BIG BET LEADERSHIP

YOUR TRANSFORMATION PLAYBOOK FOR WINNING IN THE HYPER-DIGITAL ERA

AUTHOR OF *THE AMAZON WAY*

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RODIN BOOKS

First Edition

Hardcover ISBN 978-1-957588-22-3
eBook ISBN 978-1-957588-23-0

PUBLISHED BY RODIN BOOKS INC.
666 Old Country Road
Suite 510
Garden City, New York 11530

www.rodinbooks.com

Book and cover design by Alexia Garaventa

Manufactured in the United States of America

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CHAPTER 2

PLAY CHESS, NOT CHECKERS

"When you see a good move, look for a better one."

—EMANUEL LASKER

To hear some tell it, Bill Gates "stole" the graphical user interface operating system from Steve Jobs and Apple.

Or did Steve Jobs steal it first from Xerox PARC?

In another story, Bill Gates stole the operating system contract with IBM from his partner Gary Kildall. Kildall was founder at Digital Research, Inc. (DRI) makers of CP/M—Control Program for Microcomputers, an early PC operating system. Did that happen? Did Kildall miss his chance at the contract by opting to take his personal airplane out for a spin rather than meeting with IBM officials? Or was Gates just opportunistic in snagging the IBM deal and crafting the phrase "Gary went flying"[1] to stand evermore as the industry's metaphor for a missed opportunity?

All these statements are simplistic and miss the mark. We all build on the work of others.

Bill Gates knew that Apple was working on an operating system based on a graphical user interface, as Microsoft was supplying Apple with early version of MS Word and MS Excel and the Apple team showed it to them. Gates and Jobs both drew inspiration from the early demos of the Xerox graphical user interface. And Gates saw an opportunity for Microsoft to expand into operating systems with the IBM opportunity in 1988.

But nobody stole anything.

In each case, Gates and Jobs took the core of a concept, and innovated—not just creating an innovative technology, but a new business model and new ecosystem. They did not steal. They observed, intuited the future market, devised a powerful business model, and built the combination of products, partners, and distribution to shape an industry.

While the industry was playing checkers—thinking in the moment—Gates and Jobs were playing chess.

A successful Big Bet, like the ones made by Bill Gates and Steve Jobs, is the result of a particular aspect of high-level chess play: the ability to imagine multiple moves ahead. When you can see the whole board of your marketplace and envision how each of your moves might create a new ecosystem of play in your industry, you can make the Big Bets that your competitors may not even be able to imagine until it is too late.

This type of innovation is not a matter of genius; it is a process that can be learned and followed.

Let us begin by looking at the master's work.

In the case of Microsoft's work with DOS and then the Windows operating system, there were at least four important moves executed by the company's leadership:

- Seized the opportunity to build the operating system for IBM in 1980. The first choice for the job was Bill Gates's close business partner, Gary Kildall at DRI—who, as legend has it, went flying on the wrong day and is now a footnote in PC history.[2]

- Licensed an early version of DOS to deliver this operating system, from a then-little-known and now forgotten company named Seattle Computer Products.[3] This allowed Microsoft to deliver the IBM operating system at a time when Microsoft did not have their own operating systems. The contract with Seattle Computer Products allowed Microsoft to both improve upon and resell the application named DOS without further royalties to Seattle Computer Products.
- Negotiated a clause to the contract with IBM that gave Microsoft the rights to sell DOS to other original equipment manufacturers (OEMs) in the computer industry.
- Understood that the primary value for a future industry was not the physical PC, but the cross-platform combination of a standard chip-based architecture and the operating system that could operate across the standard chip-based architecture. This was Bill Gates's vision. He imagined the eventual outcome of "a PC on every desk and in every home"[4] and the business applications for PCs. Trusting that, he put together the moves to seize the control and value that were to come. He saw the future vision of an Intel-based CPU PC world and the portable opportunity to be the platform for that entire ecosystem, which became known as Wintel.[5] Meanwhile, the rest of the computer industry was busy playing checkers, thinking one product, one feature at a time.

How did he get so lucky?

The saying goes that "luck is the intersection of preparation and opportunity." So, if you want to get lucky, you need to prepare and create opportunities. You need to de-risk and accelerate your Big Bet.

We have learned this is possible by employing a combination of reverse engineering and systems thinking.

Let's look more closely at that duo.

OTHER PEOPLE'S OUTCOMES

First moves are often guided by the experience and trajectories of others. They may be pillars of eras past. Or they may be your own current competition. Their stories and data will form the foundations of decision-making and the keys to de-risking efforts.

In his book *Decoding Greatness: How the Best in the World Reverse Engineer Success*,[6] Ron Friedman outlines how greatness is always built on the shoulders of other giants, usually by studying, imitating, benchmarking, breaking down, or in other ways learning in a very directed manner from others. From pharmaceuticals to recipes to sports, imitation is the highest form of compliment, and greatness can be built from it.

The foundation of most exceptional strategies lies in a key component: competitive intelligence, which involves uncovering and learning from the plans and motivations of your rivals and ecosystem. However, competitive intelligence is frequently not implemented at the required pace to directly enhance and refine the crucial insights and outcomes associated with solving vital business issues or formulating high-stakes strategies. As a result, many competitive intelligence efforts guide companies toward incremental improvements rather than facilitating the transformative breakthroughs they seek.

To execute a Big Bet, competitive intelligence with targeted intent and a rapid pace is needed. The intent should make it clear that transformative, not incremental, progress is expected.

When seeking transformative progress, starting from scratch is a losing approach. As Steven Johnson spells out in *Where Good Ideas Come From*,[7] even history's greatest "lightbulb" innovation stories are far more myth than reality. Indeed, the reality is that nearly all breakthrough innovations that succeed at scale are built on a massive foundation of other people's work (OPW). The odds of your Big Bet succeeding are dramatically improved—and the development timeline shortened—when leaders recognize the importance of leveraging OPW and make doing so an explicit step in the process of managing Big Bets.

Indeed, chess masters spend hours studying games already played. They are not stealing or copying—it would be impossible to do so since every live game is a new battlefield of play. Instead, they're internalizing past games to use that learning in new matches. Wins are crafted on the backs of other players' moves.

Leveraging other people's work offers advantages that go beyond expediting your Big Bet by capitalizing on the insights others have already gained. OPW also serves as a potent instrument for shielding your Big Bet from cognitive biases that can give rise to blind spots and flawed assumptions.

Friedman points out that psychologists have long studied the negative effects of staring at a problem for too long, in isolation. The Einstellung effect, mental set, and functional fixedness are all phrases for the same cognitive trap. This is why copying is a good thing, not a bad thing, he notes. It brings other people's thinking into our process and helps us avoid recycling the same old ideas in our heads, over and over. "Far from making us unoriginal, copying breaks the spell. It challenges our assumptions, relaxes our cognitive constraints, and opens us up to new perspectives," he says.[8]

BENCHMARKING OUTCOMES

All ideas and approaches can benefit from studying history and competitors. For Big Bets, a focused approach balancing speed with valuable insights is needed. For that, we have developed a framework to systematize the approach. We call it *Other People's Outcomes*. This technique allows teams to de-risk, accelerate the initial concept, and actually test the ideas in their Big Bet Memo Experiments by leveraging what we can quickly learn from others.

Here is how the *Big Bet Other Poeples' Outcome Memo"* is developed:

Begin with the Big Bet Memo Experiments. Then, identify three competitor or analogous commercial offerings for the capability that you might be able to learn from.

Use the same approaches from the prior analysis, but put the competitor offering instead of your own idea through the framework. These reverse engineered and benchmarked strategies are captured in the Big Bet Other Poeples' Outcome Memo.

It might look like this: Perhaps as a major grocery chain, your Outcome Definition Memo is focused on radically improving the "buy online and pick up in store" (BOPIS) use case. In this scenario, your killer feature envisions the store associate bringing customer-recommended and "goes-with" items in the delivery cart that is wheeled to the customer car, along with the items ordered by the customer. You envision an up-sale conversion rate justifying the logistical efforts to enable. The average order size increases 20%, boosting order profitability by 40%, as many of the "goes-with" items are high-margin items such as prepared foods, gourmet items, and beverages.

That's your killer feature. Now, from whom can we learn more about this?

In this scenario, a sensible approach is doing benchmark analysis on the best grocery sector competitor offering a leading buy online, pick up in store capability. But do not stop at just a great direct competitor. Study the best non-grocery retailer who does BOPIS, and the best restaurant BOPIS operator. Complete the first iteration of these quickly, seeking a high return-on-effort orientation to insights. How do you implement both insight collection and quick reverse engineering? That is not the way most organizations pursue competitive intelligence.

Try this: Starting with your Big Bet Memo Experiments, focus your reverse engineering on just the killer feature and the associated key operating features. If possible, be a customer and see for yourself. From there, conduct interviews with former executives, current leaders, and key technology vendors for the company you are targeting. Ask not just about the current capability, but about their vision for new innovations, challenges, details, and ideas they are considering. Expert interview network services, from companies like GLG or Guidepoint, are marketplaces for gaining legitimate access to experts for interviews.

SYSTEMS THINKING THROUGH FLYWHEEL STRATEGIES

With this valuable information in hand, we move to the next phase of the chess match: understanding the battlefield.

Here's an example that takes us back to Bill Gates:

Gates and his then wife Melinda French Gates formed The Bill & Melinda Gates Foundation in 2000. The philanthropic efforts started as the Gates Library Foundation in 2000. In 2008, Gates transitioned out of a day-to-day role at Microsoft and focused much more of his time and energy at the Foundation.[9] The Gates Foundation, which is the world's second-largest philanthropy, states that its mission is "to create a world where every person has the opportunity to live a healthy, productive life."[10]

In the fall of 2009, spurred by the $4.35 billion Race to the Top grant program from the US Department of Education, the Gates Foundation sensed a once-in-a-generation opportunity to create change in the US education ecosystem.

The Gates Foundation team had a long-held developing strategy of trying to promote longitudinal student data to improve student experience and outcomes. Longitudinal data refers to the ability to collect many key pieces of data on individual students. Examples include campus enrollment each year; programs in which the student receives services; ethnicity; and age. John Rossman was engaged in assisting in the development of a grant strategy in response to the Race to the Top program. The situation had many actors, diverse agendas, divisions, policies, and obstacles. The current system is an example of a wicked problem.

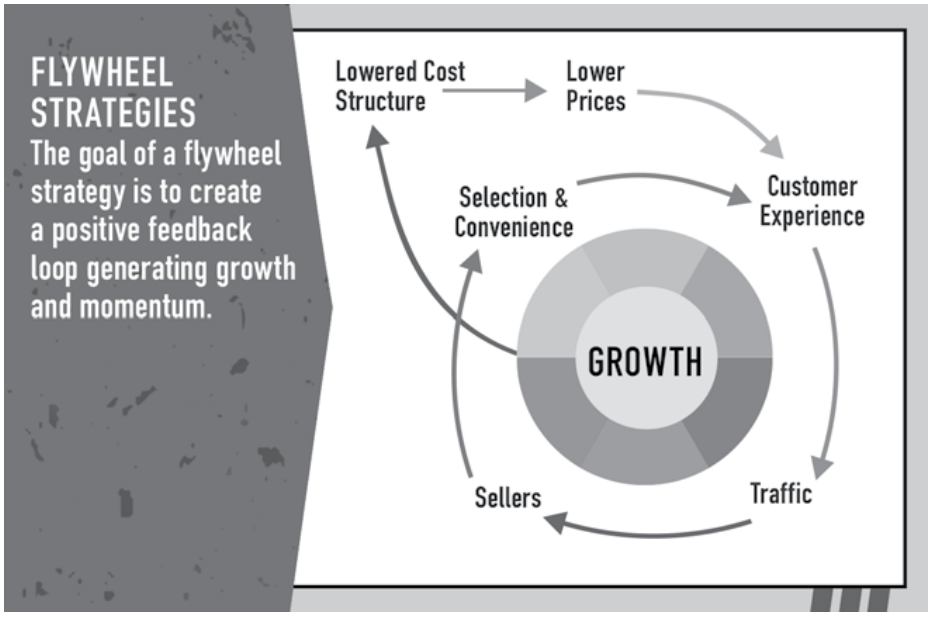
In "Strategy as a Wicked Problem," author John Camillus outlines five characteristics of strategy-related wicked problems. First, the problem involves many stakeholders with different values and priorities. Second, the issue's roots are complex and tangled. Third, the problem is difficult to come to grips with and changes with every attempt to address it. Fourth, the challenge has no precedent. Finally, there is nothing to indicate the right answer to the problem.[11]

As the team studied the situation and the many past assessments the Foundation had developed, these conditions had all the characteristics of a wicked problem. How would we develop a meaningful understanding of the system? We developed a framework familiar to the technology world: System dynamics, causal loops, and flywheels.

A flywheel strategy is a business strategy focusing on creating a virtuous cycle of growth and momentum. The concept is based on the idea of a flywheel, which is a large, heavy wheel that takes a lot of energy to start spinning, but once it gets going, it becomes easier to keep it spinning.

Similarly, a flywheel strategy aims to create a self-sustaining cycle of growth by focusing on three key elements: attracting customers, delivering a great customer experience, and using that customer feedback to continuously improve the product or service. Amazon's flywheel model is the most famous.

By adding third-party sellers, selection increases; increasing selection improves the customer experience; when the customer experience improves, site web traffic increases; when site web traffic increases, more sellers are attracted to the platform. All of this drives a lower cost structure, which allows for prices to be lowered, feeding back into the flywheel. This drives growth.



This approach can be effective for companies looking to build a sustainable and scalable business model. By understanding the US educational system as a set of actors, and the creation and use of longitudinal data as the problem to solve, a system understanding of how the Gates Foundation might proceed with a set of grants was formed and effectively communicated.

Applying systems thinking and envisioning the future iteration of a complex scenario through the metaphor of a flywheel significantly enhances our comprehension. This approach not only strengthens our capacity to articulate the intricacies of the situation to ourselves and others, but also sharpens our focus on the heart of the issue and the essential outcomes needed for effective problem resolution.

THE OTHER PEOPLE'S OUTCOMES FLYWHEEL MEMO

In a novel manner, the Other People's Outcomes Memo and the flywheel design are joined into a compelling explanation of the logic, techniques, strategy, and key risks to solve the problem through the Big Bet.

From the benchmarking evaluation, identify the scenario with the most intriguing flywheel effect, which is the one causing the greatest degree of upheaval and evolution within the ecosystem. Develop a flywheel model to encapsulate this scenario. To avoid limiting the interpretation to merely visual representations, draft a supplementary two-page memo highlighting the essential insights and learnings relevant to your Thinking in Outcomes analysis. This written piece will be known as the *Big Bet Other People's Outcomes Flywheel Memo*.

THE NEXT ERA OF MICROSOFT

Microsoft's stock hit a then all-time high of $55.75 on January 7, 2000. At the end of 2013, the stock was below $40, where it had been for most of that decade. Having largely missed the mobile platform and search advertising markets, and having watched a crosstown

company, Amazon—which was not considered a competitor—develop the cloud infrastructure market, was the Wintel era over and Microsoft's fortunes waning?

Satya Nadella was elevated to CEO in 2014. He began several strategy and corporate culture changes including embracing the open-source movement and a complete focus on cloud computing. But the biggest challenges were not technological changes or the US Department of Justice; they were internal challenges. Nadella has often been quoted about trying to shift Microsoft from a "know it all culture" to a "learn it all culture."[12] Microsoft stock value has increased more than fivefold since 2014, and Microsoft has been one of the few large enterprises to successfully cross technology eras.

The deliberate and paced learning focused by benchmarking analysis and conclusions is a "learn-it-all" technique applied to the mission of forming your Big Bet.

Not every flywheel results in an Amazon Marketplace, nor does reverse engineering and learning from others always result in a Microsoft Windows industry dominance. But these efforts can be critical in solving wicked problems, making better Big Bets and de-risking the situation. They help us become a "learn it all culture" and improve our understanding and proposed designs.

Problem diagnosis, customer exploration, debating, refining, clarifying, constraining, and more debating combine to create rapid and real strategy setting, experimentation, and progress.

This integrated thinking process is an adaptation of what Albert Einstein referred to as thought experiments. A thought experiment is a logical argument within the context of a hypothetical scenario. Einstein used the process to understand the revolutionary and fundamental understandings of sub-atomic physics and communicate his insights to others. Thought experiments do not report new empirical data. The idea is to stimulate one's ability to apply intuition to their understanding of a scenario and test it.

Our thought experiments, done through memos, may initially appear costly and time-consuming, but the truth is that these efforts

represent the most economical and invaluable experiments that can be conducted. The approach can be likened to an archer aiming their bow. They can move the angle and direction of the bow freely before release, but once the arrow is released and in flight, the archer cannot alter its path. Similarly, we can adjust our ideas and our aim freely when in the stage of ideation and discussion. Degrees of freedom are lost early, but especially when the monthly expenses and team size increases. Once we make significant financial or market commitments to the Big Bet, we lose the ability to decide that this concept is not worth it. We have fired the arrow.

What goes along with a rapid pace of analysis, design, and testing with the Big Bet Memo Experiments? While defining clarity, maintaining velocity, and prioritizing risk and value continue to be the key habits, we need a playing field, an environment, suited for the risk and ambition of our Big Bet.