# TEI 080: Innovate like a startup
Host: Chad McAllister, PhD
Guest: Michael Docherty

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CHAD: Hi, this is Chad, your host and founder of Product Innovation Educators, where product managers become product masters. When established companies decide they need to be more innovative, they often talk in terms of acting more like a startup, but acting like a startup is really much more challenging in reality than just talking about it, especially for larger organizations. Instead, established companies can partner with startups. Doing so is the topic of the book *Collective Disruption: How Corporations and Startups Can Co-create Transformative New Businesses*. This interview is with the author of the book, Michael Docherty. He is a leading expert in innovation and entrepreneurship and has a variety of broad based experiences, from senior level corporate roles, startups, consulting, and now venture capital. I expect you'll find value in the discussion if you have interest in innovation from either the startup perspective or the larger organization perspective. Michael shares what he means by collective disruption and the four-stage framework for applying it. You can get a summary of the discussion along with the transcript at [www.theeverydayinnovator.com/080](http://www.theeverydayinnovator.com/080). Hope you enjoy the interview.

CHAD: Mike, thanks so much for joining The Everyday Innovators today!

MICHAEL: My pleasure. Great to be here, Chad.

CHAD: So I want to just dive into your book. It's called *Collective Disruption,* and you use a term in there, transformative innovation, really being the topic of what the book is about. Let's start with a definition of transformative innovation to make sure we're all on the same page.

MICHAEL: Great point. Sometimes these words do get in our way, and they mean different things to different people. You know, even more basic, what is innovation? I would start with the idea that innovation, as bringing, you know, new value to market. That definition is even changing and that's going to lead me to the definition of transformative innovation. In the old days, innovation was about putting a new button on your product, or a new feature or ingredient in your product and calling it new and driving sales that way. Transformative innovation is really about whole new business models, whole new sources of growth. We'll get into why that's more important today than elsewhere, but I would just differentiate between what I would call, say, core innovation, which is all those things you need to do to keep your current business healthy and growing at least at a moderate rate, and transformative innovation being about those more disruptive opportunities, those things that are whole new sources of growth and whole new growth platforms for the future.

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CHAD: Very good. I appreciate that you are specifically defining this as transformative innovation, as opposed to disruptive. We have this disruptive term out there and it just gets so overused and Clayton Christensen is the one who coined it originally and provided a very specific definition around it, which may fit kind of as we're defining whole new business models, but we might not really be disrupting an industry.

MICHAEL: Yeah, it's a great point and I plead guilty to having disruption in the title, but through the book I really do focus more on transformative, in part because I really do think of, you know, you ask people what a disruption means to them, if you're a large company, it generally means, you know, it's something bad because the little guys are coming to get you. If you're a startup, it's a good thing, because it means you're going to disrupt the big guys. I like transformative better because it really is about creating new opportunities for customers and new markets, so that's the terminology we use and I guess the mindset I like to use.

CHAD: And this book is about that relationship between startups and larger companies and how startups can really help the larger company with this entrepreneurship spirit and their innovation activities. Let's talk about that—how can startups really help them with this transformative innovation?

MICHAEL: Well, to really answer that, you have to start with why do the large companies need help. If you look at, I talked before, about this idea of the old definition of innovation being around new features and minor benefits. That used to be enough, but with the speed of competition, with the advent of the internet and the ease that some of these startups can enter the market, it's really raising the bar. Consumers and customers expect more, there's more competition out there, product lifecycles are shrinking every year. I think one of the statistics talks about 75% of the current S&P 500 being off that list within the next 7 years. So it's really saying that what we used to call permanent isn't permanent anymore, and that's why the old approach to innovation doesn't work anymore. So companies need to make this transformative innovation actually a bigger part of their growth strategy. Here's where startups come in. It's what companies are really bad at. Companies are great. I've worked for GE and Ford and Sunbeam, a lot of great companies. They are great. What makes them great are all of the systems and engines of growth they have around optimizing their brands and distribution and business models. But when it comes to starting something new, and especially when you're dealing in the realm of higher unknowns and higher risk, all of those things that help you optimize a big company, are the exact same things that get in your way in building new companies. That's really why companies are looking to startups as a way to fuel that growth.

CHAD: Yeah, the point there with the, you know there's this term of the corporate antibodies. In these larger organizations, which you said are optimized, really, about sustaining what they have accomplished and increasing production and maybe expanding markets, but the corporate antibodies kind of take over because of those processes we put in place that prevent new things, real innovation, and I really like this distinctive term, transformative innovation, to occur. So, you're suggesting, and you've seen this, that take place by a relationship between startups and larger companies.

[6:30]

MICHAEL: Yeah, absolutely. And I still, I'm an optimist, and I still see, have lived through some of the challenges of, I think corporate antibodies is a good term, in terms of large companies are very often very good at saying no. There are a lot of things that stand in the way of these risky ventures moving forward—incentive systems, culture, training, you name it. Yet I still think it isn't about, you know, what large companies are doing is bad, it's about how can we take the best of what startups can do in terms of the early stage risk-taking and proving out, and the best of what large companies can do in terms of bringing brand and market insight and the ability to scale and actually bridge that in a better way. Part of that is actually that these large companies both need to become more entrepreneurial in terms of being able to work at the cadence of startups and be able to work, basically, with the right level of separation and integration, so they need to be able to manage that, and you know, they've got to have both the internal capabilities to do that and then they've got to build those external networks and relationships to execute.

CHAD: Yeah, these are two organizational structures that are really optimized for very different purposes. But I thought you made a clear point before, that companies need to have this transformative innovation as part of their growth strategy because they do find over time those markets are shifting much quicker than they used to, and if they are not responding to what customers want today and looking for new problems that they can solve for the customer with new products, they do find themselves, you know, kind of hanging out in that, when it comes to product lifecycle, in that late majority area, or cash cow…… as long as they can and over time becoming less relevant in the marketplace.

MICHAEL: Absolutely right, and I think you bring up a point related to when and how you work with these startups. Part of this is about using the startups to help you identify what's coming, you know, when markets might be tipping, and be a bit of a canary in a coalmine, if you will, to get into the flow of market shifts, technology inflection points, and those startups, if you build the right networks, can be early indicators for you, and they should actually inform your strategy. Then there's another part of this related to partnering with the startups to actually execute on projects as well. They may or may not be the same startups, but the idea of, you know, leveraging the startup ecosystem to both find and track the market and also to be an extension of your company to execute are two important parts of this.

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CHAD: Those are pretty big benefits to these larger organizations, to be able to have insights into kind of where the market is going, things that startups are good at. What are the benefits to the startup, in fostering relationships with larger companies?

MICHAEL: Well, first, it's not going to be for everyone, and it's going to make the most sense for companies in a certain point in their lifecycle. So for example, if you were starting up a digital mobile based software platform that might have an opportunity to work with CPG or brand companies and retailers, getting early-stage input in terms of where they might want to go with it as either a customer or eventual acquirer, it is important, but going to them too soon sometimes would put you in the situation of basically limiting your options and designing for one customer at the expense of others. So some of this is about timing. We can come back to that and maybe go into more detail. I think the broader and general answer to that is what's in it for startups is, number one, to have a built-in exit partner, to be able to bring in these partners that can more or less help you reverse engineer your startup in a way that in the end gives you a better result. I'll give you a quick example of that. One of the anecdotes I talk about in the book is with Proctor and Gamble and a company called Shopkick out in Silicon Valley. One of the P&G executives actually was embedded into Shopkick and Shopkick is a platform to provide location-based services to retailers and brands and their customers around access to deals and incentives around consumer products that might be of benefit to the consumer. Now, Shopkick was basically focusing on the retailer side of that, which is an important audience for them, didn't really understand how to optimize what they were doing for the CPGs. And by P&G embedding themselves in there, and it was actually the venture capital firm that encouraged this, Kleiner Perkins in that case, Shopkick was actually, in the end, better able to balance the way they design their platform in a way that was both appealing to the retailers and appealing to the CPGs. And what P&G got out of that was a platform that they could then utilize as a customer, that, you know, prevented or avoided the need for them to kind of reverse engineer it or redesign it or walk away from it. So from the startup's point of view, absolutely the ability to design with the end in mind, either for your eventual customers or your acquirers, is one. The other is that, especially for early-stage startups, the VC market, the investment market is a very different market than it was 10 years ago, and there's a big chasm there between seed-stage you might get in an accelerator and large funding rounds you might get in a B or C round from a large venture capital firm. So there's so many startups that just don't ever make it across that chasm. Strategic investments from corporates can be a great alternative to that. Interestingly, and I wouldn't say it's always going to be better, but there will be a lot of situations where strategic investment from corporations can actually be better in terms of the exit as well. The reason being that venture capitalists are taking a portfolio approach and looking often for 10 or 12X or their initial investment, and they're looking for that on the whole. So if you're one of their deals that might be able to have an exit at 4 or at 5X what their initial investment was, they might not let you exit because they'd rather place their bets on something big, and in the end you may end up in that zombie state that many startups do, whereas what the corporates are looking for is often a more strategic investment with an end in mind of helping them grow their business. It's sometimes a safer bet than venture capital money.

[13:29]

CHAD: Yeah. It's another option and for some founders, not everyone's wired the same way by any means, people do startups for different reasons and personal motivations, but I have one colleague who has been through the startup acquisition by larger company, and he just wanted to basically hang out for a couple years, in that larger company, to see what that environment is like. And basically learn from that and then he has plans to go back and do another startup, but he wanted that experience to help him with the next startup, too, to even do it better.

MICHAEL: That's great. That's great. And actually you're touching on something that we can maybe come back to, but it's this idea of, you know, everyone benefits from that interaction as well, but that, when you integrate these startups, if it's done right, you really do have the opportunity to become more innovative as a large company from the outside in. To infuse some of that mindset. Cisco was a great example of that—a history of acquiring a lot of companies and I've worked with them a lot, and you see that within the company, that entrepreneurial mindset is pretty prevalent and I think a lot of it is because of the fact that they're bringing in entrepreneurs all the time.

CHAD: And the name of your book, *Collective Disruption,* is also the name of the framework that you use to describe how startups can help larger companies with transformative innovation. It goes through four stages, that framework. I think I got this right—discover, define, incubate, and integrate, right?

MICHAEL: Yes.

CHAD: Very good. So let's talk through the framework and make this tangible for listeners, about how these two organizations that are optimized for different purposes, can help with transformative innovation. What occurs in Discover?

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MICHAEL: Well, Discover really is, I would say, the book is written primarily from the perspective of helping large companies integrate these approaches, and along the way, I'll take the voice of the startup as well. But the framework is built primarily from the perspective of how can large companies learn to co-create with startups. So the Discover phase is really around leveraging startups and the innovation ecosystem generally, as a way to fuel your strategy. And I touched on that lightly before. The idea that when companies are developing a strategy for growth, or an innovation strategy of some sort, they tend to think of, you know, looking at our markets, our customers, our own competencies, developing the strategy, and then perhaps, looking outside on ways to execute against that. Even from the beginning, what companies should be doing, is saying, "Let's look at, based on the areas where we want to play, who are the key players in those spaces, and what relationships can we build in order to bring, basically, new competencies to the table?" So you start to think about developing an innovation strategy that isn't just about what you can do well, but also about what other companies that you have relationships with or are building relationships with, can bring to the table. It actually opens up new growth areas for you. It puts on the table some areas that you might before that say, "Well, that's just not our area of expertise." If you've got a partner who can help you get there, it just opens up new possibilities. The other fact around Discovery is discovering new market opportunities. I really do believe that engaging with accelerators, engaging with serial entrepreneurs and inventors in those spaces, being thoughtful around building those networks and connections, based on where you believe you want to go, but using those relationships as a way to identify where the puck is going. To identify when a market might be tipping, or when a dominant technology might be taking hold, and then at least getting an earlier read than you would trying to do it all on your own.

[17:36]

CHAD: Yeah. Identifying those trends is so very important to what we do in product management and innovation. When you talk about the relationship being able to fuel that growth strategy, I think this applies equally well to individual product managers that are just thinking about their career, and large companies, right, that really need to think about where they are going in the future. What have you seen, what are the practical actions that organizations are taking to build those relationships?

MICHAEL: Well, you know, you see people doing things like engaging with startup accelerators, building innovations outposts in places like Silicon Valley, creating mentoring programs with startups, a lot of those activities, building venture capital boards, where they might set up internal boards that emulate a venture capital funding model and evaluating both internal and external ideas. Those are all things companies are trying. One of the reasons I wrote the book is I wanted to shine a light on the fact that it's not so much about kind of going through the motions and connecting in a loose way, but actually being much more thoughtful about it, so that you get results. Because ultimately, this has all got to be around getting results. Steve Blank, who is one of the pioneers of the Lean startup movement, has a term that I like to borrow, where he talks about innovation theater. I think it's a great description of what too many companies are doing, which is to say, let's put three people out in Silicon Valley, and let's have them talk to startups and we'll have them take some pictures with hoody-wearing entrepreneurs next to them and now all of a sudden we're tapped into the innovation ecosystem. But if you look at the reality of most of those efforts, they're not really bearing fruit. In a large part, it's because those companies aren't thinking through what they want to accomplish, and they aren't integrating the parent organization properly in the efforts. So I'm not at all against setting up an incubator, partnering with startups that might be part of accelerator programs, but being thoughtful about it is important. Let me give you an example to kind of make it practical. If you look at most of the accelerators that are out there, the leading 10 or 15, they're predominantly digitally focused, which is fine if that's what you're looking for. If you're looking for a science-based, or technology-based innovation, that may not be the place to go. In addition, many of those accelerators are truly seed-stage, where they'll be bringing in a few people with an idea and what those people will be graduating with will be hopefully some initial funding to build out the idea in a more meaningful way, whereas with a corporate partnership, you know, corporates are looking for ideas that can be scaled pretty quickly. So you need to be screening these relationships so that you're partnering with startups and entrepreneurs who are at least at the point where they can run significant pilots with you and if the pilots go well, they're in a position where you can either acquire it or you can scale it. If they're too early-stage, quite frankly, you're wasting your time and as a corporate partner are probably not going to be the best to guide them. They may be better off with a C-stage investor and someone else to get them to the point where they're ready for you.

[21:02]

CHAD: So there are concrete steps for sure to be taken to let the startup world know that as a company, you are serious about looking for relationships with startups, such as putting together a VC board or doing the mentoring we talked about, or maybe an incubator. But it also sounds like there is a clear sort of selection process in terms of where are we interested in placing our bets? What is the right kind of markets that are aligned with what our business is about and the right kind of capabilities?

MICHAEL: Yeah, absolutely. I'll bring up Cisco as another example where Cisco is very focused on the internet of everything, which is their version of the internet of things, and they're very explicit about their interest in that space, the kinds of technologies and area they're interested in, and they've built a series of IoE centers globally, where they're inviting in those innovators and entrepreneurs to bring ideas around those specific areas where Cisco can help coach and mentor them. I'll give you another example of someone who's doing it well, from the book as well-- Johnson and Johnson. So J&J is a very different industry, right? Not digital, here. These are highly regulated industries with long lifecycles, yet J&J understand the importance of engaging early with serial entrepreneurs who can create their future businesses. So what they're doing is identifying scientists who have done it before or are working in areas that they believe align closely with areas that J&J is interested in and then actually engaging with those scientists very early on to actually help on even define what the opportunity might be, to have them come in and co-locate in the incubation center with J&J business and technical people, with the idea of helping them more or less bring some clarity to even what the idea and the opportunity is. Interestingly, J&J doesn't take necessarily, equity, at that stage. They believe it's important to just get into the flow of the deals and to create those early-stage relationships and that on the whole, the deals with come and the relationships will come.

CHAD: Interesting partnership they've set up with companies that might make sense for them. So we have Discover, really focused on being aware of the startups available and starting to build some relationships. Next is Define.

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MICHAEL: Well, Define is really around bringing more clarity to what the opportunity might be. This could be a situation where the company has an idea and they might be looking for an enabling technology or alternatively, a startup or external partner has an opportunity that they want to apply to an area that perhaps a company hasn't explored yet. In both cases, you have to look for that common ground, and often, it's about pivoting the startup and to some extent, toward something that's a little closer to where the company is trying to go. Now, one of the things that is a little bit unusual in the way we talk about the framework is most of these corporate-startup relationships start out to be fairly transactional. It's about, you know, you have technology, we're looking for a technology, let's strike a deal. License or technology acquisition, or something like that. But in the Define phase, we're actually saying, "Let's figure out together what the opportunity might be and we'll both benefit from it." And that includes not just looking at the technology, but looking at the business model. And really, when you get into the more transformative innovation, very often it's not just about the technology or the product itself, it's about a new way to go to market, a new revenue source, basically, new business models that might include product and service combinations or durable consumable combinations. Those are the types of new growth opportunities that many of these large companies are looking for. Doing that in partnership with startups is a little bit scary for both parties, but can reap great benefits, because you're bringing the best of both worlds to defining something that can meet both of their need and can actually benefit both, whether a deal is done or not. I talk in the book about some of the intellectual property and confidentiality issues around that, but there are practical ways to kind of step into this thing, first through NDAs, then through material supply agreements, then perhaps through a teaming agreement, and ultimately into co-development. So you basically walk before you run, or you dance before you marry, but the idea is that you want to basically do this as a group versus just doing it individually.

CHAD: Some of the problems that occur with open innovation seem like they would apply here, too, right? It's just this is basically open innovation, just looking at very specific partners involved, about how can we innovate together and make something new.

[26:40]

MICHAEL: No, absolutely. And it is. And I'm glad you brought up the open innovation term because I think it is very relevant. This really is…and open innovation isn't new either, right? Partnering has been going on since the beginning of business. But open innovation, that trend, really enabled more of this to happen, because new infrastructure was put in place, new intermediaries were put in place in marketplaces to help make those matches happen. Where I try to pick up on open innovation and take it a step further is, if you look at most of the efforts that are going on in open innovation today, too much of it is focused on incremental change, and easy to plug in technologies for the core business. When it comes to the more transformative innovations, these new sources of growth, that's where more co-development and collaboration, deeper collaboration earlier, is what matters. So it's not different than open innovation, as much as it is taking it earlier in the process and it being a deeper collaboration.

CHAD: And I would expect as larger organizations just get experience working with startups, that there's a flywheel here, or a snowball effect. Because I think once you have the first successful experience, then you would have evidence to point to to help all parties involved through what might be some of the mistrust issues that might be there early on. I would expect startups would be pretty cautious about what they really want to share with a larger company and working through some of those ownership and IP kind of issues, but I'm sure you've seen companies that have done this once successfully, then the next time around was a lot easier for them.

MICHAEL: Yeah, that's a great point, Chad. I think you're right on there. I used to run these sessions called Innovation Speed-dating, done for a little while, but the idea was to put seven startups and seven corporate executives, often competitors with each other, in the same room, and run speed-dating to connect the startups and the companies. One of the interesting dynamics about that wasn't just leveling the playing field and creating a bit of a sense of competition, but it was also that face-to-face interaction. It was almost magical to see, you know, that mistrust melt away pretty quickly. The entrepreneur might come in with one idea, but once they realize that these weren't necessarily evil people across the way, they would open up immediately. But it doesn't take much to break that trust, and that's why I go back to walking before you run. When we did those speed-dating events, we actually did them without confidentiality agreements so that both sides only revealed public information, because you want to take it in a stepwise way. But ultimately, getting back to your point of getting comfortable with it, Jeff Wiedman who used to run the business development group at P&G used to always say that the second deal was always twice as fast and twice as profitable as the first. So there's no doubt that the process gets easier, and there is a maturity to this. You want to start with certain steps of this before others. The idea of actually co-creating from the beginning isn't where you jump in if you've never even sourced ideas externally before. Definitely there's both a maturity curve and improved payback as you go. The great news is I see it time and time again, when companies do start down this road, they always see that the benefits outweigh the costs. Quite frankly, it's getting to the point where this is going from a kind of nice-to-have to a must-have. The companies that aren't doing it are going to find before too long that they're being left out of the partnerships and the deal flow and eventually they're going to find their way into it as well. So why not get into it earlier and get some advantage out of it.

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CHAD: Yeah, and I agree with your insights there. I think that is the future, and for larger companies that aren't doing it, like you said, they're missing out not just on the opportunity today, but they're missing out on a competitive advantage that others in their industries are going to have in the future. So, your framework, we've gone through Discovery, Define. Next up is Incubate. Describe what Incubate means.

MICHAEL: Well, this is around getting beyond something on paper and really testing it, whether it's about physical prototypes, or whether it's about small in-market tests. Again, our concept and the examples we provide in the book are all around how startups and corporations are actually doing this in partnership. In the book I actually talk about three different models of incubation. It was just a way, as I looked at companies I interviewed and studied, it provided a way to basically bend the different models I saw, and I talk about it in three models, one being Inside In, one being Inside Out, and the third being Outside In. I'll just briefly run through each. So Inside In is the idea of setting up these internal teams that are separate enough from the parent organization to not be killed by the corporate antibodies, but integrated enough that they're tied into corporate strategy and ultimately it doesn't become a corporate think-tank that is…the ideas that come out of it are never accepted back into the parent. So that balance of integration and separation is important. The twist here is, even in those Inside In models, Jarden and Lowes are good examples of this, where they are setting up internal groups for transformative innovation, but those internal groups are then engaging with startups for helping them in providing ideas and managing those ventures. So that's one model. Inside Out is where you're basically saying that we're trying to create more separation and we're going to push this to the outside. One example of that might be what…let me see…what Jarden has done. So Jarden has actually set up external incubators and partnerships with accelerators where they are leveraging those partnerships to bring ideas to them but also moving people up to those accelerators to help kind of infuse that entrepreneurial thinking. So it's the idea of moving to the outside in a way to create more separation, and in a lot of ways it might be about leveraging partnerships with other companies. So take Techstars is one of the leading accelerators. They've got a number of partnerships in place with Ford Motor Company and Nike and others, where they are more or less being a turnkey accelerator for that corporate partner. Again, it can work with the right amount of integration with the parent company. The third model, Outside In, is a really interesting one and I think the most difficult to pull off, and that's to say, we're looking to build a new business and we're missing some core capabilities there, and maybe missing an entrepreneurial mindset. Let's bring in someone from the outside to manage that within the company.

[34:08]

MICHAEL: I'll bring up Jarden because again these are not mutually exclusive models. Jarden was interested in…Jarden makes consumer products like Mr. Coffee and Oster and Sunbeam. That's the company I used to work for years ago. It was Sunbeam at the time. Today they're interested in a whole new source of growth. They've created this transformative innovation group. One of the areas they were looking at was taking the Crockpot brand and seeing if they could move out of slow cookers to actually get into premium food. So imagine a small appliances company saying, "Well we're going to get into the food business." They did see an opportunity to say, "It's a way to extend our brand." They didn't want to just license the brand because they wanted to have new sources of revenue and actually experiment in recurring revenue streams, so there was a strategic reason for them to do this, but they knew they couldn't do it alone. So in this case, they actually recruited in a serial entrepreneur. His name was Brian Jenesco. Brian had started and exited three direct to consumer premium food businesses already and knew this space very well. Brian came into Jarden, and for about eight months, managed that venture within an internal team; managed an internal group of people, coached them on how to do this, and actually led the effort for a period of time. You can imagine that sparks flew. It's not easy to navigate that as an entrepreneur and only a certain type of entrepreneur could pull that off. Similarly, not every company is ready for that, and is open to the mindsets and bias to action you might get by an outsider coming in to manage these projects. But I think the idea of blending these models, whether you're moving the opportunities to the outside temporarily or bringing entrepreneurs to the inside, they're all ways that we're trying to attack this problem with knowing that we've got two parts of the puzzle that are important. The corporate skills and the startup skills, and finding the best ways to blend them at the right points in time in the process.

CHAD: I appreciate you going through all three models. I would expect the choice of model really depends on the organizational culture. As you describe them, it sounds like the Inside Out would probably be the easiest one to start with, if you just find a partner that you like, like Techstars, to work with, and from my mentality, it's probably like, you know, I'd really like to set up the internal capability myself, and have people designated on separate teams to go look for those opportunities and manage it.

MICHAEL: Yeah, and I do think that, again, they aren't mutually exclusive. I do agree with you that the Inside Out is an easier model. The caution is to be sure you don't create something that doesn't get integrated back in, but that's still an easier starting point than parachuting in an entrepreneur if you haven't done this before.

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CHAD: Right. That could turn into innovation theatre also, in the sense that, you know, we have this little project going on on the side, and nothing really ever comes to it.

MICHAEL: Yes, absolutely. A little side note on that—one of the things that I've seen is, even in writing the book, looking for companies that are building these transformative innovation teams, too often they're setting those teams up not seeing quick results and then shutting down as soon as they have a bad quarter. I think that's a symptom of the problem of either being innovation theater and doing something for Wall Street, or alternatively, taking what I call an either-or mindset, that if you're too focused on the core and incremental results, then setting up something totally unique from that one the outside is the way to go. But if you don't integrate the two enough, if you don't treat them as an interdependent system, that the core need the transformative and the transformative needs the core, they don't survive. The companies like Cisco and J&J and others that I work with that are doing this well, are treating these approaches as part of a system, as opposed to this kind of flavor-of-the-month or something that is totally unique.

CHAD: And this has been the criticism against Amazon for quite a while, you know, kind of a love-hate relationship with Wall Street, that they spend too much of their investment on future-looking activities, and then yesterday, I hear announced that their market count now exceeds Johnson and Johnson.

MICHAEL: Yeah. You know, interesting you bring that up. Another one that is a good example to talk about would be Google. You know, Google, as we know, restructured around Alphabet as their new company, and they just released a few days ago, a week ago, their financial results for the quarter, the first time you can actually the numbers pulled out for their core ads business versus their moonshots. They're pretty dramatic losses on the moonshot side, not surprisingly. And so I find it interesting that I think Google… I really admire Google for basically being committed to not wanting to fall into the trap of as they grow, to never stop reinventing themselves. They recognize they need to take these steps of setting up separate organizations to continue with those moonshots as a separate but integrated part of the company. It will be really interesting to see how they resist the revolt that will happen with their investors when they start saying, well, none of these moonshots are paying off. I really am hopeful that Google is really kind of setting the stage and the standard for how you can still be a public company and find a way to maintain the core and to create future businesses.

[40:00]

CHAD: Yeah, I hope so too. And, let's talk about your fourth element of the framework, which is Integrate.

MICHAEL: Yeah, this is where it all goes bad, too often. If you think of, just traditional M&A and most of these open innovation efforts, unfortunately, when it comes time to try to scale these things, too often the idea gets squandered or gets killed for a number of different reasons. So the Integrate phase is really around understanding that that's the danger we need to watch out for and to do that in a very thoughtful way. Part of that is that when, let's say, for example, that a large company and a startup have been incubating a venture through a separate venture in a somewhat separate from the core business, but always with the idea that it is going to be a new SBU within a division of the company. When it's time to pull that back in, if you haven't already been cross-pollinating people from that core business and starting to integrate early on, you're sunk. Integrating is really around from the very beginning, having an idea whether you plan to integrate it or build it as a stand-alone business. If you do plan on reintegrating is, actually cross-pollinating people, creating enough interaction with that group so that there's at least knowledge. Not so much that there's micro-managing, which is a balance, but that early involvement as one. Even once it is brought in, it's often a better direction to take to not integrate completely right away, to basically keep it somewhat separate and let it integrate a little at a time. Again, a simple, practical example from my Jarden days—so Jarden had a…not a completely new business, but a new line of business when they invented something called the Margaritaville Mixer, if you remember those. And for Jarden, it was a whole new business. They made blenders before, but they were making $39 blenders, and this was a $400 basically margarita stand that could make these perfect margaritas that they were selling through places like Frontgate and through direct to consumer. Whole different business model, different price point, new channels. So it was set up as a different business totally. The way they eventually integrated it was to integrate it a few functions at a time, so at first they integrated it through the sales force, and then into the product development piece, and finally the marketing teams integrated separately. I think that idea of kind of a phased integration is the way to go. IBM is another company that has a lot of these new business ventures that they reintegrate and they've had a group historically called the Emerging Business Opportunity group, I think—EBO. In that case, they actually have a very well-defined, as IBM would, very well-defined set of milestones, of what characteristics the business needs to demonstrate before it can be integrated. That has to do with profitability, market share, but also a stability of the business and integration in terms of the personnel and training as well. So just being very, very thoughtful about it is what integration is all about and recognizing it isn't about the faster you integrate, the better. Often keeping things somewhat separate is the way to go for a year or two or even more.

[43:47]

CHAD: Yeah, being cautious and thoughtful about that experience. Because too many times I see the integration take place overnight, and all the benefits are kind of just driven out of why we did it in the first place.

MICHAEL: Yeah, and all the creative people that were brought in with it end up leaving.

CHAD: Yep. I appreciate you walking us through the framework—Discover, Define, Incubate, and Integrate, and how large companies can benefit from relationships with startups and the value for startups, too. As listeners know as we get toward the end of our time, I always like to ask for an innovation quote and why you chose that one. Can you share the quote that you have?

MICHAEL: Yeah. The quote I have is one I use often, actually. It's that, "Competitive advantage no longer comes from technologies. Competitive advantage comes from who has the best relationships." I chose that and I talk to that because I think there is this notion that competitive advantage is about a product, that we've got to have the best widget or the best solution. But ultimately, as we talked about before, I really do think that the organization of the future, in fact, is here. It's changing dramatically, where with these kinds of partnerships, we're blurring the line between what's the company and what's the partnership. My brother-in-law is a film director and I think that's a good model for where things might go, which is I've seen the way they work, where these creatives come together for projects, the studios come together and manage those creatives in different ways, they execute the project, then they go off again. I see these organizations in the future being defined by their ecosystem of partners as much as they are by who they are. So even today, then, if you start to think about how do you win in this market, it really does come down to, can you develop relationships where you're the preferred partners with the best partners over time. You can't own those people, but you want to basically be a preferred partner with the innovators and external partners that matter, and those who do that well I think are going to be the winners.

CHAD: I think you're right. Today people that are starting to build those relationships and build up the reputation of being a trusted partner will have the advantage in the future, because that will be who startups look to to have relationships with themselves. Very good. Well I appreciate you very much walking through the framework and sharing that quote with us, too. Tell listeners how they can find out about your book, specifically, and the work that you're doing.

[46:19]

MICHAEL: Thanks for that, absolutely. You can go to www.collectivedisruption.com and actually download the introduction and chapter 1 of the book. My website for my business is www.venture2.com and that's where we talk about the work that we do with large corporations and startups and helping them do this kind of work.

CHAD: Great. Thanks a lot, Mike!

MICHAEL: Alright, thank you.

CHAD: Thank you for listening and for sharing this podcast with other product managers and innovators. Find the summary of the discussion and the full transcript at www.theeverydayinnovator.com/080. At the same place, you'll also find my roadmap for going from product manager to product master. Keep innovating!