

AXIOM BOOK AWARD WINNER



T H E I N N O V A T I O N
H A N D B O O K

JEREMY GUTSCHE, *NEW YORK TIMES* BESTSELLING AUTHOR
CEO OF TREND HUNTER



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First Edition

WELCOME TO PART 2

This second side of the book contains fundamental lessons that have inspired more than 1 million people, taking the best parts of *Exploiting Chaos* and building on them with new insights, examples, workshop questions, and tactics.

The original edition won the Axiom International Book Award, was named one of *Inc.* magazine's Best Books for Business Owners, and was #1 on CEO Read for four months. So, on its 10th anniversary, I decided to refresh the content and bring it back!

To me, this book remains exciting and relevant because it contains some of my all-time favorite insights about business. It is structured to be a quick read with provocative titles to get you thinking about your potential. *Learn how to . . .*

1. **CREATE A CULTURE OF INNOVATION**
2. **IDENTIFY OPPORTUNITIES**
3. **METHODICALLY INNOVATE**
4. **INFECTIOUSLY COMMUNICATE YOUR GREAT NEW IDEA**

But first, a few words from some friends . . .

EARLY REVIEWS . . .

“Without a doubt, this is one of the best books on sparking ideas that I have ever read. I read it from cover to cover but believe that even a good skim will have you reaching for a blank piece of paper and pen or a fresh Word document.”

JACK COVERT Founder of 800 CEO Read, author of *The 100 Best Business Books of All Time*

“A rousing battle cry for the kind of creative, risky thinking that is most needed in times of change and disorder. Whether you’re a CEO trying to stay ahead of the curve, a daydreaming teenager, or a wannabe trailblazer, this bold guide is the shake-up you need to check your assumptions, get inspired, and turn business-as-usual totally upside down.”

DANIEL PINK bestselling author of *A Whole New Mind*

“A love potion for relentlessly creative souls looking to break boundaries, ignite customer passion, and start a revolution.”

KEVIN ROBERTS Worldwide CEO of Saatchi and Saatchi

“Jeremy is a walking, talking, breathing trend, a living example of what happens when you take your own advice. With his ideas, you might catch an ideavirus.”

SETH GODIN bestselling author of *This Is Marketing*

BY TONY HUNTER



THIS BOOK MADE ME A BETTER LEADER

I know what it's like to be faced with CHAOS . . . And I'm experienced enough to know the CHAOS will continue. So what should you do? Curl up and assume the fetal position under your desk? Or find inspiration to capitalize on the opportunities afforded by disruption? Disrupt or be disrupted . . . by choosing to read Jeremy's book, you've already taken the first step to achieving success as a disruptor.

Which leads me to my story. In September 2008, I received a phone call that I wasn't expecting. The voice on the other end was asking me to be CEO of the *Chicago Tribune*. The catch was—the traditional publishing business model was imploding, and I'd have to eliminate many, many jobs and meet profit targets in a marketplace undergoing unprecedented change.

What a gut-wrenching offer—I couldn't resist. I said yes. In the years that followed, my team transformed the *Chicago Tribune* from bankruptcy to being one of the most profitable news organizations in America. In this book, you will uncover many of the tactics and techniques I used to transform the company in its time of chaos.

The first edition of this book became our manual for accelerating change and leading through unprecedented disruption. It was a visual, digestible handbook that I gave to all of my business leaders. Later, Jeremy and his team ran workshops and did a lot of research for us, but it all began with the insight from this book. You couldn't walk through the Tribune Tower offices without seeing posters from *Exploiting Chaos*.

If you're looking to extract better thinking from your team or to make change happen when change is hard, study and leverage the content in the pages that follow.

This made me a better leader, stretched my imagination, and created opportunities for our organization that were jumpstarted by Jeremy Gutsche.

Now, back to my story as CEO of the *Chicago Tribune*: I was a kid who loved Chicago and a man who loved working for the *Tribune*, a pillar of my community. I cared about

my job, I wanted Tribune to succeed, and frankly, Tribune was not simply a company to me. It was something I believed in so much that I'd dedicated my career to it, probably the same way many of you have dedicated your work life to the brands you work for.

So imagine you're me in 2008: I had a great start to my career at the Tribune Company; 15 years continuously moving up the ranks, record profits. All of a sudden the financial meltdown occurs, Great Recession begins, social media comes roaring into the scene, dollars are disappearing from the publishing industry . . . people are wondering if there will be newspapers in the future. Then, our corporate parent files for bankruptcy in late 2008—nice timing for a first-time CEO.

I was very humbled by the responsibility to lead a Chicago institution, and one of the best media brands. So what to do? Should I bring out the “standard” playbook of incremental actions, wish for better days ahead, assume I had all the answers?

In my case, it was clear we needed to make drastic changes, fast. I believe one of the key roles of a leader during disruptive times is to share the circumstances and details of the company's performance and context around the marketplace dynamics. Followed by a compelling vision, including the rationale for change.

We were clearly in a major transformation project. While innovation and new ideas would be helpful, it wouldn't be enough . . . so we set about transforming the company from a newspaper company to an innovative media and business services company that “happens to publish a newspaper.” That proclamation shook the Tribune Tower and initiated a series of actions that would change our company, and position us to succeed.

In my experience, to transform a company you must be courageous enough to make proclamations and quickly follow with a number of actions that indicate big changes are required. You also have to explain why there's a need for change. Sometimes I think executives skip that step in the process, resulting in employees wondering, “Why change?”

Then, you must implement a business plan that provides employees with a road map and a reason to believe. While we made many mistakes in our journey, excelling in these five areas was critical to our success.

First, we simplified the plan and aligned the interests of our employees. That included real culture change, because our bureaucratic, slow-moving culture would not support the transformation plan.

Then we spent a significant amount of time on employee engagement and communication. We involved our team, and while it may have slowed us down at the beginning, it actually got us further, faster in the long run. Third, we put the customer at the forefront of all of our decisions. Next, we invested resources against the new opportunities we identified.

Finally, we forced discussions of competing alternatives rather than accepting the first “good idea.” An example of how that paid dividends was instead of cutting the content in our product like everyone else was doing, our editor forced a discussion of what would happen if we added more content and asked people to pay more for it.

This idea, and plan, was totally against the grain of the industry. We knew the cycle of reducing content and raising prices would be short-lived. So despite concerns galore, we concluded that taking more risk to maintain our preeminent position in Chicago was the reason to go in the other direction. We doubled down and made investments in content to create a bigger, better *Chicago Tribune*.

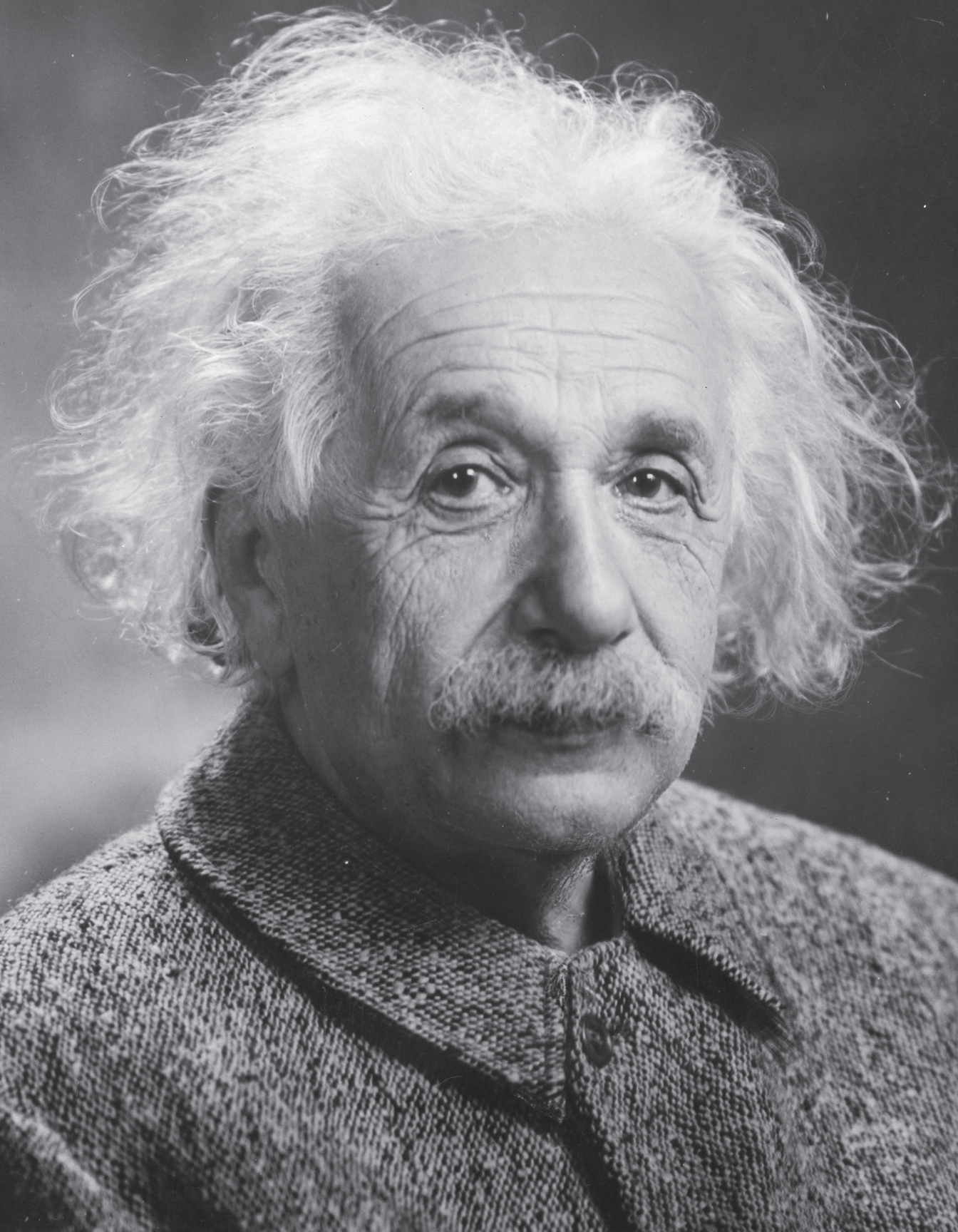
That collaborative, innovative way of thinking ended up creating over \$10 million of incremental profit, building brand equity, satisfying customers, and separating us from the competitors. It also gave us a rallying cry for the need for bigger, bolder ideas.

There’s a narrow gap to get through as a leader operating in uncertain, disruptive circumstances—being proud of your past but hyper-focused on the future. Disruption might be viewed as challenging to your success . . . unless you view chaos as an opportunity to transform your company. The mantras “Culture eats strategy for breakfast,” “Innovate often,” and “Push the boundaries of the status quo” were facilitated through the use of Jeremy’s tried-and-true handbook: *Exploiting Chaos*.

Enjoy the book and good luck on your journey!

—TONY HUNTER

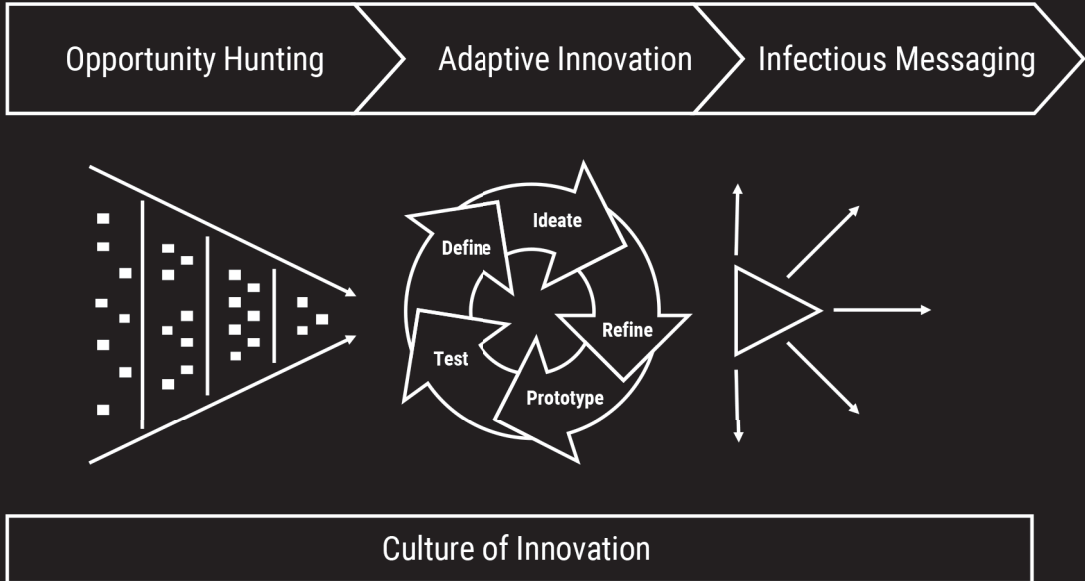
Former CEO, the *Chicago Tribune*



THIS BOOK WILL EQUIP YOU WITH BATTLE-TESTED METHODS TO CREATE THE FUTURE

After conducting more than 10,000 innovation workshops and custom futurism projects, my team has encountered almost every type of innovation problem. We have refined this framework with our clients to be our ultimate guide to the concepts you need to master to make innovation and change happen.

Create the Future Framework



↑ ↑ ↑ ↑ ↑ Ability to Change ↑ ↑ ↑ ↑ ↑

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PART 1 → THE ABILITY TO CHANGE (SIDE 1) 1

People miss out because we lead busy lives and get caught up in a predictable groove, repeating past decisions. This makes it difficult to spot opportunity, and more difficult to act. Even when we have a great idea, it can be a struggle to get buy-in, influence others, and make change happen. It doesn't have to be that way.

PART 2 → CULTURE OF INNOVATION (SIDE 2) 1

Culture is more important than strategy. Culture underlies your organization's ability to adapt, and times of dramatic change magnify this importance. Your organization likely perceives the need to adapt, but uncertainty and resistance are paralyzing innovation. Winning the future begins with a culture of innovation.

PART 3 → OPPORTUNITY HUNTING 103

Innovation and strategic advantage hinge on your ability to anticipate trends and identify the next big thing. By using the cutting-edge frameworks in this book, you can filter through chaos and identify clusters of opportunity to focus your innovation.

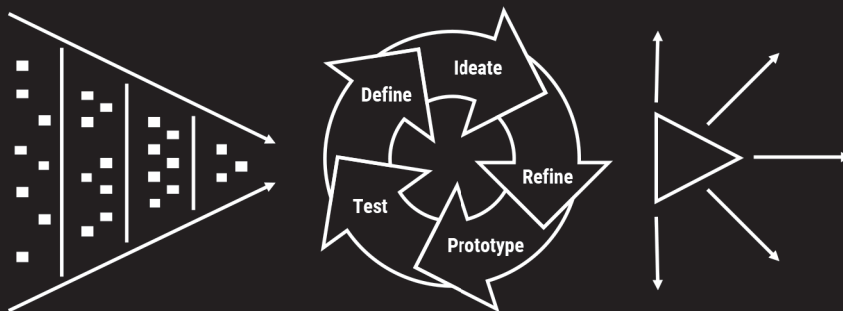
PART 4 → ADAPTIVE INNOVATION 143

Engineers, designers, and scientists have invested billions of dollars to perfect human creativity. By applying the best of their proven practices to your own field, you can think big while acting small. You can rapidly create new opportunities.

PART 5 → INFECTIOUS MESSAGING 159

Well-packaged stories travel faster than ever before. Unfortunately, most marketers are stuck in a world dominated by traditional advertising and clichés. By cultivating infection, your ideas will resonate, helping you to leap ahead of the competition.

Create the Future Framework



Culture of Innovation

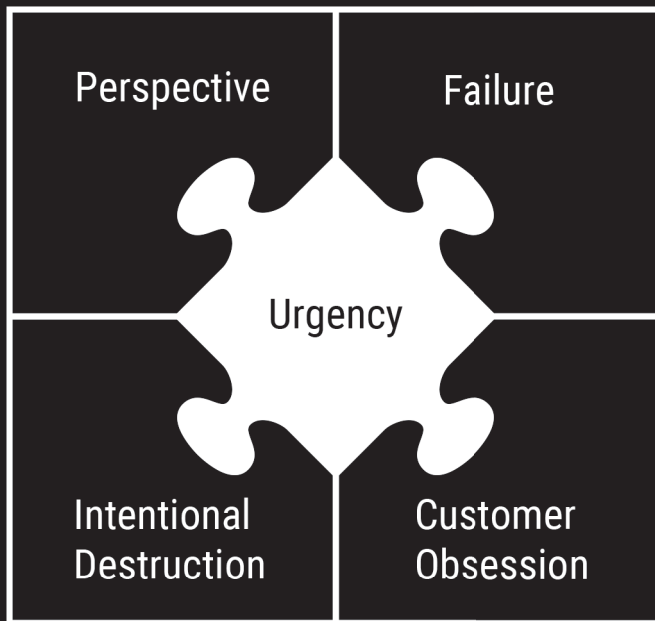
↑ ↑ ↑ ↑ ↑ ↑ Ability to Change ↑ ↑ ↑ ↑ ↑ ↑

CULTURE OF INNOVATION



Peter Drucker, the father of management thinking, used to say, “Culture eats strategy for breakfast.” The concept is that your great idea doesn’t matter if you can’t put that idea into action and make it happen. Your organization’s culture can either enable disruptive thinking or lead to your company’s total disruption and failure.

Culture of Innovation Framework



URGENCY

A culture of innovation requires five ingredients, with urgency at its core. Urgency—and an ability to act—is the fuel that enables a culture to achieve results in times of change.

YOU CANNOT ESCAPE DISRUPTIVE EVOLUTION

There are no industries or professions immune from the effects of disruptive change, the sort of change that enables new business models and topples corporate tycoons. Our generation is fundamentally reinventing the way human beings interact.

Broadcast Television	→	Viral Videos
Newspapers	→	Blogs
Album Sales	→	Concert Tours
Physical Stores	→	E-commerce
Advertising	→	Influencer Marketing
America	→	China
Japan	→	India
New York	→	Moscow
Men	→	Women
Email	→	Social Media
Phone Calls	→	Texts
Public Libraries	→	Wikipedia
Classroom Method	→	Virtual Learning
Recruiting	→	Offshore Outsourcing
Medical Doctors	→	Nurse Practitioners
Accountants	→	Online Filing
Lawyers	→	Online Legal Forms
Loan Officers	→	Automated Lending
Oil on Canvas	→	Digital Imagery
Studio Photography	→	Photoshopping

*YOU MUST DISRUPT,
OR BE DISRUPTED.*

A STRONG CULTURE CAN MAKE IT DIFFICULT TO INTERNALIZE CHANGE

Viral videos, e-commerce, social media, crowdsourcing, influencer marketing, and a lack of self-censorship: these are the shifts toppling major corporations today.

The sneaky thing is that these shifts are not happening overnight; rather, they are slowly creeping up on us. It's kind of like boiling a frog.

If you place a frog into a pot of boiling water, he'll immediately hop out. And he'll be pissed off. If you place a frog into a pot of lukewarm water, though, and slowly dial up the heat, he will keep swimming until he's boiled alive.

Like us, the frog is more sensitive to shocking change. If change is moderate, urgency becomes less apparent. Before we know it—hey, what's that smell?—we're cooked.

Peter Drucker, regarded as the father of modern management, noted the following at age 94: "We now accept the fact that learning is a lifelong process of keeping abreast of change. And the most pressing task is to teach people how to learn."¹



*THE KEY TO ADAPTATION IS RECOGNIZING
THE SUBTLE TRENDS SUGGESTING A NEED FOR CHANGE.*

THE SMALLEST SHIFTS CAN DISRUPT A MARKET

The world of business is in a constant state of evolution. Great organizations fade. Fast-moving start-ups step into their place.

In *The Innovator's Dilemma*, Clay Christensen studied the evolution of the disk drive industry, where leaps in technology led to physically smaller hard drives.² This caused nerds around the world to rejoice. It also exemplified the difficulty of change.

In theory, the leap from one size to the next doesn't seem monumental. You might expect the same leaders to remain over time. However, when the world changed, leaders lost their places.

Leaders in the Disk Drive Market

1980	14" Drives	Control Data, IBM, Memorex
1984	8" Drives	Shugart, Micropolis, Priam
1988	6¼" Drives	Seagate, Miniscribe, Maxtor
1993	3½" Drives	Conner, Quantum, Maxtor
1995	2½" Drives	Prairetek, Quantum, Conner

"It is not the strongest of the species that survives, nor the most intelligent, but rather the one most adaptable to change."

—Charles Darwin

**SMALL SHIFTS CAN
DISRUPT THE MARKET.**

EVEN THE CLEVER MUST ADAPT

If the disk drive industry is simple, the semiconductor market is complex. Semiconductors are so difficult to make that the leading players boast billion-dollar research budgets.

These budgets are supposed to create barriers to entry, barriers that protect the giants while preventing new companies from entering the market. However, just like in the simple disk drive market, shifts in technology cause new leaders to emerge.³

Leaders in the Computer Chip Market

1955	Vacuum Tubes	RCA, Sylvania, General Electric
1955	Transistors	Hughes, Transitron, Philco
1965	Semiconductors	Texas Instruments, Fairchild, Motorola
1975	Integrated Circuits	Texas Instruments, Fairchild, National
1985	VLSI Circuits	Motorola, Texas Instruments, NEC
1995	Submicron	Intel, NEC, Motorola

RCA, for example, was once double the size of IBM. They were rock stars in the vacuum tube market, but apparently people don't buy vacuum tubes anymore. RCA struggled with change, and eventually, the company was displaced. (Mental note: stop selling vacuum tubes.)

YOUR FOCUS SHOULD NOT BE ON PROTECTING WHAT YOU HAVE ———
————— *BUT RATHER ON ADAPTING TO THE NEXT BIG THING.*

DISRUPTIVE IDEAS MOVE SLOWLY, UNTIL THE KNOCK-OUT PUNCH

When disruption happens, it is usually a surprise, but it doesn't have to be that way. In a *Harvard Business Review* article titled "Disruption Is a Moving Target," Scott Anthony reports that disruption is a three-step process:⁴

1. "Disruptors enter a market incumbents don't care about."

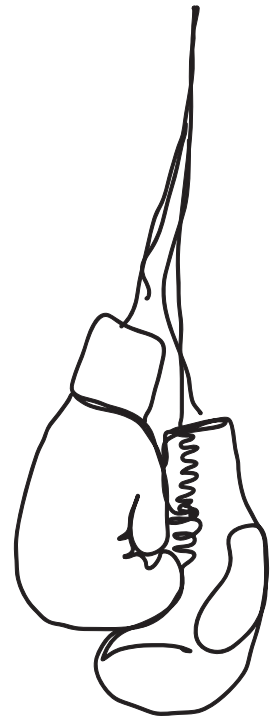
Protected by their unattractively small markets, entrants build skills and acquire market insight that big companies don't have. By servicing unwanted customers, they build maverick brands.

2. "Entrants grow as incumbents flee."

Growing in popularity and success, entrants begin to creep up the value chain. The "old school" incumbents respond by shifting focus away from their full customer base and instead toward "high-value customers."

3. "The incumbent hits a ceiling." (The knock-out surprise)

Once new entrants reach a critical mass, they create partnerships that enable them to "go for the kill." The incumbents get pushed past their ability to compete and crisis ensues. *Sneaky.*



FOR BIG COMPANIES, THIS PATTERN OF DISRUPTION CAN BE USED
TO CREATE STRATEGIES FOR SURVIVAL. FOR SMALL COMPANIES,
THIS SHOULD INFLUENCE YOUR PLAN OF ATTACK.

BLUR YOUR DEFINITION OF THE MARKET YOU ARE IN

We live in a period of unbounded opportunity, but most business leaders have a tendency to look too closely at their current market. That can lead to disaster. Coke and Pepsi missed identifying Red Bull because their research firms closely studied the carbonated beverage category. Those same firms tracked Red Bull as a stimulant, in the same category as coffee. This oversight lasted for years, until the teams were blindsided by something outsiders watched all along.

This scenario happens in countless industries. People fail to act because they don't react to "different-looking" competitors. For example, Airbnb became the largest hotelier without owning hotels. Uber became the largest transportation company without owning vehicles. Facebook became the largest media company without writers. Amazon became the largest retailer without stores.

Be careful not to obsess about your closest competitor while missing out on the wide array of disruptors staring at your market. Here are just a few categories of disruptors:

1. **DOMINANT INNOVATORS IN UNRELATED MARKETS**—e.g., Amazon buying Whole Foods
2. **FULLY-FUNDED START-UPS**—e.g., automakers dismissing Tesla
3. **FOREIGN COMPETITORS**—e.g., TD Bank entering America
4. **AMBITIOUS SUPPLIERS**—e.g., Samsung supplies Apple

To make matters worse, sometimes the unrelated competitor enters your market without any intention of making a profit. They enter simply to expand their business with your key customer segment.

**COMPANIES FAIL TO RECOGNIZE THE PACE OF CHANGE
WITHIN THEIR OWN INDUSTRY, WHICH CAN LEAD TO DISRUPTION.**

INTERNALIZE THAT CHAOS CREATES OPPORTUNITY

People often tell me that they cannot make change happen in their company because they lack buy-in, support, and funding. I usually point out that some of the greatest opportunities actually came about in periods of total crisis. How difficult could your challenges really be, in comparison?

For example, during the Great Depression, unemployment soared to 25%, 15,000 banks failed, and Wall Street was no longer a place of glamor.

Four dreadful months into this depression, Henry R. Luce launched a pricey magazine titled *Fortune*. At \$1 an issue, the cover price surpassed the cost of a functional wool sweater. Seemingly bad timing.

Eight years later, *Fortune* had grown its subscriber base to 460,000 people. By 1937 the magazine reported an annual profit of \$500,000. Scaled for inflation, that amounts to more than 7 million modern-day dollars. That's a lot of wool sweaters.

Luce successfully launched a luxurious publication during the Great Depression!

Kellogg professor Andrew J. Razeghi suggests, "*Fortune* worked for the very same reason that all great new products work: it made a uniquely relevant contribution to its customers' lives (period)."⁵ *Fortune* was more than just a publication. It was a glimpse into the boardrooms of those that survived; *Fortune* was an answer. And it was an answer in a time where people felt the urgent need to adapt or collapse.

INNOVATION IS ABOUT CREATING AN IDEA THAT FULFILLS AN UNMET NEED,
AND OFTEN PEOPLE NEED URGENCY TO SPOT THOSE NEEDS.

Disney, CNN, MTV, Hyatt, Burger King, FedEx, Microsoft, Apple, Gillette, AT&T, Texas Instruments, 20th Century Fox, IBM, Merck, Hershey's, IHOP, Eli Lilly, Coors, Bristol-Myers, Amgen, The Jim Henson Company, Sun, LexisNexis, Autodesk, Adobe, Symantec, Electronic Arts, Fortune, GE, and Hewlett-Packard.

These iconic companies were all founded during periods of economic recession.⁶

If such amazing success can happen out of recession, what greatness can emerge from periods of vast opportunity?

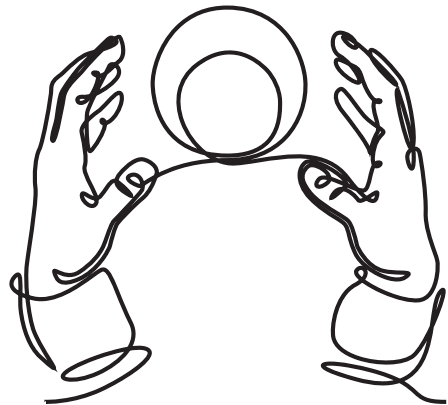
YOU CAN'T EXACTLY PREDICT THE FUTURE . . .

Twenty years ago, I had the opportunity to learn how futurism works on a high-profile consulting case with Peter Schwartz, an early futurist and president of the Global Business Network (GBN). GBN was just acquired by the firm I worked for, the Monitor Group. This case was the first collaboration.

As a management consultant, I'd helped Fortune 500 companies to, well, make more money. As a futurist, Peter had done the same, but he had also helped Steven Spielberg design the future for *Minority Report*. He worked with the Department of Defense to interpret climate change as a risk to national security, and he regularly wrote for *Wired* magazine, including articles about hydrogen power, war, capitalism, and the future. I had a lot to learn.

My first lesson was the most important rule about predicting the future: you can't. What? If you try to predict the future, your vision will be guided by an extrapolation of the status quo. You will end up with a reasonable prediction and, at the same time, you will be completely wrong.

However, the act of actually predicting the future is quite possible. It's just more complex than outsiders first think.



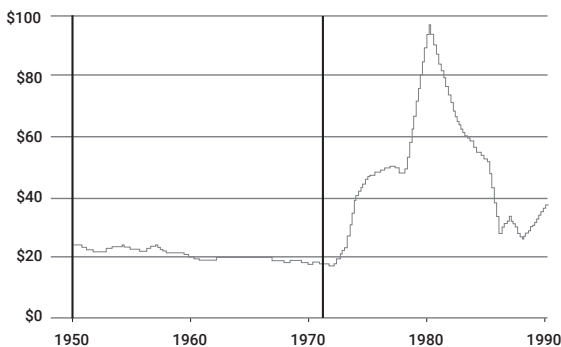
SIMPLE PREDICTION WILL CAUSE YOU TO MISS UNEXPECTED EVENTS AND DISRUPTIVE CHANGE.

. . . BUT YOU CAN PREDICT SCENARIOS AND CREATE URGENCY

In the 1970s, Pierre Wack was planning for the future at Royal Dutch Shell. For nearly three decades, oil prices had been relatively steady, but now the world was changing. Demand for oil had increased, US oil reserves were drying up, Middle Eastern

countries had grown stronger, and most of these countries resented the West, especially after the 1967 Arab-Israeli war.

**Retail Oil Prices
Before and After Pierre Wack's Scenarios**



Weaving this information together, Wack realized that Middle Eastern countries could spark an energy crisis. That fear led him to develop two potential scenarios. The first scenario was based on the conventional wisdom that oil prices would remain relatively stable. The second assumed

an oil crisis, which he conveyed in detail with vivid storytelling. The potential impact was so severe that Wack's managers were inspired to prepare for the worst.

In 1973 the world did encounter an oil price shock, but Royal Dutch Shell was ready. Once the weakest of the "big seven" oil empires, the company emerged as the most profitable and second in size. In *The Art of the Long View*, Peter Schwartz refers to Wack's example as one of the first modern uses of scenario analysis in business.⁷

**BY DEVELOPING MULTIPLE SCENARIOS, YOU CAN AVOID THE CERTAINTY
OF BEING INCORRECT AND INSTEAD PREPARE FOR DISRUPTIVE CHANGE.**

VISUALIZE DISASTER AND OPPORTUNITY

World Cup ski racers, Formula 1 drivers, professional wrestlers, and astronauts all share one incredibly powerful tool: visualization. I spent a decade as a ski racer, a sport where 70 mph speed and icy inclines force action and reaction to coexist.

Picture yourself tearing down a mountain at a blood-curdling speed. You carve your razor-sharp skis from gate to gate, hoping to best your rivals by fractions of a second. The incline lures you faster and the world around you starts to blur. Your heart pounds. You cut each corner recklessly close, pushing the limits of personal safety. At this speed, a crash would send you tumbling past your dreams. But you only get one shot, and you're fully committed.

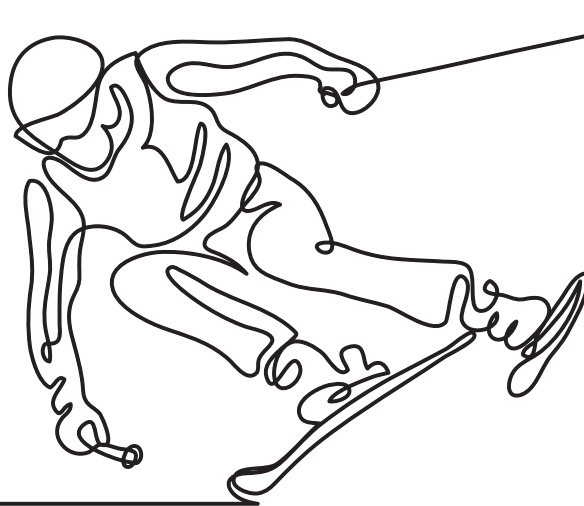
At some point, you will be thrown off balance. You are moving too fast to act with reverent caution. But when the unexpected happens, you'll know how to navigate because you've raced this exact track a dozen times in your head. You've thought about every corner, every bump, and every hairpin turn. You've visually rehearsed your reaction to every possible scenario.

In ski racing, visualization is not optional. It trains the human mind to react during unexpected situations.

A striking parallel exists between ski racing and innovating through chaos. In both situations, you navigate an unfamiliar course at uncomfortable speed. You'll make some mistakes, but how you react will make all the difference.

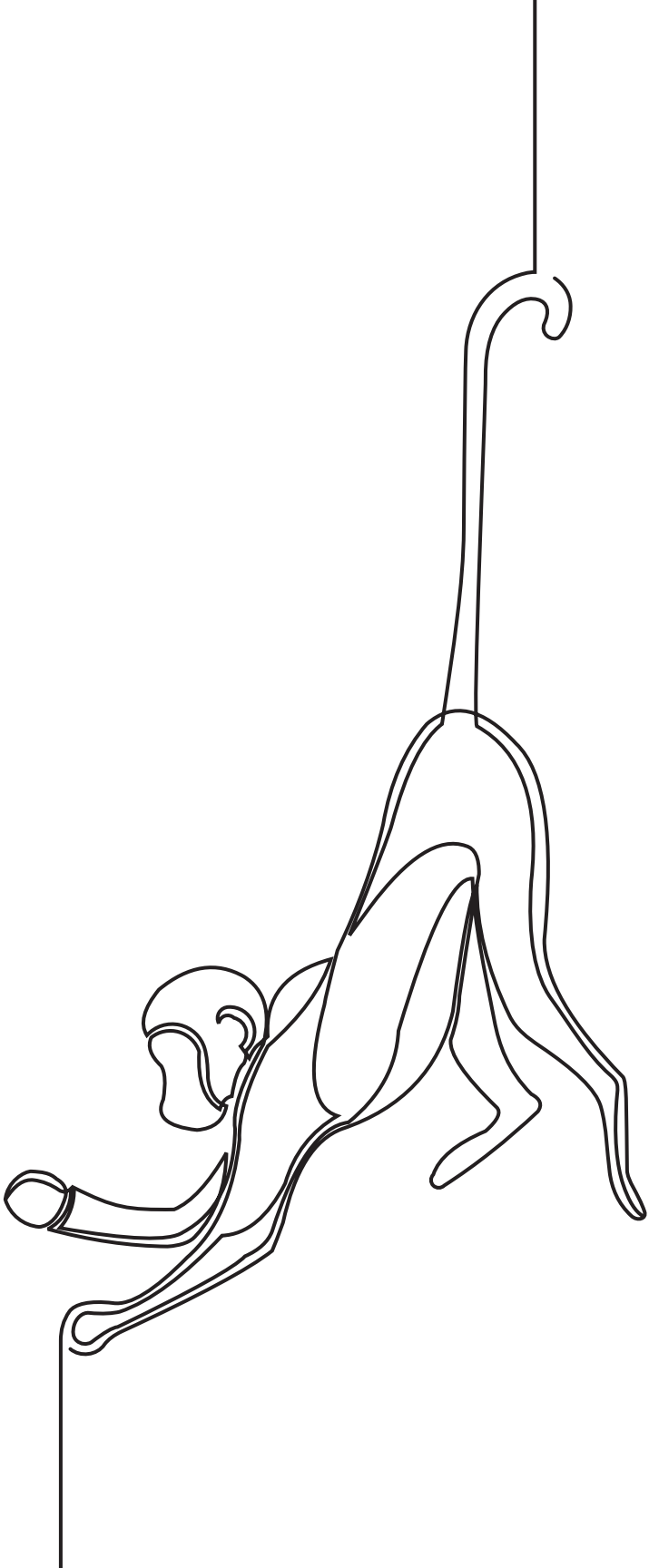
Chaos yields both risk and opportunity at the least convenient times. Projects will unexpectedly fall apart.

TEAMS THAT REHEARSE THEIR REACTION TO THE UNEXPECTED WILL BE MORE LIKELY TO SPARK URGENCY AND NAVIGATE THROUGH THE COURSE OF UNCERTAINTY.



- PEOPLE WILL QUIT WHEN YOU NEED THEM MOST.
- SUPERSTARS WILL BE AVAILABLE WHEN YOU CANNOT HIRE.
- COMPETITORS WILL FALTER.
- NEW CUSTOMERS WILL BECOME AVAILABLE.

How will you react to the urgent demands that prevail during both disaster and opportunity? How will you deal with sudden changes to customer needs?



DON'T LET MONKEYS INHIBIT CHANGE

Long ago, five menacing monkeys were placed in a cage. In that cage was a ladder that led to a ripe bunch of bananas. The catch was that a powerful water hose was connected to the ladder.

When the first monkey raced up the ladder to reach for a banana, the entire cage was drenched with water. Another curious monkey made an attempt. She rushed up the ladder, greedy to grasp the yellow bundle, but she, too, triggered a shower on the cage. At this point, it became clear to the monkeys that if one of them reached for the bananas, they would all get soaked.

Each time one of the original monkeys was swapped out of the cage for a new monkey, the newcomer would immediately race toward the alluring fruit, but the group would beat him down before he made it up the ladder. This cycle repeated each time a new monkey was introduced to the cage.

Later the fire hose was removed, but it didn't matter. The monkeys already had their lesson hardwired: don't reach for the bananas. One by one, the monkeys were replaced until none of the original five were in the cage. The same behavior persisted.

Why? Because that's the way we do things around here.

THE "OLD WAY OF DOING THINGS" IS THE MOST POWERFUL ENEMY OF YOUR CULTURE, WHICH IS WHY PART 1, THE OTHER SIDE OF THIS BOOK, WAS FOCUSED ON THE ABILITY TO CHANGE.



IF YOU
WANT TO
MAKE
CHANGE
HAPPEN
YOU NEED
TO SPARK
URGENCY

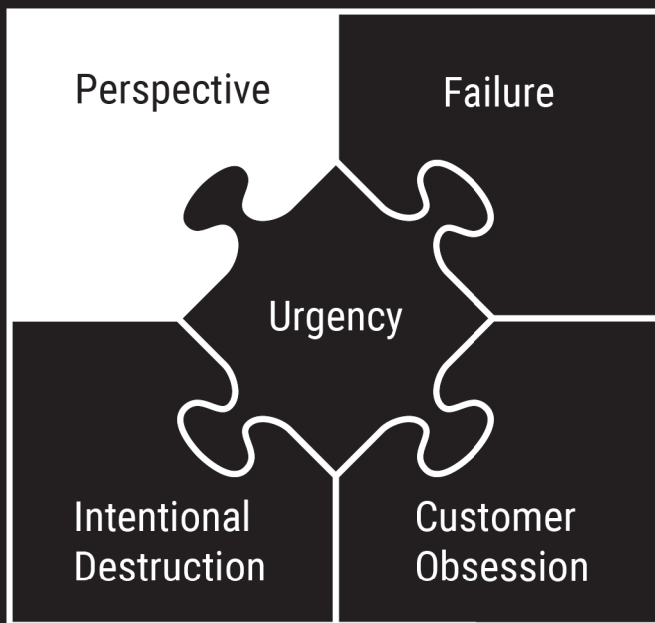
WORKSHOP QUESTIONS

- What external factors currently pose a threat to your business? How could you turn them into motivators of urgency?
- What actions, partnerships, or strategies could your largest competitors take that would seriously threaten your business?
- What if Amazon bought your largest competitor, just as they bought Whole Foods? How might they compete against you faster?
- What are 10 companies doing interesting things in your market, even if they are very small today? What if the largest competitor bought those companies to make them 100 times larger?

TACTICS

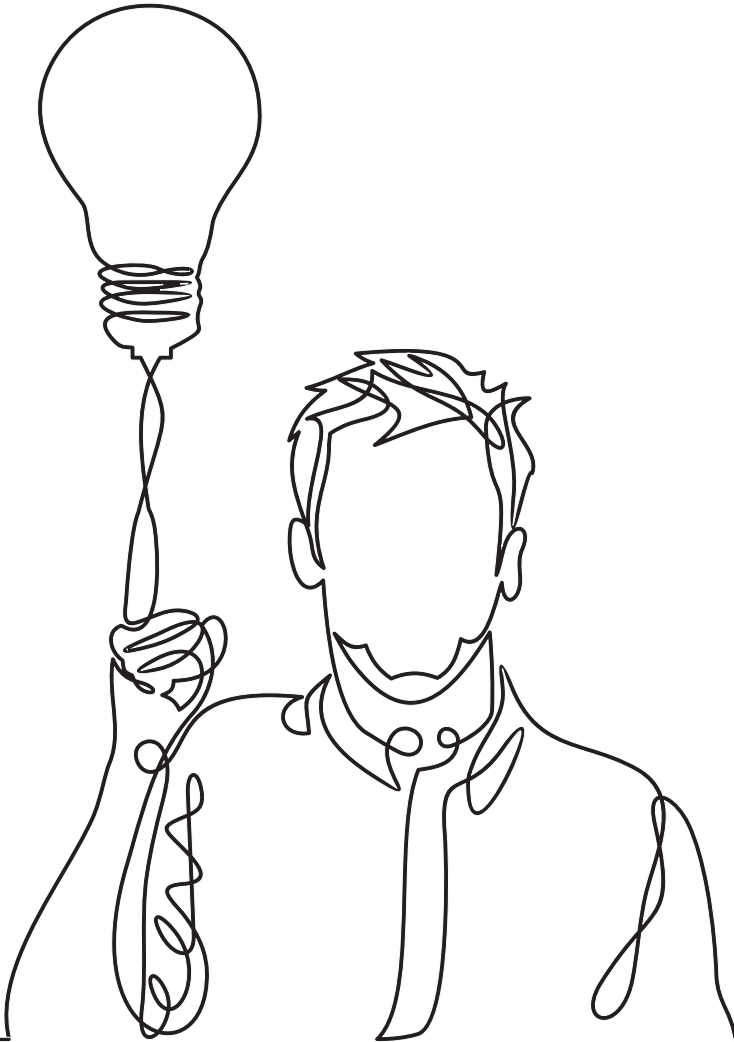
1. Fear disruption and create scenarios for how disruption could happen.
2. Develop tactics for how you would react quickly to sudden market changes.
3. Invest in ideas that open up your future options.
4. Create a desire to compete with start-ups and large competitors alike.
5. Invent a fictitious competitor and create an ongoing story about actions they are taking (thanks to Josh Linkner, serial entrepreneur and author, for this idea).

Culture of Innovation Framework



PERSPECTIVE

Your perspective is the way you look at the future and the problems that you are trying to solve. Your perspective determines your destiny.



WHAT *EXACTLY* ARE YOU TRYING TO DO?

When someone asks you to define your organization, what is your answer? How do you describe your role?

This might seem like a simple question, but it has a meaningful impact on your destiny. To really appreciate the importance of perspective, we begin with a quiz:

Can you identify this company?

- Their website boasts: “_____ has been turning creative ideas into breakthroughs for well over a century.”
- They invented grammar checkers.
- They invented electronic dictionaries in 1985.
- They invented the laptop word processor in 1989.
- They started building PDAs in 1994.

Apple?

Microsoft?

Xerox?

Dell?

Hewlett-Packard?

Any guesses?

“SMITH CORONA— THE BEST TYPEWRITER COMPANY IN THE WORLD!”

Not surprisingly, that’s a title that they keep today. Smith Corona was once an innovation icon. So why didn’t the typewriter experts get into the wonderful world of computing?

A closer look reveals the leaders were making rational decisions. In fact, the parallels to modern-day business problems are striking.

Diving deeper, the first step is to visit Smith Corona’s website. It’s funny because it actually exists. Also, one of the graphics illustrates a slogan you probably have not heard:

The image shows a screenshot of the Smith Corona website's history page. At the top left is the Smith Corona logo. To its right are navigation buttons for 'ABOUT SMITH CORONA', 'History', 'CUSTOMER SERVICE', and 'PRODUCTS'. Below the navigation is a section titled 'Smith Corona History:' with three entries:

- 1886**: The first typewriter that writes upper and lower case letters is created by the Smith Premier Typewriter Company. (Accompanied by a small image of a typewriter)
- 1903**: Formation of L.C. Smith & Bros. Typewriter Company in Syracuse, New York. (Accompanied by a small image of a building)
- 1906**: The Royal Typewriter Company introduces the world's first successful portable typewriter. (Accompanied by a small image of a typewriter)

On the left side of the screenshot, there is a thought bubble containing the text: "On the eighth day, God created Smith Corona". Below the thought bubble is a partial image of a man's face looking upwards. A large line-art illustration of a typewriter is positioned at the bottom right of the screenshot area.

“On the eighth day, God created Smith Corona.” Wow. I bet you didn’t know that.

What would lead a company to put that graphic up on their website?

First, the company would basically have to be defunct, and not care. Second, Smith Corona had a 100-year history of reinventing itself:

- **1886** FIRST TYPEWRITER WITH UPPER & LOWER CASE
- **1906** FIRST PORTABLE TYPEWRITER
- **1957** FIRST PORTABLE ELECTRIC TYPEWRITER
- **1960** FIRST POWERED CARRIAGE RETURN
- **1973** FIRST REMOVABLE CARTRIDGE
- **1984** FIRST WORD ERASER
- **1985** FIRST ELECTRONIC DICTIONARY
- **1985** FIRST PERSONAL WORD PROCESSOR
- **1989** FIRST LAPTOP PERSONAL WORD PROCESSOR

From the first electric typewriter to the first personal word processor, Smith Corona knew how to identify new trends and opportunities.

As an industry leader, Smith Corona could envision the big trends and competition. But what were they missing?

ACCOMPLISHMENT BLINDS US TO ———
THE URGENCY OF REINVENTION.

DON'T BE SEDUCED BY COMPLACENCY

Without the full story, Smith Corona's decline would seem to be rooted in careless decision-making; however, the missed opportunity was much less obvious. Smith Corona was making a ton of money as the world's best typewriter company.

No competitor could challenge that claim to fame. By 1989 revenues were at a record high:

**\$500
MILLION**

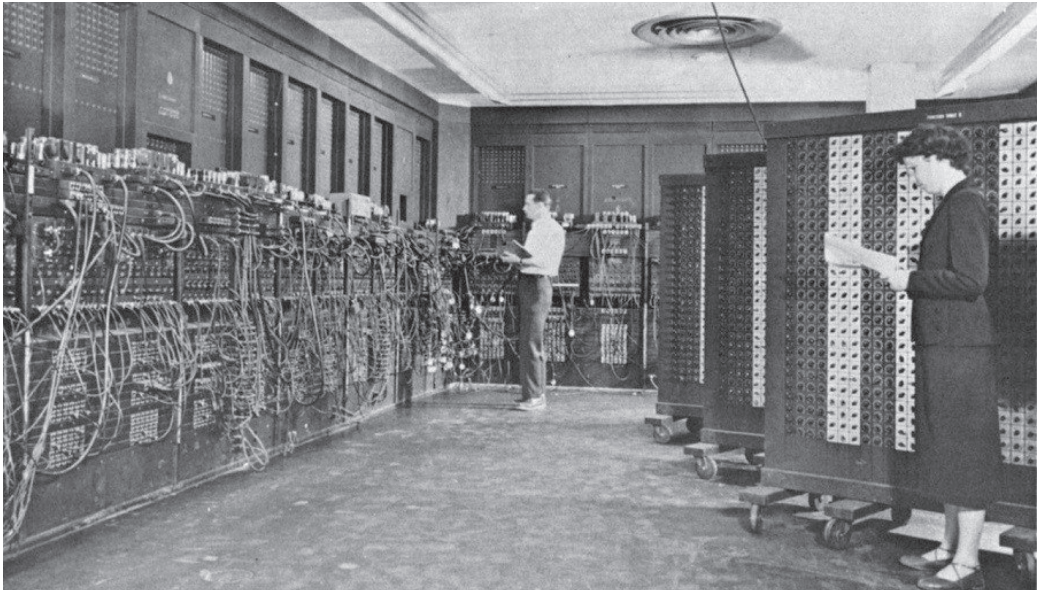
Incidentally, that's a lot of money.

Yes, the world was changing, but there was not an urgent need to move into an unproven market. After all, if computer word processors became interesting, Smith Corona could easily just "buy their way in." Right?

*UNFORTUNATELY, IT'S ALL TOO EASY TO REMAIN FOCUSED ON
A GIANT, STAGNANT BUSINESS. IT'S TOO EASY TO BECOME COMPLACENT.*

LOOK BEYOND THE FAILURE OF OTHERS

Remington was the first manufacturer of typewriters and one of Smith Corona's fierce rivals. In 1950 Remington did get into computing. But by 1975, the company started to falter. The computing division was sold off, and by 1981 Remington Rand declared bankruptcy. They would no longer be making giant computers like this bulky beast:



This catastrophic failure lingered in the minds of Smith Corona managers. Remington Rand had been an icon, an icon with a similar heritage. If Smith Corona expanded into new, uncertain markets, maybe they would inherit the same fate.

*BE CAUTIOUS NOT TO LET THE FAILURE
OF OTHERS REINFORCE INACTION.*

ASSUME TREMENDOUS POTENTIAL IN RIVAL IDEAS

It's common to perceive rival ideas and new entrants as inferior. Sometimes these rivals are little start-ups that are disorganized and imperfect. Other times, the rivals are large, but only in their respective markets, hardly a threat to our own dominance. In short, large organizations often have the misconception that new entrants will fade away.

For Smith Corona, Commodore was one of these entrants. Computers were becoming popular, but not for word processing. Just take a look at the Commodore 128. Although it looks horrific by today's standards, in 1985 it was cutting edge. It came with an awkward set of boxes, lots of cables, and a big blue screen. Plus, it had two external floppy drives.

Yeah, baby!

By comparison, the Smith Corona PWP 40 was an ultra-compact typewriter. It could save to a disk, spell check, and perform "search and replace." It also had a built-in printer. In many ways, it was like an all-in-one laptop and printer 10 years ahead of its time.

Which product would Smith Corona's government and corporate clients want? The typewriter they knew and loved, or the computer box machine thing?

*WHEN YOU EVALUATE NEW IDEAS, YOU NEED TO
LOOK BEYOND INITIAL IMPERFECTIONS.*

Commodore 128



Smith Corona PWP 40

- Spell check, "search and replace"
- Save on a disk
- Laser-quality printing
- Essentially a laptop, 10 years early



EMBRACE UNCERTAINTY

Smith Corona was not blind to emerging trends. The company had deep pockets, Ivy League-educated managers, a legacy of innovation, and an appetite for new ideas.

In 1990 the VP of marketing, Fred Feuerhake, observed that the industry was “in a period of transition between typewriters and word processors.”

One year later, Smith Corona formed a partnership with the Acer computer company.⁸ The Acer deal meant Smith Corona was cooking in the personal computer kitchen.

The partners concocted a recipe for a new product line branded “Simply Smart.” The machines were targeted at Smith Corona’s less sophisticated customers. They featured easy-to-use software and a low price point.

The partnership was a reasonably good strategy.

Although he dismissed the significance, CEO G. Lee Thompson noticed the progress: “[Computers] are a logical extension of our line.”

*AS A BIG PLAYER, IT IS NEVER TOO LATE
TO GET INTO THE GAME.*

AVOID RETREATING TO YOUR COMFORT ZONE

“Computer machines” were worth exploring—until the typewriter business got in the way.

In 1992 Smith Corona decided to relocate production to Mexico. This sort of project created a sense of urgency and distraction. The organization was entering a period of chaos, and it seemed uncertain that computer word processors could save the company.

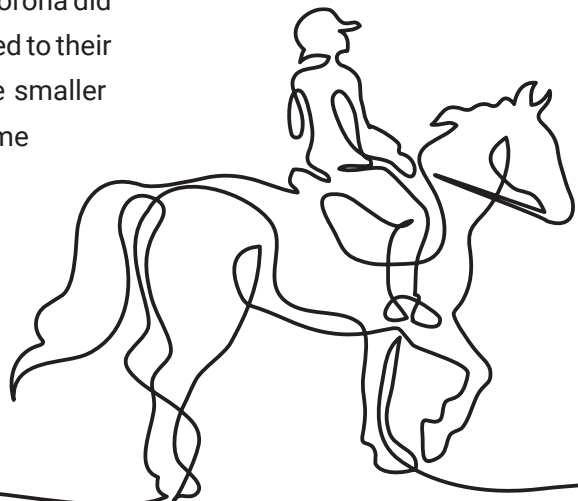
To a \$500 million organization, the decision to move became the single biggest project. The relocation was expected to slash the company’s costs by nearly 12%.

To a \$500 million organization, a little venture making awkward computers seemed inconsequential.

Nothing, they believed, not even investing in computers, would have a bigger payoff. To make that payoff happen, Smith Corona needed organizational alignment and focus. Quite simply, they saw the computing projects as adding noise and distraction.

When the world became chaotic, Smith Corona did what most organizations do: they retreated to their comfort zone. Prudent managers ignore smaller opportunities and Smith Corona became a victim of rational decision-making.

Question rational thought.



It had only been one year, but the board killed the Acer partnership. In a trade interview, the CEO defended his dying industry:

“Many people believe that the typewriter and word-processor business is a buggy-whip industry, which is far from true. There is still a strong market for our products in the United States and the world.”

—G. Lee Thompson, CEO of Smith Corona, 1992

As a side note, Thompson’s quote reinforces one of my personal philosophies: if you use the words “buggy-whip” to describe your company, you are predestined for failure . . .

Three years later, Smith Corona declared bankruptcy. Acer went on to become the fourth-largest PC company in the world. Snap. Mike Chernago, former VP of operations, noted, “People screamed like crazy when they killed that deal. But at the time, the executives thought that Smith Corona was never going to be put out of business. It was hard to imagine that the typewriter would be annihilated . . .”⁹

Smith Corona wanted to be the best typewriter company in the world, and they still are today. What if Smith Corona’s strategy had been to develop tools for recording human thought? Better yet, what if they hadn’t used a typewriter to write their strategy?

Luckily, there is a happy ending. In 2000, after a second bankruptcy, Smith Corona was acquired by a private investor, Robert Kanner, who saw potential where others did not. Kanner and his team, who I’ve had the pleasure of meeting several times, saw the potential of exiting the typewriter business and leveraging Smith Corona’s expertise in ribbons and thermal technology. Today, the company has become one of the world’s largest players in the market for thermal labels. Amazing!

BREAKTHROUGH REQUIRES COMMITMENT TO NEW FRONTIERS ———
AND QUESTIONING RATIONAL THOUGHT.

IF YOU'RE BIG, ACT SMALL

Liberate entrepreneurial thinking, invest in disruptive companies, and seek ways to break down structure.

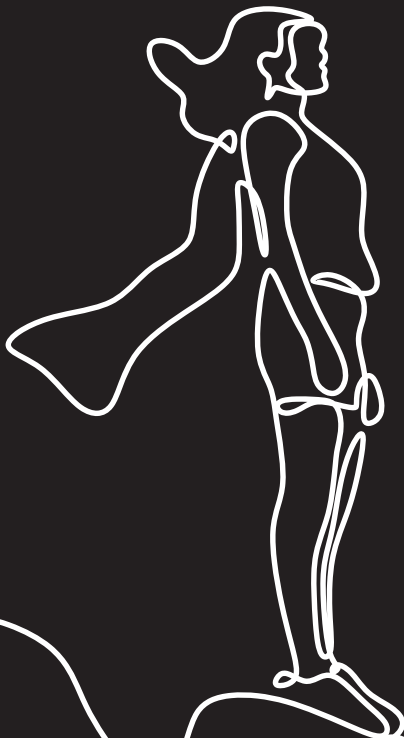
Most importantly, feel threatened by little new entrants.



IF YOU'RE SMALL, ACT BIG

Steal customers from big companies, create partnerships that build scale, and exploit your superior understanding of the customer.

Take advantage of slow-moving incumbents.



CHASE THE RIGHT DREAM

In 1999, a talented teenager named Shawn Fanning created a disruptive opportunity: Napster. By February 2001, more than 25 million unique users were using Napster to illegally file share, a term denounced by the Recording Industry Association of America (RIAA). By July, an RIAA lawsuit forced Napster to “turn down the music.”¹⁰

Next, the RIAA decided to sue 35,000 potential customers.¹¹ Among those subpoenaed: a dead grandmother,¹² families with no computers at all,¹³ and children as young as 12.¹⁴ As a general rule of thumb, never sue 12-year-old kids.

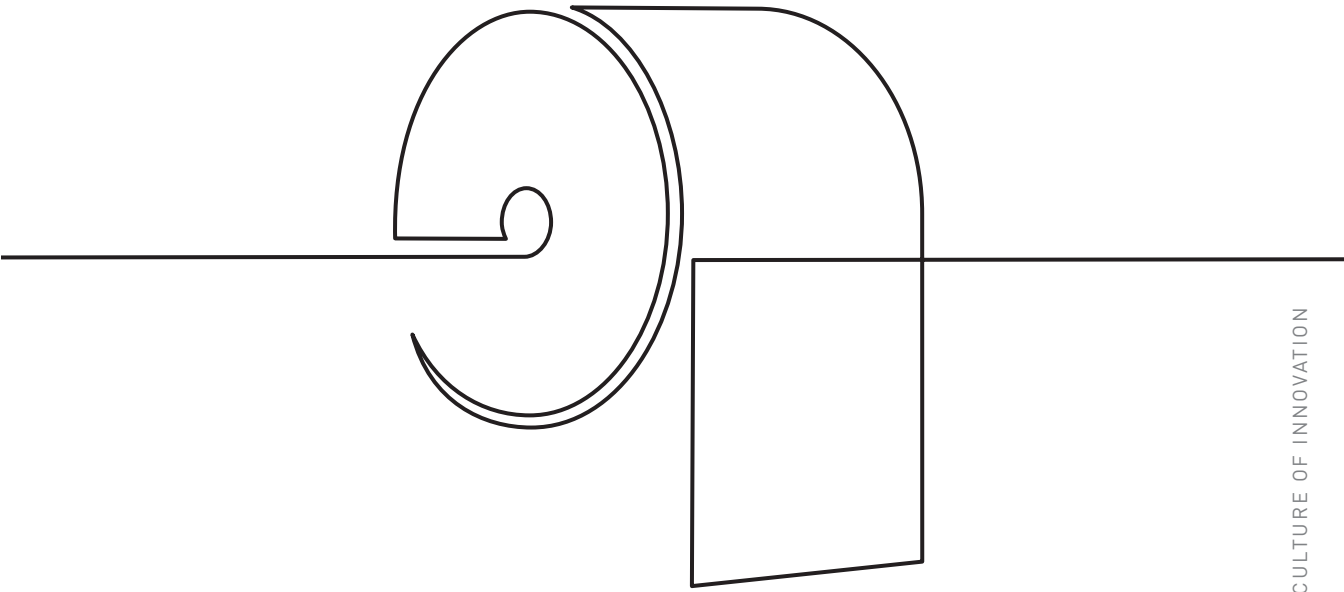
The RIAA also sued XM Satellite Radio,¹⁵ several internet radio stations,¹⁶ and a discounted Russian pay site (for \$1.7 trillion).¹⁷ Essentially, they sued anyone with a cutting-edge approach.

Consumers were so upset that there was even toilet paper made and sold with the RIAA logo on it.

The first legal solution to downloading music was iTunes in 2003. But in the four years “without an answer,” Napster alternatives became so “useful” that illegal downloads still exceed paid downloads by 20 to 1.¹⁸

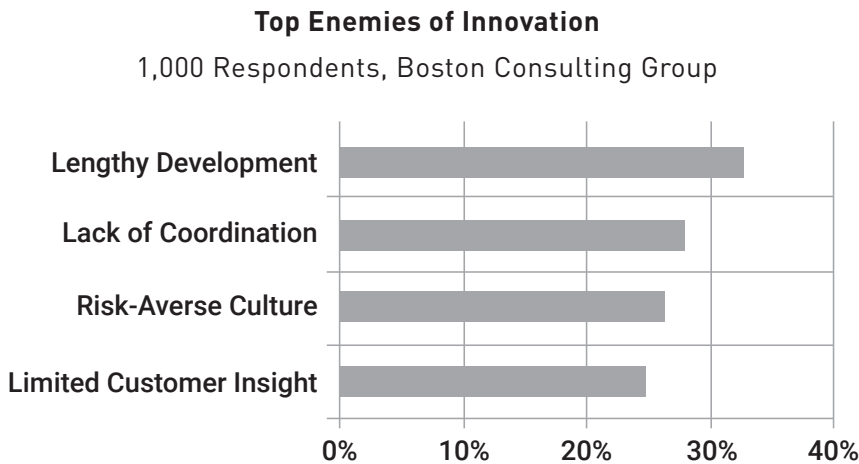
The music industry was forever changed, but the major players couldn’t move past the death of their “typewriter.” The RIAA was laser-focused on protecting CD sales, but what if they had instead focused on the future of music?

THE PROBLEM YOU ARE TRYING TO SOLVE CAN BECOME ALL-CONSUMING. DEFINE THE RIGHT GOAL.



EXPLOIT CHAOS TO ACCELERATE CHANGE

The Boston Consulting Group and *BusinessWeek* surveyed 1,000 influential managers and determined the following enemies of innovation: lengthy development, lack of coordination, risk-averse culture, and limited customer insight.¹⁹



(As an aside, I was going to update this chart, which is from 2006, and then I realized the irony is that the world may have changed, but the people problems that inhibit change have remained the same.)

You can exploit crisis to accelerate change in each of these areas. At age 28, I was promoted to a new role as the head of Capital One Canada's high-end business: Upmarket Lending. At the time we had just one product, a 5.99% credit card.

In a market dominated by an oligopoly of five aging Canadian banks, our card was the best. Unfortunately, funding costs skyrocketed, and our product was no longer profitable. It was dead.

Worse yet, we couldn't increase our interest rate. Anything above 5.99% caused demand to plummet. I was given the following goal: don't let profits decline by more than 20%. Super. I could already imagine my future. I'd get to tell my friends, "I shrank the business by only 20% . . . Yeah, I'm that good." Fortunately, crisis creates opportunity:

1. Crisis reduced our time to market: we no longer had to spend a year proving that our ideas were perfect; we only had to prove they were better than the alternative—which was nothing.
2. Crisis let our team coordinate and cut through red tape: approvals were faster, and cooperation was greater.
3. Crisis enhanced our tolerance for risk: without a product, we were forced to push traditional boundaries.
4. Crisis forced us to relearn what our customers wanted: we used to be complacent knowing our 5.99% card was the lowest rate in the country. But crisis forced us to rethink what customers wanted. Why did Canadians hate slightly higher rates, like 6.99%?

This led us to an important insight. Our Canadian customers didn't think about their rates as numbers; they thought about whether or not their rates were fair. Numeric pricing like "5.99%" makes it difficult to understand how much the bank is actually making. But relative pricing, like "prime + 2," is easier to evaluate. (In Canada, prime is a base rate used to price mortgages.) By repositioning our card with "prime + 2" pricing, our card was essentially the same, but demand increased. Instead of declining by 20%, monthly bookings tripled, and the business grew to a \$1 billion portfolio.

YOU CAN USE CRISIS TO DEFEAT ———

THE ENEMIES OF INNOVATION.

SHIFT PERSPECTIVE, SPARK REVOLUTION

In 1993, IBM was caught in a downward spiral, losing nearly a billion dollars a month. Demise seemed imminent. Then Louis Gerstner took over the role of CEO. Along the way, he realized that the key to change rested in culture: “If I could have chosen not to tackle the IBM culture head-on, I probably wouldn’t have. . . . [C]hanging the attitude and behaviors of hundreds of thousands of people is very, very hard. [Yet] I came to see in my time at IBM that culture isn’t just one aspect of the game—it is the game.”²⁰

One of the ways Gerstner changed IBM’s culture was by shifting vernacular and ritual. He noted that “you can understand a lot about organizations by their word choice. . . . I choose my words very carefully.”

Gerstner held a workshop with 420 company leaders. There, he introduced the adjacent chart that broke company lingo down into banned words and alternative vernacular. To inspire change, he read a quote from Larry Ellison, CEO of Oracle—one of IBM’s largest rivals—who scoffed, “IBM? We don’t even think about those guys anymore. They’re not dead, but they’re irrelevant.”

In the six years that followed, IBM became a profit machine. Its shares skyrocketed more than tenfold. The change would be heralded as the greatest turnaround in corporate history.

IBM'S "REQUIRED BEHAVIORAL CHANGE"

Excerpt of memo sent by Louis Gerstner to all of IBM:

FROM	TO
Product (focus)	Customer (focus)
Do it my way	Do it the customer's way
Manage to morale	Manage to succeed
Decisions based on anecdotes and myths	Decisions based on facts and data
Relationship-driven	Performance-driven
Conformity (politically correct)	Diversity of ideas & opinions
Attack the people	Attack the process
Rule-driven	Principle-driven
Value me (the silo)	Value us (the whole)
Analysis paralysis (everything must be proven 100+%)	Make decisions & move forward with urgency (80% / 20%)
Fund everything	Prioritize

THE ONLY THINGS SLOWING YOU DOWN ARE THE RULES YOU NEED TO BREAK

The path to growth is full of obstacles, but it's not impenetrable. Your company could increase its innovation budgets, take risks, encourage failure, advertise, hire talent, invest in technology, and so on.

The problem with all this advice, you are saying, is that it seems unrealistic. At least, it seems unrealistic within my organization.

WE'RE TOO BIG.

WE'RE TOO SMALL.

WE CAN'T DO THAT.

WE TRIED THAT BEFORE.

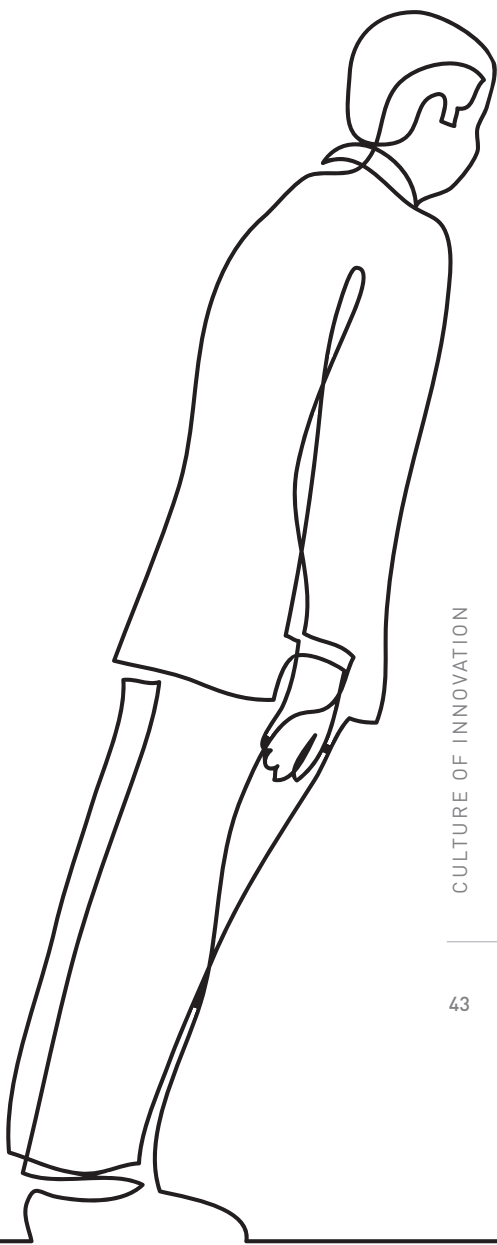
I CAN'T MAKE A DECISION THAT SENIOR.

THAT'S OWNED BY ANOTHER DEPARTMENT.

WE'RE JUST STARTING OUT.

WE DON'T HAVE THAT MUCH MONEY.

OUR INVESTORS WOULD NEVER ALLOW THAT.





“THE RIGHT QUESTIONS DON’T CHANGE AS OFTEN AS THE ANSWERS DO”

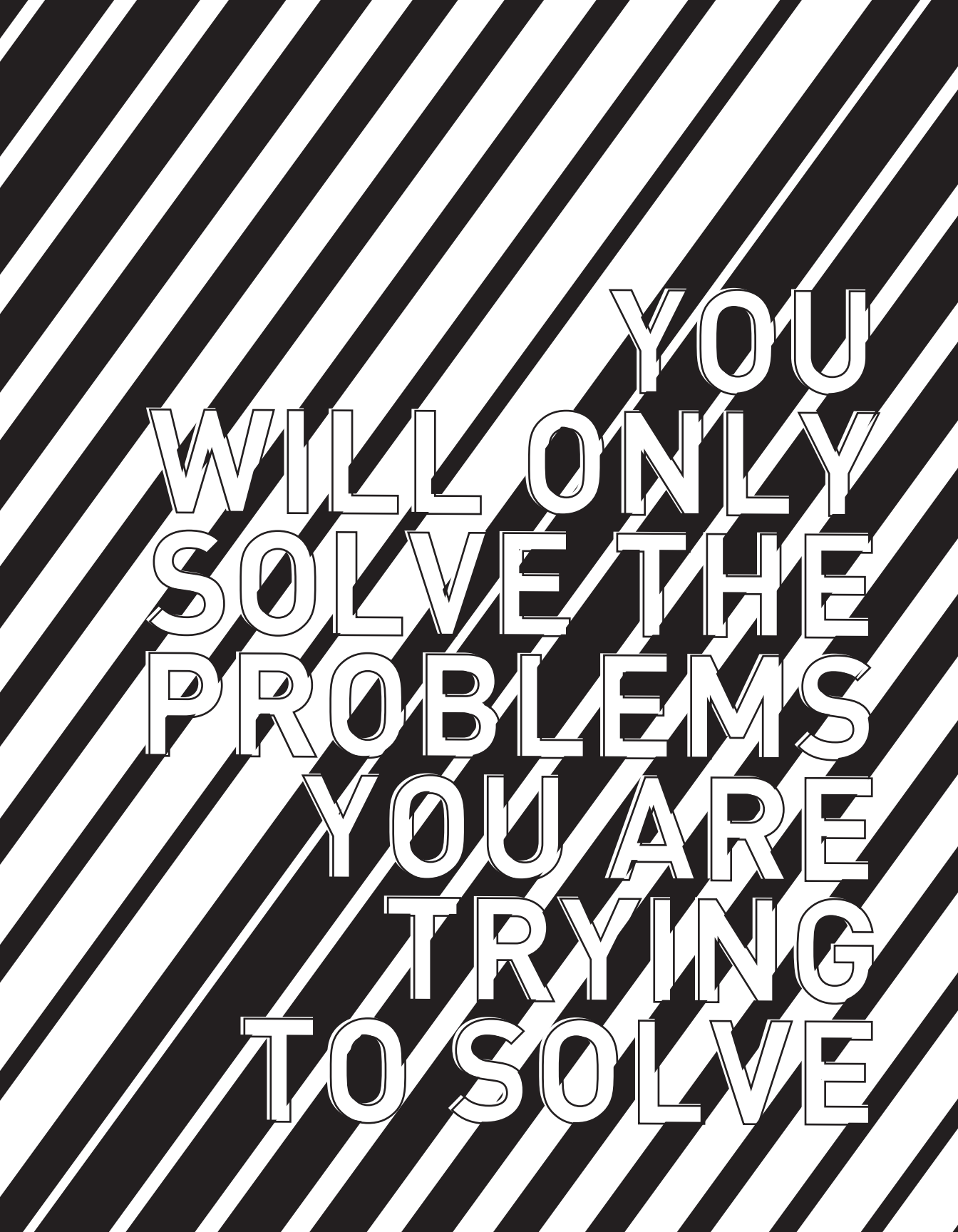
This was the world according to Peter Drucker.

Drucker advised the world’s most influential corporate leaders, including GE’s Jack Welch, Procter & Gamble’s A.G. Lafley, Intel’s Andy Grove, Edward Jones’s John Bachmann, and Toyota’s Shoichiro Toyoda. He also wrote 39 acclaimed books.

Along the way, Drucker gained a reputation for the emphasis he placed on his three most important questions:

1. What is our business?
2. Who are the customers?
3. What does the customer value?

YOU WILL ONLY ANSWER THE PROBLEMS ———
YOU ARE TRYING TO SOLVE.



YOU
WILL ONLY
SOLVE THE
PROBLEMS
YOU ARE
TRYING
TO SOLVE

WORKSHOP QUESTIONS

- Specifically what problem are you trying to solve?
Explain WHY you are solving that problem. Okay, but WHY? Again, WHY?
If you imagined a 10-year-old repeatedly asking you WHY, how different does your answer become?
- For your consumers, how might they interpret the problems you are solving?
Consider breaking out your answer for each of your key market demographics.
Also ask yourself how your future customers think about your relevance.
- How is your perspective different from the other competitors in the market?
- Would framing your problem differently lead you to a different outcome?

TACTICS

1. Understand the importance of your stated mission.
2. Interview your customers and ask them what problem you are solving. Then ask why that problem matters, and keep asking why until you get a deeper understanding.
3. Change your company's vernacular so that everything aligns to your purpose.
4. Adopt your customers' perspective about your purpose in all decisions about products, services, and brand.

WANT MORE?

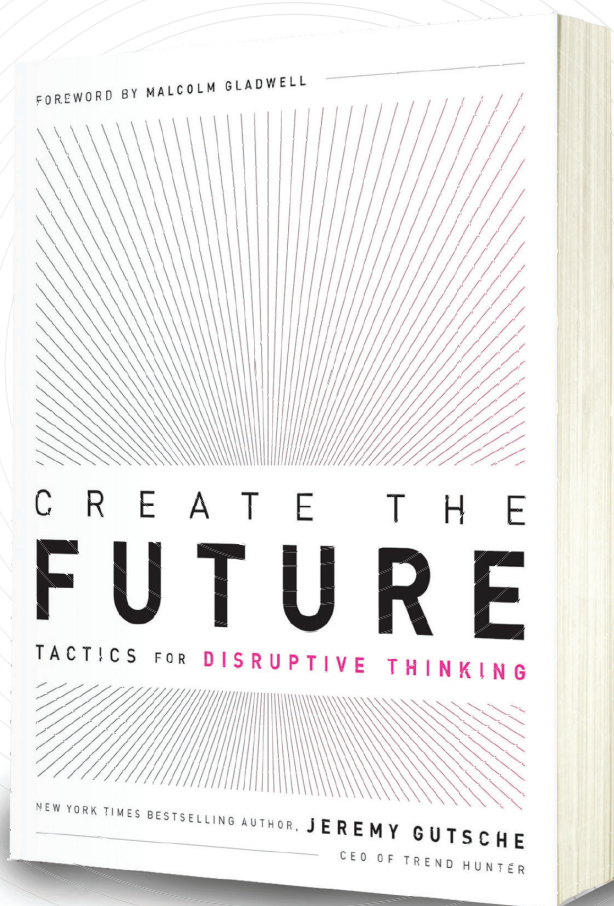
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