transformative

Build a game-changing strategy
Retool your organization
Innovate to win

william kilmer

Praise for transformative

"This book is both powerful and practical. It's a masterclass in how to turn your company into a market leader."

Josh Linkner, five-time tech entrepreneur, *New York Times* bestselling author, and venture capital investor

"William Kilmer has distilled his successful track record as an investor, founder, and executive into powerful lessons for operating in today's economy that every leader will benefit from. This is a must-read book."

John "JG" Chirapurath, Chief Marketing and Solutions Officer of SAP

"Creating a transformative company is hard work, but how to do it shouldn't be a mystery. Kilmer helps leaders think through their opportunities and key challenges, and develop a plan for success in a straightforward, practical way."

Matt Desch, CEO of Iridium Communications

"To disrupt an industry and become a market leader requires transformation, not just of your business, but of your culture. In this book, technologist, operator, strategist, and venture investor William Kilmer shows you how to create an organization capable of game-changing success."

Whitney Johnson, CEO of Disruption Advisors and *Wall Street Journal* bestselling author of *Smart Growth: How to Grow Your People to Grow Your Company*

Chapter 1

Walking Back through the Door

Why shouldn't you and I walk out the door, come back, and do it ourselves?

Andy Grove, former CEO, Intel Corporation

By 1985, the writing on the wall was undeniably clear for Intel: the company was in trouble. Intel Corporation—founded just seventeen years before by industry legends and former Fairchild Semiconductor employees Robert Noyce, Gordon Moore, and Andy Grove—was fighting for its life in the memory chip market.

For nearly two decades, Intel rode the wave of Moore's law, Gordon Moore's famous 1965 prediction that the number of transistors in a given area of a semiconductor would double every eighteen to twenty-four months.[1] This growth in transistor density led to cheaper and more powerful integrated circuits, creating more ways for electronics companies to use Intel's semiconductor technology. One of the promising initial markets was in dynamic random-access memory (DRAM), and the company had built that business for nearly two decades. In the 1970s, Intel became the dominant supplier of DRAM chips to electronics manufacturers around the world. However, by the early 1980s, Japanese competitors had gained significant ground.

At first, companies such as Hitachi, Fujitsu, and Nippon Electric filled excess demand as secondary suppliers. However, these competitors, funded with low-cost debt backed by the Japanese government, increased memory density and quality while building the manufacturing capacity to significantly drive down memory costs. Soon they attained a 40 percent share of the memory chip market and had the momentum behind them to unseat Intel and dominate the market.

Intel tried to protect its market position by creating niche memory products and developing more differentiated features. But it was impossible to differentiate themselves in a market that was focused squarely on price competition. They also looked for other markets for their transistor technology, and one, microprocessors for computers like the early IBM personal computers (PCs), had started to show potential. Intel saw such microprocessors as an emerging market, but because it represented a low-volume business, the company continued to focus on its core business of selling memory chips.

In 1984, Intel's DRAM business took a dramatic downward turn. A sharp decrease in demand for memory exposed just how badly Intel was losing market share and margin to its high-volume, high-quality, and low-cost Japanese competitors. Intel's management team created multiple proposals to solve its dilemma. Using an established and rigorous debating practice the company had cultivated called "constructive confrontation," the group evaluated various options to regain Intel's low-cost position by building scale—a costly approach—or to further differentiate their products in niche applications, a strategy that had so far proven unsuccessful. The management team also considered a third radical proposal to leave the memory business altogether, but that proposal failed to generate consensus.

After seemingly endless discussions and reviews of options, the ever-insightful Andy Grove approached the issue from a different perspective. Looking out from the windows of the Intel headquarters building in Santa Clara to the California's Great America theme park a few blocks away in the distance, Grove turned to CEO Gordon Moore and asked, "If we got kicked out and the board brought in a new CEO, what do you think he would do?"

Moore straightforwardly acknowledged the obvious. "He would get us out of memories," was his reply. This confirmed Grove's perspective. "Why shouldn't you and I walk out the door," he responded, "come back, and do it ourselves?"[2]

As was typical in the action-oriented Intel culture, senior executives Moore, Noyce, and Grove drafted an ambitious plan to exit the memory market and immediately put it into motion. The next few years were painful as the company lost revenue, laid off thousands of employees, and endured several uncertain and unprofitable years. Intel remained dedicated to developing a significant microprocessor business for the personal computer (PC) market. In 1982, it launched the Intel 80286, or 286 processor, a sixteen-bit CPU (central processing unit) used in IBM's new PC/AT personal computers. Soon after, other manufacturers launched PCs that copied the IBM PC architecture and used the same Intel chip. This accelerated Intel's microprocessor business.

Learning from their experience in the memory market, Intel's leaders set out to create an ambitious strategy that would change the nature of competition in this new market. Betting on the new market opportunity in computer microprocessors, they designed a standard computer architecture featuring Intel's processors at the very center. They provided this new architecture to any interested computer manufacturer as the blueprint for building PCs. They also cultivated a hardware and software ecosystem of other companies that optimized their products for Intel-based processors. This instantly made any design lacking the Intel chip inferior. Further, they created world-leading manufacturing plants with the capacity and processes to maintain the highest performance and lowest cost. No one would ever again undercut Intel's standard of performance to cost.

Then, to ensure that they would compete on their own terms, the company took the unprecedented step of licensing its designs to competitors, setting them up as secondary suppliers. This had two effects. First, it gave computer manufacturers like IBM an assurance that there would always be a backup supply of CPUs if Intel ever had manufacturing problems. Just as critical, it put the competition in the back seat, always dependent on Intel's designs for their innovation and limiting their manufacturing scale.

Finally, they did what no other semiconductor vendor had ever done by investing in branding. Intel started marketed directly to end users and paid the PC manufacturers to advertise the Intel brand. This gave customers confidence that buying a PC branded with the Intel logo was a safe bet and, in the process, created one the world's best-known companies. This move forever changed the way businesses and consumers evaluated and purchased computers. The customer outcome went from buying new technology with uncertainty to buying with confidence so long as "Intel Inside" was stamped on the outside. By owning the computer design, encouraging software vendors to support their processors, and advertising to get end users to ask for Intel by name, the company had transformed the semiconductor market around themselves and ensured lasting advantages.

As a result, Intel became one of the most successful technology companies of all time, dominating the microprocessor market with as much as an 80 percent market share over the ensuing years while growing revenue from $1.6 billion in 1984 to over $60 billion today.

As a former manager at Intel who joined the company nearly fifteen years later, I have always admired Intel's transformative success. The company had faced an existential threat that most companies wouldn't have survived. Nevertheless, the management team successfully backed the company out of its existing market and pivoted to another before it was too late. The result was a much stronger and more competitive company that dominated its industry.

What always impressed me more about Intel's success story is its deliberate and intentional focus on recasting its position in the emerging PC microprocessor market, a move that would change the industry forever. Intel's story is not just about a successful company turnaround, as impressive as that may be. The most compelling feature of its transformation is how the company's leadership learned from their experience in the memory market to alter their new market so they would hold a long-term advantage. This started by creating unique value for their customers, both PC manufacturers and the end computer consumer, and was enhanced by building new capabilities for the organization and rethinking the industry structure to put themselves at its center. Intel succeeded by transforming an emerging semiconductor industry to play by their rules that resulted in more than 35 years of market-leading success.

As a technology company executive, venture capital investor, board director, consultant, and adviser, I have long been fascinated with the intersection of innovation and strategy. I have a particular interest in organizations like Intel that have been able to create innovation strategies that completely transform the markets they enter.

In addition to running two companies as CEO, I have been a venture investor and board member on many others and twice stepped into an interim CEO role to manage an organization's transition to a new strategy and new leadership. This book combines my personal experiences from the hundreds of organizations I have reviewed, advised, or led, with years of personal research into some of the world's most successful and transformative companies.

As I have had the privilege of meeting with and working with management teams from hundreds of organizations, I have come to see that leadership teams almost universally struggle with three fundamental elements of their business. Specifically, how to:

1. Create a product or service that is uniquely differentiated and valuable to the customer.
2. Define and execute a strategy to reach a market leadership position, including the right goals and actions to achieve it.
3. Cultivate an agile organization that can thrive through a constantly shifting business environment.

Despite the importance of these foundational elements, the leaders at many organizations don't put in the effort to answer them. When they try, they often focus on product innovation as the primary source of differentiation and competitive advantage, essentially mistaking product innovation for strategy. This is understandable at the early stages of the company when an organization seeks product-market fit. However, it often results in a continuous focus on innovating features and function without a clear strategy. The result is a product that is different without being differentiated and a failure to create real long-term advantage.

The type of transformative change that organizations seek isn't accomplished with great innovative technology alone. While product or technical innovation is essential, focusing on it exclusively will not produce the type of change that shakes up market leadership and rebalances the odds in a company's favor.

In fact, great technological innovation often leads to complacency in strategy. This is particularly true when companies enter an existing market with a new product or service. For example, a few years ago, I met with a CEO seeking venture investment in his company. Despite entering an existing market, he believed he would succeed because his software platform was a generation better than the competition, providing new features that others didn't. Undoubtedly, his company had a very good product and had already shown some signs of success with growing revenue and a few high-profile customers. When I asked him about his innovation strategy and what would be different for customers who considered his solution, he continually referenced the differentiating features, which, although good, were unlikely to persuade large numbers of customers his solution was that much better.

Likewise, when I asked about his go-to-market strategy, he responded that his competition had already written the playbook for him. All he needed to do was to raise the investment capital to copy what they were doing, hiring the same profile of salespeople and building the same marketing campaigns to catch up. His attitude was that with his better technology, he would be successful while following a playbook written largely by his competition.

By insisting on playing by the existing rules, this CEO accepted that the only variable he had to work with was new and better product features. Doing so failed to give him many options.

Many organizations fall into this same trap. To me, it is often the difference between seeking product innovation and business innovation. Business innovation starts with a new result for the customer but goes much further. It requires rewriting the rules, enabling the organization to generate something that is both unique and defensible in a way that others find hard to copy. Bain and Company calls this a "full-potential transformation," defined as "a cross-functional effort to alter the financial, operational, and *strategic trajectory* of the business, with a stated goal of *producing game-changing results* [emphasis mine]."[3] This is the essence of how companies innovate to win. Yet, despite its success, practice shows that leaders rarely consider this approach.

Organizations are led by people, and people are constrained by their biases. Particularly detrimental are cognitive biases—errors in thinking that affect our judgment and decisions. They include overconfidence in our capabilities and a common misbelief that any new technology that a company creates is "disruptive" and, therefore, will be successful. Perhaps most damaging of all is an anchoring bias, simply an everyday acceptance of the industry status quo, which negatively impacts an organization's strategic decision-making.[4] We don't create the opportunity as Intel did, to walk out the door and think about how we would re-enter our industry.

There are significant advantages in a more comprehensive view of where and how to innovate, which can help overcome these biases and increase the potential for a successful outcome. One of the best ways to do this is to look for patterns of how other companies have successfully produced industry-changing results and distill what has made them successful. My aim is to analyze and illuminate these patterns so that organizations can build their own innovation strategy from the ground up.

Objective

This book aims to provide organizational leaders with the tools and structure they need to create their own game-changing innovation strategy, that is, to be transformative. It reaches beyond technological innovation to focus on how organizations innovate customer outcomes, create larger market opportunities, and build a more innovative organization. Because these techniques are applicable to both startups and large organizations aiming to reshape markets, I hope to do more than help readers understand how transformative companies operate. My goal is to help you break out of existing biases to rethink and reconstruct a broad-based innovation strategy no matter your market and industry.

This book originates from my personal experience as an investor, advisor, and CEO. Moreover, it stems from years of research into companies that have successfully entered and transformed existing markets by developing category-creating solutions that expanded market opportunities, and toppled industry leaders by changing the nature of how to compete.

In this book, we will focus on the methods they use to accomplish it, emphasizing three key areas for a new approach to innovation that will help you to:

Build a game-changing innovation strategy for success. We will start by understanding the steps needed to create truly game-changing innovation, starting with shifting focus to innovating customer outcomes. Then we will discuss the best ways to align and invest in the right core capabilities and rethink and reframe your industry structure to create a lasting advantage.

Innovate to win. Finally, we'll discuss how to create a market that you can win by attracting new customers, creating more profitable business models, and leveraging scale accelerators to shift and expand current markets.

Retool your organization for success. To increase your chance of success, I will present ways you can retool your organization to become more engaged, innovative, and agile. This includes developing a sense of intentionality that defines upfront what winning looks like and engages your team in the process. Then, I'll explain how to build a strong organizational culture that feeds your strategy and increases innovation and adaptation. We'll also discuss how to use a challenge-setting loop to accelerate your competitive clock speed.

From a broad perspective, the concept of innovating to win means taking a broader perspective that includes not just building innovative products but game-changers and becoming an organization that engages in true business innovation. To reinforce this concept, I focus on research into nearly two dozen transformative companies that have succeeded in either changing well-established markets with dominant competitors or consolidating highly fragmented market opportunities. Although you already may be familiar with many of these companies, including Amazon, Apple, Dell, Ford, IKEA, Lyft, Uber, and Walmart, my analysis will show them to you in a different light. I will reveal how these companies have followed key transformative principles so you can see how to apply them.

While this book focuses on a framework of principles that have led to winning innovation for other organizations, it doesn't hand you a generic formula for success in which you plug in the variables. Although it demonstrates the patterns in how these companies have been successful, I have taken pains to avoid being formulaic or prescriptive. There is no strategic absolute, no single way to win in a particular industry, and no checklist that will guarantee an organization's success. Success comes from orienting yourself in your industry, creating a vision, setting objectives, defining and executing a strategy, and then going about a continual process of investment, experimentation, and adjustment to achieve it. The intent of this book is to provide you with the tools to think differently about the possibilities of change and highlight questions to help leaders focus on how they can creatively incorporate the lessons from these companies into their own organizations.

This book is divided into four sections and twelve chapters as follows:

Section I sets the groundwork with a discussion of how to create an innovation strategy, one that will establish the pattern of transformative innovation that companies can pursue to change markets and create long-term advantages. Chapter 2 explains the dangers of overreliance on technical innovation alone, the concept of creating a strategy for innovating to win, and the need for pursuing broader courses of innovation. Chapter 3 focuses on the first two principles of the transformative framework, explaining how to create a transformative advantage by focusing on developing category-creating solutions and identifying opportunities for game-changing structural innovation.

Section II begins a detailed exploration of the transformative framework by focusing on outcome and structural innovation. Chapter 4 dives into how companies change their focus to improving customer outcomes to enable category-creating solutions that shift markets and attract new customers. Chapters 5 and 6 review the critical elements of structural innovation: aligning and investing in distinct company capabilities and rethinking and reframing industry structure.

Section III spotlights how to innovate to win by introducing six scale accelerators that help organizations create a path to market leadership. Chapter 7 details the capabilities of democratizing and simplifying. Chapter 8 covers the approach of new customers first and how to build new business models. Chapter 9 highlights the power of the practices of recombining and rule breaking.

Section IV focuses on how transformative leaders can retool their organizations to maintain innovation and ongoing advantage. Chapter 10 examines how organizations can use intentionality to create engagement and pursue innovation that is both unique and valuable. Chapter 11 describes using organizational culture to feed strategy and sustain ongoing advantage. Finally, chapter 12 concludes by highlighting how to become a challenge-setting organization, explaining how to set a clock speed of defining new challenges to deliver results.

Walking Back through the Door

I started this book with Intel's transformative story because even though the choice to leave the memory market now seems so obviously right, it was difficult for the Intel leadership team to make at the time. I joined Intel through an acquisition 15 years after its decisive move into the PC semiconductor market. The company was successfully riding its upward momentum of growth that came from that decision. During that time, I saw the strength of Intel's senior leadership team firsthand. I had worked on several projects that I presented to Andy Grove and quickly learned that he was as decisive as he was intelligent and perceptive. Robert Noyce and Gordon Moore were similarly brilliant and bold. Yet, at the time, even with the facts before them, the three had difficulty making that rational decision to make change happen. When they finally took the decisive step, it so irreversibly transformed the dynamics of how the semiconductor industry worked to their sustained advantage that it's hard to imagine it any other way.

I believe that many organizations today face an even more significant leadership challenge than Intel faced: developing the momentum and the strategy for change, even when the need for change isn't immediately apparent. This is the greatest challenge all organizations face: to walk out the door and come back through again with a fresh perspective on how to create something better and the determination to achieve it.

Fortunately, most organizational leaders already recognize that change is necessary. A survey found that 94 percent of Fortune 500 CEOs agreed with the statement "My company will change more in the next five years than it has in the last five years."[5] The question for most organizations is how to develop the momentum to walk back in the front door with a viable and winning innovation plan.

I designed this book to help readers understand how to build that momentum and take advantage of the opportunity to do something truly transformative. It includes time-tested and industry-proven actions that have successfully helped both incumbents and new market entrants rethink customer outcomes, align their organization's capabilities, and use change to their advantage.

In many ways, business leaders are accepting that the very foundations of their industry are changing in the coming years. They now need to decide if those changes will occur because of what they do or happen *to* them based on the actions of competitors and new entrants. I will teach you the tools to walk back through that door and create something transformative.

I hope you enjoyed reading the first chapter of Transformative: Build a Game-Changing Strategy, Retool Your Organization, Innovate to Win

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