

Building Innovation Fitness

LED BY:

Jim Hackett

President and CEO, Ford Motor Company

A CONVERSATION BETWEEN:

Jim Baumbick

VP, Industrial Pillar,
Operations, and New
Model Launch, Ford

Debra Delise

VP of Security Products
and Technology, Analog
Devices

Andrew Filson

President, CoorsTek

Guillaume Gerardin

SVP & General Manager,
Printing Supplies, HP

Robert Hanson

Former SVP - President,
Constellation Brands

Jennifer Hunter

Chief Sustainability
Officer & SVP, Corporate
Citizenship, Altria Group

Abhi Ingle

Former Chief Business
Officer, Qualtrics

Alejandro Messmacher

CFO EMEA and LATAM,
American Tower

Ann Tracy

Chief Sustainability
Officer, Colgate-Palmolive

Transport yourself to a place — it may be no further than your office — where a company has two types of business.

Business A

- Holds 100% of cash flows
- Generates 80% of profits
- It is where the CEO and other executive leaders rose from
- It has the most loyal customers and a ubiquitous brand
- The technology is stagnant and generations behind

Business B

- Has negative cash flows
- Makes no profit
- Its customer acquisition costs are high
- It is risky, and employees in A resist transferring to B
- The technology is cutting-edge and ascending

The relationship between businesses A and B is tenuous. The teams in A consider B to be less mature. They quickly send wild ideas or risky projects to B where they won't distract the core, successful work of A.

“The best CEOs are able to do both A and B.”

- Jim Hackett

EXAMPLE

Ford's A business was built on a network of thousands of dealerships.

Its B business may not need any.

01 VIEW THE BUSINESS IN A&B TERMS

Explore the paradox

Talk about the paradox of A and B to understand and mitigate the conflicts. The platforms of A will form the base to accelerate the success of B's innovation. Yet, the virtues that made A successful are no longer relevant for B to drive its growth.

As a result, B will reject much guidance from A, endangering the respect and quality of communication between them.

"If the CEO doesn't get it, then the paradox will grind the company to a halt."

- Jim Hackett

02 MAKE ROOM FOR BOTH A AND B

Protect autonomy

Evolving companies need both types of businesses. The B business should not be spun off, nor should it be curated by A.

Allow B to steward its own path to growth and remain independent of the decisions and resources of A. Leaders in business A are typically unwilling or ill-suited for the challenges faced in a B business.

Share platforms

The platforms built by B should be based on and integrate into those of A. All DNA molecules are built with only four types of bases. In the same way, companies should be built on as few base platforms as possible to leverage their strengths and maintain efficiency.

"If B creates a wholly diverse set of products that doesn't take advantage of the company's existing platforms, then you don't need it. You can sell it."

- Jim Hackett

CASE STUDY

Future Proof

Before smartphones were ubiquitous, Jim Hackett convinced Bill Ford to support installing modems in Ford vehicles.

He knew that the extra revenue would not cover the costs, but resisting the short-term share price pressure was necessary to ensure that Ford remained relevant in the long term.

Enforce accountability, at the right time

Businesses must be nurtured before they are disciplined. Set up the B business independent of the protocols, processes, and rigor of measurement used in A.

“The worst topic in a meeting on A-B business is how much money B will make. That’s a discipline question. It’s like telling a baby to stop crying.”

- Jim Hackett

For example, it’s unlikely that B can be as precise as A when justifying the return on investment on new initiatives. Identify and mediate behavior where A may delight in B’s inability to prove or communicate success.

“The CEO’s role is to nurture new ideas. There’s plenty of time for discipline.”

- Jim Hackett

03 HAVE A CLEAR PURPOSE FOR B

Choose the right B

The purpose of the B business is to mitigate A's eventual decline and protect the company's growth. Accelerate investment in B at the height of A's profitability.

“Sometimes, B ideas aren’t targeted at A. It’s just good ideas that happen to leverage the platforms of A. But often, it is about A dying to get B going.”

- Jim Hackett

PERSONAL EXERCISE

Signals

Pick an example of a business that failed to adapt. Do not seek the reasons for its decline. Rather, ask yourself what clues were missed that could have indicated an impending failure.

Example:

Kodak failed to take advantage of the rise in demand for digital cameras. But at the time, digitization was still an abstract concept with an uncertain future.

Yet, were they have looked at the photos displayed in households and compared the number that were developed from Kodak film versus those printed off digital cameras, they would have seen hard data on the growing change in consumer behavior.

Use the B business to develop rapid prototypes and kill the dead ends in the prototype phases. To know which prototypes to build the B business around, ask the following questions:

1. Is it cheaper than what it takes to develop something in A?
2. Does it make the company more fit?
3. Does it speed something up for the customer?
4. What does it unseat that is a declining feature in the A model?
5. What is virtuous in the past that can or can't be carried forward?

“The CEO has to be involved in the universal potentiality of the ideas.”

- Jim Hackett

Create a case for change

Can you define a period when the business or the product was at the height of its fitness? Unpack the change in consumer behavior that led to the decay in product fitness over time.

By looking backwards first, there is less debate about how fitness changes over time. Then look forward and ask how the fitness may decay again.

“You're trying to get people to embrace that this won't work forever; that you're going to have to do something.”

- Jim Hackett



CNEXT is a Community of Global Leaders.

CNEXT creates Virtual Leaders Forums, consisting of high-potential senior executives supported by former successful public company CEOs.

Members participate in virtual meetings to gain insights, approaches, and tools to tackle their most pressing leadership and business challenges, while also developing valuable peer networks for the future - all to accelerate organizational performance and achieve their business objectives and professional aspirations.

C-NEXT.com