

Why Great Businesses Fail

WHY GREAT BUSINESSES FAIL

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What we're seeing in the last ten years certainly are large companies failing.

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Companies like Kodak, companies like Blockbuster, companies like Sears.

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And if you step back and think about it, it's not obvious why that should be.

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And when you ask people why that's so,

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they typically say they're being disrupted.

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But disrupted by what?

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Disruption really means the emergence of a new set of competitors,

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a different way of doing business,

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a different technology that allows you to do business in different ways.

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But the interesting thing is that the pace of change,

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the pace of disruption is actually increasing.

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And in the face of that disruption, those changes,

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what we're seeing are big companies failing.

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WHAT DO BIG COMPANIES NEED TO DO

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There are three very separate disciplines.

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That they have to be good at if they're going to

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be successful at dealing with disruption.

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They have to have a process, a discipline for developing new ideas,

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what we call ideation.

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They have to figure out which of those ideas are likely to be successful as

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a business.

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What we refer to as incubation and then the third discipline is that they have to

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once they have an idea that looks like it could be successful,

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they have to have a set of processes that ensure that, that new

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business gets the assets and capabilities they need to grow and here's the problem.

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Some companies are pretty good at incubation.

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They're perfectly willing to spend money to come up with new ideas.

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The problem comes when these businesses begin to scale and

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it takes serious resources.

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When that happens, suddenly these senior executives who are all in

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favor of innovation suddenly realize that to develop new businesses,

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they may, in fact, have to sacrifice some short-term profits.

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That's when many CEOs suddenly step back and say, maybe not.

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WHICH COMPANIES

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Let's focus just for a second on Amazon.

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Amazon was founded in 1994.

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In 25 years, they have gone from 0 revenues to \$230

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billion with more than 600,000 employees.

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They compete in businesses as diverse as online shopping,

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but they also produce TV shows.

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They have Amazon web services, which is the largest cloud provider in the US.

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They run a variety of different businesses.

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How have they done that?

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They have done it by having very careful processes for ideation,

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incubation and scaling.

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They have a process which they called a PR FAQ, F-A-Q process.

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This is the process that encourages people throughout the organization to come up

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with ideas for new businesses.

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If the idea is deemed to have potential,

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then they immediately move into an incubation phase.

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They form small teams.

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These teams are responsible for

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coming up with a minimal viable product to put in front of a customer.

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If that idea turns out to look potentially successful,

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they immediately move into a scaling mode where they provide resources for it.

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They escalate it.

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They get senior management attention.

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One of the things Baso says is that most companies don't really do experiments.

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They don't take the big risks.

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What Baso says, if you place big bets

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just a couple of those big bets succeeding will pay for all the small failures.

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The nice thing about companies like Amazon and

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Walmart and some of these other companies is that they do these things.

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In very rapid pace, that is they don't take forever to

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decide whether a new idea is potentially valuable or not.

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The problem is that in big exploit organizations, the processes are typically

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very measured very slow and that oftentimes can kill innovation.

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So when you do these things, you need to do these processes rapidly.

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WHY IS LEADERSHIP IMPORTANT?

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This is really a leadership issue.

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When we look at companies that have failed, have been disrupted,

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it's not because of technology.

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They fail,

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because they didn't have leaders who could play multiple games simultaneously.

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Almost all companies today are really interested in innovation, but

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the thing that they often are not sophisticated enough at is making this

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distinction that we've been talking about between ideation, incubation and scaling.

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The best of these companies have managers who understand that it takes

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all three of these disciplines.

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