

*"A rousing battle cry for the kind of creative, risky thinking
that is most needed in times of change and disorder."*

—DANIEL H. PINK,

bestselling author of A Whole New Mind

TRENDAHUNTER
CREATE THE FUTURE

Exploiting CHAOS

150
WAYS TO

*SPARK INNOVATION
DURING TIMES of CHANGE*

Foreword by GUY KAWASAKI, cofounder of Alltop, author of Reality Check

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CHIEF TREND HUNTER, Trendhunter.com



WELCOME TO

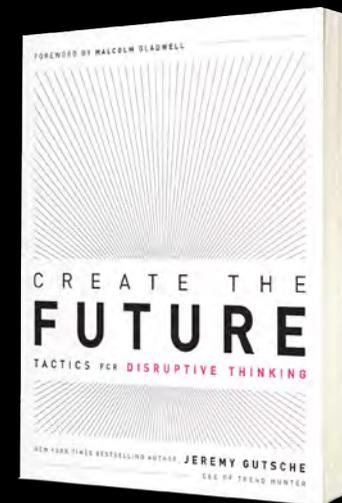
EXPLOITING

CHAOS

DEAR READER,

Please enjoy this digital copy of my 2008 award-winning book, *Exploiting Chaos*. This book was launched in the midst of the financial crisis and paved the way for me and the Trend Hunter team to help hundreds of businesses successfully navigate through chaos. It was an Axiom International Book Award Winner, an Inc. Best Book for Business Owners, and downloaded over 500,000 times.

I wanted to make this original version of the book free for all those dealing with our current period of chaos. WANT MORE? The great news is that you can get 160 pages of new content, tactics and frameworks with the sequel to this book, *Create the Future*, which was launched in March 2020. *Create the Future* is a double-sided bestseller that includes the sequel along with a revised and expanded version of this book. *Create the Future* will help you break free from 7 psychological traps that stand in the way of breakthrough innovation. If you're ready to find your next big idea, you can order your copy [here](#).



Enjoy! Jeremy Gutsche

Chaos (*kā, äs*) is the uncertainty sparked by uncharted territory, economic recession, and bubbles of opportunity.



Chaos causes organizations to retreat . . .

. . . but not always.

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, Sun, Amgen, The Jim Henson Company, LexisNexis, Autodesk, Adobe, Symantec, Electronic Arts, *Fortune*, GE, and Hewlett-Packard.

These iconic companies were all founded during periods of economic recession.¹

Dramatic change and simple evolution
give birth to a new set of market needs.

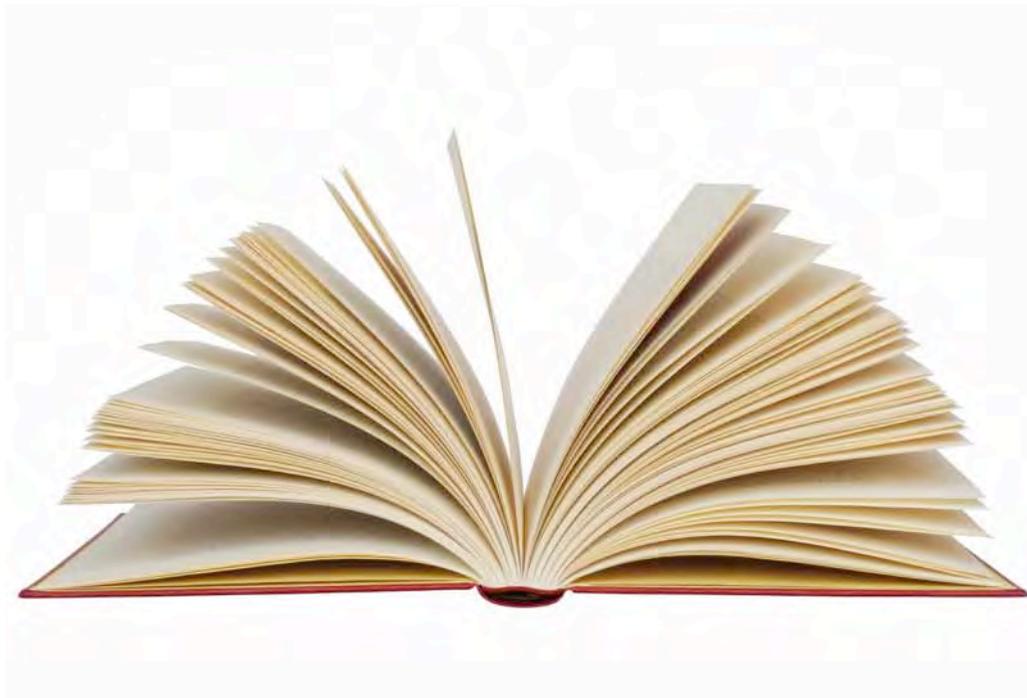
Identify those needs and enjoy
remarkable success.

This book is about powerful ideas
and vivid stories that will
help you stimulate creativity,
identify opportunity, and ultimately,
EXPLOIT CHAOS.

How to read this book

OUR READING HABITS have entirely changed in the last decade. Driven by media clutter and our shrinking attention spans, our world has become headline obsessed. Hence, this book is visual and action packed, offering two ways to read:

1. Consume the content front-to-back.
2. Just read the headlines on each page. They flow together and will help spark your next big idea.



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To my dad:
For teaching me how to create something from nothing,
which is, in fact, the premise of this book.

Difficulty creates opportunity

LONG BEFORE TWITTER, FACEBOOK, and the current financial crisis, Einstein proposed three rules of work:

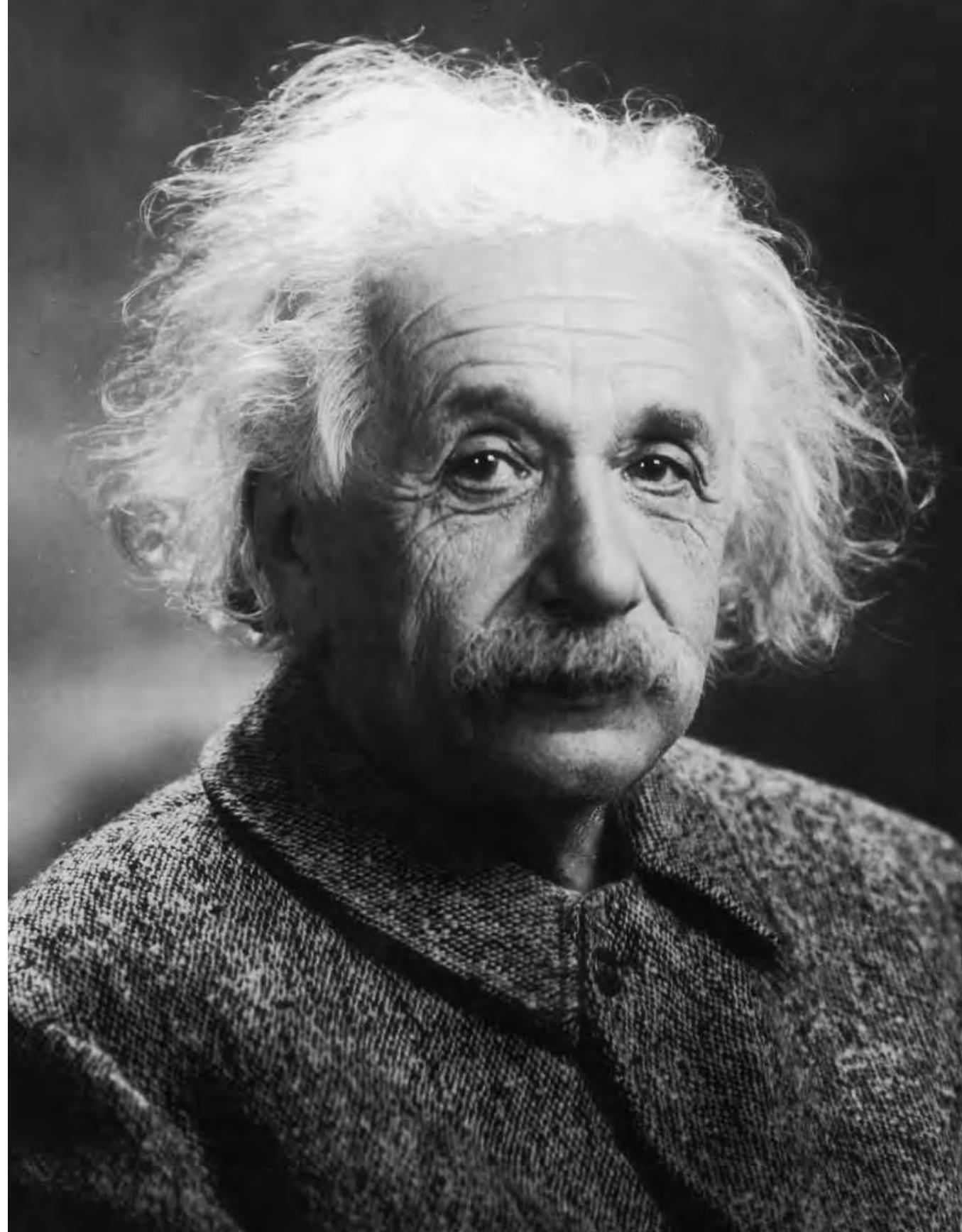
- “Out of clutter, find simplicity.”
- “From discord, find harmony.”
- “In the middle of difficulty lies opportunity.”

These rules are more truer than ever before. We have encountered increasing media clutter (you could say I’m one of the causes of this!), organizational discord, and financial difficulty—in short, we are in an era of chaos.

The common reaction is to fear these conditions, but just as Einstein’s rules profess, difficulty can spark extraordinary ideas.

Exploiting Chaos is the quintessential road map for all those who seek opportunity in times of change. Gutsche vividly explores how remarkable companies have risen from chaos, and he provides a toolkit that managers can use to foster a culture of innovation, create great products and services, and change the world.

Read this book, or in the middle of your difficulty will lie more difficulty.



Part 1

*First, a few pages of history**

* Did you know that IBM, GE, Wal-Mart, Dell, and Southwest Airlines were referenced in 1,304 of the most recent 2,000 *Harvard Business Review* articles?² Holy crap! That's excessive. In his book *The Breakthrough Company*, Keith McFarland asked, "Does it stand to reason, however, that just 5 firms account for 50% of the business knowledge created over the past 80 years?" Accordingly, *Exploiting Chaos* departs from normality to bring you examples applicable to *both* big businesses and new ventures.

Crisis creates opportunity

PRIOR TO THE GREAT DEPRESSION, the only cereal brand that mattered was Post. After your great-grandfather silenced the piercing bells of his wind-up alarm clock, he savored the delicious taste of Post Grape-Nuts. Launched in 1897, the cereal dominated the marketplace leading up to the 1930s.

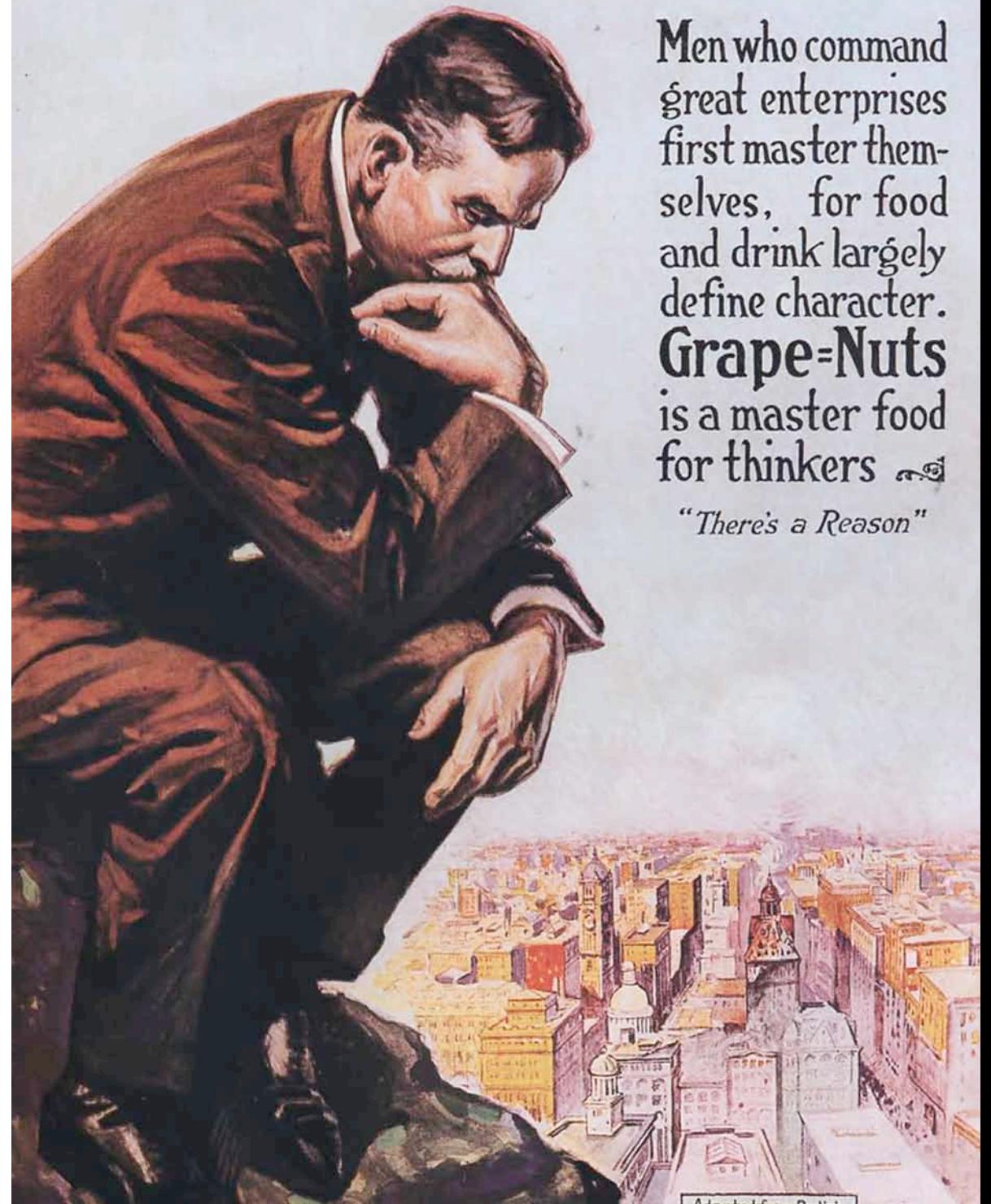
As the Great Depression tightened its angry claws on America, Post found itself hungry for cash. The prominent cereal maker assumed they “owned” the market. *How could anyone stop lusting for Grape-Nuts?* Accordingly, advertising budgets were cut to weather the storm.

As the managers of Post reclined in their rawhide chairs, bracing for a slow economy, a hungry tiger lurked in the shadows. That tiger was the Kellogg Company. Their mascot, Tony the Tiger, had not yet appeared, but his insatiable spirit was already born.

While Post retreated, Kellogg doubled their ad spend.³ In 1933 their campaigns introduced slogans like “Snap! Crackle! Pop!”⁴ and “You’ll feel better”⁵: motivational mantras during a gloomy era. The investment paid off. Americans loved the message and sales began to grow. Kellogg’s became the go-to pick for breakfast cereal and your great-grandfather abandoned his beloved Post Grape-Nuts.

The upbeat impact of crisis is that competitors become mediocre, and the ambitious find ways to grow.

THE THINKER



Men who command great enterprises first master themselves, for food and drink largely define character. Grape-Nuts is a master food for thinkers

“There’s a Reason”

You can thrive in times of loss

IN CORIOLANUS, Shakespeare wrote, “*when the sea was calm all boats alike / Show’d mastership in floating.*” Unfortunately, the seas are no longer calm. This will cause some ships to sink, but opportunity does not go away. People still buy things, they just become more particular about what they need.

During the Great Depression, unemployment soared to 25%, 15,000 banks failed, and Wall Street was no longer a place of glamour. 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.

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).”⁶ *Fortune* was more than just a publication. It was a glimpse into the boardrooms of those that survived; *Fortune* was an answer.

Innovation is not about market timing. It is about creating something that fulfills an unmet need.



Reinvent what people want

ERAS OF CHANGE give birth to unconventional ideas. In 1913 R.J. Reynolds rolled out one of these ideas: the prepackaged cigarette. There was widespread belief that this idea would fail; after all, the act of rolling cigarettes was part of a seductive ritual for many smokers. *Would people trade quality and tradition for cheaply packaged goods and convenience?*

Undaunted, Reynolds created a marketing machine to birth his new idea. The company launched their new product with one of the first major “teaser” campaigns in American history. Their mysterious slogan, “the camels are coming,” bubbled throughout the media.

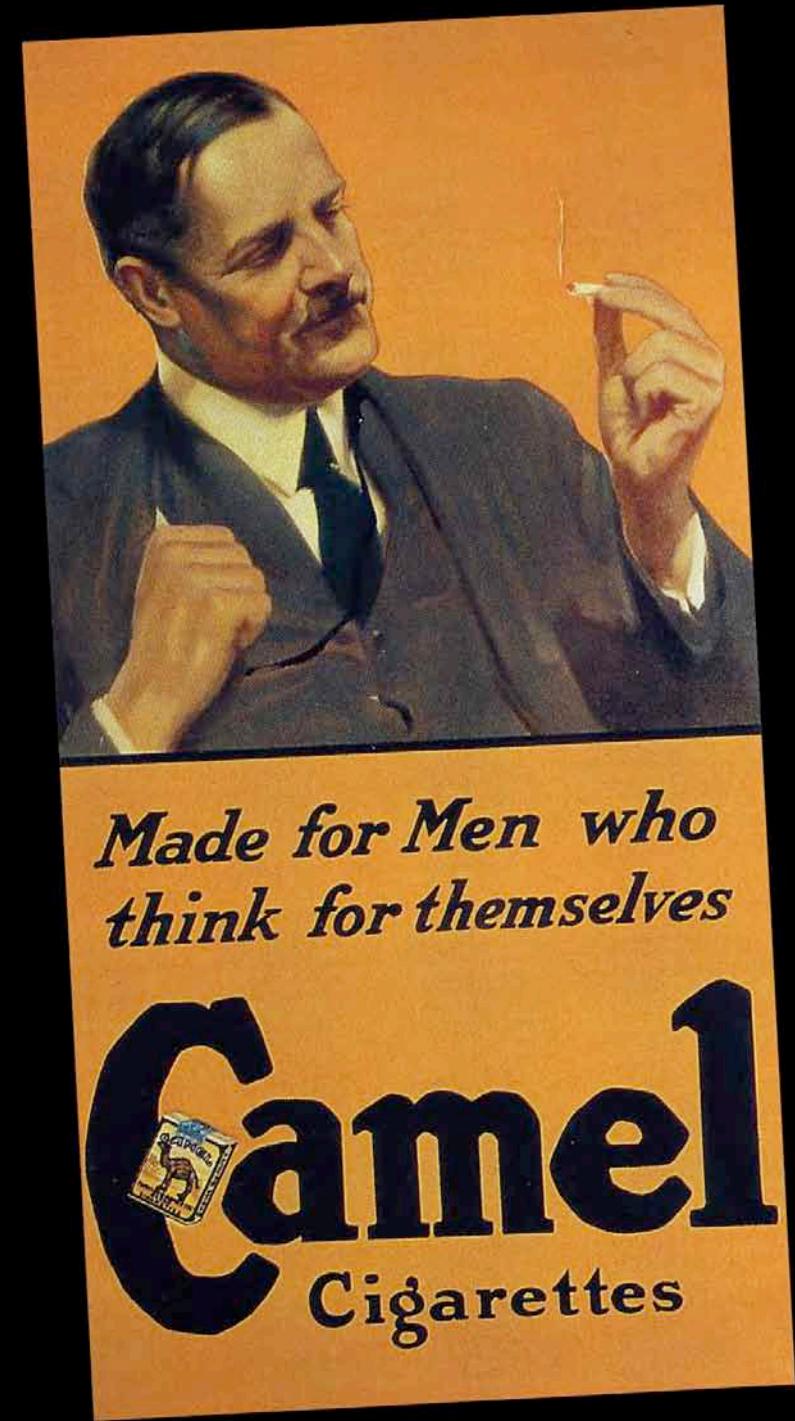
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The camels are coming? What the hell does that mean?

When the product first hit shelves, a circus camel named “Old Joe” was escorted through city streets to hand out free cigarettes. Within a year, Reynolds sold 425 million packs, making his idea the most remarkable breakthrough in the history of consumer products. For the next 15 years, nothing seemed more rewarding than the puff of a seemingly healthy unfiltered Camel cigarette. *“Is enjoyment good for you? You bet it is.”*

Today this advertising copy seems preposterous, but the success story is eye opening.

Revolutionary ideas defy the mold of convention.



Ironically, the ad was teaching him what to think.

Keep your finger on the pulse of pop culture

ORGANIZATIONS ARE INCLINED to protect what they acquire. This leads breakthrough companies to create the sort of structure that inhibits change. Structure distances us from the pulse of pop culture.

Intoxicated by his own success, R.J. Reynolds lost touch with the trends in marketing. In the 1920s advertising became psychological. Unregulated marketers played on fear.

Listerine mouthwash warned, “Halitosis makes *you unpopular*.”

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Hoover Vacuums worried, “Dirty Rugs Are Dangerous—How Do You Clean Yours?”⁷ Seriously, how dangerous can carpet really be?

With a supercharged ad budget, Camel’s rival, Lucky Strike, combined Hollywood aspirations with the pervasive fear of getting fat. Their ads showcased celebrities who touted cigarettes as the “modern way to diet!” They advised, “Light a lucky when fattening sweets tempt you.”

Their aggressive strategy puffed a cloud of smoke into Camel’s unquestioned lead. Lucky Strike became the #1 brand by 1929, and shortly afterward, Camel dropped again, to #3.⁸

Then the Great Depression began.

Icons falter if they do not reinvent in periods of change.

DON'T FOOL YOURSELF
Since halitosis never announces itself to the victim, you simply cannot know when you have it.

Halitosis makes you unpopular

It is unexcusable . . . can be instantly remedied

No matter how charming you may be or how fond of you your friends are, you cannot expect them to put up with halitosis (unpleasant breath) forever. They may be nice to you—but it is an effort.

Don't fool yourself that you never have halitosis as do so many of self-assured people who constantly offend this way.

Read the facts in the lower right hand corner and you will see that your chance of escape is slight. Nor should you count on being able to detect this ailment in yourself. Halitosis doesn't announce itself. You are seldom aware you have it.

Recognizing these truths, nice people end any chance of offending by systematically rinsing the mouth with Listerine. Every morning. Every night. And between times

when necessary, especially before meeting others. Keep a bottle handy in home and office for this purpose.

Listerine ends halitosis instantly. Being antiseptic, it strikes at its commonest cause—fermentation in the oral cavity. Then, being a powerful deodorant, it destroys the odors themselves.

If you have any doubt of Listerine's powerful deodorant properties, make this test: Rub a slice of onion on your hand. Then apply Listerine clear. Immediately, every trace of onion odor is gone. Even the strong odor of fish yields to it. Lambert Pharmaceutical Company, St. Louis, Mo., U. S. A.

The new baby—**LISTERINE SHAVING CREAM**
—you've got a treat ahead of you.
TRY IT

READ THE FACTS
1/3 had halitosis
68 hairdressers state that about every third woman, many of them from the wealthy classes, is halitoxic. Who should know better than they?

LISTERINE

The safe antiseptic

If only her breath wasn't so horrible. Awkward.

Learn the game and start to play

MOST INNOVATION ANECDOTES celebrate the triumph of the underdog. This adds fuel to the common misconception that people in large organizations cannot revive the dwindling fire of their heritage. However, with brand recognition and deep pockets, monolithic organizations are better *equipped* to enter new markets, they just lack the adaptive *mindset* to facilitate entrepreneurial change.

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In 1930 fallen market shares and the Great Depression gave R.J. Reynolds an opportunity to spark change. They began to experiment with fear marketing, claiming, “More Doctors Smoke Camels Than Any Other Cigarettes.” *Sounds healthy to me.* In a time when health impacts were less known, the message created subconscious fear: *if doctors only smoke Camels, should I be worried about my brand?*

Lucky Strike countered with, “20,679 physicians say ‘Luckies are *less irritating*.’” It didn’t matter. By this time R.J. Reynolds was a step ahead. In 1933 Camel started using athletes to associate their image with vitality. Superstar jocks endorsed,

“They don’t get your wind,”

“It takes healthy nerves . . . to win the World Series,” and

“21 out of 23 St. Louis Cardinals Smoke Camels!”

By 1935, the once-aging giant had reclaimed its #1 position.

It is never too late to learn.

*The figures quoted have been checked and certified to by LYBRAND, ROSS BROS. AND MONTGOMERY, Accountants and Auditors.

20,679* Physicians
say “**LUCKIES**
are less irritating”

“It’s toasted”

Your Throat Protection against irritation against cough

Well . . . if it’s toasted, then it *must* be good for me.

“It is not the strongest of the species that survives, nor the most intelligent, but rather the one most adaptable to change.” —Charles Darwin

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.⁹ This caused nerds around the world to rejoice. Also, it exemplified the difficulty of change.

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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 place.



LEADERS IN THE DISK DRIVE MARKET:

1980	14" Drives	Contol 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

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.¹⁰

LEADERS IN THE COMPUTER CHIP MARKET:

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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 rockstars 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.

You cannot escape disruptive evolution

THERE ARE NO INDUSTRIES or professions immune to 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 Shockvertising

- America China
- Japan India
- New York Moscow
- Men Women

- Email Social Media
- Phone Calls Facebook Status Updates

- 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

Don't become a boiled frog

VIRAL VIDEOS, E-COMMERCE, the blogosphere, email, social media, crowd sourcing, 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 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."*¹¹

The key to adaptation is recognizing the ongoing need for moderate change.

Stay focused on opportunity

AT THE TURN OF THE CENTURY, the Internet bubble was collapsing. The tech market was a land of popped aspirations and broken dreams.

Three years later, Apple CEO Steve Jobs was under fire for *still* maintaining his Research and Development budget. *Didn't he get it?* Shareholders wanted Apple to reduce costs. The clairvoyant CEO defended his vision:

“What has happened in technology over the last few years has been about the downturn, not the future of technology. A lot of companies have chosen to downsize, and maybe that was the right thing for them. We chose a different path. Our belief was that if we kept putting great products in front of [customers], they would continue to open their wallets. And that's what we've done. We've been turning out more new products than ever before.”¹²

What Jobs didn't mention was that post-bubble economics enabled him to hire an army of affordable talent.

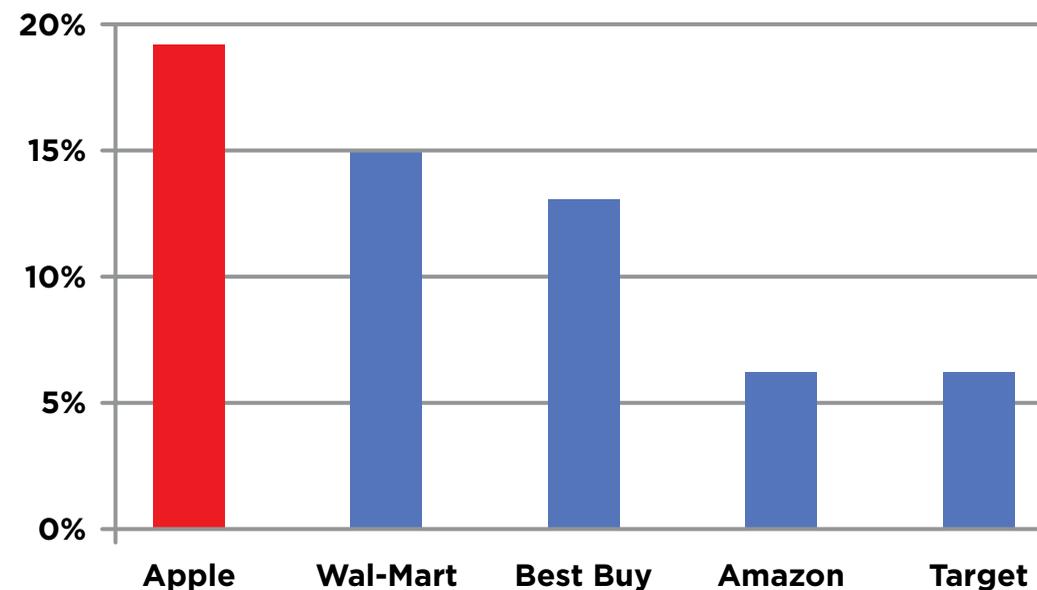
That same year, Apple launched iTunes. By 2008, four billion songs had been downloaded, and iTunes now rocks the market, selling more music than Wal-Mart.¹³

It's good to be bigger than Wal-Mart.

An undying focus on the future can lead to invention.

Top Music Retailers

Source: NPD Group's MusicWatch Survey, April 2008



Find a way to make sense of all the noise

WHY DOES THE HUFFINGTON POST website get more traffic than the websites of the *Wall Street Journal*, *Financial Times*, and the *Economist* combined?

Why did the tabloid website PerezHilton.com grow *fifteen* times larger than NationalEnquirer.com?¹⁴

Because the traditional companies *didn't get it*.

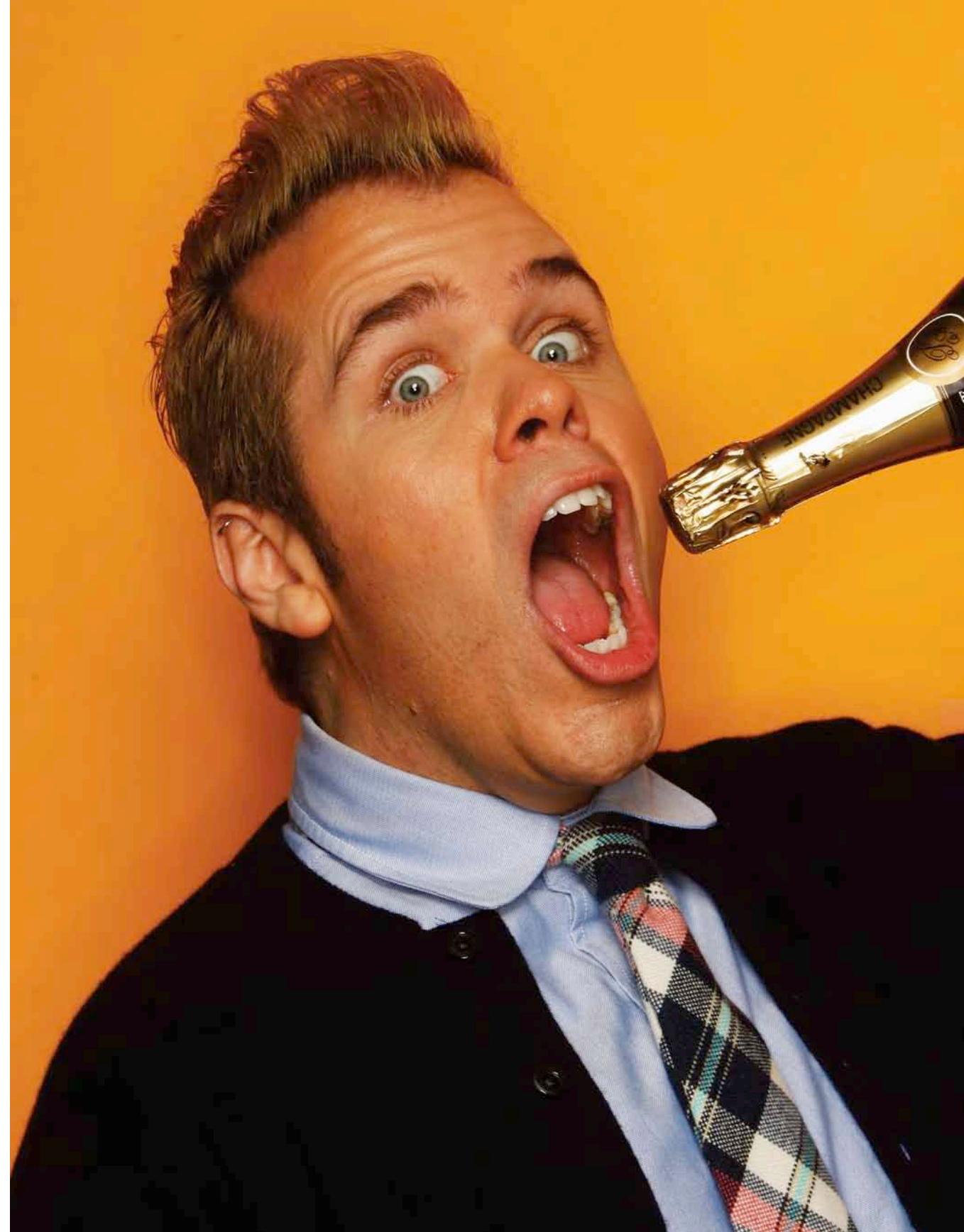
34 They never tried to understand until it was too late.

Consider YouTube star Fred Figglehorn (played by 15-year-old Lucas Cruikshank). His videos are low-budget rants about his ordinary life. His voice is accelerated to a chipmunk's squeaky timbre. This might annoy you or me, but his is the #1 most subscribed-to channel on YouTube. By 2009, Fred had over 250 million views.¹⁵ Fred connects with tweens and teens that nobody else understands.

He connects with the next generation.

Should Fred really have more star power than professional celebrities? Should he be *that* successful?

By understanding the chaos that IS the cutting edge, you can identify when the world will change.



Accept that the world never returns to normal

THERE IS A COMMONALITY between Kellogg, *Fortune*, R.J. Reynolds, Apple, Perez Hilton, and Fred. Successful innovators do not get caught up in the *turmoil* of change. They don't wait for the world to return to normal. Impervious to the clutter that surrounds them, these vanguards adapt to opportunity. Sometimes they take a buckshot approach, firing off new ideas in multiple directions, hoping that one idea will "hit." Sometimes, like snipers, they zero in on a specific opportunity.

What they do *not* do is stand still.

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The time to act is always now.



You don't need to have everything figured out

COLLOQUIALLY, CHAOS IS synonymous with stress and disorder, but this doesn't have to be true. By knowing that you *can* adapt, and by seizing the opportunity presented by chaos, you can avoid being trampled and step away from the herd.

There is comfort in chaos

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EVEN IN A CHAOTIC WORLD, some sense of stability can exist. While chaos does require you to act, it does not require precision.

Once you accept the inevitability of perpetual change, you can abandon your quest to gain control, and instead, go with the flow.

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, etc.

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

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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.

We're just starting out.

We don't have that much money.

Our investors would never allow that.

The pursuit of opportunity will require you to think differently and break the rules that paralyze change.



Small decisions can have a profound impact

FROM THE GROWTH OF PLANTS to the spread of disease, chaos theory is a form of mathematics being applied to the world's most complicated scientific problems. At its core, chaos theory reveals that much of the mystery that surrounds us is actually "order masquerading as randomness."¹⁶

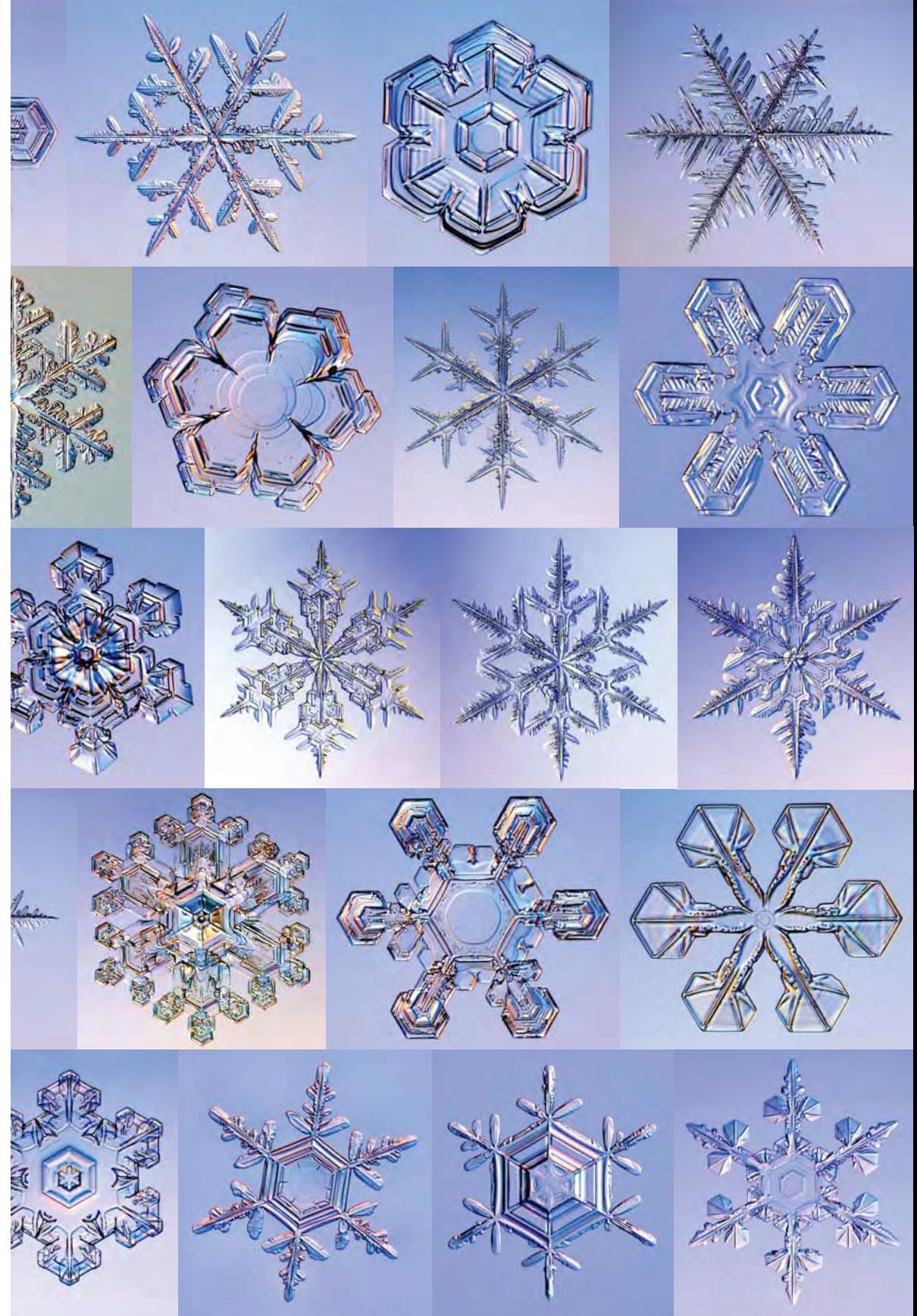
For example, chaos theory has been used to prove why all snowflakes look uniquely complex and yet recognizably similar.

40 As it turns out, a snowflake's entire shape is determined by a few simple conditions when the snowflake begins to grow. This is why the shape is always symmetrical.

Given one scenario, each branch will flourish into a sharp and pointy design. Given another scenario, each branch will end up round and dull.

Metaphorically, your organization is one of these snowflakes embarking on a period of chaos and evolution:

Within a rigid culture, chaos will make your organization round and dull. Within an adaptive culture, your company will navigate through chaos and evolve into something spectacular.



Learn to adapt

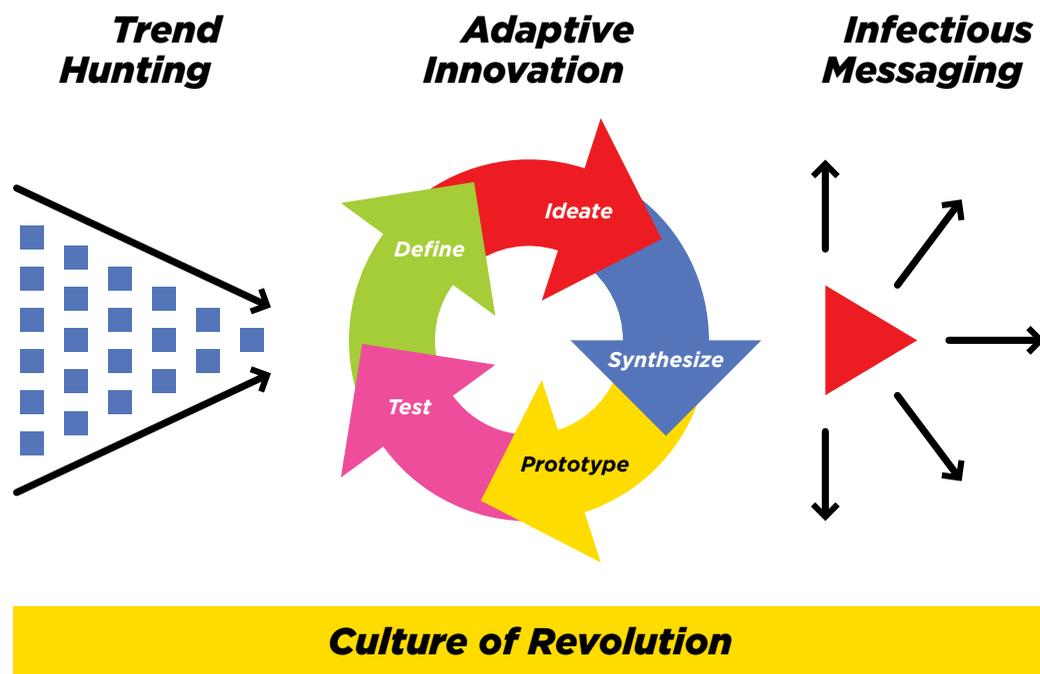
The Exploiting Chaos Framework

IN TIMES OF CHAOS, the deck gets reshuffled and the rules of the game are changed. To thrive, companies must learn not to create structure and stability, but rather, to adapt quickly.

Exploiting Chaos suggests that the next wave of management theory will be the science of adaptation. Accordingly, this book approaches adaptation using four equally important tactics: Culture of Revolution, Trend Hunting, Adaptive Innovation, and Infectious Messaging.

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Exploiting Chaos™



■ Culture of Revolution

Culture is more important than strategy. Culture underlies your organization's ability to adapt, and times of dramatic change magnify this importance. Most likely, your organization perceives the need to adapt, but uncertainty and resistance are paralyzing innovation. By creating an organizational culture of revolution, you can spark a new paradigm for creative change.

■ Trend Hunting

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

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► Adaptive Innovation

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 identify and evaluate new opportunities.

► Infectious Messaging

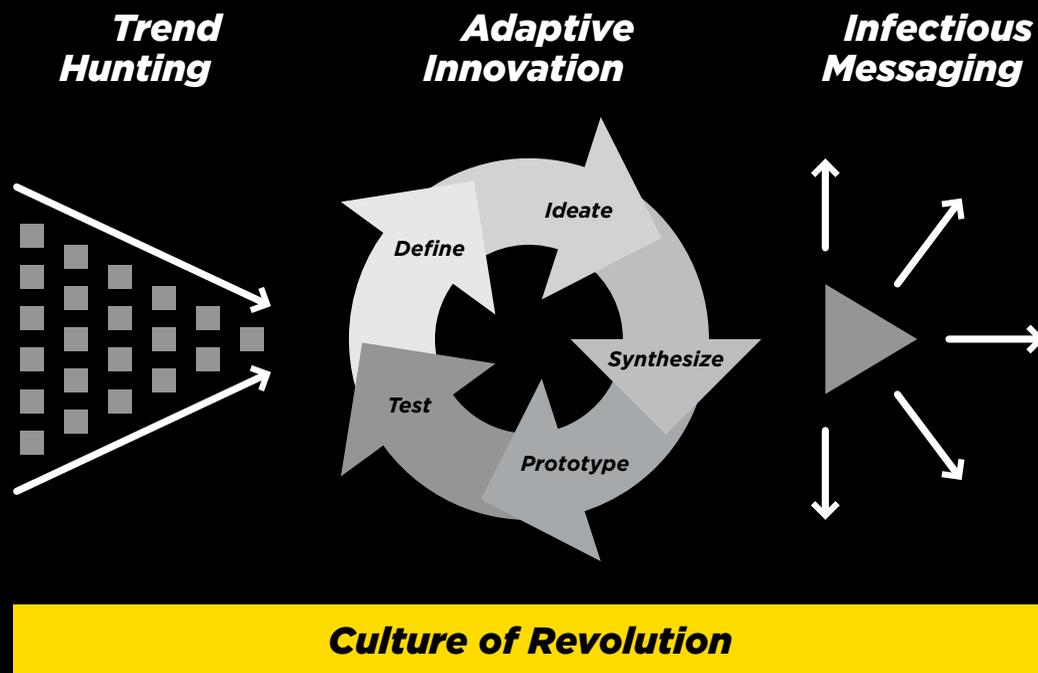
The Internet has created a world cluttered with chaos, but it has also created the world's first viral platform for ideas. Well-packaged stories travel faster than ever before. Unfortunately, most marketers are stuck in a world dominated by traditional advertising and cliché. By cultivating infection, your ideas will resonate, helping you to leapfrog ahead of the competition.

Exploiting Chaos™

Part 2

Culture of Revolution

The key to navigating chaos lies not in your strategy, but rather in your organizational culture. If you want to change the course of your organization's future, you need to spark a revolution.



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.

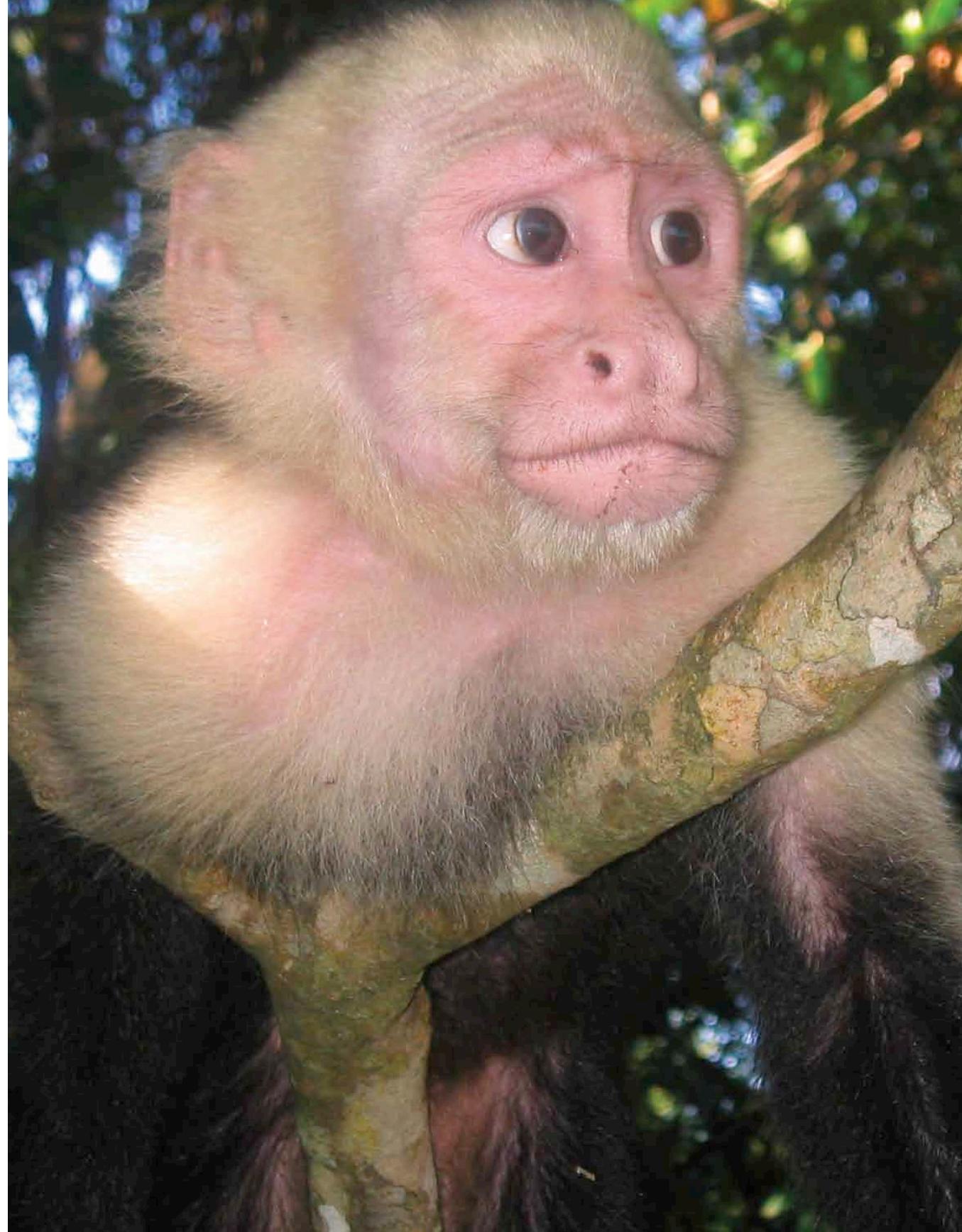
46

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" and fixed expectations are the enemies of adaptation.



Culture Eats Strategy for Breakfast



Spark a revolution

“CULTURE EATS STRATEGY FOR BREAKFAST.” That’s what the sign says in Ford’s strategy war room.¹⁷ Ford might not be your reference point for the cutting edge, but the takeaway is powerful: organizational culture can either enable or destroy your ability to create change.

This section presents four tools that can be used to enhance the culture of your organization: Perspective, Experimental Failure, Customer Obsession, and Intentional Destruction. Be warned that these are not simple items on a checklist.

To navigate through chaos, your organization needs to be revolutionary in these areas.



Culture of Revolution



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.

***Specifically
what are
you trying
to DO?***

Understand your perspective

WHEN SOMEONE ASKS YOU to define your organization, what is your answer? How do you describe your role?

Specifically what are you trying to do?

YOUR ANSWER IS YOUR PERSPECTIVE, and it has a meaningful impact on your destiny. Accordingly, we are going to revisit this question at multiple points throughout this book.

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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.

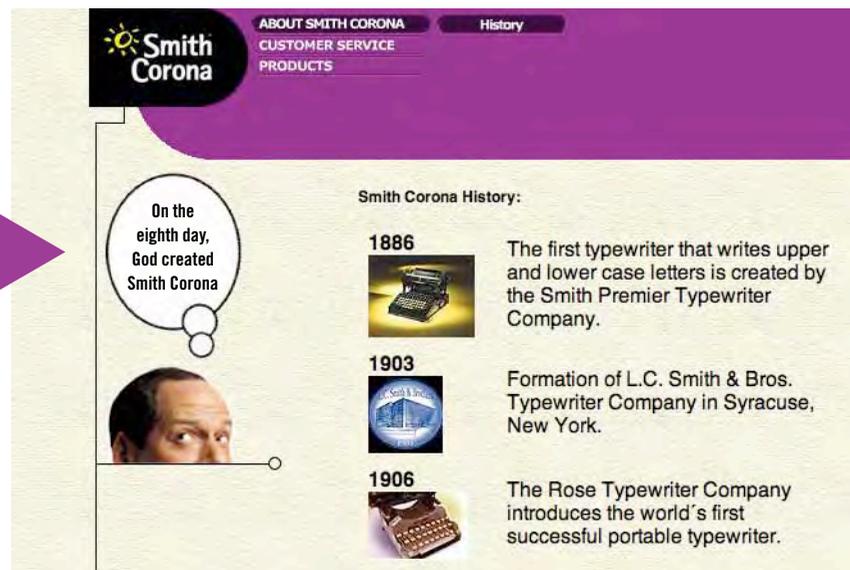
Apple? Microsoft? Xerox? Hewlett-Packard? Any guesses?

“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:



“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 electric 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:

56 **\$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, too easy to get boiled like a frog.

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.

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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

• ***2 external floppy drives. Yeah, baby.***



Smith Corona PWP 40

• ***Spell check, “search and replace”***
• ***Save on a disk***
• ***Laser-quality printing***
• ***Essentially a laptop, 10 years early***

Explore 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.¹⁸ The Acer deal meant Smith Corona was cooking in the personal computer kitchen.

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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 pricepoint.

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.



Oh look, Typewriters have a modern use!

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%.

Nothing, they believed, not even investing in computers, would have a bigger payoff.

Smith Corona was going through a change that required 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.

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 . . .”¹⁹

Becoming breakthrough requires commitment to new frontiers.

Question rational thought

RATIONAL DECISION MAKING is the illness that topples corporate icons. As Clay Christensen puts it:

“The logical, competent decisions of management that are critical to the success of those companies are also the reasons why they lose their leadership.”²⁰

Smith Corona became a victim of rational decision making.

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In the 1970s and 1980s, computing didn't seem big enough. A \$1 million venture is interesting to a \$10 million company. But to a \$500 million giant like Smith Corona, \$1 million seemed too small. Big companies are hungry for big opportunities.

The rational decision was to focus on relocating to Mexico. Any decent analysis would have told Smith Corona that relocating was the safest medium-term decision.

Prudent managers ignore small opportunities. They focus on big ideas and end up getting boiled like frogs.

Understand the pattern of disruption

THE SMITH CORONA EXAMPLE is fascinating, but not unique. The company's downfall follows a pattern. In a *Harvard Business Review* article titled “Disruption is a Moving Target,” Scott Anthony reports that disruption is a three-step process:²¹

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 towards “high-value customers.”

3: “The incumbent hits a ceiling.”

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.

To a big company, this pattern of disruption can be used to create strategies for survival. To a small company, it can influence your plan of attack.

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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, 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.”²²

Next, the RIAA decided to sue 35,000 potential customers.²³ Among those subpoenaed: a dead grandmother,²⁴ families with no computers at all,²⁵ and children as young as 12.²⁶ As a general rule of thumb, never sue 12-year-old-kids.

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The RIAA also sued XM Satellite Radio,²⁷ several internet radio stations,²⁸ and a discounted Russian pay site (for \$1.7 trillion).²⁹ Essentially, they sued anyone with a cutting-edge approach.

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 1.³⁰

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.***



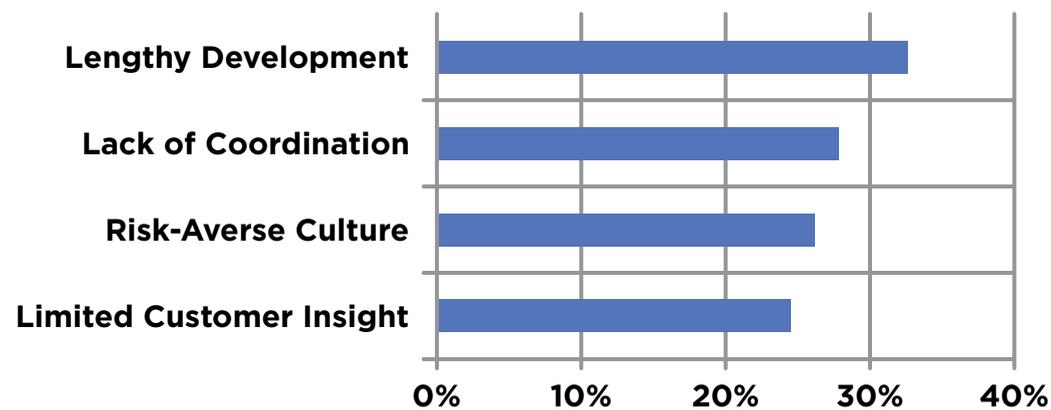
RIAA Toilet Paper: a consumer-created symbol of resentment.

Exploit crisis 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.³¹

Top Enemies of Innovation

1,000 Respondents, Boston Consulting Group, 2006



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 only shrank the business by 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 & cut through red tape: Approvals were faster. 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 . . . changing 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.”*³²

72 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 which 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 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 10x. The change would be heralded as the greatest turnaround in corporate history.

Reinventing perspective triggers and shapes change.

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

You cannot predict the future . . .

YEARS AGO I HAD THE OPPORTUNITY to work on a high-profile scenario case with Peter Schwartz, renowned 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.

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I had a lot to learn.

My first lesson was the most important rule about predicting the future: you can't. (Although ironically, in 2009 I was asked to predict the future for *Wired* magazine . . . and I did. What a sellout.)

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.

Simple prediction will cause you to miss unexpected events and disruptive change.



... but you can predict scenarios and capitalize on disruption

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

76 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.

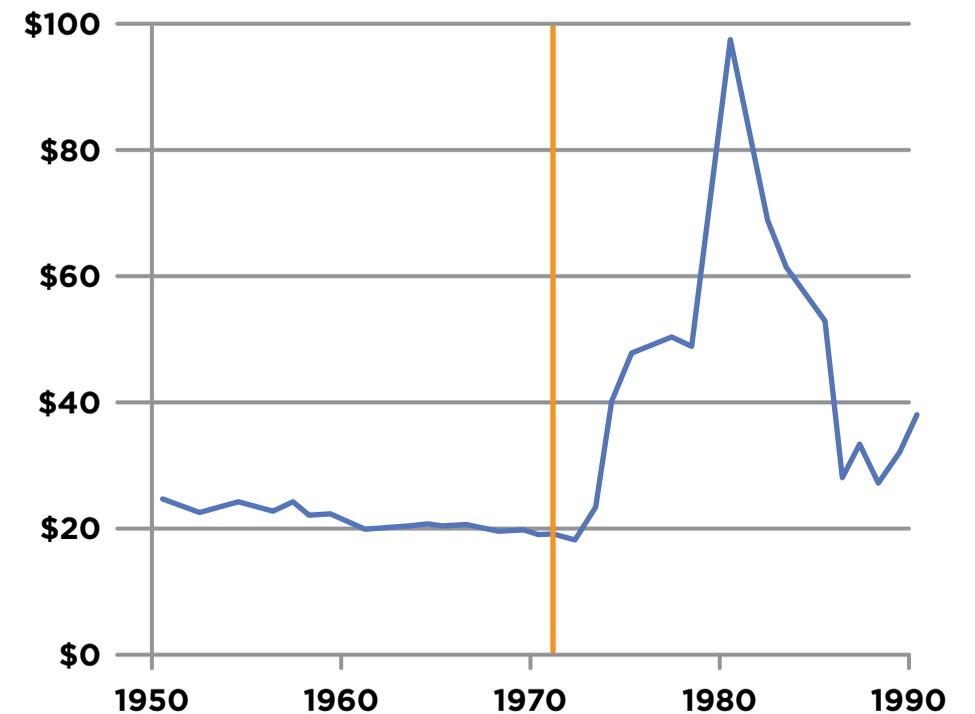
In 1973 the world did encounter an oil price shock, but Royal Dutch Shell was ready. Once the weakest of the "big seven" oil empires, the company emerged as the most profitable and second in size.

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.³⁷

By developing multiple scenarios, you can avoid the certainty of being incorrect, and instead prepare for disruptive change.

Real Oil Prices

Before and After Pierre Wack's Scenarios



\$US, Inflation Adjusted to 1979 / 1980

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 hair-pin 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.

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?

Teams that rehearse their reaction to the unexpected will be more likely to navigate through the course of uncertainty.

“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.

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

What is our business?

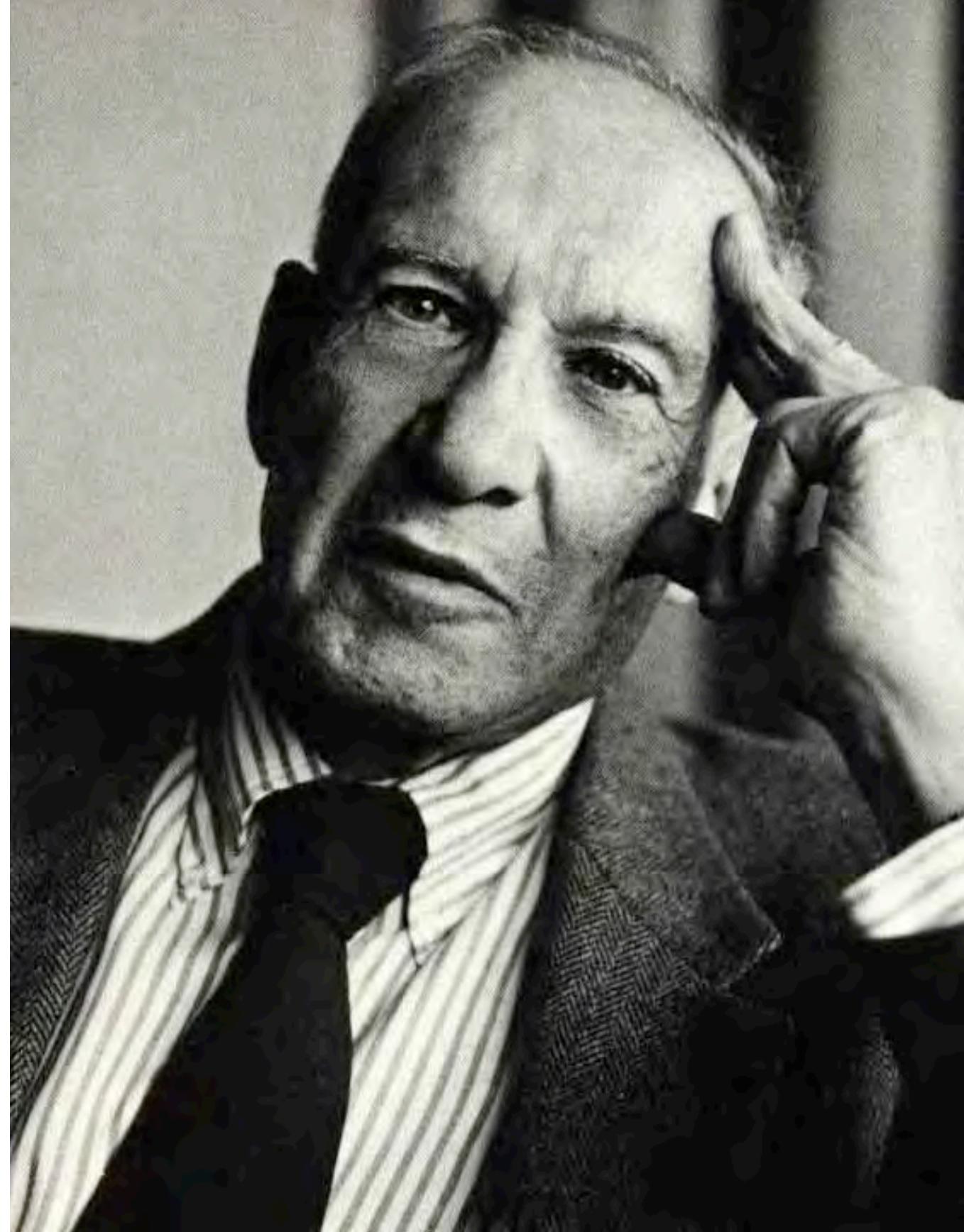
Who are the customers?

What does the customer value?

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?

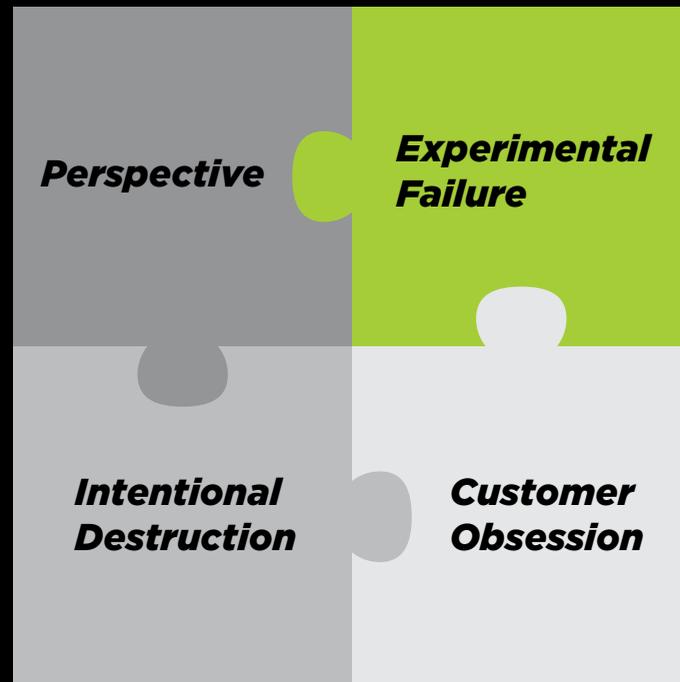
No wait, that’s crossing the line.

You will only answer the problems you are trying to solve.



***Specifically
what are
you trying
to DO?***

Culture of Revolution



Experimental Failure

Navigating through chaos requires your organization to adapt and change. This requires a culture that encourages testing and experimental failure.

A decent proportion of your creations must fail

EXPECTED FAILURE SOUNDS LIKE a strange idea; after all, how many people want to be associated with a word like *fail*? If you don't fail, however, you will become the best typewriter company in the world. If you pursue your dreams, you will experience numerous failures. But you will be on the learning curve that leads to stardom. Take the following examples:

Technology: During the tech boom, Cisco was the largest company in the world. In its early days, the company was rejected by an astonishing 76 venture capital firms before receiving funding.

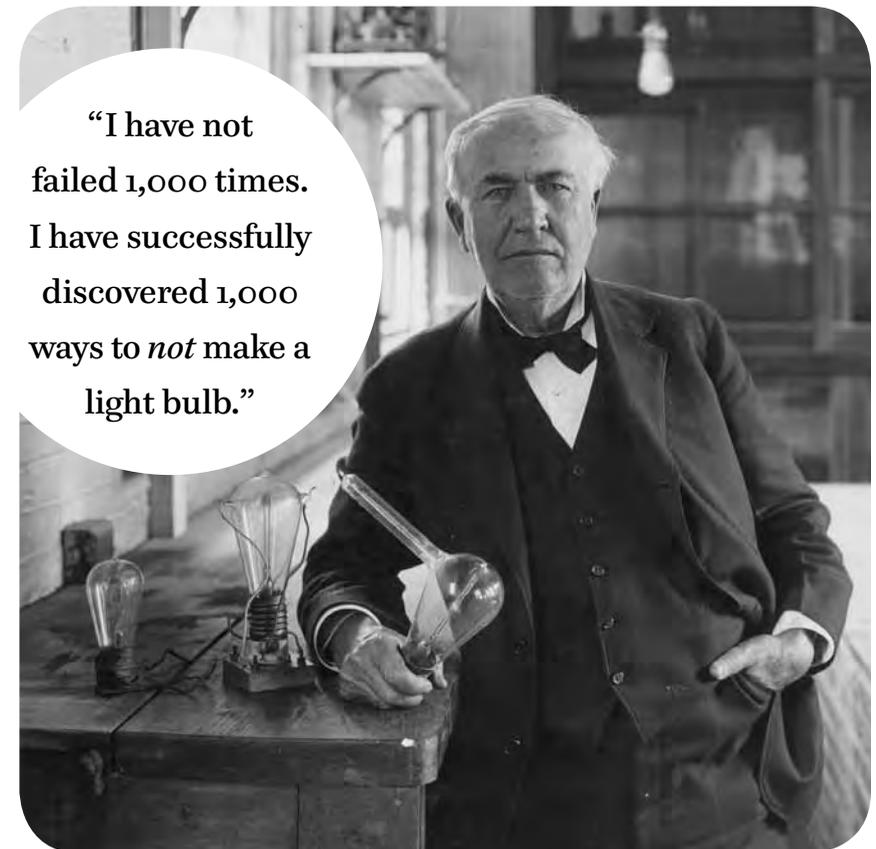
Sports: Michael Jordan was the greatest basketball player of all time, but he was cut from his high school basketball team.

Fiction: John Grisham is one of the most successful novelists of all time. He was rejected by a couple dozen publishers before getting his first big deal. He actually sold copies of his first book, *A Time to Kill*, out of the trunk of his car.

Film: In 2009 *Slumdog Millionaire* won 8 Oscars. A year prior, the original producer, Warner Bros., lost confidence in the film. They sold half their investment to Fox Searchlight and later pulled the plug completely. If it wasn't for Fox Searchlight, *Slumdog* would not have made it to the big screen.³⁴

Science: Thomas Edison invented the light bulb, but he actually failed miserably along the way.

Navigating through chaos requires a deep understanding of what you can and cannot do. Failure is a part of this learning process. To accept failure, you need to find positive ways to interpret unexpected results. Here's how Edison looked at it:



Successful ideas first require excessive testing and experimental failure.

Be wary of your strengths; success leads to complacency

OVER TIME, WE STOP TRYING.

We own that market.

He's been a client forever.

She's already my girlfriend. / He's already my boyfriend.

88 Even when the world is changing, individuals within big companies feel safe from the desperate pressure to adapt. The social repercussions of failure exacerbate this problem. In almost all situations, failure is both socially and managerially intolerable.

If a big project fails, will I miss my promotion?

Will someone on my team lose his or her job?

It's easier not to take big risks, so we end up tweaking and optimizing when we should be seeking breakthrough ideas.



Don't let complacency be the architecture of your downfall

SHORTLY AFTER STARTING WORK as a management consultant, I was assigned my first client, in sunny Miami. Tough life, hey?

After checking into my hotel room, I journeyed to the lobby to meet my new colleague. He'd already been living in the hotel for a year when I asked him how everything was going.

"Horrible," he answered. "The hotel lost my laundry . . . I hope you like this outfit, because I'm going to wear these clothes all week."

Not sure how to react, I sputtered, "They gave me a fruit bowl."

"What!?" He marched across the lobby to the hotel manager, "I've spent \$20,000 living in this hotel. You lose my laundry and do nothing about it." He turned and pointed to me. "This guy shows up and gets a fruit bowl on day one? Where's my fruit bowl?"

"I'm only going to say this once, and then I'm going to leave. Complacency will be the architecture of your downfall!"

Wow. That's intense.

Be careful not to take your customers for granted.

It's easy to find the peak of a hill . . .

WHEN YOU FIND SOMETHING you're good at, it's like ending up on the top of a hill. At whatever it is that you do, you become the best in the world. At any given point, it's easier to stay on top of your hill than to find a new place to climb.



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For Smith Corona, their hill was the world of typewriters. At any point in time, the company's innovation teams could make a better typewriter. But any other project would seem like a failure by comparison.

In retrospect, the computing opportunity seems obvious, but making kick-ass typewriters prevented Smith Corona from seeing any other opportunity.

Be careful to look beyond your own hill of competency.

. . . to find a larger hill, you have to walk through a valley

FINDING NEW OPPORTUNITIES will force you to experiment in areas of uncertainty. To discover a new hill, you'll need to fail, and you'll need to fail a lot. The key is to stay committed to the pursuit of something new.



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“Many of life's failures are people who did not realize how close they were to success when they gave up.”

—Thomas Edison

Fail your way to new success.

Create a gambling fund

AT BBC TELEVISION, innovation means coming up with new show ideas. In the late 1990s, BBC's line-up was lackluster and their market share started to fall.

Desperate to improve, the CEO and CFO implemented rigid controls around the innovation process. They wanted to gain more control and consistency.

Creative people love control, right?

92 Under the restraint, innovation narrowed. Market share went down even further. When that sort of thing happens, the upside is that you get a new CEO and CFO. Scandalous!

The new leaders perceived BBC as a big bureaucratic organization. They wanted to make changes, but were wary of sending ripples throughout the organization, so they made just one notable change: they created a gambling fund. Ideas expected to fail could still qualify for gambling fund money.

The first big idea to win gambling fund money was *The Office*. It failed the normal screening process but went on to become the biggest hit in the BBC's history.

A simple gambling fund can be one of the most effective ways to tolerate failure.



Break down managerial confidence



AN OBSERVATION:

Leaders **Ask Questions**

Managers **Act with Confidence**

New Hires **Ask Questions**

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WHEN FRESH NEW HIRES start at an organization, they are wide-eyed and full of questions. When people become more skilled, there is a natural tendency to stop asking as many questions. It's a way of proving that we've become confident and skilled.

But this confidence prevents us from seeing that the world has changed.

True leaders keep asking questions. They constantly push to get a deeper answer to the basic question: "Specifically what is it that you are trying to do?"

Break down managerial confidence and ask questions.

Don't ask, "Do you like it?" Ask, "What's wrong with it?"

MY FAVORITE BOOK in the world is Paul Arden's *It's Not How Good You Are, It's How Good You Want To Be*. The title itself is sage advice.

Arden was the former executive creative director at Saatchi & Saatchi. His job was one of the most creative in the world. To cultivate an environment that accepted failure, he noted:

"[People] will say nice things rather than be too critical. Also, we tend to edit out the bad so that we hear only what we want to hear . . . If, instead of seeking approval, you ask, 'what's wrong with it? How can I make it better?' You are more likely to get a truthful, critical answer."³⁵

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A culture that openly discusses imperfection is more likely to accept the failure that comes from acceptable risk.

Make failure a part of every day

PUSHING TIN, THE 1999 COMEDY about air traffic controllers, opened with the following line: “*You land a million planes safely, then you have one little mid-air [collision] and you never hear the end of it.*”

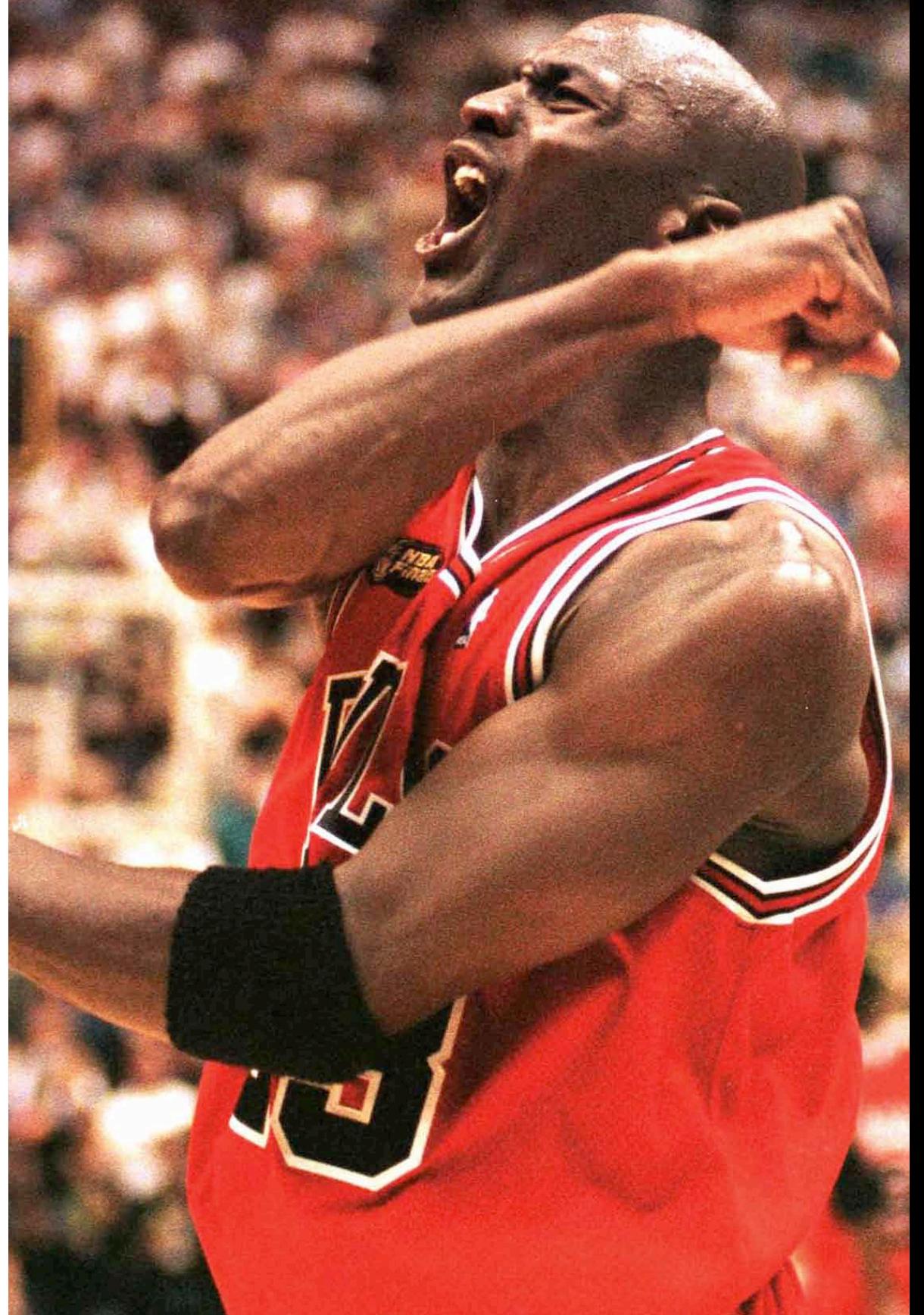
Most business situations do not involve landing airplanes, but the quote does a reasonable job of parodying the impact associated with failure: you never hear the end of it.

96 Little jokes about failure are demoralizing, which leads to a crippling aversion to risk. Unless you are landing an airplane, encourage experimental failure as a path to thinking big.

Here’s how NBA legend Michael Jordan thinks about it:

“I’ve missed more than 9,000 shots in my career. I’ve lost almost 300 games. 26 times I’ve been trusted to take the game winning shot and missed. I’ve failed over and over and over again in my life and that is why I succeed.”

Fail and win.



Michael Jordan: what a failure.

Win like you're used to it, lose like you enjoy it

INSTINCTIVELY, WE ARE INCLINED to praise success and punish failure.

In organizations, this manifests in performance appraisals, hallway conversations, and team dynamics. The unintentional impact is that individuals become less willing to pursue change.

For example, at Smith Corona, which team do you think received the most praise, the team that failed to get into computing, or the team that relocated operations to Mexico? No doubt the relocation team; however, re-locating to reduce costs was strategically obvious. It was the computing team that could have reinvented the company.

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If there is no love for the people trying to fail their way into a new industry, why would anyone clever ever want to be on that team?

If you want to encourage *me* to create breakthrough innovation, *I* need to feel protected. I need to know that I am better off trying new ideas and possibly failing than taking on riskless projects.

Celebrate failure and you will liberate innovation.

Fire people for not failing

WHEN PEOPLE ARE NOT FAILING, they are not innovating. Accordingly, the most successful leaders look at failure as a beacon of success.

In *Weird Ideas That Work*, Robert Sutton talks about the early days of MTV, a Warner subsidiary. At the time, Warner was trying to break free of its more traditional programming. To get people to think differently, chairman Steven Ross would fire people for *not* making mistakes.³⁶

Using the same concept, but in a more positive way, Microsoft waits for people to have one large, public failure before promoting them.

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IBM founder Thomas Watson, Sr. also shared this philosophy when he received a resignation call from a manager who had made a \$10 million mistake. Watson rejected the resignation, saying “You can’t be serious, we just spent \$10 million educating you.”

Even Michelangelo understood the importance of pushing limits to create something magnificent:

“The greatest danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it.”

Use failure as a benchmark for thinking big.

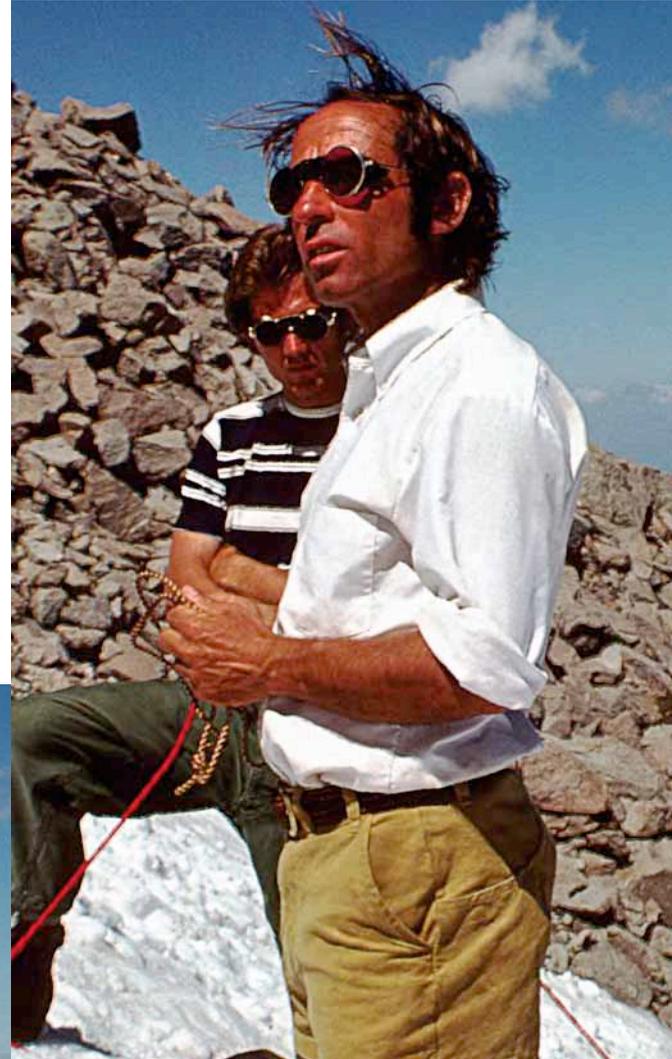
Don't celebrate the attainment of the summit, celebrate the style of climb

CULT BRAND PATAGONIA is a sporting goods company with a conscience. In their 1974 catalogue, co-founders Yvon Chouinard and Tom Frost published a surprising essay suggesting that people should buy fewer of their products.³⁷ Specifically, they asked hikers to carry less gear to reduce adverse impacts on the environment. This is not the advice you'd expect from a profit-centered company.

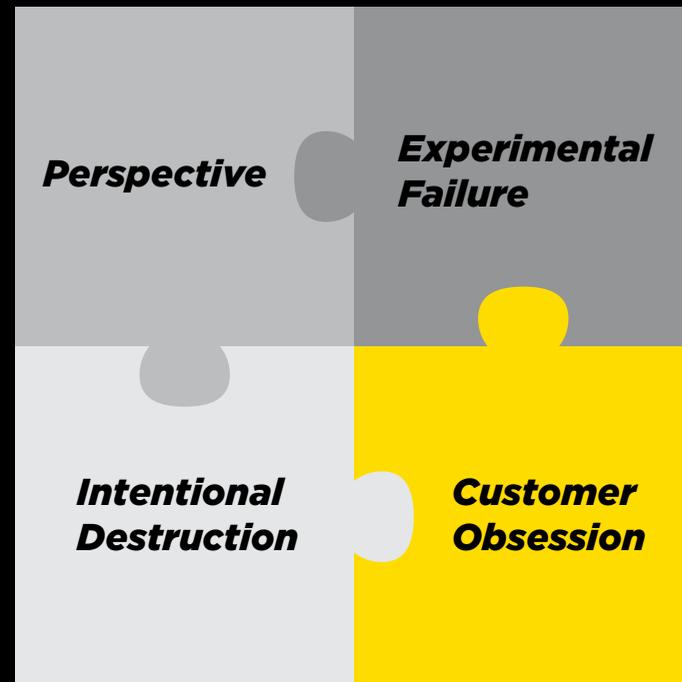
100 The essay contained a statement that serves as a reflection of their culture: *"It is the style of the climb, not the attainment of the summit, which is the measure of personal success."*

Years later, Chouinard's hiking philosophy would become a metaphor for the way that Patagonia was managed. In the 1991 recession, aggressive borrowing forced the company to lay off 20% of its workforce. This deeply impacted Chouinard. Ever since, he has restricted the company's growth and borrowing, focusing instead on the style of Patagonia's climb. Despite the constraints, Patagonia has evolved into a coveted brand.

Celebrating the "journey" fuels morale and passion.



Culture of Revolution



Customer Obsession

Breakthrough ideas and disruptive innovation stem from a deep understanding of the customer.

If you want to be remembered, invoke an emotional connection . . .

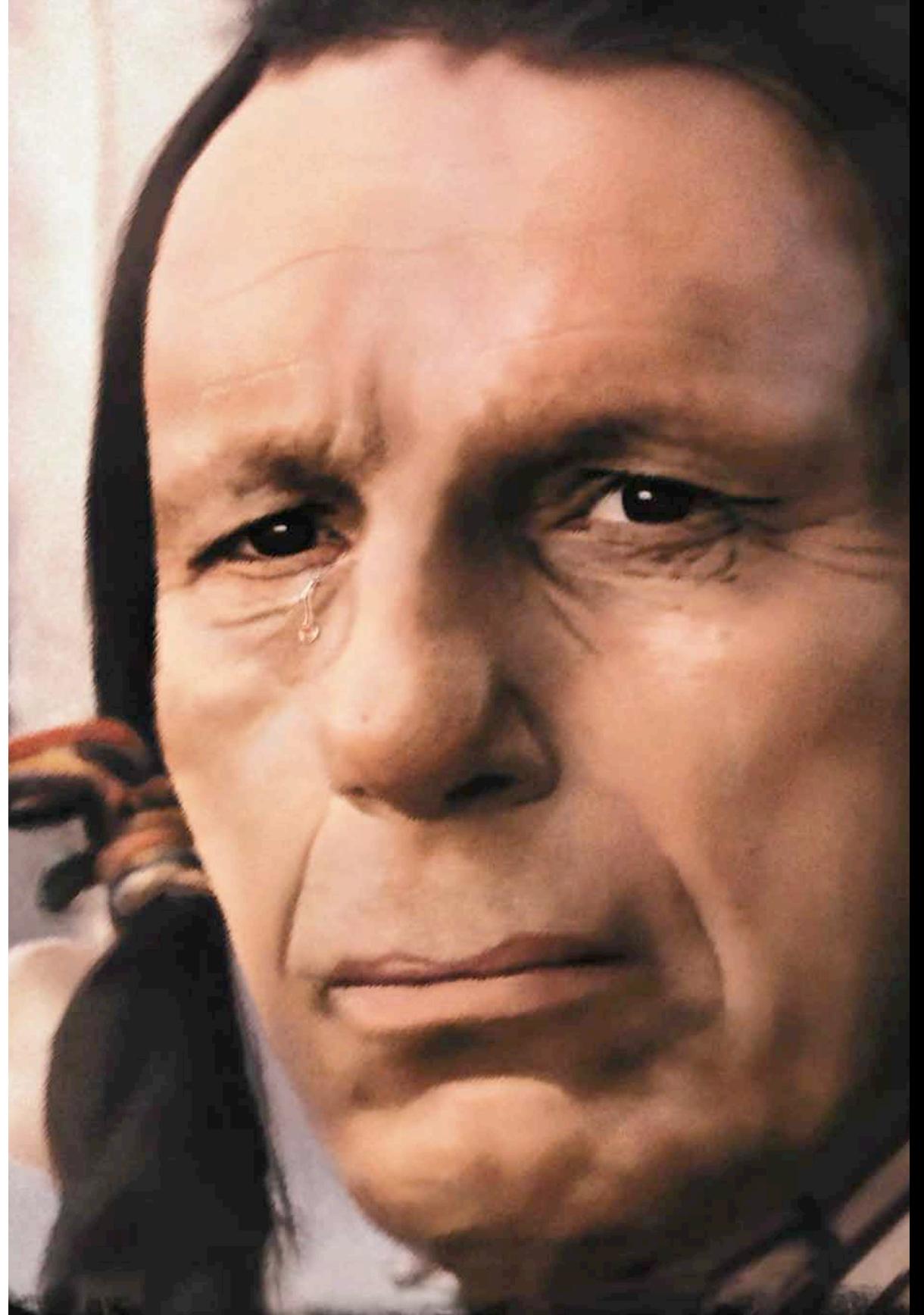
DO YOU RECOGNIZE THIS PHOTO? For many, the image of Iron Eyes Cody evokes a sharp memory of the *Keep America Beautiful* ad campaign.

Titled “Crying Indian,” the ads featured Iron Eyes Cody shedding a tear after a motorist throws trash from a speeding car.

104 Although the image dates back to 1971, people remember Iron Eyes Cody because he makes an emotional connection.

Ironically, Cody was actually an Italian named Espera de Corti, but that’s not really the point.

By creating an emotional connection, the memory of your message can become timeless.



Years later, people would realize Iron Eyes Cody was Italian.

... but does an emotional connection matter if it works just a little bit on everyone?

If you want to engage, invoke a cultural connection

REGARDLESS OF WHAT you are trying to communicate, there is a range of impact based on *how* you convey your message.



At a functional level, you could simply tell people not to litter. Going a step further, you could provide a reward or penalty. Create an emotional connection, and you could be remembered.

But being remembered is not actually the goal. In *Made to Stick*, Chip and Dan Heath suggest that Iron Eyes Cody failed because he *only* evoked an emotional memory. To *really* create an impact, you'd need to make a cultural connection.

When a cultural connection is made, your product or service becomes a reflection of your customer's lifestyle.

Obsess about your customer

A CULTURAL CONNECTION is empowering. It aligns with the soul of one's identity and beliefs. It's the reason people tattoo Harley-Davidson's corporate logo onto their arms.

When you make a cultural connection, people don't think of your creation as a product; they think of your creation as a part of their identity. To create this type of connection, you need to understand your customer.

So getting back to our case, who litters?

- Men or women?
- The young or the old?
- Do they drive cars or trucks?

If you're like most people, you are probably thinking *young males who drive trucks*. And based on their research, the Texas-based marketing firm GSD&M learned . . . you're absolutely right!³⁸

Seventy percent of these litterbugs are males.

- They are young.
- They drive trucks.
- They drink beer.
- They have shotgun racks. (Okay, I made that up, but hey, it's Texas!)
- Most importantly, they have a "King of the World" attitude.



Now, pretend you're one of those males, put yourself in that truck, and ask yourself if the crying actor stops you from throwing a beer can through your truck window?

Probably not.

Instead, the following page reveals GSD&M's approach. When you see the campaign, you'll recognize the slogan. What you might not know is that the phrase is actually a trademarked ad slogan specifically created to stop young males from littering.³⁹





Don't
mess with
Texas.TM

Don't speak to your customers, speak with them

IN 1986 ACTORS, SPORTS HEROES, and other icons appeared in TV commercials and shouted, “Don't mess with Texas!”

One of the first commercials featured two Dallas Cowboy football players, Ed Jones and Randy White, picking up trash on the side of the road. Ed Jones grabs a can and bellows with anger, “Did you see the guy who threw this out of his window—you tell him I got a message for him!”

He then crushes the can on the side of his head and says, “Don't mess with Texas.”

Tim McClure, GSD&M's executive creative director, noted, “*It was an attempt to get away from the ‘Crying Indian’ and look at things from the consumer's view.*”

Today the phrase can be found on bumper stickers, t-shirts, and in the vernacular of Texans across the state. Yet this is a *trademarked* slogan, used for the first time as part of an ad campaign.

Market from the perspective of the customer, not the advertiser.

Inspire customers to champion your brand

“DON’T MESS WITH TEXAS” was so effective that it became part of Texan culture and the challenge became keeping the slogan connected to its original purpose. To ensure this, the litter campaign relies on celebrity endorsements from Texan stars like Matthew McConaughey, Jennifer Love Hewitt, George Foreman, Owen Wilson, the rapper Chamillionaire, and Chuck Norris.

If you knew the Chuck Norris jokes, you’d surely stop littering:

- Chuck Norris doesn’t do push ups, he pushes the world down.
- Chuck Norris can kill two stones with one bird.
- Chuck Norris doesn’t wear a watch, *he* decides what time it is.
- Chuck Norris doesn’t sleep. He waits.

The celebrity messages keep the slogan in the limelight, but it can be even more insightful (if not shocking) to observe the user-generated videos on YouTube.

One video features a young man assembling a rifle in a park. When he spots a kid littering, he takes the shot and the credits denote, “Don’t Mess With Texas.” The user who made the video, firedragon15309, explains, “This is [an ad] that I made for a competition last year. It got disqualified . . .”⁴⁰

Really? What a shocker. The user also notes that Matthew McConaughey was a judge and this video was allegedly his favorite.

You might object to this video’s content, but it exemplifies the cultural connection made by “Don’t Mess With Texas.” In comparison to the crying actor, it’s pretty clear which campaign is more effective.

The Institute of Applied Research suggested that a reduction in littering of 10% would be above average; a reduction of 15% would be remarkable.⁴¹ In the five years that followed the launch (1986-1990), litter was reduced by 72%.⁴²

What would it take to convert your customers into advocates of your brand?

A cultural connection can have an astounding impact.



*In all industries innovation starts by observing the **customer** . . .*

*. . . observing matters for all levels, from the newest hire to the **CEO***

Designers

Entrepreneurs

Artists

Marketers

Strategists



CEO

Senior Managers

Worker Bees

Newest Hires

All Levels



Observe in the zone

OBSERVING THE CUSTOMER used to mean conducting focus groups, surveys, and interviews. There is still a place for this sort of research, but it will not help you connect. To connect, you need to observe your customers in their zone. This means interacting, watching purchase behavior, and engaging in conversation.

I interviewed Cadillac's head of external design, John Manoogian, about the Escalade, which was the bestselling full size SUV for several years. The Escalade was successful because it became an icon for hip hop culture. Eagerly, I asked him, "How did you make this all happen? Product placement in rap videos?" Manoogian explained that the success was a surprise. The vehicle was targeted toward older affluent males.

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John knew that the customer that would drive the Escalade's success was a customer he knew nothing about. Accordingly, he went to one of the most dangerous neighbourhoods in Detroit and waited for an Escalade to drive by. Who do you think drives the Escalade in such a neighborhood? I'll give you one guess.

He then introduced himself to the driver in a way that probably sounded like this: "Excuse me, young man, but may I accompany you for a ride as you conduct your business?" Wow.

When your world changes unexpectedly, or when your customer is very different from you, customer obsession can be the fastest way to gain perspective.



Get uncomfortable

BY 2007 GM WAS STRUGGLING with an economic crisis and skyrocketing fuel prices. The Escalade was still the heavyweight champ, but people were shifting away from gas-guzzling SUVs. Had GM obsessed about the wrong customer?

In some ways, yes. The writing was on the wall long ago about the looming oil crisis. When you obsess about a customer, you are making a choice. More importantly, when you establish a cultural connection with one group, you might be alienating others.

118 In this case, GM realized that its gas-guzzling SUVs pushed the company far away from females and eco-conscious buyers. As a result, GM decided to develop a smaller, eco-friendly car targeted toward urban females.

To better understand this demographic, the designers *literally* put themselves in the shoes of their female customers. Male engineers were required to dress in drag and then get into and out of raised trucks and SUVs to understand what it's like for women wearing dresses.

Experiments like this likely helped design cars like the Chevy Volt, a breakthrough eco-concept set to impress females. GM still has many challenges to overcome, but the methodology serves an important lesson:

Making yourself uncomfortable can lead to important insights about new markets.



Do it yourself

GM ISN'T THE ONLY COMPANY trying to deepen its understanding of the customer. The concept of anthropological research has been around for decades. More recently, executives are supplementing professional research with their own customer exposure.

Tom Kelley, the general manager of world-renowned IDEO Design notes, *“Far from being some fluffy, esoteric process of questionable value, the Anthropologist role is the single biggest source of innovation at IDEO.”* He goes on, *“people filling the Anthropologist role can be extremely good at reframing a problem in a new way—informed by their insights from the field—so that the right solution can spark a breakthrough.”*⁴³

From big companies to small start-ups, there are many examples of how ethnography can be performed:

Answer phones: At Capital One, we trained senior executives to spend a day in the call center speaking to customers.

Work the kiosk: Also at Capital One, I took my entire product design team across the country to work kiosk booths. We weren't taking product applications. Instead, we were simply talking to prospective customers.

Interview lost customers: Editors of *Fast Company* called those who had cancelled their subscriptions, hoping to better understand their discontent.

Hang in the store: Michelle Gass, senior vice president at Starbucks, took her category team to Paris, Düsseldorf, and London to spend time in Starbucks locations and local restaurants. The goal was to better understand the cultural differences in each city.⁴⁴ Her CEO, Howard Schultz, visits 25 shops a week.

Shop with customers: Springboard is a Toronto start-up with a mission to create digitally enabled shopping carts. To understand how women shop for groceries, the designers picked up customers from their homes, helped them shop, and took them all the way back to their kitchens to help put away the groceries.

Help customers plan events: At the Lavin Agency, the speaking bureau that represents me, agents get involved with clients at the conference-planning stage and even attend client events. This helps Lavin better understand client needs, and helps the agents book more business.

Customer interaction results in a profoundly deeper understanding of customer needs and desires.

Fight the confidence that you know your customer

IN 2006 I WAS PART OF Stanford Executive Education's very first Customer Focused Innovation program, led by Bob Sutton and Hayagreeva "Huggy" Rao. I was privileged to learn with a group of colleagues that included CEOs and innovation heads from the world's hottest companies.

Our team was working on a project for BP and our goal was to optimize the gas station store.

I can make a gas station better. Where do I begin?

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The project seemed straightforward and with rockstar innovators in my group, I was ready to start being creative. But despite the qualifications of these individuals, we were told that our first step would be to spend *six* hours in a gas station.

Seriously?

We were all senior level innovation executives who had purchased gas hundreds of times. I was open to learning, but six hours seemed excessive.

One of the most difficult barriers to customer observation is the belief that you already understand your customer.



Spend time in the zone

WHEN YOU RELUCTANTLY AGREE to spend *six* hours in a gas station, your next question becomes, “What do I wear so that I don’t look like a stalker?”

I settled on a t-shirt with a baseball cap. One of my peers decided to bring a baby carriage. I asked, “Why would you possibly want to bring a baby carriage into a gas station?” He made it clear, “People won’t suspect a thing. It will look like I’m taking care of the baby, but actually I’ll be writing down notes.” “Yeah, but people don’t *drive* to gas stations and then take their baby carriages into the store . . .”

“Hmmm,” he thought. “Well, I’m keeping my baby carriage!”

So there we were, a couple of creeps in a gas station.

In the first hour, my observations were as expected. But then a pattern emerged. An interesting beast: the teenage boy!

When a teenage boy drives up in his (parent’s) Honda Civic, not one, not two, not three, but four hormonal boys pop out to descend upon the store.

Teenage boys *group shop* at gas stations!

As they examine products, they say things like, “Hey, is that the new Rockstar drink? How much? Five bucks? What a rip-off! Yeah, get me one too . . .”

They are *price-insensitive* (because they are shopping with *your* money) and are therefore a marketer’s dream.

But what do teenage boys like? Is there *anything* that gets their attention? At the core, it became clear that it’s not difficult to bait teenage boys with teenage girls. (As a side note, I used this example while speaking at a conference for Catholic schoolteachers and their answers were more graphic than your innocent mind might imagine.)

The challenge then evolves into how you attract teenage boys without alienating every other market segment. So we decided to specifically test the limits of what we could do by building a prototype store called Rockstar Fuel.

We asked ourselves, “What would make my mom upset if she knew I’d created it?” We launched a line of combo packs aimed at teenage boys, like a six-pack of beer with a box of condoms. If that doesn’t upset my mom, I really don’t know what would.

As people went through our store, I’ll never forget the reaction of one 50-year-old female. When I asked her if she liked our store, she said, “Yes!” Surprised, I inquired further and she explained, “Yes, it’s dirty, but . . . in a different way. Normally, the bottle of water I buy is next to motor oil and a fan belt. This is at least cleaner. It’s not for me specifically, but it’s cleaner.”

In contrast, our teenage boys would never leave the store.

Customer obsession can drive insight, but getting to breakthrough ideas will require you to push your comfort limits.

Seek authenticity

THERE ARE MANY REASONS to obsess over your customer, but the most important is the simple concept of authenticity. If you want to create a cultural connection, then, quite simply, you need to take an authentic interest in your customer.

I had a chance to “hang out” with Shaheen Sadeghi, co-founder of Quicksilver. Shaheen lets the concept of cultural authenticity rule everything he does. He loves to describe the way Nike struggled and failed to build their way into the surfing market.

126 Basketball, tennis, running, soccer, hockey, football, and golf: these are just a few of the areas in which Nike merchandise reigns supreme. But after countless attempts, Nike was never able to penetrate surf culture.

Shaheen attributes this to Nike’s lack of an authentic cultural connection. Surf culture is grassroots. It is less about the individual superstar and more about the lifestyle. Nike didn’t get it.

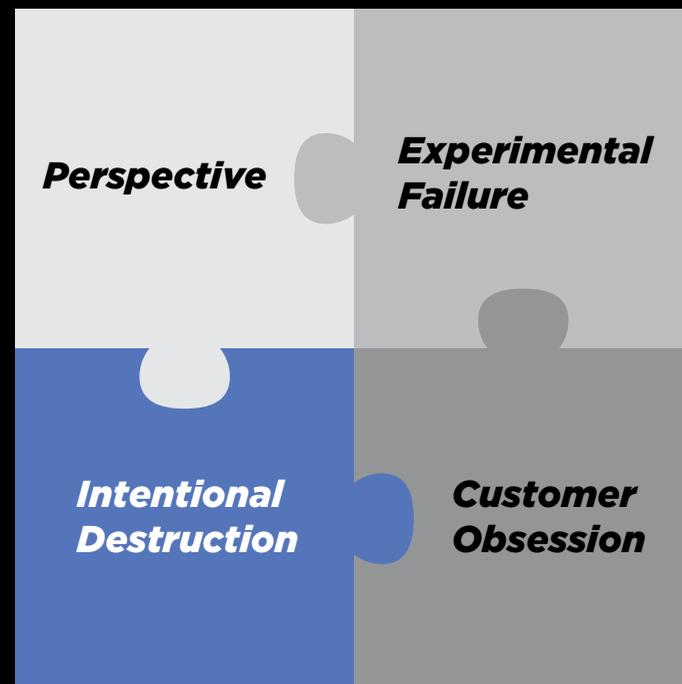
In the end, Nike bought Hurley to capture part of the market, but the Nike swoosh remains absent from the rip curl.

Shaheen explained, “*People are starting to really be a lot more connected to what is important to them. Nike is a great example because if you don’t have a cultural connection, you can’t make it.*” He summed it up:

“Authenticity is big, and you can’t buy it. You have to earn it.”



Culture of Revolution



Intentional Destruction

In order to adapt, we must intentionally destroy. We need to break down the structure and hierarchy that prevents us from seeing the realities of market change.

Tear apart structure

MOST ANIMALS BEHAVE INSTINCTIVELY. Fish know how to swim. Birds know how to build a nest. But for primates, including humans, behavior is learned within a social structure. We follow organizational patterns and rules unless those rules are dramatically changed.

Stanford neuroscientist Robert Sapolsky studies the social structure of baboons.⁴⁵ More than 20 years ago, Sapolsky observed a baboon troop with multiple layers of structural rank. Socially senior baboons would beat on middle-ranking baboons who would in turn beat on lower-ranking baboons. Those bastards.

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But then something happened. The senior ranked males started fighting a neighboring troop over tourist garbage. Eating trash exposed the aggressive males to tuberculosis-tainted meat. Instant karma.

Over the next three years, the elders died off, leaving the troop absent of structure. Instead of recreating multiple levels of aggressive hierarchy, the young baboons created a culture of pacifism. Acts of friendship replaced aggression.

Instead of struggling, the community flourished. Hormone samples indicated lower stress and the same culture remains 20 years later.

Organizational structure guides the way we grow and the way we think. To spark a revolution, structure needs to be broken down.



Become leaderless

ROD BECKSTROM, an entrepreneur and Silicon Valley CFO, was on a jetliner waiting to leave New York's LaGuardia Airport. Then, two planes smashed into the Twin Towers, where Rod often held his meetings.

Rod then dedicated his purpose to understanding the dynamics behind such devastation. He studied terrorist networks and started to identify patterns between the structure of Al Qaeda, P2P file sharing, and Alcoholics Anonymous.

In *The Starfish and the Spider*, Rod and his co-author Ori Brafman explore what they call the “unstoppable power of leaderless organizations” using the metaphor of the starfish.

When you pull off the arms of a spider, it dies. In contrast, if you rip off the five arms of a starfish, you'll get five new starfish. This happens because starfish have decentralized nervous systems.

Like a starfish, a terrorist network is decentralized, united only by ideology. If you attack one arm, it grows back even stronger.

Similarly, when the recording industry attacked Napster, unstoppable replacements stepped into Napster's place.



In addition to terrorism and music piracy, decentralization can also be used for *good*.

In 1934 Bill Wilson was a talented individual who drowned his Wall Street career by being perpetually intoxicated. In the years that followed, he created a support group that would later be known as Alcoholics Anonymous (AA). In their most recent Fact File, AA reported more than 100,000 support groups totaling nearly 2,000,000 members.

Despite its success, the AA Fact File describes its structure as follows, “*Alcoholics Anonymous is not organized in the formal or political sense. There are no governing officers, no rules or regulations, no fees or dues.*”⁴⁶ Instead, the organization thrives based on a universal ideology.

Inspired by this, Beckstrom and Brafman created Global Peace Networks, an underground ring of CEOs united by a common ideology for peace (and business). In 2003, these CEOs initiated Track II diplomacy between India and Pakistan. Specifically, the actions opened the borders, enabled trade, and contributed to the end of the latest Indo-Pak war.

The authors summarized their view toward innovation using a rule they call *The Power of Chaos*: “*Starfish systems are wonderful incubators for creative, destructive, innovative or crazy ideas. Anything goes. Good ideas will attract more people, and in a circle, they'll execute the plan. Institute order and rigid structure, and while you may achieve standardization, you'll also squelch creativity. Where creativity is valuable, learning to accept chaos is a must.*”⁴⁷

Chaos should not be tempered with structure, it should be harnessed with ideology.

Stop telling people what to do

GREAT LEADERS DO NOT tell people what to do. Rather, they create an environment that enables individuals to achieve their full potential. Below are three examples:

“The role of the Director is to create a space where the actors and actresses can become more than they’ve ever been before, more than they’ve dreamed of being.”
—Robert Altman, Oscar-winning Director

134 “We are constantly amazed by how much people will do when they are not told what to do by management.”
—Jack Welch, CEO of GE

“GEICO CEO (Tony Nicely) loves his job, that’s one of the reasons I like the company, as his boss my goal is to make sure he keeps loving his job, because he’s a smart competent guy and his competitive advantage is that passion. So I pretty much leave well enough alone—because all I can do is mess it up.”
—Warren Buffett, Investment Legend

To navigate chaos, organizations require the reaction speed and capabilities that only exist when employees are empowered.



Build a creative work environment

IN THE EARLY 1980s, New York City was riddled with crime. However, instead of cracking down on the murder and gang warfare, Mayor Rudolph Giuliani ordered police to crack down on petty crime.

Individuals who dodged paying for subway tokens were handcuffed and fined. The streets were swept clean of litter. Graffiti was covered with fresh paint on a daily basis.

Within a couple of years, New York's crime rate fell dramatically. The city went from being one of the most dangerous to one of the safest cities in America. Many attributed New York's metamorphosis to the "Broken Window Theory," which suggests that the presence of disorder and petty crime triggers more disorder and petty crime. This theory was popularized by Malcolm Gladwell in *The Tipping Point*, but critics suggested there was never any psychological proof . . . until now.

In a 2008 article titled "The Spreading of Disorder," Kees Keizer and his colleagues created dozens of real world experiments to prove or disprove the "Broken Window Theory."

For example, if you walk past a mailbox and notice \$10 sticking out of an envelope, would you push the envelope back into the box? Or would you steal the money? Would your answer change if the mailbox was covered in graffiti?

The results were astounding.

Without graffiti, 13% of people would steal the cash. With the presence of graffiti, stealing doubled to 27%. With the presence of litter, stealing increased to 25%.

In another experiment, Keizer placed fake flyers on the handlebars of bicycles. When the adjacent wall was clean and orderly, 33% of bike owners threw the flyer on the ground. When the wall was laden with graffiti, the proportion of litterbugs jumped to 69%.⁴⁸



The point is that small signals and situational context play a meaningful role in human behavior.

A traditional and boring work environment will result in traditional and boring ideas. Knowing that environmental context is so powerful, what can you change to make your office a place for creativity?

Creating an environment of innovation can encourage people to break routine and pursue revolutionary ideas.

Act crazy*

***especially if you're a senior leader**

INFLUENTIAL PEOPLE have an unintended impact on group dynamics. Their actions become over-interpreted, and their sage advice can unduly squelch the creativity of a group, causing everyone to conform to their way of thinking.

At the Stanford Institute of Design (d.school), we were brainstorming to come up with ways to improve a female fashion store. The most influential person in the group was the COO of a major company and a credited inventor.

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A typical rule in brainstorming is that junior participants kick off the discussion. This prevents ideas from being creatively hindered. Yet in this case, the most senior person made the first suggestion. His idea for young females: “Free nachos when they enter the store!”

What?! Free nachos?

It sounded like a crazy idea, but around the room, people got the point: *If he says that, I can say anything.* Not only did he spark creativity, but he also encouraged free thought. In fact, his wild suggestions even inspired realistic ideas from others: “Free Nachos to welcome people? Okay, how about a customized welcome experienced . . . a tailored entrance to the store.”

The role of a leader is not to suggest great ideas, but rather to create an atmosphere that fosters the ideas of others.



Hire freaks

CREATIVE, ECLECTIC PEOPLE are more fun. It's a fact. Tom Peters likes to use the term “freaks,” noting that he loves freaks for many reasons. In his “Re-imagine” presentation slides, Tom notes the following key points:⁴⁹

- When interesting things happen, they were done by a freak.
- Freaks are more fun.
- “We need freaks. Especially in freaky times.”
- Surrounding yourself with freaks makes you seem somewhat freakier, which is important because . . . we need freaks.
- “Freaks are the only (*only*) ones who succeed—as in, make it into the history books.”
- Freaks can prevent us from losing our connection to a chaotically evolving world.

Tom Peters isn't the only advocate of freaks. Saatchi & Saatchi CEO Kevin Roberts suggests, “Hire crazies” and “Avoid moderation.”

What if Smith Corona listened to the freaks who wanted to make computers? What if the *National Enquirer* listened to the freaks who wanted to make a website? What if Britannica listened to the freaks who wanted to digitize content with Microsoft?

Non-traditional thinkers offer the maverick ideas and the personality required to adapt.



Piss people off

CHAOS REQUIRES organizations to make bold changes. But people tend to become complacent, so transformational change will cause resistance and discontent. Don't let this be a barrier to change.

As Colin Powell puts it:

“Being responsible sometimes means pissing people off. Good leadership involves responsibility to the welfare of the group, which means that some people will get angry at your actions and decisions. It's inevitable, if you're honorable. Trying to get everyone to like you is a sign of mediocrity.”

When leaders avoid making these bold changes, the organization fails to adapt, and the most creative individuals will go elsewhere.

Powell expands, “Ironically, by procrastinating on the difficult choices, by trying not to get anyone mad, and by treating everyone equally ‘nicely’ regardless of their contributions, you'll simply ensure that the only people you'll wind up angering are the most creative and productive people in the organization.”⁵⁰

Pursue the welfare of the group by making difficult decisions.

Let reason triumph over hierarchy

IN 1975 FINANCE MAVEN Ray Dalio was fired from his job at a stock brokerage. From his point of view, he couldn't fit into a corporate culture where hierarchy was more important than logic. So he started his own firm, Bridgewater Associates, where conflict and reasoning are more important than seniority:

“Conflict in the pursuit of excellence is a terrific thing and is strongly encouraged, in fact demanded. There should be no (or as little as possible) hierarchy. Certainly there are organizational ‘superior-subordinate’ relationships; however, every ‘subordinate’ is encouraged to argue with his or her ‘superior’ if he or she thinks they know the better way, and every ‘superior’ is required to encourage this . . . I want power to lie in the reasoning, not in the position, of the individual.”⁵¹

At Bridgewater a superior cannot overrule a subordinate. Disagreements need to be solved through reasoning or reviewed by a third party. Today, the firm manages \$80 billion dollars of assets, making Dalio a billionaire. Since inception, the firm has averaged a 15% annual return. When the markets crashed in 2008, Bridgewater was among the most prepared, with its two largest funds reporting a gain of 9%.⁵²

Fight as if you're right, listen as if you're wrong.

Diversify thought

WE CAN'T ACTUALLY PREDICT what the world will be like in 20 years. However, you can narrow in on a few different scenarios that might require your preparation today.

To create these scenarios for one of the world's largest technology companies, my consulting team held weekly workshops with the client's top 10 executives and the most diverse minds we could recruit.

144 One of these recruits was Jaron Lanier. In a group of clean-cut consultants, Jaron stood out not only because he was wearing a t-shirt, but also because he's a big Caucasian guy with dreadlocks. His bio adds to the mystery: Jaron can claim to have been a goat herder, an assistant midwife, an artist whose work has been shown at the Museum of Modern Art of the City of Paris, a Polygram-published musician, a Stanford lecturer, a high school dropout, and the inventor of virtual reality. He has his own stamp in Palau. Controversially, he openly detests crowd-sourced projects like Wikipedia and open-sourced software.⁵³

Adding non-traditional thinkers to your group will challenge your organization to look at alternate perspectives and develop in more creative ways.

In the 1970s and 1980s, diversity meant gender. In the 1990s, diversity meant culture. Today, diversity means non-traditional thought.

Cross-pollinate your ideas

GOLDCORP WAS A LITTLE mining company that wanted to grow. But Goldcorp was down on their luck. No matter where they looked for gold, their properties seemed to lack potential.

It was a time of crisis.

145 In *Wikinomics*, Don Tapscott and Anthony D. Williams reveal Goldcorp's revolutionary approach.⁵⁴ With nothing to lose, CEO Rob MacEwen tried something unprecedented. He published Goldcorp's highly-secretive geological data. He revealed 50 years of data from Goldcorp's Red Lake property, a property that seemed barren to Goldcorp's geologists. MacEwen offered \$575,000 in prize money to any person in the world who could identify a strategy for unearthing hidden gold. In total, Goldcorp received 110 new strategies. Some ideas were from geologists, but unexpectedly, there were ideas from students, professors, chemists, and military officers. MacEwen noted, "*We had applied math, advanced physics, intelligent systems, computer graphics, and organic solutions to inorganic problems. There were capabilities I had never seen before in the industry.*"

The new methodologies led Goldcorp to unearth 8 million ounces of gold, catapulting the small \$100 million company to a \$20 billion valuation.

The problems you are solving have likely been tackled in parallel industries. Open the door to new methodologies.



EXPLOITING

CHAOS

UPDATED & EXPANDED

Get Create the Future + The Innovation Handbook

Written by New York Times Bestselling Author
Jeremy Gutsche

Foreword by Malcolm Gladwell

Enhance your innovation toolkit with Jeremy Gutsche's new double-sided book, *Create the Future + The Innovation Handbook*. Featuring a revised and expanded version of Gutsche's *Exploiting Chaos*, this 2020 release boasts more than 130 pages of brand new content to help you think disruptively. Order your copy today and master the tactics Gutsche learned while helping more than 700 brands, billionaires, CEOs and NASA in their quest to Create the Future.

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Remove the walls that separate people and ideas

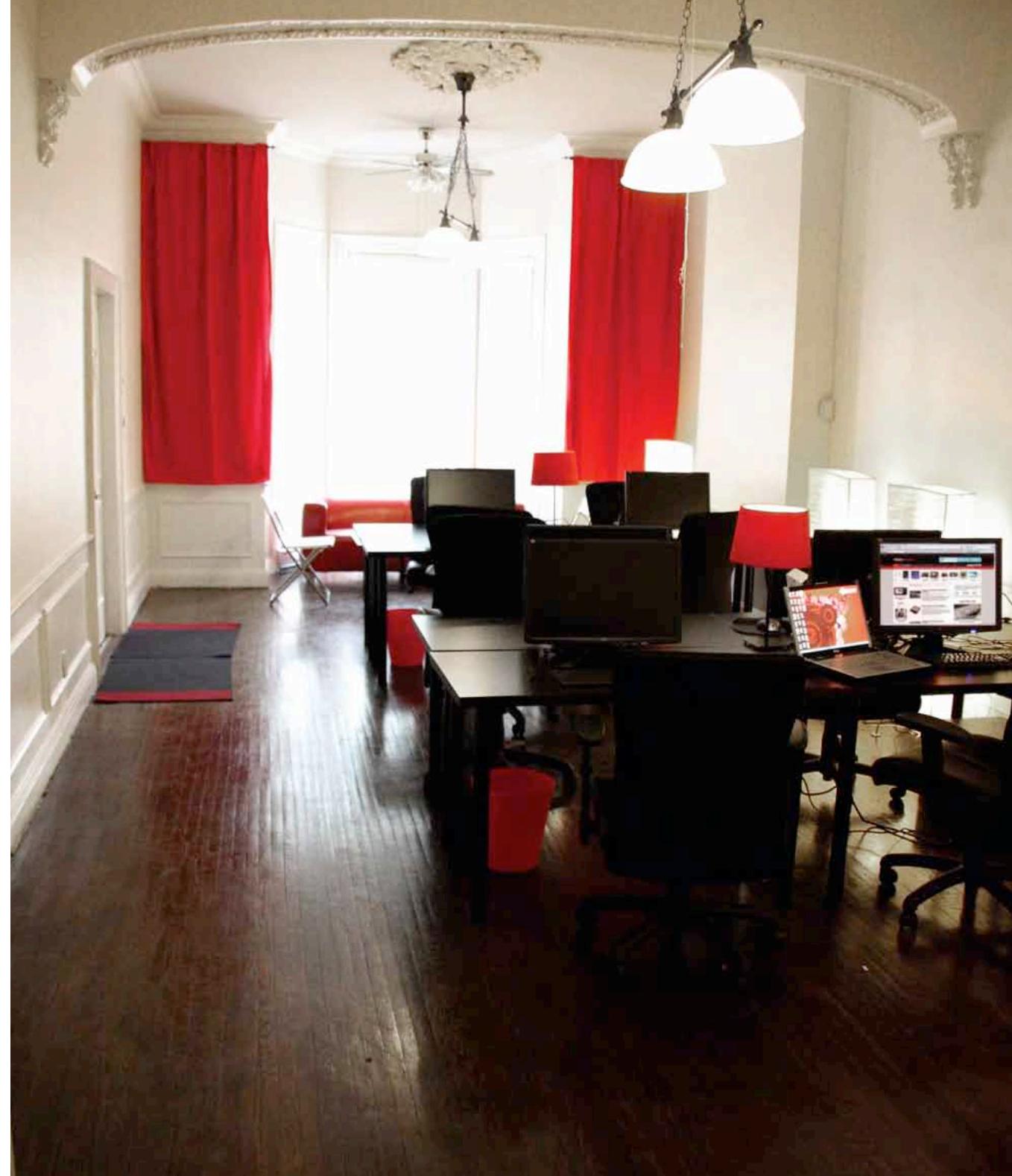
CANADA HAS THE SECOND-LARGEST oil reserves in the world, making it the natural home for some of the biggest energy trading firms. One of those firms, Peters and Co., was a dominant player since its inception in 1971. As an undergraduate finance student, I remember touring the Peters and Co. headquarters in the late 1990s. The office was majestic with expensive furnishings, a scent of luxury, and French doors separating each office.

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Weeks later, I visited the office of FirstEnergy Capital, the start-up founded just down the block. At FirstEnergy, there were no offices and there were no walls. The CEO, Brett Wilson, sat at a desk next to the other associates. He explained that you can't grow and be agile with office walls that slow you down. This kind of thinking led FirstEnergy to attract the brightest minds, craft the most aggressive strategies, and propel past its iconic rival to become #1. It was then that I realized I would only ever want to work at companies with open office environments.

To this day I forget that most organizations are still stuck in the 20th century where office walls separate people *and ideas*. To anyone with their own office, the concept of working next to your associates seems wildly distracting. But keep in mind that those who sit next to their peers and leaders think differently:

Open offices facilitate communication, teamwork, and ideas.



Destroy the perks of seniority

EXECUTIVE PARKING SPOTS, dining rooms, separate floors, and hierarchal power. These are just a few examples of the perks that cripple agility. In a world of chaos and evolution, organizations must break apart everything that prevents being nimble and fast.

In 1989 Marcel Telles became the CEO of Brahma, the struggling #2 player in the Brazilian beer market. A market trader, Telles was accustomed to the high-paced open environment of the trading floor. With this background, he made two powerful changes: First, he ramped up Brahma's analytics to enable a remarkable focus on customer inventories and satisfaction. Second, he knocked down office walls, created an open work environment, and removed all of the executive perks that might lead to a sense of entitlement.

In the two decades that followed, Brahma grew from #2 in Brazil to #1 in the world. Brahma is now an agile, growth-hungry beer monster.

In his report "How to Thrive in Turbulent Markets," Donald Sull attributes this rise to the company's extraordinary focus on agility.⁵⁵

Elements of status create both hierarchical distance and physical separation, which prevents agility and teamwork.

Encourage informality

TO BE CREATIVE, individuals need to feel that their environment allows change. In large organizations where structure and process define so many rituals, it can be difficult to foster this kind of creative flexibility. In times of change, organizations have a tendency to seek stability, but excessive structure threatens creativity.

Jack Welch, who made GE a nimble powerhouse, recognized this dilemma. He addressed bureaucracy by emphasizing the importance of being less formal. He instructed his team:

"Send handwritten notes instead of memos, keep meetings conversational, and encourage dialogue up and down the corporate ladder."⁵⁶

Even the most bureaucratic organizations can spark creativity by creating the perception of openness to change.



Celebrate that nothing is precious

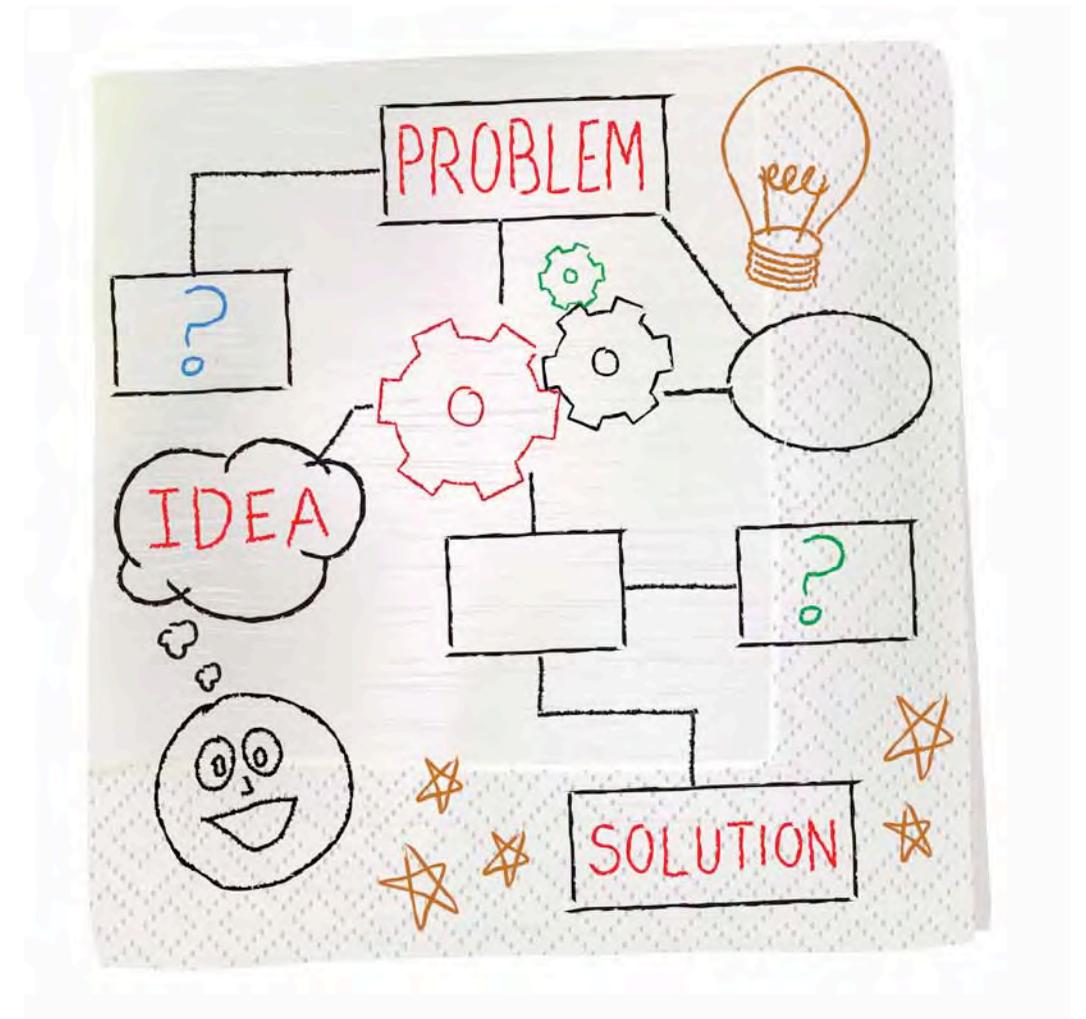
AT THE STANFORD D.SCHOOL, design thinking principles are applied to business problems. One of these principles is a d.school mantra: “Nothing is precious.”

I remember watching a student tediously present his idea for an eco-product. His idea was carefully sketched out on a big piece of paper, but it was difficult to understand. I still don’t know what he was trying to create. When someone said, “Nothing is precious,” he laughed, ripped up the paper, and everyone cheered.

In most office cultures, people lack the support to jokingly dismiss their failure. Here, “Nothing is Precious” enabled a cultural celebration of both good and bad ideas. People felt comfortable sharing undeveloped thoughts. Here’s why that’s important: If your culture requires people to refine ideas before sharing, people spend weeks crafting their ideas. Then, two things happen: First, people become resistant to feedback. Second, feedback providers cushion their input.

In contrast, if your culture enables someone to share an idea scribbled on a napkin, he or she won’t get upset if somebody rips that napkin apart. Imagine trying to say, “Why did you do that? I spent five minutes of my life working on that napkin!”

By accepting that “nothing is precious,” innovation becomes collaborative and ideas become more robust.



Destroy value

IN THE LATE 1980s, Bill Gates dreamt about a future where learning would be digital. He took his dream to the Benton Foundation, which owned Britannica, the leading encyclopedia.

Benton turned Gates down, worried about cannibalizing their printed book sales.

Years later, Gates bought the rights to the Funk & Wagnalls Encyclopedia, a third-tier brand available in grocery stores. In 1993 the content was digitally re-launched under a new brand, Encarta.

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By 1996, Encarta had become the most recognized, best-selling brand of encyclopedias. The Benton Foundation was forced to sell Britannica below book value.

Had Benton been willing to destroy value, they could have thrived. But it's not that easy.

Later on, even Microsoft was unable to destroy value. Instead of moving to the web, Microsoft held on to its CD-based Encarta.

This opened the door for Wikipedia, which stepped into the limelight and grew to become one of the world's ten most popular websites.

Destroying value may seem nearly impossible, but resistance will cause your organization to be displaced.

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- A LIBRARY so compact that it places readily before you complete knowledge of every subject.

Encyclopædia Britannica

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Payments of \$2 each.*

*Offered for 30 Days at \$30 Cash, or
\$33 in Monthly Payments.*

Throw away your best ideas

PETER LYNCH IS AN AWARD-WINNING documentary director. He directed many of the Trend Hunter TV episodes, and along the way, provided some paradoxically remarkable advice: throw out your best idea.

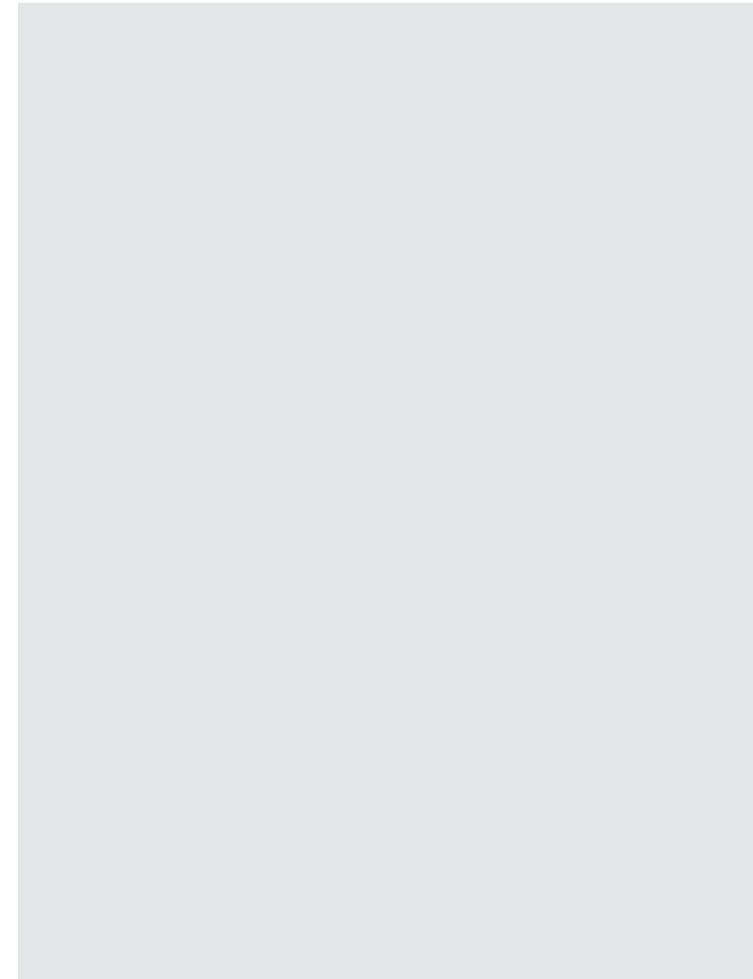
When creating documentary films, Peter shoots a lot of footage. During the process, patterns emerge, and certain ideas resonate. The danger is that these ideas become points of fixation.

In the 1980s, Peter was making an unusual film, titled *Project Grizzly*. The documentary features an eclectic man whose life mission has been the creation of a grizzly-bear-proof suit of armour. The man's goal was to build the suit and put it to the ultimate life-thrilling test: to see if a bear would kill him or if the suit would offer enough protection.

Within a week, Peter recorded footage of the man tumbling down a cliff, setting himself on fire, getting hit by a speeding truck, and getting his friends to beat him with baseball bats.

Bizarre.

The footage was leading Peter to focus on just how crazy this man had become. However, Peter removed the most bizarre footage. This forced him to look beyond the concept of insanity to unlock a deeper plot: the man's search for meaning.



Peter told me, *“If I used the most bizarre footage, the audience would have lost empathy for the character and the overall story would have become less engaging.”*

His concept is that your best idea can blind you to breakthrough creativity.

By removing your best idea, you become forced to raise the bar on everything else.

Laugh

ALTHOUGH THIS BOOK glamorizes “chaos,” the word’s colloquial interpretation is synonymous with stress. *All these changes are making work chaotic and I’m going to vomit.* Okay, I added the “vomit” part, but this section is a note on laughter, so it’s okay.

When organizations encounter dramatic change or uncertainty, the stress placed on individuals can have a dire impact on performance. *If you don’t like my new idea then don’t ask me for it.*

Laughter can lighten the mood in stressful times. But it also serves a more important purpose: bonding.

On the surface, laughter seems like a playful but uncontrollable outlet for human emotion. Diving deeper into evolutionary neurobiology, it becomes apparent that laughter plays a critical role in human bonding.

In *Mind Wide Open*,⁵⁷ Steven Johnson explored the laughter studies of neurobiologist Robert Provine.⁵⁸ Curious about the root of laughter, Provine observed hundreds of conversations, noting the following “punch lines” which triggered people to laugh, including:

- I’ll see you guys later.
- Put those cigarettes away.
- I hope we all do well.
- It was nice meeting you too.
- We can handle this.
- I see your point.

- I should do that, but I’m too lazy.
- I try to lead a normal life.
- I think I’m done.

If you didn’t laugh already, then you’ve come to the same conclusion as the researchers: people laughed even though 85% of the so-called “punch lines” were not actually funny.

The only really funny example was *“He tried to blow his nose, but he missed.”* That I would like to see.

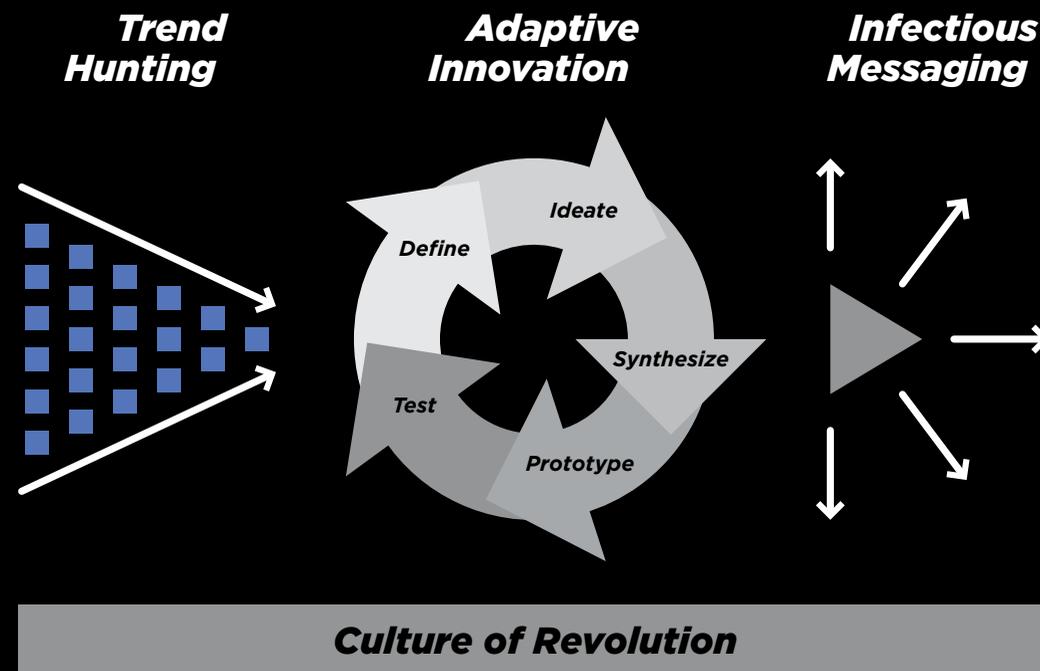
The insight is that laughter is primarily a social phenomenon driven by the psychological need to forge bonds with other people. This social need to connect is the same reason that babies laugh even though they do not have the cognitive ability to understand your hilarious jokes.

Laughter can help individuals to feel more valued. In times of change, this cohesion enables feedback and a tolerance for failure.

Work teams that laugh together become resilient.



Exploiting Chaos™



Part 3

Trend Hunting

Innovation and strategic advantage hinge on the ability to anticipate trends and identify the next big thing. By casting a wide net and clustering ideas, you can filter through chaos to identify patterns of opportunity.

This section breaks Trend Hunting into four steps:

- 1. RESET: Erase your expectations and start with a blank slate.*
- 2. HUNT: Study customer needs, market dynamics, and random sources of inspiration.*
- 3. CLUSTER: Identify meaningful patterns, not macro trends.*
- 4. RE-CLUSTER: Force yourself to look beyond your initial bias.*

There's no point innovating if you think you already know the answer

BRAINSTORMING MEETINGS are supposed to generate killer strategies and smoking-hot ideas. The problem is that we enter those meetings with a few ideas that we already want to incorporate. We then work those ideas into the mix and let everything else convince us that our original ideas were really good. *Tragic.*

160 I interviewed Marco Morrossini, a designer for Ferrari. I asked him how he spots trends. He said he spends half his time designing handbags, scarecrow fashion, and temples for dogs (yes, dog architecture). He explained,

“You need to be more open to the complete possibility of what could be.”

In his mind, there is no way that he could keep his work at Ferrari on the cutting edge of macho automotive design if he wasn't also on the cutting edge of experimental female fashion.

It doesn't matter if you are a bureaucrat or a bartender, the concept of Trend Hunting applies to your role. But it requires an open mind and a willingness to explore seemingly random innovation.

Before trend spotting, reset your expectations.



Actively seek inspiration

ICONIC FASHION DESIGNERS don't craft their ideas around a boardroom table. Despite being tremendously creative, they *actively* seek inspiration. They look for ideas in other industries, like design, architecture, pop culture, music, and art.

They can't get ideas by observing their customers because their customers are kids in suburban shopping malls—trend followers. Instead, these designers look for bizarre and unique ideas. They look for the kids in metropolitan cities who walk around making fringe fashion statements in gas masks, homemade clothing, and peculiar shoes. Too cool for school, these kids cringe at mainstream fashion, but by being unique, they inadvertently drive the pulse of fashion culture.

In any industry, it is not difficult to find unique ideas. Micro-trends and viral innovations surround us. But the world has become saturated with chaos. Thus, when we hunt for cool, we find bizarre trends like baby toupees, terror fashion, tattoos for the blind, Twitter, and co-ed matching haircuts.

Inspiration has become distracting.

If you layer on your customers, competitors, and corporate strategies, it becomes difficult to focus.

So how do we make sense of all the noise?

Braille Tattoos



10394

Corporate Strategy



Baby Toupees



37285

Feathered Eyelashes



34976/1

Helicopter Yoga



20534

Co-ed Matching Haircuts



12521

Credit Crisis



163

Terror Fashion



29690/10

Develop a toolkit to filter ideas

WHETHER YOU'RE AN ENTREPRENEUR, artist, bureaucrat, or marketer, your goal probably involves creating something that “connects” with other human beings.

In the pursuit of something that “connects,” your creativity and effectiveness are likely hindered by organizational structure, uncertainty, and unexploited opportunity.

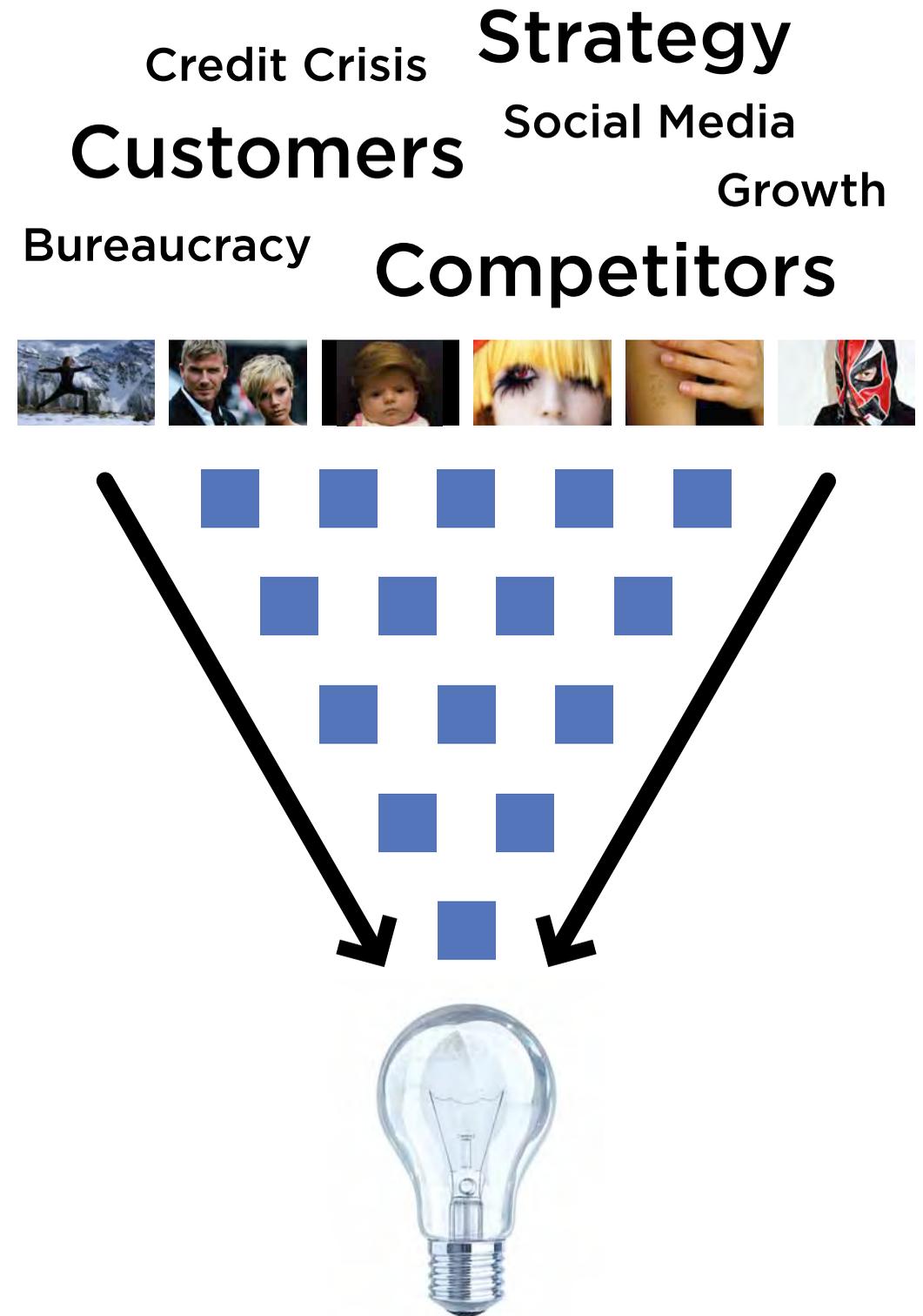
To break free of these constraints, you need a trend-spotting toolkit, a plan of attack that will help you filter through the noise and increase your likelihood of “connecting” new products and services with your customers.

Part of this toolkit involves your personal commitment to seeking inspiration proactively. Try saying it out loud: “I will relentlessly pursue new ideas. I will feed my insatiable hunger for innovation. I will expose myself to the fringe. I will be cutting-edge and spectacular.”

Nice.

The other tools discussed in this section include the techniques that will help you to hunt ideas and identify opportunity.

In times of global crisis and increasing media clutter, a toolkit matters more than ever before.



Awaken your inner Trend Hunter

NO DOUBT THERE'S A REBELLIOUSLY creative Trend Hunter spirit inside you. It just needs to be called into duty. Like any soldier, it needs discipline and methodology.

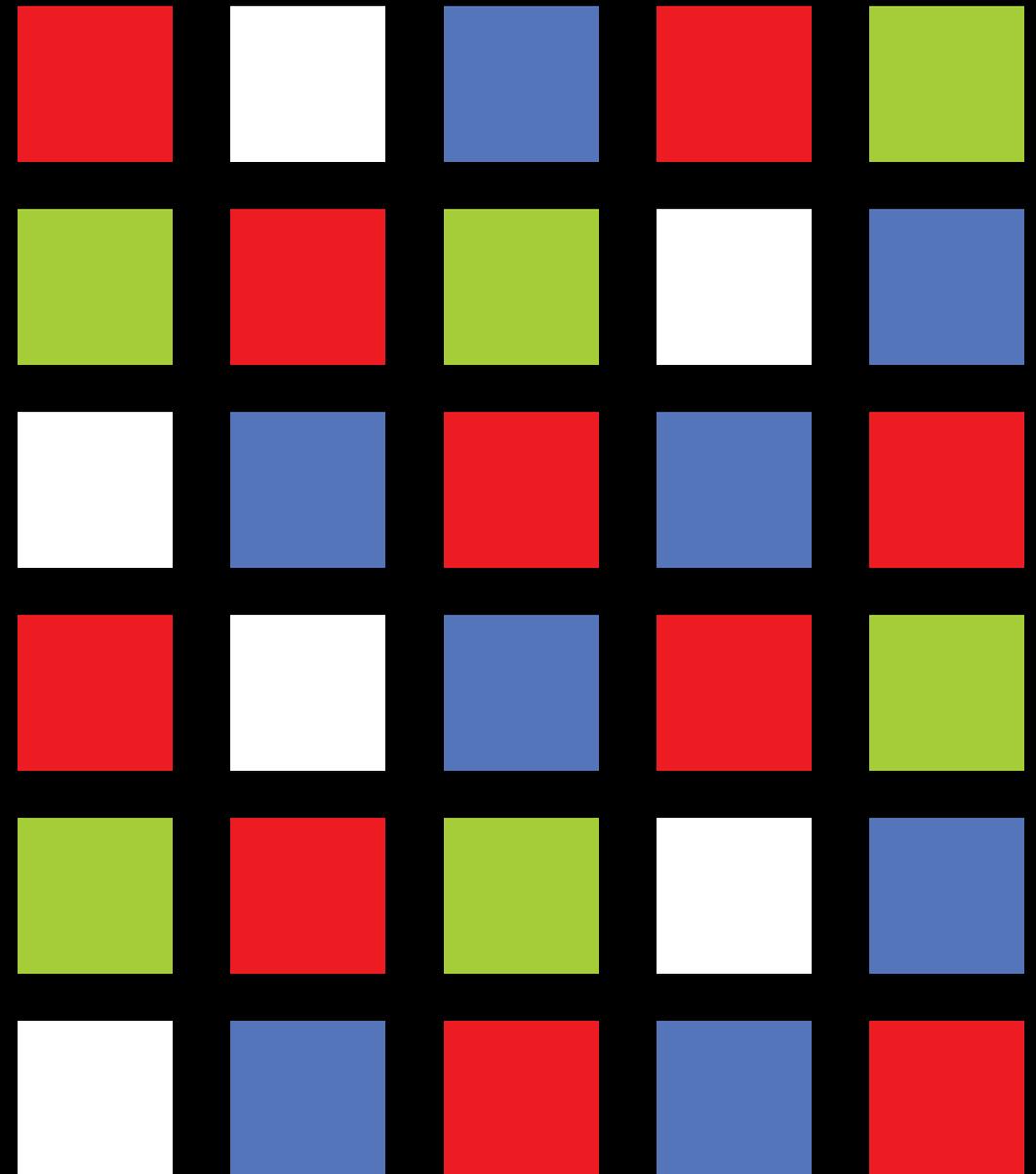
Hunting for new ideas can be exciting, but the constant need to focus can also become tedious. It's not challenging to find a random idea, but it's tremendously difficult to narrow in on something spectacular. To get inspired, actively hunt in three places:

166 **Customers:** Above all, innovation starts with the customer. In times of chaos, your customer will be looking for dramatic change. So obsess about your customers! Who are they? What do they need? What are they eating for dinner right now? (Too far? Sorry.) In short, customer obsession is so critical to trend spotting that it was given its own section in this book.

Competitors: Closely observing your competitors can be a helpful way to understand the market. The trick is to have the right definition of who your competitors are. Looking more broadly for competitors can trigger more stellar ideas.

Adjacent Markets & Pop Culture: Breakthrough innovation blends an intimate knowledge of the customer with culture and emerging technology.

If you want to spark inspiration, you need to hunt ideas that seem "cool." But what exactly is cool?



Popular is not cool



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Cool is unique and cutting edge



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Most importantly, cool is viral . . .



. . . which is why marketers and
product designers seek to attain it

Constantly seek to be unique

UGG BOOTS, VON DUTCH HATS, Hush Puppies, iPods, 7 For All Mankind jeans, Crocs, and MINI Coopers. Breakthrough products become viral because they are unique.

Ugg Boots: Traditionally worn by Australian farmers, these hideous boots get their name from the reaction they invoke: “Ugh,” as in “ugly.” Recently, the boots started appearing on celebrities like Madonna, Britney Spears, Sarah Jessica Parker, and Cameron Diaz. By 2008, the brand had \$580 million in revenue.⁵⁹ Whose boots are ugly now?

Hush Puppies: In *The Tipping Point*, Malcolm Gladwell popularized the case study of Hush Puppies. Just when the ugly shoe brand was ready to fold, trendsetters in New York’s East Village started wearing Hush Puppies precisely because they were rare and unique. Soon afterward the shoes appeared on runways and celebrities. Sales exploded from 30,000 pairs in 1994 to 1.7 million pairs by 1996.

Crocs Footwear: At the 2002 Miami Boat Show, Crocs sold out of their first inventory of just 200 pairs. The plastic shoes were so ugly that they inspired a website called ihatecrocs.com where people glamorize the destruction of the hideous shoes. And thousands have joined Facebook groups dedicated to hating Crocs. Despite the hate, Crocs sales grew from \$6,000 at the boat show to a peak of \$850 million in 2007.⁶⁰

Truly unique ideas can drive viral behavior.

Don't ignore the fringe

HOW OFTEN DO YOU think to yourself, “I wish I could read a business book that talks about fake prostitutes”? Always, right?

Today is your lucky day.

In most industries, shock is inappropriate, yet studying shock can still yield innovative ideas. For example, when a neighborhood in Tel Aviv was upset about skyrocketing property taxes, they commissioned an advertising agency to help draw attention to their political cause. That agency came up with the controversial concept to devalue property by littering the neighbourhood with cardboard cutouts of fake prostitutes.

Their idea was unsettling to many people, but they *did* get international coverage. Their goal was accomplished.

The same concept reappeared in a playground zone, one of the tamest possible applications.

To scare people into driving slower, cardboard cutouts of children were placed dangerously close to the road. Imagine the fear and horror of almost running into a child! This idea may or may not have been inspired by the fake prostitutes, but imagine if it was . . .

Inspiration comes from the most extreme places, so don't let shock blind you from seeing greatness.



Some see a fake prostitute . . .

. . . others see a way to make playgrounds safer.



Hunt trends in 20 ways

RUNNING THE WORLD'S LARGEST trend website has given me the opportunity to meet some extraordinary people. The following are tips that I've received from interviews with rockstar innovators and the world's leading Trend Hunters at TrendHunter.com. (Have I shamelessly promoted the URL enough already? You should visit . . .)

Travel: "I look for sub-cultures of cool and emerging cool. To find this, travel is the #1 thing for me. Connecting with different cultures and sub-cultures is important."

—Shaheen Sadeghi, Co-founder of Quicksilver, Awesome Dude

Pursue What You Like: "Create something that you would use and answers the question, 'Wouldn't it be cool if . . . ?' Do not depend on focus groups and market research. That's for losers."

—Guy Kawasaki, Venture Capitalist, Author, Honorary Trend Hunter

Care: "Innovation has no agenda, no plan, no rigid structure. It's about doing something you care about. I've found that people who truly care are the ones that are most likely to be innovators."

—Seth Godin, Bestselling Author, Really, Really Smart Guy

Pursue Passion: "Find what inspires *you*—be it a piece of street art or amazing bakery—take it as your spring board and go discover. Always think about how you can build on a trend, or make it that little bit more funny or even sick and twisted."

—Cowbag, Rockstar Trend Hunter (2,000 Trends)

Be Eclectic: "I try to read widely, everything from literary novels to mysteries to business magazines to political journals to academic reports, and look for connections . . ."

—Dan Pink, Bestselling Author, *A Whole New Mind*

Rebel: "You need a culture of rebellion, an elastic-sided sand box, a mindset that rules are made to be tested . . . Inevitably you do need process and planning elements to create a culture of innovation . . . But if you're not stretching the boundaries with spontaneous ideas, you're going nowhere quick."

—Kevin Roberts, CEO of Saatchi & Saatchi, Funny as Hell

Randomize: "Focus on what you love, but don't limit yourself to only things that you love. Subscribe to new magazines, download podcasts on a topic that has nothing to do with your current life, go to lectures by people at the top of their field—even if you've never heard of their field, get books on tape, and follow websites that gather interesting information. (I get Cool News of the Day from Reveries.com and Trend Candy from TrendHunter.com)."⁶¹

—Tom Kelley, General Manager of IDEO, World's Leading Design Firm

Share Ideas: "I try to act on as many of my ideas as possible, from a simple blog post to starting a company. Simply writing them down, usually in public, is a great discipline, and once they're out there they tend to improve." —Chris Anderson, Editor in Chief of *Wired*, *Clever*, *Clever Man*

Form an Ideology: "The principle is that you find a common point of pain or passion and you get people organized around that."

—Rod Beckstrom, Co-Author of *The Starfish and the Spider*, Inspirational Guy

Hunt for Cool: “Through cool hunting, marketers are able to identify the cultural meaning of trends ahead of competitors . . . Traditional product positioning has been based on physical attributes . . . Cultural branding is based on positioning the product on the cultural meanings to consumers. This makes cool hunting the new source of product positioning.”

—Jay Handleman, Queen’s University Professor,
Teacher who Inspired Me to Start TrendHunter.com

Talk to Strange People: “. . . It’s also important, I think, to communicate, whether by email, in person, or on the phone, to a wide variety of people. Talking with only the usual suspects can become an echo chamber.”

—Dan Pink (again), Only Guy I Know
to Make a Manga Cartoon Business Book

Consume Pop Culture: “I am a voracious consumer of pop culture, whether it’s books, magazines, art, blogs, Websites, or serialized television. A key to being creative is to pay attention to what’s going on around you. Constant stimulation and being open to new ideas are musts.”

—Marian Salzman, CMO of Porter Novelli, Renowned Futurist

Seek Positivity: “Consciously seek positivity. Often the media is abuzz about something negative, like Iran, for example. I hunt specifically for a unique angle that offers a positive twist, such as fashion in Iran, the underground music scene in Tehran or the efforts of eco-bloggers in that part of the world.”

—Bianca Bartz, Senior Editor of TrendHunter.com (4,000 Trends)

Socialize and Connect: Find colleagues and friends who will keep you challenged in the quest for new ideas.

Be Curious: “Uncovering trends is less a secret than a natural outcome of being endlessly curious.”

—Katie Cordrey, Talented Trend Hunter (400 Trends)

Follow Innovators: “I zero in on innovators who have the ability to dare to dream in ways that seem impossible.”

—Marissa Brassfield, Editor of TrendHunter.com (2,500 Trends)

Track Viral News: “I use Google Feed Reader which allows feeds to be sorted into folders. I can filter the feeds into different folders and prioritize how and when I read the feeds. I also subscribe to a handful of email blasts from good sources.”

—Going Like Sixty, Rockstar Trend Hunter (3,000 Trends)

People Watch: Watch your customers. Spend hours in your store or another store. Try not to look like a stalker.

Teach: Surprisingly, one of the best ways to really challenge your presumptions is to teach or mentor. You’ll form a clear perspective as you force yourself to articulate important answers.

Visit Trend Hunter: “At TrendHunter.com, find out what’s cool before it’s cool.” —MTV Live

TrendHunter.com has more than 50,000 cutting-edge ideas, broken into 100+ categories, including design, pop culture, advertising, modern art, and innovation. You can explore ideas on the site, sign up for a Free Weekly Trend Report, or start your own Trend Hunter portfolio to collect and publish your favorite ideas.

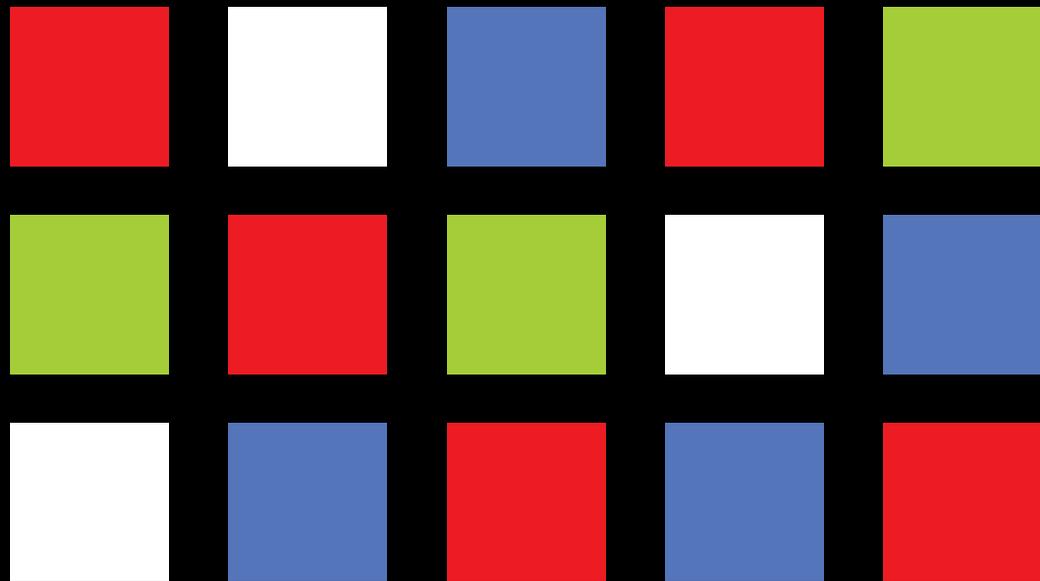
Group ideas into meaningful clusters

FIRST OF ALL, WHY WOULD the Trend Hunter guy use a word like “cluster” instead of “trend”? Quite simply, the word “trend” is too broad. It can refer to next fall’s fashionable color, or to macro-trends like the green movement, female buyers, consolidation, outsourcing, Web 2.0, and aging boomers. These trends are somewhat useful, but too generic to enable breakthrough thinking.

Clustering is the art of identifying insights that are meaningful to your customer. To create clusters, you’ll need to collect your observations from trend hunting and filter through the noise.

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The clusters you identify will become the focus of your innovation.



Force yourself to re-cluster

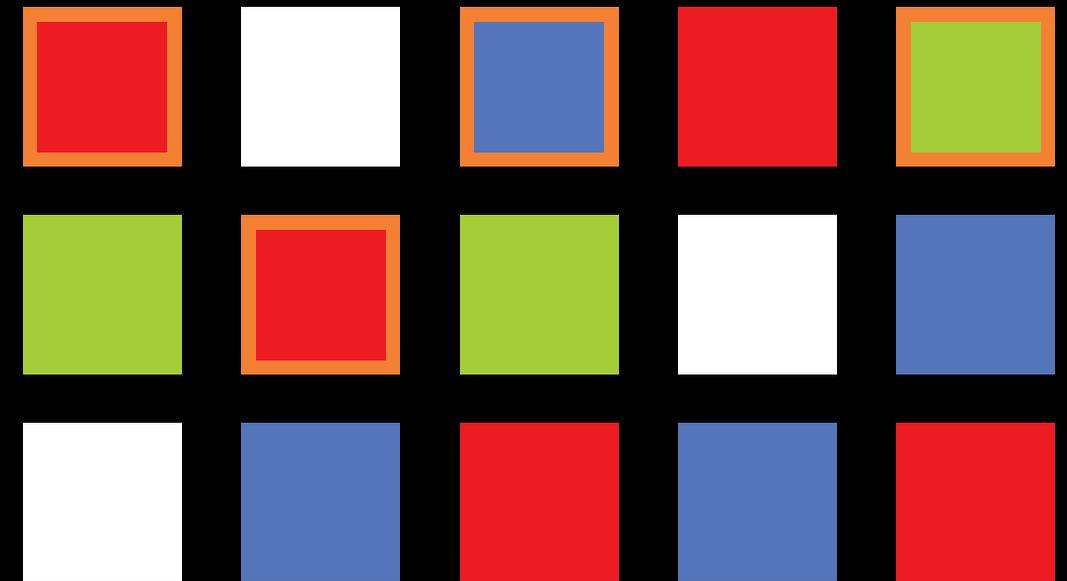
THE HUMAN MIND IS GREAT at identifying patterns . . . by creating shortcuts!

We create stereotypes, heuristics, and schemas to make our thought process more efficient. In the innovation process, this means our natural tendency is to identify trends we were already aware of, and reinforce those trends with examples.

This is bad.

Forcing yourself to re-cluster will enable you to escape your bias and unlock truly unique patterns.

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Design a hip hotel

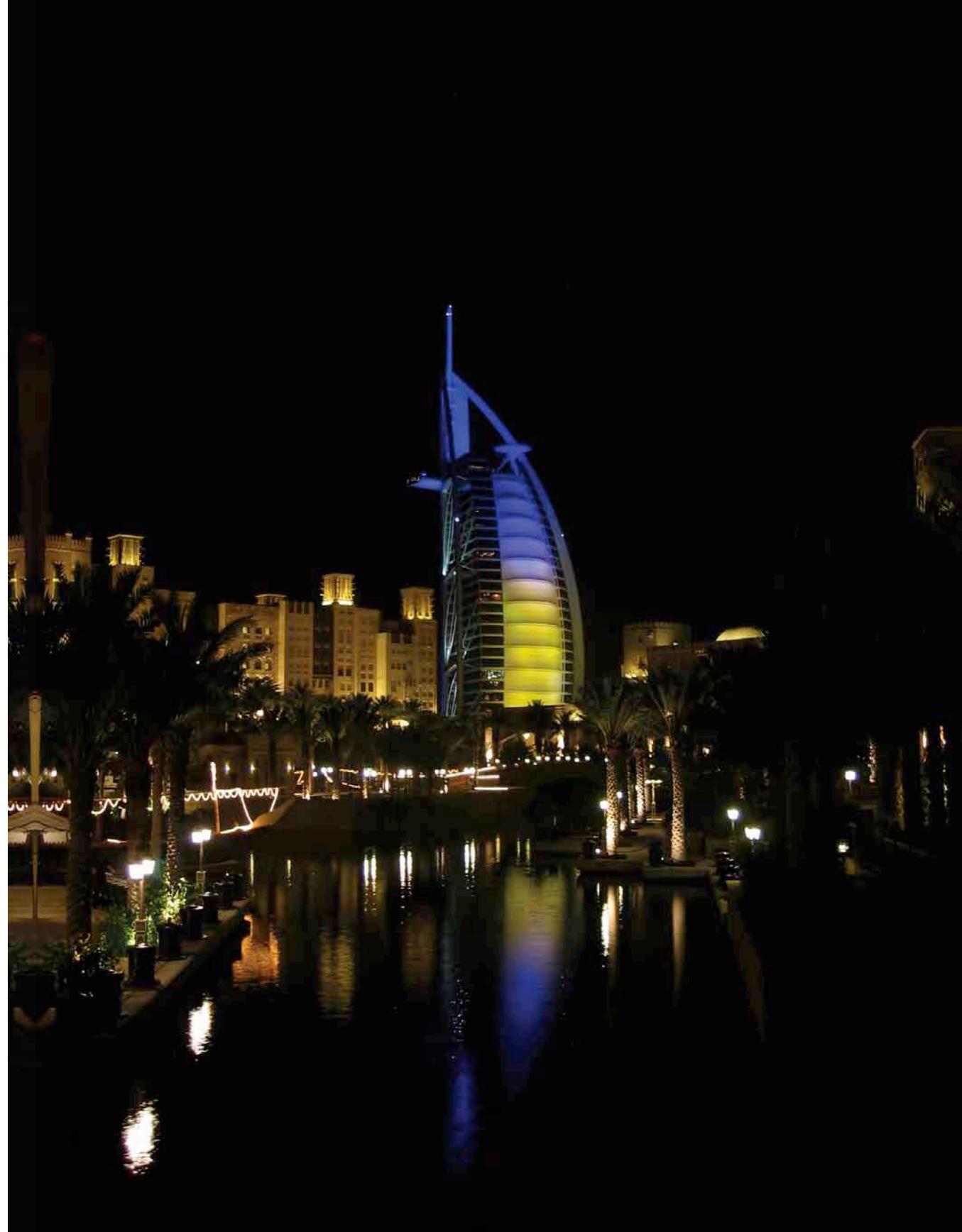
NO DOUBT YOU WILL end up being incredibly successful. But then what will you do? You're far too creative to retire, so you'll need a hobby.

To illustrate the Trend Hunting process, let's pretend that you've decided to launch a hip hotel.

As a first step, how would you design a hotel if you had to make it today?

- What would it look like?
- Would it be in a city or a beach town?
- Would you tailor it to a specific group of customers?
- What would be your theme?
- What type of music would play in the elevator?
- What would make the rooms unique?
- How awesome would it be?

Take a break to imagine your hotel . . .



Resetting

NOW THAT YOU HAVE your hotel idea, it's time to throw it away. Snap. Remember that “nothing is precious.” So the first step is to erase your expectations and start with a blank slate. Getting you to come up with an idea only to throw it away was not a trick. Rather, it illustrates that it can be difficult to let go of your initial idea.

Hunting

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Customer insight: Innovation starts with your customer. Hypothetically, let's pretend you've uncovered the following:

The world has become saturated with hotels. When the global economy started to collapse, vacancies skyrocketed and it became all too easy to book an affordable room at a luxury chain hotel.

The market has become tilted. On the low end, budget hotels are thriving. But in the high-medium to high end, where you would like to compete, there is abundant choice. It's not an *easy* market.

While hanging out in hotel lounge bars, you interview a dozen travelers and identify an opportunity: young urban professionals. They have money to spend and they want to travel, but most hotels don't fit their needs. In

one interview, a 28-year-old female explains, “These days, there are always hotel deals. I can afford to stay anywhere, but I'm looking for something unique and creative, somewhere I can tell my friends about.”

Urban travelers don't want a hotel, they want an experience.

Market Dynamics: Since 2000 there has been a surge in niche hotels, but the market is still relatively underserved. Most ‘hip hotels’ are privately owned, although some of the larger chains are getting into the market. For example, in 2005, Starwood launched aloft, an affordable version of their hip “W Hotels” brand. By 2012, their goal is to launch 500 aloft Hotels. This makes Starwood one of your biggest competitors. In 2009 Hilton announced the launch of Denizen, their own line of hip hotels. However, chain hip hotels like aloft and Denizen fit a certain mold. Opportunities still exist for truly unique ideas.



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To find unique ideas, it will be important to hunt for trends on the fringe.

Adjacent Markets & Pop Culture: In addition to looking at hip hotels, you'll also want to look at adjacent industries and random examples of innovation. As you look for ideas, remember the advice of Marco Morrossini: “You need to be more open to the complete possibility of what could be.”

Next, you decide to go to TrendHunter.com to browse hundreds of unique hotels, services, and random trends . . .

Hotels: The cutting edge

Prison Hotel



19872

Coffin Hotel



34985/3

Luxury Blimp Hotel



531

Extreme Hotel (climb it!)



3426/5

184

Little Slum Inn (Rio)



608

Pipe Hotel



4010

Underwater Hotel



14403/1

Portable Hotel



11242

185

Dockside Crane Hotel



5206

Celebrity B&B (Tori Spelling)



5380

Cave Hotel



3965

Rolls Royce Hotel



3679

Hotel services: Ideas from the fringe

In-Room Massage



4673

Graffiti Architecture



4954

Artist-Designed Rooms



3234

Pre-Cooked Gourmet Meals



4673

186

Pro. Run Sleepover Parties



1579

Glowing Bath Tubs



102

Pet Spas



8583

In-Room Chefs



4673

187

RainSky Showers



3994

Wine Spas



2835

Beer Spas



2835

Bubble Architecture



2541

Adjacent and unrelated

Skateboard Park in Museum



5456

Luxury Car Timeshares



556

Tetris Towers



40542

Free Vending Machine



7039

188

Dog Helmets



1150

Urinals for Dogs



5325

Spray-On Makeup at Home



40626

NYC Garbage as Art



1260

189

Orthodox Jewish Barbie



2426

Muslim Barbie



228

BizArchitecture



14364

Barbie Cosmetics (Co-Brand)



4183

Identify clusters

AFTER YOU FINISH hunting trends (and booking your next stay at the Prison Hotel), the next step is to identify clusters. Certain patterns will jump out immediately. For example, you might have noticed the following two clusters:

Ultra Luxury: The Rolls Royce Hotel, in-room massage, and luxury hand-bag rentals all reinforce this pattern.

Sensationalism: The beer spa, slum hotel, and urinals for dogs all reflect an outrageous pattern.

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As warned, you need to be careful with your first round of clusters. Your first patterns will always reflect your initial bias.

In this exercise, if you were asked to brainstorm hip hotel trends *before* looking at the examples, you probably could have come up with Ultra Luxury and Sensationalism. That means anyone in the world could have the same clusters. You need to seek originality.

When identifying clusters, it is important to look beyond your initial presumptions and seek unique clusters of opportunity.

Ultra Luxury

In-Room Massage



Luxury Blimp Hotel



In-Room Chefs



Rolls Royce Hotel



Sensationalism

Skateboard Park in Museum



Coffin Hotel



Pipe Hotel



Beer Spas



Re-cluster

FORCE YOURSELF to create more clusters. From the *same* group of ideas, you might identify the following clusters:

In-room luxury: in-room massage, pre-cooked gourmet meals

Nostalgia co-branding: Barbie cosmetics, Muslim Barbie, Orthodox Jewish Barbie

The humanization of pets: urinals for dogs, pet spa, motorcycle helmets for dogs

Viral youth targeting: professionally run sleepover parties, skateboard park in a museum

Renting cultural experience: Little Slum Inn, prison hotel, luxury car timeshares

If you focused your hotel idea on any one of these specific clusters, you could develop something spectacular. For example, pick just one of the clusters above and take another break to imagine a new hip hotel. For example, if you were to focus on creating the best hotel for “renting cultural experience,” what would it be like? Where would it be? What type of cultural experience would your clients get to encounter?

When you force yourself to find new clusters, you will unlock unique insight.

In-Room Luxury

In-Room Chefs



Pre-Cooked Gourmet Meals



In-Room Massage



Nostalgia Co-Branding

Orthodox Jewish Barbie



Muslim Barbie



Barbie Cosmetics (Co-Brand)



The Humanization of Pets

Dog Helmets



Urinals for Dogs



Pet Spas



Viral Youth Targeting

Skateboard Park in Museum



Pro. Run Sleepover Parties



Extreme Hotel (climb it!)



Renting Cultural Experience

Little Slum Inn (Rio)



Luxury Car Timeshares



Rolls Royce Hotel



Let clusters lead you to breakthrough ideas

WHEN YOU FOCUS your innovation on a specific cluster, two things happen: The first is that your idea will reflect the pulse of the trends you found meaningful. The second is that you will end up with an idea that is more focused.

For example, if you had picked “renting cultural experience,” you might come up with an idea for an “African Hut Hotel in America.” Guests could stay in mud huts and experience the life of African poverty. A stay could be accompanied by educational lectures and films. Perhaps after the first night or two, your guests could finish their stay at a local 4-star hotel.

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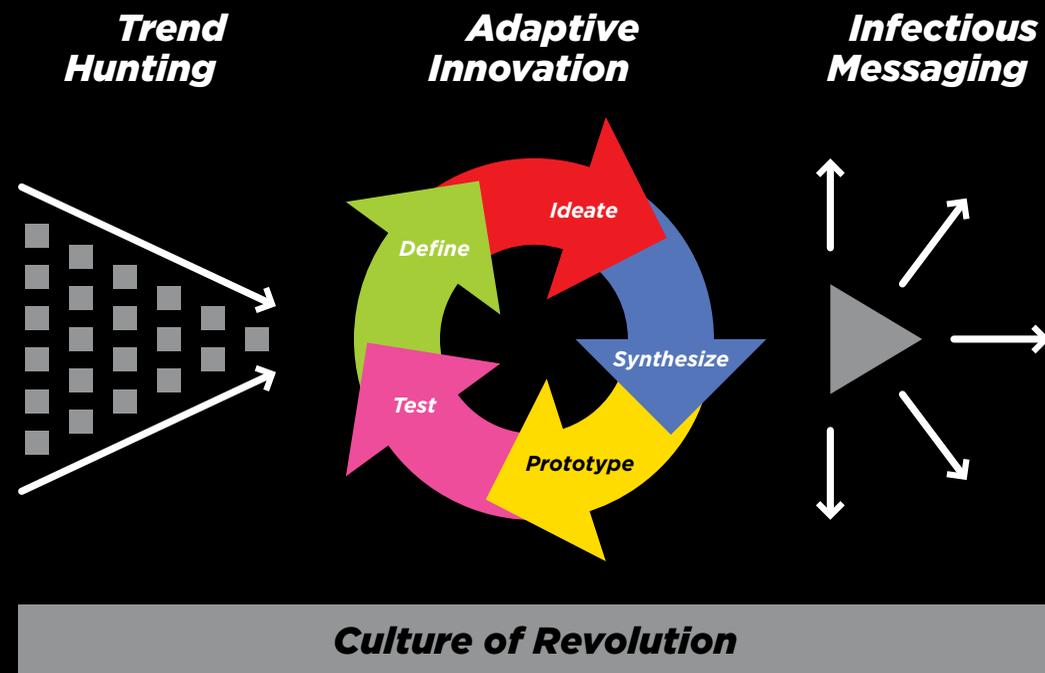
Building mud huts wouldn’t cost much (certainly less than the 7-star Burj Al Arab Hotel pictured earlier). Despite the low cost of building a hut, your guests would never forget their eye-opening experience.

Finally, the idea could attract international media attention. For any “hip hotel,” international attention is the Holy Grail.

By creating unique clusters, you create a level of focus that generates powerful ideas within a box. The box also helps to reduce complexity and cost.



Exploiting Chaos™



Part 4

Adaptive Innovation

Informed by your Trend Hunting, you'll be inspired to develop new ideas. But chaotic markets and untamed creativity have the potential to take you dangerously off-course.

To increase the consistency of winning, you need to manage your innovation like a stock portfolio and approach innovation in a methodical, adaptive way.

This section breaks innovation down into two parts:

A: Be Methodical, but Circular

B: Manage Innovation like a Stock Portfolio

Be methodical*

*and stay out of communist prisons

LIVING IN THE COLD HEART of communist Russia, Genrich S. Altshuller was a clever Russian innovator. In 1941 he registered his first patent . . . at age 15! Young Genrich was fascinated with the concept of methodical innovation.

He spent his teen years studying thousands of experiments, looking for patterns of creativity. He learned that successful innovators follow a methodical approach. He believed that he would revolutionize Soviet science (like many of us, right?). The skilful scientist summarized his findings for none other than the Supreme Commander, Joseph Stalin. In confident prose, Genrich articulated the mistakes of Soviet science and provided his thesis for methodical creativity to the national institution.

Unfortunately, Mr. Stalin was not receptive to criticism of Soviet accomplishment. Genrich was sent to prison with the special bonus that he would be deprived of sleep unless he renounced his letter.

Being clever, Genrich refashioned an old package of cigarettes to look like eye balls. He then placed his fake peepers over his eyelids and rested peacefully, pretending to be awake. Clever.

Upon Stalin's demise, Genrich was released. With his newfound freedom, he studied 200,000 patents, working towards the vision that innovation should be approached in a methodical way.

His work did eventually advance Soviet science, and later became the focus of “Finding Your Sweetspot,” an essay in the *Harvard Business Review*.⁶²

Learn the power of methodical innovation, but stay out of jail.



Use the Trend Hunter Adaptive Innovation Framework

ADAPTIVE INNOVATION follows a series of methodical steps that would make Genrich S. Altshuller jump for joy. Definitive steps create scientific rigor and consistency:

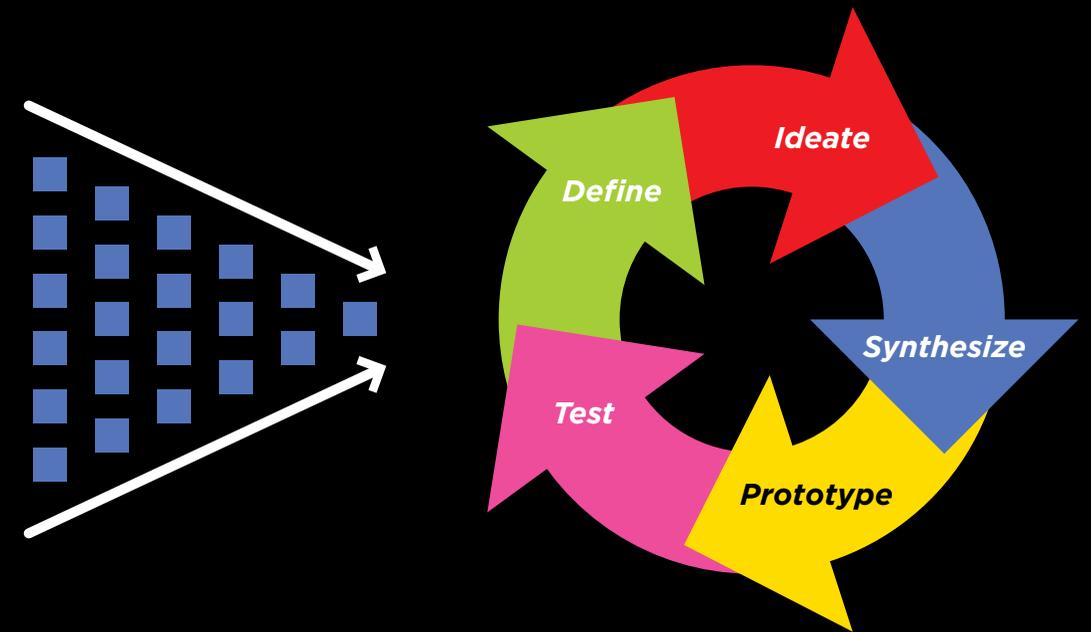
- Step 1: *Define* a clear customer need
 - Step 2: *Ideate* like it matters
 - Step 3: *Synthesize* in a smaller team
 - Step 4: Create rapid *prototypes*
 - Step 5: *Test* and optimize
- Repeat*

Innovation is circular. Like a dog chasing its own tail, you always need to be adapting, redefining the customer need you are trying to solve. Unlike a dog, you will become more intelligent with each spin.

At any given time, the process can be adjusted based on observations from your wonderful Trend Hunting.

Adaptive innovation is methodical and circular.

Adaptive Innovation



Define a clear customer need

ADAPTIVE INNOVATION BEGINS with a clearly defined customer insight. This should be the result of your Trend Hunting process and past product testing.

A well-defined problem will dictate the outcome of your entire project, so you want to ensure that your insight is specific, or you will end up creating vanilla ice cream.

202 Here's what that means: If you study the dessert market, you'll learn that ice cream is exceptionally popular. Within the ice cream category, vanilla is the dominant flavor.

However, vanilla ice cream is a commoditized space. People do not really care about their vanilla ice cream brand and it would be nearly impossible to capture and retain a vanilla ice cream customer.

Vanilla is boring.

Don't pursue mediocrity.



Find the next Cherry Garcia

TO BECOME A PLAYER in the delicious ice cream market, you need a cult following. You need to find the next “Cherry Garcia.”

Cherry Garcia is a flavor of Ben & Jerry's ice cream that contains pieces of cherries and chunks of chocolate. It was launched in 1987 as a tribute to Jerry Garcia, lead guitarist for the Grateful Dead. Since its launch, it has become the most popular flavor offered by Ben & Jerry's.

In fact, despite being a luxury product, Cherry Garcia helped Ben & Jerry's to grow sales 400% during the 1990-91 recession.⁶³

The whole world does not crave cherry and chocolate chunk ice cream, but for the millions who do, there is no substitute. This concept is epitomized by Jerry Garcia's assertion that:

“You do not merely want to be the best of the best. You want to be considered the only ones who do what you do.”

When screening for opportunity, look deeper than the broadest idea. Look for underserved niches of opportunity.

Ideate like it matters

IDEATE IS A BETTER WORD for brainstorming. Why? First of all, there is no such thing as a storm in your brain. Ridiculous.

Second, people don't take brainstorming seriously because they mistake it as being relatively straightforward (and partially ineffective). I used to think this too until I experienced the caliber of "storming" that takes place at Stanford's d.school. At Stanford they obsess about these rules:

- Defer judgment
- Encourage wild ideas
- Go for volume
- Have one conversation at a time
- Headline
- Springboard (build upon the ideas of others)

In particular, I use "springboarding" as a measure of good ideation. When someone is able to build upon the idea of someone else, it proves that your exercise is actually inspiring new ways of thinking.

Ideation rules are so important that even Stanford's superstars review their rules before each session.

Prevent ideation from sucking

ALTHOUGH I'VE SPICED UP the titles and details, the following set of steps generally reflects the structure we used at the d.school, where the goal for an hour of brainstorming was around 100 ideas.

Set the stage: Invite the best people, create a useful space, and review the rules.

Crank it up: Get people out of their boxes. Start with a challenge like *how to sell more pantyhose to men*.

Let sparks fly: Structure (create very specific questions). Seek flexibility (push for range and variety in the ideas suggested). Keep it fun (create group energy and encourage humor).

Add some salt and pepper: Reshape the question. Take an idea and dive deep. Contribute a crazy idea. Encourage physical movement.

Challenge with specific problems: For example, if you are trying to sell more pantyhose to men, try to answer the question, "How do we rename the color 'pantyhose brown' to make it more masculine?"

Wrap it: Get people to vote for their favorite ideas. Circle the room to see if there are any important comments.

Make ideation the best part of your job and passion will translate into breakthrough ideas.

Synthesize

AFTER AN IDEATION EXERCISE, how do you filter down to the best ideas (without arguing and pulling hair)? Here's one example:

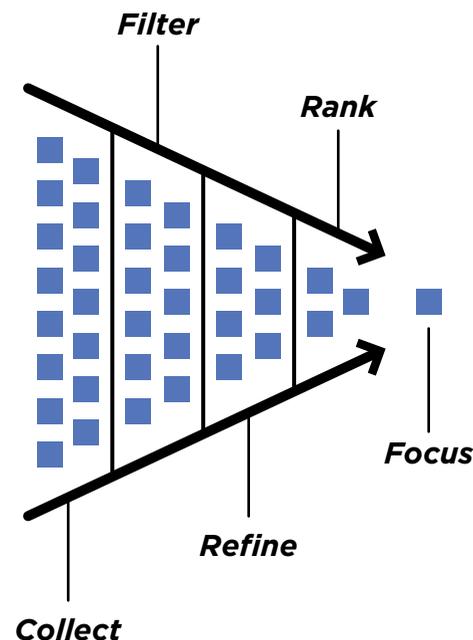
Collect (100 ideas): Start with your results from Step 2.

Filter (20 ideas): Find the best nuggets! In a smaller team, create clusters or simply pick the best ideas.

Refine (10 ideas): Prepare “headlines” for your best 10 ideas as if you were selling them to a customer.

Rank Order (10 ideas, ranked): Quantitatively rank your 10 refined ideas. Ideally, perform an online survey with a sample of your actual customers.

Focus (3 ideas): Select your three best ideas to move on to Step 4.



Create rapid prototypes

“RAPID PROTOTYPING” is a term that will make you sound like you really know what you’re doing. Also, it’s an enjoyable step in the innovation process. It involves creating pretend versions of your product or service. It’s different than planning in that you are building something to simulate the experience. This could mean creating a skit to preview a new experience, or spending a couple hours building a model of a sample store.

“The value of prototypes resides less in the modules themselves than in the interactions they invite.”

—Michael Schrage, author of *Serious Play*⁶⁴

By prototyping, you and your team will quickly uncover the factors that could enable or hinder the success of your idea.

Almost anything can be made into an effective prototype:

Mock Products: diagrams, frameworks, physical mock-ups, slideshows, simple crafts, models, sample packaging, 3-D models, sample advertisements, “photoshopped” designs

Mock Services: role-playing, skits, videos, flow charts

The act of creating a physical prototype allows you to visualize the concept and obtain useful feedback.

Go faster

AT TRENDHUNTER.COM, we are perpetually building our site, adding functionality, and changing the design until we love it. Then we rip it apart and rebuild it. We relentlessly destroy to constantly adapt.

Typical companies spend months rebuilding *even* basic websites. They meet, brainstorm, wait, check-in, wait, update, socialize, update, test, update, and launch. At Trend Hunter, our business is about the cutting edge, so we do not have time to waste.

Our website has 500,000 pages of content, but each time we re-launch a page, we plan, design, and finish executing in two days. To accomplish this feat, we let prototyping replace lengthy planning. In our first hour, we create whiteboard concepts and lock down a framework. Then we mock up rough online prototypes that we send to our top writers. These pieces are never pretty, but they help us visualize the user experience.

By noon we lock down the design and begin rolling it out. Instead of bug checking, we build directly on the live site. Users may stumble upon our design mistakes, but they send emails, effectively problem solving for us. By the end of the second day, we're done. Within hours we can see the impact on user behavior. If the new design works, we keep the change, and if it doesn't, we create another prototype.

When you move at a speed that makes you uncomfortable, you eliminate wasteful steps.



Test and optimize

SCIENTIFIC METHOD becomes important when you are in uncharted territory, testing new and cutting-edge ideas. Find ways to quantify the uncertainty, and each successive design will inch closer to breakthrough innovation:

- Yahoo.com tests 20+ layouts each day, measuring the impact on page views per visitor, time of visit, and likelihood to return.
- Dell tests new products in real time, testing the price sensitivity and impact of special promotions.
- Capital One mails dozens of product tests each month, playing with price points, wording choice, and even envelope color.

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The important caveat is that you need to test broadly in the areas where you are most uncertain.

Typically, companies screw this up.

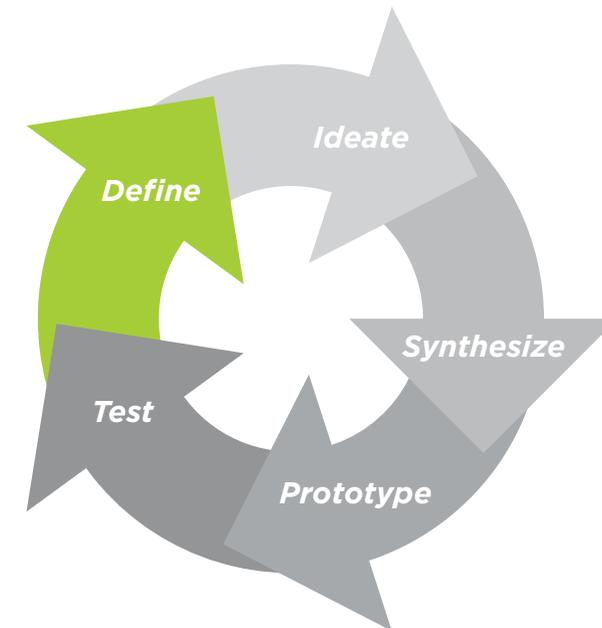
When companies are good at something they make slight tweaks to improve—they climb to the peak of the hill they are already on. When finding a new hill, you cannot get caught up in testing small details. You need to explore broadly.

By exploring and measuring ambiguity, chaos becomes order.

There is no Step 6

REPEAT STEP 1 INSTEAD

What is the problem that you are really trying to solve? Don't be complacent; push yourself to redefine what you are trying to do.



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Manage innovation like a stock portfolio

THIS IS THE PART of the book that you've been waiting for! The magical moment when I pull out my Chartered Financial Analyst alter ego and seduce you into the wonderful world of portfolio management.

You wouldn't pour all of your pennies into one place. You also wouldn't be disorganized with your money. And you wouldn't expect your money to grow on its own. When it comes to innovation, however, companies make these mistakes all the time.

212 At first glance, the term *stock portfolio* does not seem sexy and creative. However, there is no other industry where risks are more tolerated and studied.

To navigate chaos, these six portfolio tactics increase certainty and help to manage risk:

- Diversify
- Control the size of your bet
- Don't overreact
- Bigger risk = bigger reward
- Pursue alpha
- Ignore sunk costs



Do lots, explore, gamble, and be safe

AS THE INVESTMENT LEGEND Peter Lynch once explained, “If you’re good, you’re right six times out of ten.”

You will never be perfect, but diversification means you don’t have to be. For innovators, diversification means the following:

Work on Multiple Projects at Once: In some ways, the number of successes you will have is a mathematical product of how many ideas you try. WD 40 was the 40th attempt. Yahoo tests 20+ website layouts per day.

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How much can you test?

Set Aside Exploration Time: Whether you are an artist or a marketer, it’s important to have specific time allocated to the pursuit of new styles, ideas, and techniques. Google and 3M both give employees 5% of their time to work on pet projects. How much time do you spend just coming up with new ideas?

Try Both High- and Low-Risk Projects: Often organizations try multiple products, but all at the same risk level. Focusing on too many low-risk projects is just as bad as focusing on one high-risk project.

Diversification increases your consistency while reducing risk.



Richard Branson with a model spacecraft for Virgin Galactic, 1 of 360 companies in his portfolio.

Innovate inside the box

INNOVATE INSIDE THE BOX? How horrible and boring does that sound? Surprisingly, the concept comes from Disney, one of the most creative organizations in the world.

When Michael Eisner took over Disney, the company was losing money. One of his first mandates was to assign a strict financial box to each Disney project. Employees were then challenged to creatively fit their ideas inside the financial box. Unfamiliar with such intense control, the creative people at Disney were skeptical (if not angry).

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In the opening scene for the 1987 movie *Outrageous Fortune*, Shelly Long's character, Lauren, was supposed to visit her parents in their upscale New York City apartment to beg for money. The script involved just one scene with the parents, but it would require an additional set and actors to play the parents. Small details like this drive up the budget. To fit "inside the box," Eisner forced the writers to find a less expensive alternative. The result was that Lauren never enters an apartment at all. She buzzes her parents' intercom, but her mother won't open the door. She doesn't want to lend Lauren more money. Lauren pleads, and sneakily, the father drops an envelope from the second-story window. No set was required, and the scene was actually more effective. Using this sort of philosophy, Eisner grew Disney from a \$2 billion market capitalization to over \$60 billion.

Part of portfolio management means budgeting the size of each experiment and forcing yourself to be creative within that box.



Create artificial constraints

WHAT WOULD HAPPEN if you had to complete your entire project with just \$100,000? What if you only had \$10,000? Applying Eisner's box concept can help you look much differently at your problem.

At Capital One, my team was trying to find a way to dramatically change people's likelihood of considering our product. To do so, we had been designing large multimillion dollar tests. The experiments seemed to work, but they were pricey. We kept wondering if there was a better way.

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Instead of allocating a couple million dollars to the next project, I challenged my team to see what we could do inside a \$500,000 box. At first glance, that still sounds like a lot of money, but when you consider the price of media, half a million bucks means we couldn't use TV and everything else would have to be on a smaller scale. So we pushed ourselves. What if it was personally *our* \$500k? How could we use that money to better understand our customers and lure them toward our wonderful products?

Within our box, we developed word-of-mouth campaigns, publicity stunts, charity sponsorships, and our first-ever referral program—an impressive list of projects, given the budget. The project led us to a revised view of just how much we could do with our money, making us more effective in all of our much more costly campaigns.

Even artificial constraints can lead you to success.



Here I am dressed up like a fisherman literally inside a box . . . taking Eisner's advice too seriously.

Stay strong after a snakebite

WHEN GAMBLERS SUFFER a big loss, the natural reaction is to become more conservative on the next bet. This is referred to as the *snakebite effect*. It stems from the concept that a real snakebite makes you want to curl up in fear afterward (kind of like a visit from your in-laws). In organizations, we receive “snakebites” when we fail, which basically happens everywhere that we explore dramatic change. Snakebites lead teams to become too conservative with their innovation. The danger in today’s chaotic environment is that giant losses in the market will cause companies to be excessively cautious.

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Innovation budgets become the first places to scale back after a snakebite, but calculated risks still need to be taken.

Don't play with the house money

THE OPPOSITE EFFECT of the *snakebite* is *house money*. When a gambler experiences a big win, there is a tendency to perceive the profits as the “house’s money” (still belonging to the casino). It then becomes psychologically easier to gamble away that money.

Even after big wins, it is important to keep a balance between calculated risk and playing it safe.



You have to play to win

CHAOS AND RISK share many similarities. Both concepts cause organizations to retreat and yet each creates opportunity.

Teddy Roosevelt provided the key to solving this dilemma back in 1899:

“Far better it is to dare mighty things, to win glorious triumphs, even though checkered by failure, than to rank with those poor spirits who neither enjoy much nor suffer much, because they live in that grey twilight that knows neither victory nor defeat.”

Although motivational, Roosevelt’s advice could also seem intimidating. Most organizations are not prepared to completely leap into a world of *mighty things*. The beauty of portfolio management is that you can take advantage of *mighty things* by compartmentalizing your risk. You don’t have to be fully invested in risky projects, but even the most conservative portfolio needs exposure to emerging opportunities.

As the 13th-century, German theologian Meister Eckhart noted,

“The price of inaction is far greater than the cost of making a mistake.”

Take advantage of uncertainty

IN 2009 FORTUNE MAGAZINE interviewed Sir Richard Branson about the collapsing economy and how it would affect his business.

Branson, known as the Rebel Billionaire, explained:

“There are enormous opportunities in recessions. Some of our companies will tighten their belts and not do a lot right now. Others will expand in this recession.”

When probed about how Virgin would react in 2009, Branson described the opportunity:

“The price of planes will come down dramatically. So we’re looking at setting up airlines in Brazil and Russia . . . If you can afford it, expanding in a recession is a very good use of your resources.”⁶⁵

Uncertainty makes innovation less expensive.

Pursue disproportionate value

IN PORTFOLIO MANAGEMENT, *alpha* is the term for the excess profit, the amount beyond what you should have made, given the level of risk you took. The concept suggests that you should only pursue projects that create disproportionate value.

Michael Dell relates this concept to Research and Development (R&D), where he believes companies become too fixated on the glamour associated with large innovation budgets. He believes this causes managers to lose focus on the purpose of innovation itself:

“The amount of money invested in research and development has long been a source of pride in the information technology industry. For much of the last decade, it has been looked upon as a leading indicator, not only of the value of the company, but of your future . . . increased value to customers, is far more important than the actual money you spend.”⁶⁶

Innovation needs to deliver real value.

Don't add when you can divide

INSTEAD OF ADDING PROJECTS to your list, consider how you could divide opportunity by creating R&D partnerships with suppliers, customers, and even competitors.

The concept of collaborative R&D is common, even in the highly competitive pharmaceutical and technology industries.

In the late 1980s, Dell was faced with the challenge of creating a graphics card for its computers. IBM, Compaq, and a handful of start-ups were spending millions on their own designs.

Dell realized that creating their own chip would cost a lot of money and it would only bring them to a level playing field with their competition.

It would not create *disproportionate value*.

Accordingly, Dell chose not to build its own card. The company would either partner with a competitor or purchase graphics cards from whom-ever ended up making the best product.

The strategy paid off. Years later, specialized companies like Nvidia and ATI took control of the market for graphics cards. IBM and Compaq were forced out of the market, making their investments inconsequential.

Think differently about how you achieve your innovation goals.

Pull weeds, grow roses

IF YOU HAD A GARDEN, would you want to grow roses or weeds? Obviously you would grow roses, but when we apply the metaphor to business projects, we become psychologically committed to our weeds.

What would you do if you had invested in a given stock at \$80 and then it plummeted to a seemingly stable level of \$60. Would you hang on? You bet. You thought this was a rocketship and you are still onboard.

But what happens when things get increasingly nasty. What if your \$60 rocket falls again to \$40? Will it bounce back?

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We have a natural tendency to hang on. Psychologically, we experience “post-decisional justification” which means we cling to our decision regardless of the outcome. We think about how much we’ve invested *so far* and we become emotionally committed.

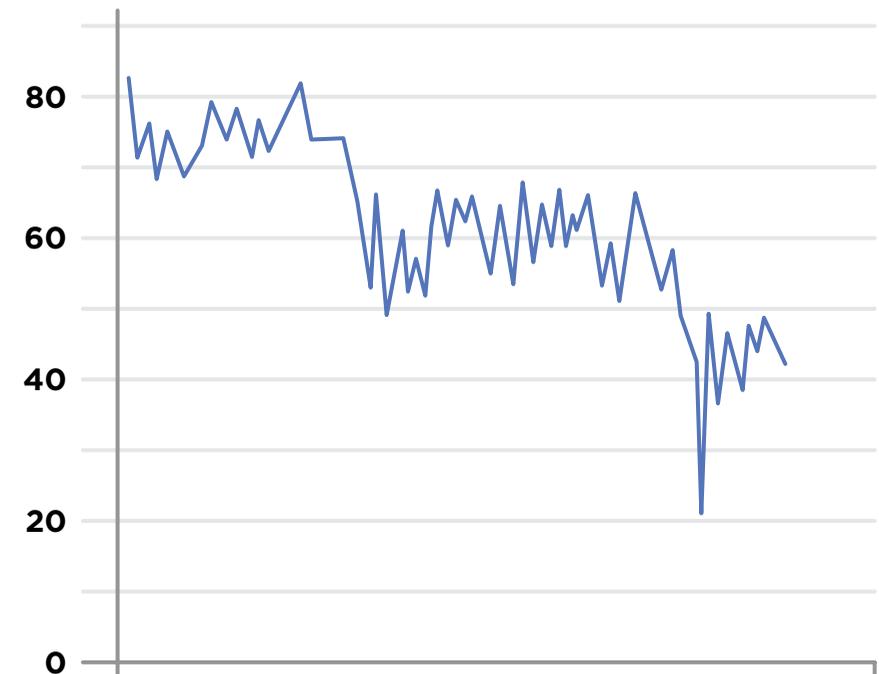
When investing, you have the luxury of anonymity. Nobody can see your mistake and you can pull out at any time. But it’s still difficult.

In organizations, there is no anonymity. People know which projects are failing, pride becomes involved, and jobs may be on the line. This makes the power of sunk costs paralyzing.

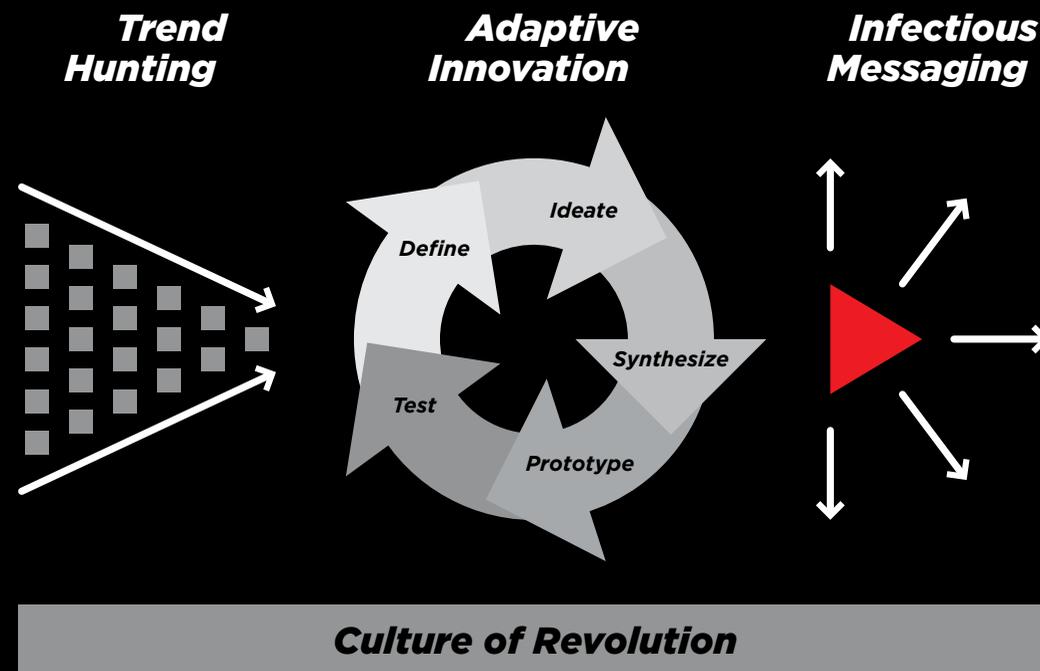
Know when to give up. Nothing is precious.

A weed that you own

When is the right time to sell?



Exploiting Chaos™



Part 4

Infectious Messaging

The Internet has created a world cluttered with chaos, but it has also created the world's first viral platform for ideas. Well-packaged stories travel faster than ever.

Unfortunately, most marketers are stuck in a world dominated by traditional marketing and cliché.

By cultivating infection, your ideas will resonate, helping you leapfrog ahead of the competition. To do this, we'll break the chemistry of infection into four categories:

- 1. The Product*
- 2. The Medium*
- 3. Context*
- 4. The Actual Infection*

When you create something that connects, your message travels faster than ever before

DO YOU EVER WORK FROM HOME? If so, you know the joys of working in your boxer shorts (or pajamas), but sometimes you need to videoconference with your team. If so, you need a suit, but you don't need any suit, you need a *half-suit*.

An actual product, known as the Business Bib, this little half-suit is all business up top, and all party down below.

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When Trend Hunter wrote about the half-suit in 2006, there were 180 sites that linked to our article. Thousands linked to those sites and, by our calculation, that little half-suit was exposed to millions of free views.

Today the article no longer sits in our Top 100 list, but we love the half-suit because it was our first experience at the epicenter of the viral blogosphere. Plus, I want one.

Your product won't be a half-suit, but the lesson is that for the first time in history, we have a viral platform.

Create something that is interesting to your customers and your product will have the potential to become viral.



Package your product like it's the best in the world

DO YOU RECOGNIZE Joshua Bell? Probably not. He plays a \$3.5 million Stradivarius violin. He played the music in *The Red Violin*. When he is on stage, he makes \$1,000 per minute.

Josh Bell is quite simply one of the best violinists in the world. Accordingly, the *Washington Post* wanted to throw an unannounced concert. They wanted to do this in the busiest public walkway they could find, the DC Metro corridor, which more than 1,000 people pass through every hour.

232 The planners wanted to know how many people would stop, even for a moment, to watch him. Half? That would be roughly 500 people. Perhaps that's too many. 200? 100? Probably at least 50, right?

As it turns out, only 7 people stopped.

In his category, Josh Bell is the best product in the world, but when he is packaged in the wrong way, he does not make \$1,000 a minute. He makes just \$35 in a whole hour (most of which was from one lady who actually recognized him).

The medium can ruin your message.

• ***JOSH BELL***

• ***Played in
The Red Violin***

• ***Stradivarius
(\$3.5 million)***

• ***Makes \$1,000
per minute!***

• ***Simply the BEST
in the world***



Convey style before substance

DESIGN CREATES LOVE, and the packaging of your product or service is no exception. A classic example is the iPod:

“To Jobs, the act of pulling a product from its box is an important part of the user experience, and like everything else he does, it’s very carefully thought out.”

—Leander Kahney, *Inside Steve’s Brain*⁶⁷

234 Instead of packaging the iPod in a brown box, Apple’s unique packaging creates an “unveiling.” The iPod is nestled carefully in a sleek box that makes you feel like you are opening a present. The iPod design creates such a connection with buyers that in 2006 the Microsoft Packaging Team created an internal video to demonstrate the challenges they face.⁶⁸ The video showcased what an iPod box would look like if it had to comply with all of Microsoft’s packaging standards. The resulting package destroys all of the “love” created by Apple’s simple design.

This Microsoft iPod serves as a powerful example for other industries. When design is stressed before function, one has the opportunity to create love, the way Apple does. However, when the medium becomes bogged down by standards and details, the opportunity for love can be destroyed.

Standards and excessive detail can harm your ability to make a meaningful connection.

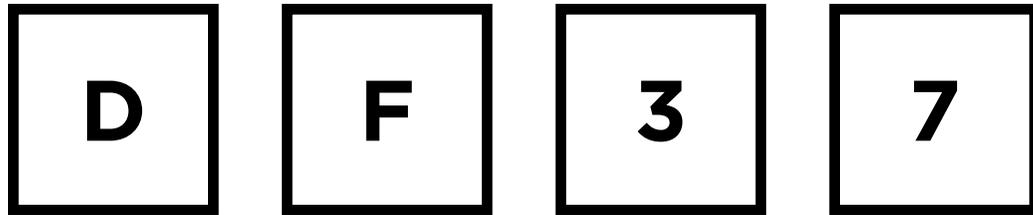


Ahh, the simplicity of Microsoft . . .

Screw logic, tell a story

THE HUMAN MIND is bafflingly bad at logic, but shockingly superb at understanding stories. Here's an example called the Wason test:

Imagine the following four cards are placed on a table:



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Each of these cards has a number on one side and a letter on the other. Which cards would you need to flip over in order to prove the following rule true or false:

Every card with D on one side has a 3 on the other.

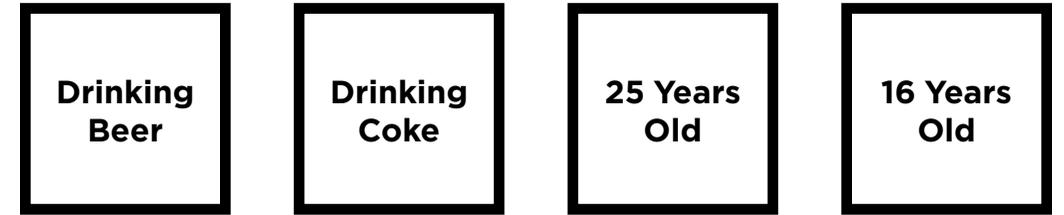
Which cards would you guess?

The correct answer is that you would need to turn around just the D and the 7. The D would prove that the rule is true, and the 7 could prove it if the rule is false. People typically suggest the 3, but that is incorrect.

When Leda Cosmides conducted this test at Stanford University, less than 25% of the students answered correctly. The logic of numbers and letters is too abstract.

The beauty of the Wason test is that you can ask the same logical question in a completely different way. Imagine you work as a bartender and you have four patrons. One of them might be an underage drinker, which would cause you to lose your job.

Who would you need to investigate to enforce the law, “If a person is drinking beer, then he must be over twenty years old . . .”?



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This time the question is much easier. You would investigate the person drinking beer and the 16-year-old kid. When asked this way, correct response triples to 75%.

In *The Red Queen*, Matt Ridley attributes this phenomenon to the concept of social contracts:

“The human mind may not be much suited to logic at all . . . but is well suited to judging the fairness of social bargains and the sincerity of social offers.”⁶⁹

People have an innate ability to understand social stories.

Let words create image

A STORY IS WORTH 1,000 pictures. For example, in an emotional appeal for Amnesty International, McCann-Erickson created a TV commercial with no picture and no sound.⁷⁰ The ad featured only text:

Screen 1:

“The following images are considered too horrific to be seen and are therefore censored.”

Screen 2:

“In Bosnia, a mother is made to watch the rape of her four-year-old daughter.”

Screen 5:

“Just because you can’t see it doesn’t mean it’s not happening.”

Imagery and media grab attention, but in the end, it is the story that people remember.

Invent mythology

PAMPERS, CHEER, AND OIL OF OLAY. These are just a few of the products that make Procter & Gamble (P&G) a legendary marketer. Historically, however, P&G struggled to apply their formula for success to the Japanese market. By 1985, P&G Japan accumulated losses of \$200 million. The venture was a spectacular failure.

In 1991 P&G Japan cranked up their game with the purchase of Max Factor, a growing company with \$300 million in cosmetics revenue.⁷¹ Over the next 3 years, P&G Japan’s magical touch caused Max Factor to shrink, losing another \$50 million.

Then in 1997, P&G became radically more attuned to Japanese culture, both in business strategy and in their marketing approach. The most significant example was the marketing for SK-II, a premium skin cream. Instead of advertising features, they began advertising mythology: “*The fascinating story behind SK-II began at a sake brewery in Japan, where scientists noticed the elderly workers had wrinkled faces, but extraordinarily soft and youthful hands. These hands were in constant contact with the sake fermentation process. It took years of research for scientists to isolate the miracle ingredient Pitera[®], a naturally-occurring liquid from the yeast fermentation process.*”⁷² The best part is that the miracle “ingredient” is a registered trademark. Is it an ingredient or a brand? Either way, SK-II became the star product, rocketing up to \$150 million in revenue by 1999.

Mythology creates a vivid emotion that surrounds your brand.

Contextualize your message

RECALL THAT WITH a cultural connection, you are not speaking to your customers, you are speaking *with* them, and that's empowering. The most powerful way to speak *with* your customers is to tie your message to a story or a lifestyle.

This principle is best described by the following quote from an executive at Harley-Davidson:

“What we sell is the ability for a 43-year-old accountant to dress in black leather, ride through small towns and have people be afraid of him.”⁷⁸

Whether your story is conveyed through text, image, or sound, adapting to the lifestyle of your customer can have a profound effect.



Articulate your mantra

“Leaders don’t just make products and make decisions. Leaders make meaning.”

—John Seely Brown, former chief scientist at Xerox

SOUTHWEST AIRLINES is the most successful and most studied airline ever. One key factor was Herb Kelleher’s relentless focus on the mantra, “low-fare airline.”

Herb once gave the media the following example: Suppose that a new marketing employee suggested that people flying from Houston to Las Vegas might like a chicken salad entree, instead of getting just a bag of peanuts. What would you tell that employee?

Herb’s answer was that you’d ask her, “Will adding the entree help make us *the* low-fare airline?”

Did it work? Check out the fate of Southwest’s 14 competitors.

In *Made to Stick*, the Heath brothers suggest that this sort of mantra works because it creates a forced prioritization; it teaches people what to think and how to react.

In times of chaos and dramatic change, a mantra enables adaptation.

A powerful mantra leads to alignment and success.

15 Major Airlines in 1982

by Professor Charles O’Reilly, Stanford Graduate School of Business

Airline	Fate
United	Bankrupt and Back
Pan Am	Gone
American	Breaks in Service
Delta	Bankrupt and Back
Eastern	Gone
TWA	Gone
Northwest	Bankrupt and Back
Republic	Gone
Continental	Breaks in Service
Western	Gone
US Air	Bankrupt and Bank
Piedmont	Gone
Southwest	Profitable
Braniff	Gone
Texas International	Gone

Convey everything in 7 words or less

IN 1935 HENRY GUSTAV MOLAISON was a happy 9-year-old boy, playfully riding his bicycle down a familiar street. Suddenly, he crashed, and his life began a course plagued by epileptic seizures.

Henry would go on to make great contributions to cognitive psychology and marketing, even influencing the length of your phone number. In an attempt to localize his seizures, neurosurgeons removed part of Henry's medial temporal lobes. The surgery left Henry with severe anterograde amnesia. He could remember everything prior to the surgery, but could not encode new long-term memories.

Henry's case became even more curious. Although he couldn't remember anything from 5 minutes prior, the last 30 seconds were always crystal clear. He scored perfectly normal on all short-term tests and continued to enjoy playing bingo, solving crossword puzzles, watching television, and socializing with caregivers. Henry's case provided the first pieces of evidence that humans have a powerful short-term working memory. The peculiarity is that the short-term memory appears to have a finite capacity. In 1956, cognitive psychologist George A. Miller suggested that this capacity was 7 +/-2 items.⁷⁴ Decades later it was determined to be roughly 2.5 seconds of information.⁷⁵ In English, that equates to 7 +/-2 words. In Chinese, it can accommodate 10 words.

The implication is that people are remarkably better at remembering messages with 7 words or less.

Know why I should choose you

THE CONCEPT OF "7 WORDS OR LESS" is so powerful that some marketing boutiques, like BluePrint, do nothing but help companies arrive at 7 words or less to answer the question, "Why should I choose you?"

Companies like Southwest become successful because of their consistent answer, but most organizations lack a concise articulation of their value proposition, their purpose.

BluePrint's co-founder, Ken Aber, told me that prompting most senior leaders will eventually reveal 7 words that are *"either bland generalities that apply equally badly to all of their competitors or very specific and valuable benefits."*

For example, here are some of the bad answers that Ken has received:

From a major bank:

- "Try everyone else and then you will come back to us."

From a major airline:

- "We have a lounge."

From a large North American car rental company:

- "We won't force you to take a certain car."

These all fall short of "low-fare airline."

Know your 7 words.

***Specifically
what are
you trying
to DO?***

Relentlessly obsess about your story

AT TREND HUNTER, we've published 50,000+ articles. Being one of the world's largest blogs, each article has the potential to ripple through the blogosphere, but only if the headline is interesting.

For example, the day Sarah Palin became a vice-presidential candidate, someone wrote an article titled "Female Vice Presidents." We published it, but I thought that the title didn't really hit on what made Sarah Palin so popular. People weren't really interested in the fact that Sarah Palin was female. Hillary Clinton was female too, but Google searches for "Sarah Palin" were more than 10 x higher than Hillary Clinton's all-time peak. Public interest in Palin was more specific.

So I performed a test. I wrote a second article titled "Hot Vice Presidents." The results were astounding. "Female Vice Presidents" received 30,000 views, but "Hot Vice Presidents" pulled in 1,100,000 views. It also contributed to Trend Hunter being featured on CNN, FOX Business News, and in an article by the Associated Press.

At Trend Hunter, we have the luxury of being able to test our word choice and see a measured view count for each test. For most products, the goal is immeasurable buzz and word of mouth. But the lessons from Trend Hunter are equally applicable:

Careful word choice can have an astounding impact on the viral potential of your message.

**Rule #1:
Relentlessly
OBSESS
About Your
STORY**

Simple, Direct, and Supercharged

THE FRAMEWORK WE USE at Trend Hunter includes three components: an article must be simple, direct, and supercharged.

Here's how it all breaks down:

Simple: As Jack Welch of GE put it, “Simple messages travel faster, simpler designs reach the market faster, and the elimination of clutter allows faster decision making.”⁷⁶ Similarly, author Seth Godin notes that simple messages “supercharge word of mouth.”⁷⁷

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Direct: An outsider should understand your *value proposition* from your 7 words. Your value proposition is your advantage. It's the unique attribute that explains why I should choose you.

Supercharged: Your seven words should pass the “I-have-to-tell-someone-test.” If they don't, why will someone else care? You can't expect your message to drive word-of-mouth exposure if you don't give people a supercharged story.

Our framework will lead you to a message that is much different than a traditional marketing approach.

In traditional marketing, there is an emphasis on cliché, clever wording, and invented words. At Trend Hunter, the emphasis is on simplicity.

Story Obsession

@ TrendHunter.com

1 Simple
Supercharge Word of Mouth

2 Direct
“I get the value proposition from the title”

3 Supercharged
The “I-Have-to-Tell-Someone” Test

The \$5,000 Hamburger

“**FLEUR DE LYS**” is a unique restaurant at the Mandalay Bay in Las Vegas. On their menu, they sell a very special hamburger called the *Fleur-burger*. Interesting name, right?

Fleurburger is a clever play on the name of the restaurant. It also conveys that the burger is classy. But it is not simple. It is not direct. It is not supercharged.

What if it was called *The World’s Most Expensive Hamburger*? That message is simple and direct, but it’s not totally supercharged. I don’t *have* to tell someone about such a burger.

What if we called it a *\$5,000 Hamburger*? That’s what it is: literally a \$5,000 hamburger. The *\$5,000 Hamburger* is so expensive you even get a certificate to put up on your wall. What does it say? I have enough money that I can afford to eat a *\$5,000 Hamburger*.

Fleurburger is the wrong way to sell this burger. In comparison, *\$5,000 Hamburger* is simple, direct, and supercharged.

The next time somebody mentions an expensive hamburger, you’ll remember the \$5,000 hamburger. That message just stuck.

	Good	Viral
	<i>World’s Most Expensive Hamburger</i>	<i>\$5,000 Hamburger</i>
1 Simple	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2 Direct	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
3 Supercharged	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The Heart Attack Grill

STICKING WITH THE HAMBURGER theme, I present you with this lovely beast. It's not the healthiest-looking burger, but being healthy is not its claim to fame.

You might expect a burger like this to come from the Fatburger restaurant chain. The Fatburger brand is simple and relatively supercharged.

But this burger comes to us from the "Heart Attack Grill®" in Phoenix, Arizona.

254 At the "Heart Attack Grill®," this burger is served to you by someone wearing a nurse's outfit. On the menu, it's called the *Quadruple Bypass Burger®*.

It comes served in a combo pack that includes three beers and three packs of cigarettes.

If you finish the *Quadruple Bypass Burger®*, the pretend nurse will roll you to your car in a wheelchair.

Make story obsession a lifestyle.



Good

Viral

Fatburger

**Heart
Attack
Grill**

1 Simple



2 Direct



3 Supercharged



Rule #1:
Relentlessly
OBSESS
About Your
STORY

Chaos permits you to think differently

RAPHAEL, DA VINCI, MICHELANGELO, Machiavelli, Copernicus, and Galileo. From the 14th century to the 17th century, the human race would be forever changed by the breakthroughs of the Renaissance.

In philosophy, the humanist movement encouraged scholars to *build* upon knowledge, rather than to *break it down*.

In art, traditional styles were eclipsed by the realism and perspective introduced by “the greats.” Artists like Leonardo da Vinci blurred the lines between art, science, and invention.

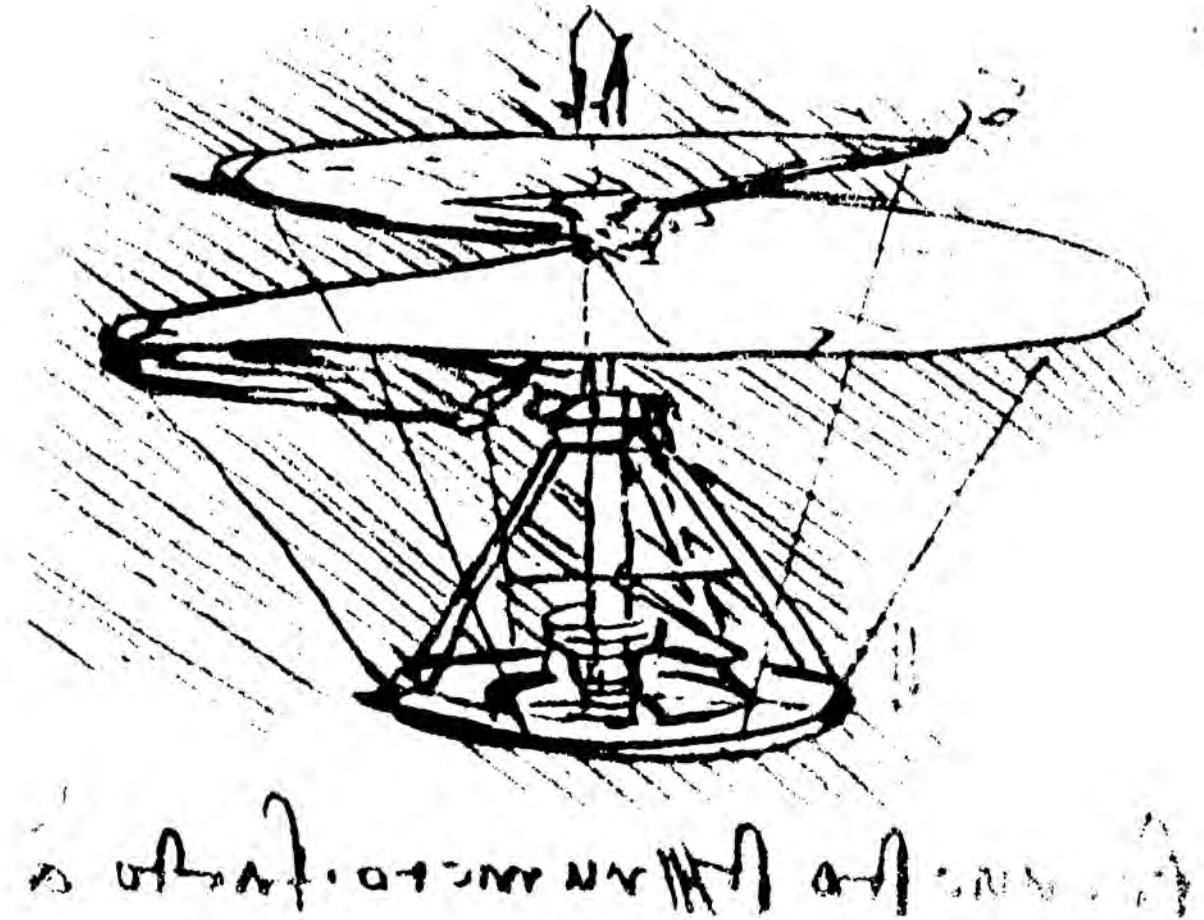
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The Scientific Revolution began, marking the beginning of the modern age.

In short, a new way of thinking emerged. Philosopher Jacob Burckhardt likened the Renaissance to a veil being lifted from the eyes of man.⁷⁸

Shockingly, this remarkable period emerged from the 14th-century eruption of the Black Death, the deadliest pandemic in human history. Nearly half of the European population died, causing a state of chaos. But this chaos caused archaic social structures to collapse. It forced a period of remarkable adaptation.

In our lives, we are unlikely to experience an atmosphere of chaos that compares to the intensity of the Black Death. However, parallels of opportunity will be created as our history evolves.



Fast forward to 2009 and the world has entered a period of economic crisis. The global markets lost a decade of value, collapsing to levels that hadn't been seen since the 1990s. General Motors, Lehman Brothers, Washington Mutual, *Chicago Sun-Times*, Linens 'n Things, Circuit City, Trump Entertainment, Tropicana Casinos, and Nortel Networks all declared bankruptcy. Major retailers and corporate icons have fallen apart.

Collapse of any kind sends ripples through the economy, but it also gives birth to new opportunity. When outdated structures break down, the world becomes open to new ways of thinking.

Chaos creates opportunity.

Let the exploitation begin . . .

IN TIMES OF GLOBAL financial crisis and increasing media clutter, methodical tools matter more than ever before.

A **Culture of Revolution** breaks down structure and liberates your organization's ability to adapt. Within your organization, intentionally destroy in order to create, encourage failure, obsess about your customer, and understand specifically what it is that you are trying to do.

Trend Hunting fuels your creativity and helps you to identify the opportunity that lurks within the noise. Reset your expectations, open your eyes to the fringe, and develop a toolkit to filter your ideas.

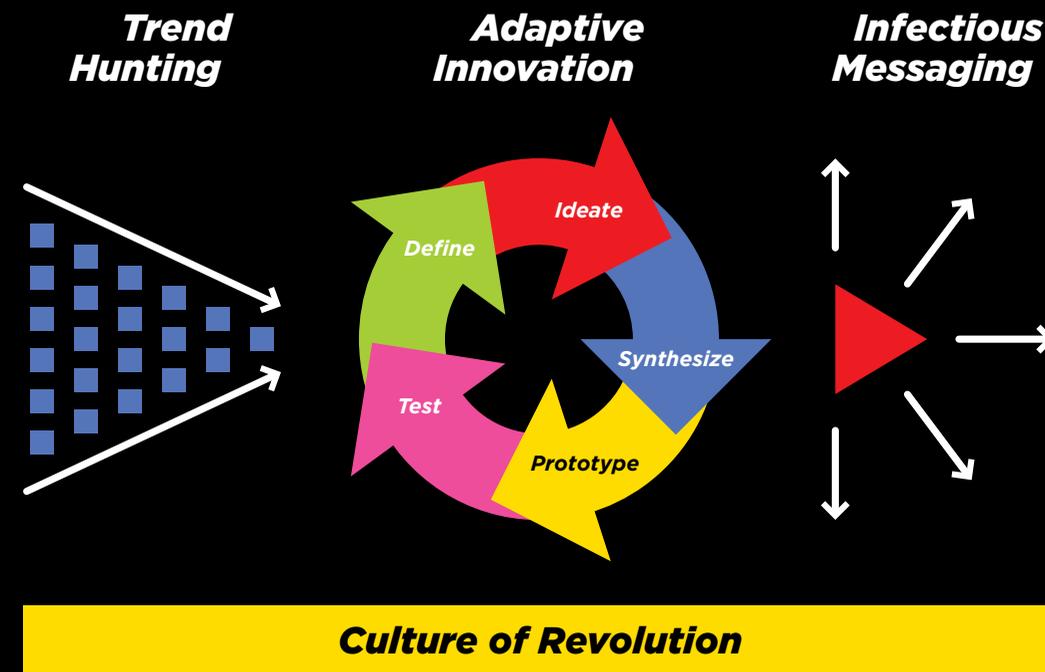
Adaptive Innovation increases your likelihood of success, especially in areas of uncertainty. Be methodical and manage your innovation like a stock portfolio.

Infectious Messaging enables your ideas to break through all the clutter. Above all, never forget Rule #1:

Relentlessly. Obsess. About. Your. Story.

In closing, I leave you with my thesis: by leveraging viral trends and methodical innovation, you can identify opportunity, stimulate creativity, and ultimately, **Exploit Chaos**.

Exploiting Chaos™



Act now

AS A CREATIVE PERSON, you were no doubt thinking of many ideas as you read this book. What will you do with those ideas?

A young man once approached J.P. Morgan with a proposition: “Sir, I hold in my hand a guaranteed formula for success, which I will gladly sell to you for \$25,000.”⁷⁹

Always curious, J.P. Morgan replied, “I do not know what is in the envelope, however, if you show me and I like it, I give you my word as a gentleman that I will pay you what you ask.”

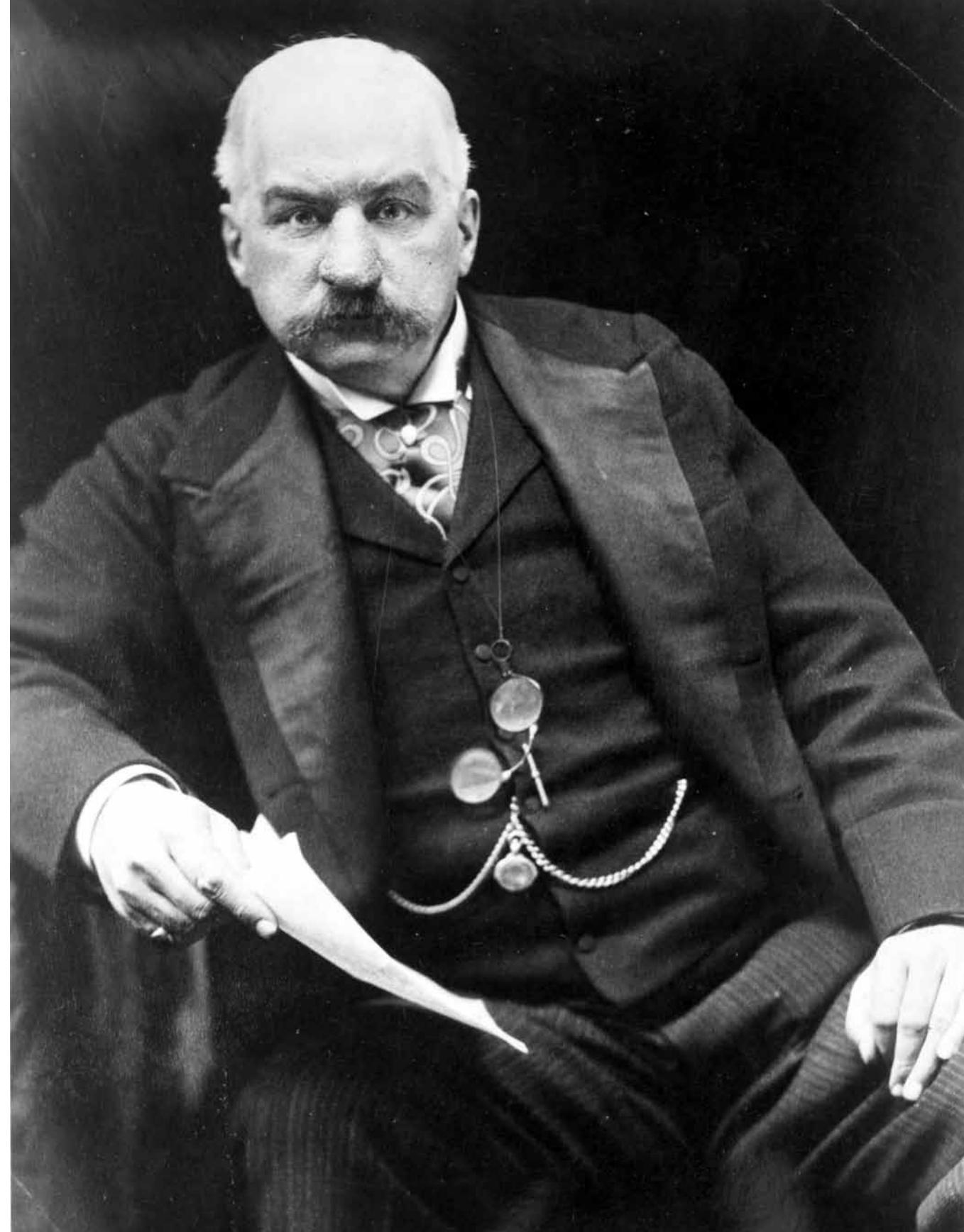
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The man agreed, handing J.P. Morgan the envelope.

When J.P. examined the note, he reached for his checkbook and paid the man the agreed-upon sum of \$25,000. In one of his presentations, Tom Peters revealed the advice that was on that piece of paper:

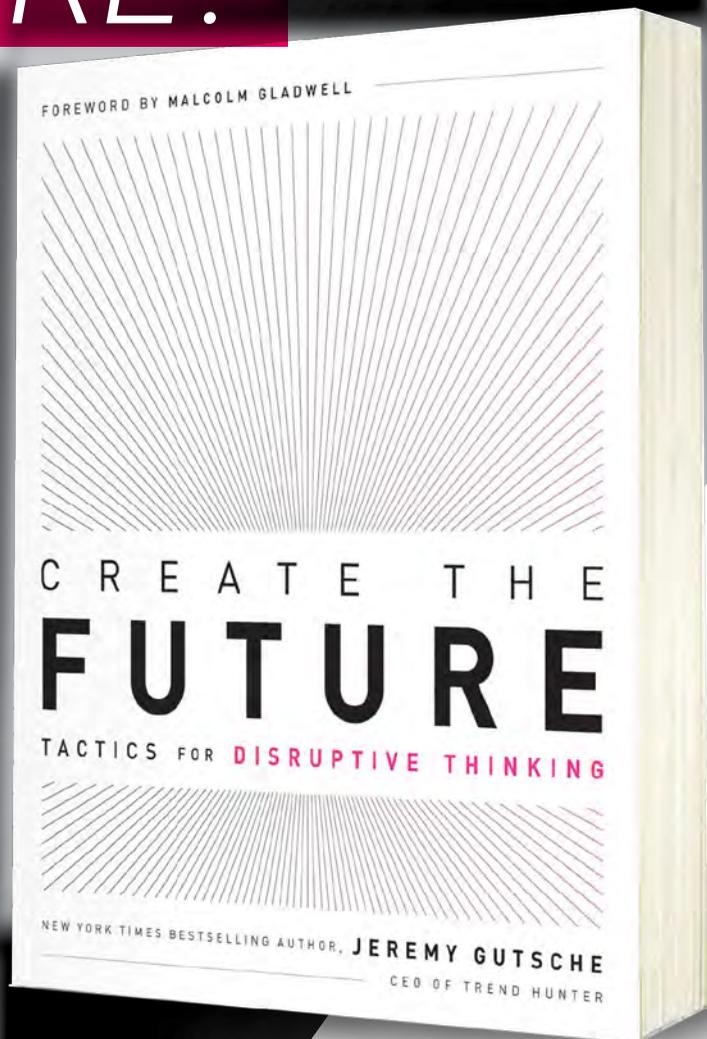
1. Every morning, write a list of the things that need to be done that day.
2. Do them.

If you want to Exploit Chaos, the time to act is always now.



WANT

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Thanks

Mom: The beginning of this book makes a special call out to my papa bear, but it was my mother who offset all of my father's wild ideas, and my own.

Kyla Gutsche: For the years of torment you provided as my older sister, but also for adding the spicy renaissance to the prose of this book.

Jessica Sindler: For being a wonderful editor and contributing both your insight and charm to the book.

Mark Melnick: For sharing the vision that books need not be boring and taking the design of *Exploiting Chaos* to an extraordinary level.

Stephen King: For the years of mentorship and advice about each chapter in this book. You've been influential, pushing the caliber of my thinking.

Angela Lowe: For putting up with me (and also, of course, your marketing savvy advice in the book).

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Marissa Brassfield: For driving the energy of our team from your distant sunny location, and adding that energy to your suggestions in this book.

Jacob Courtade: For being the 38th registered Trend Hunter and defecting from the comfortable clutches of finance to pursue the Trend Hunter dream. Good timing.

Jason Young: For plotting with me from the early days of Monitor and adding the otherwise impossible-to-get hedge fund manager's perspective.

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Rachel Bowman, Christina Butty, Rosemina Nazarali, and Shelby Walsh: For being enthusiastic interns and providing more salt and pepper for this book.

The Top Trend Hunters: On a daily basis, my inspiration comes from the leading contributors to TrendHunter.com. In particular, I would like to recognize:

Going Like Sixty: For being awesome, stubborn, and awesome again. As the #1 ranked Trend Hunter, you constantly push us to new levels.

Ayman Helweh: For providing more ideas than any other reader and taking your love for the brand to a level of passion that I both respect and appreciate.

Cowbag: For providing the eclectic fuel that inspires our team and gets readers around the world to think differently.

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Dr. Robert Schulz: For teaching me and all your students that kids from small cities should think on a global scale and aim for the sky.

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Guy Kawasaki: For being an approachable superstar, willing to be interviewed when Trend Hunter had no traffic, and giving me keynote coaching when I was barely a keynote.

Seth Godin and Tim Ferriss: For your sage advice on how to promote and launch a new book.

Bob Sutton and Huggy Rao: For creating Stanford's Customer Focused Innovation program and letting me inside the door to be one of the first guinea pigs.

Jay Handleman: For teaching me about cool hunting and cultural marketing, thus inspiring the creation of TrendHunter.com.

Stay on the edge

JEREMY LOVES FEEDBACK and new ideas. Contact him directly at: JeremyGutsche.com/contact

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you want to share with likeminded people around the world. TrendHunter.com/register

KEYNOTES & WORKSHOPS: Jeremy Gutsche, founder of TrendHunter.com and host of Trend Hunter TV, is one of North America's most requested keynote speakers. From audiences of 4,000 people to the homes of billionaires, Jeremy has inspired innovation around the world. With a contagious enthusiasm and a background in management consulting and Web 2.0, Jeremy brings a rare perspective on how to unleash innovation within a business context. JeremyGutsche.com

“At Trend Hunter, find out what's cool before it's cool.” —MTV

“Trend Hunter Rocks!” —Guy Kawasaki

“Trend Hunter gets you out of the blocks fast . . . then it's down to you.”
—Kevin Roberts, CEO of Saatchi & Saatchi

“Where cool lives.” —Marian Salzman, CMO of Porter Novelli

“Barely two days of peeking in has moved me out of the last century all the way to the next.” —*The Globe & Mail*

“More information than you can shake a stick at.” —*The Gazette*

. . . at TrendHunter.com

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