires and/or targets?
- Do a cause and effect (fishbone) analysis on key obstacles to overcome
- Homework for later . . . What potential countermeasures can you experiment with?

The diagram shows a process flowchart with several boxes. The 'Support' box is highlighted in red and contains a fishbone diagram. The boxes are labeled: Title, Development, Current Conditions, Support, and Plan. There are also boxes for 'Physical Constraints' and 'Value'.





Q&A and reflection

- Any questions?
- Any ah-ha moments worth sharing?
- What will you try next week?

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