CHAPTER 1

NEEDED

An Entrepreneurial

Mindset

YOU CAN'T PICK UP A BUSINESS BOOK THESE DAYS WITHOUT reading about how dramatic increases in competitiveness and technological turbulence have introduced a pervasive sense of uncertainty to everyday managerial life. This is hardly news. What we hope will be new to you in this book is that uncertainty can be used to your benefit if you create and deploy an entrepreneurial mindset —a way of thinking about your business that captures the benefits of uncertainty. Once entrepreneurial thinking becomes second nature, you will be able to continuously identify uncertain yet highpotential business opportunities, and exploit these opportunities with speed and confidence. Uncertainty becomes your ally instead of your enemy.

There are three ways in which *The Entrepreneurial Mindset* is different from other business books. First, since successful entrepreneurs are action-oriented, so is this book. Each chapter is intended to give you ideas that you can put to work immediately, even if your situation is uncertain. Second, we've made the concepts we describe simple to use. When you are moving fast, complexity only creates confusion and delay. A huge part of becoming an entrepreneurial leader is learning to simplify complexity, so that your co-workers can act with self-confidence. The ideas you will encounter here have helped others to gain confidence, and we think they can help you, too. Third, the book is intended to grow with you. We start off simply, then add to the level of challenge as the book moves on.

How will you know that the entrepreneurial mindset has taken hold? You'll know when you begin to think and act like the unusual people we call *habitual entrepreneurs*. Habitual entrepreneurs have made careers out of starting businesses, some working within existing businesses and some in independent start-ups. They have in common finely honed skills in forging opportunity from uncertainty.

This book distills our observations of habitual entrepreneurs. The point is to show you how they think, how they behave, and exactly what it is that they do so well. They capitalize on uncertainty rather than avoid it, they create simplicity where others see complexity, and they embrace the learning that comes from taking calculated risks. They recognize that when opportunities are fleeting, it is sometimes more expensive to be slow than to be wrong. As a consequence, they will find solutions that are “roughly right” rather than consume time developing an analytically correct, but slow, answer.[1] This special group has an immense amount of insight and experience to offer you.[2] Whether you are a manager or an executive, or an entrepreneur yourself, we believe that you can learn a lot from habitual entrepreneurs. Throughout the book, we’ll show you how to apply the ideas to your domain, whether that is a division, a unit, or an entire company—small or large, your own or someone else’s. We’ll refer to this domain as your business or your organization.

Defining Characteristics of the Entrepreneurial Mindset

Habitual entrepreneurs have five characteristics in common.

1. They passionately seek new opportunities. Habitual entrepreneurs stay alert, always looking for the chance to profit from change and disruption in the way business is done. Their greatest impact occurs when they create entirely new business models. New business models revolutionize how revenues are made, costs are incurred, or operations are conducted, sometimes throughout an entire industry. One reason that the emergence of the Internet as a new medium of business has been accompanied by dizzyingly high company valuations is that investors perceive its potential to profitably transform virtually every aspect of economic life.
2. They pursue opportunities with enormous discipline. Habitual entrepreneurs not only are alert enough to spot opportunities, but make sure that they act on them. Most maintain some form of inventory, or register, of unexploited opportunities. They make sure that they revisit their inventory of ideas often but they take action only when it is required. They make investments only if the competitive arena is attractive and the opportunity is ripe.
3. They pursue only the very best opportunities and avoid exhausting themselves and their organizations by chasing after every option. Even though many habitual entrepreneurs are wealthy, the most successful remain ruthlessly disciplined about limiting the number of projects they pursue. They go after a tightly controlled portfolio of opportunities in different stages of development. They tightly link their strategy with their choice of projects, rather than diluting their efforts too broadly.
4. They focus on execution—specifically, adaptive execution. Both words are important. People with an entrepreneurial mindset execute—that is, they get on with it instead of analyzing new ideas to death. Yet they are also adaptive—able to change directions as the real opportunity, and the best way to exploit it, evolves.
5. They engage the energies of everyone in their domain. Habitual entrepreneurs involve many people—both inside and outside the organization—in their pursuit of an opportunity. They create and sustain networks of relationships rather than going it alone, making the most of the intellectual and other resources people have to offer and helping those people to achieve their goals as well.

Essentials of Entrepreneurial Strategy (and This Book)

We have used the essential components of entrepreneurial strategy—which we have distilled over years of observation—to guide our development and organization of this book. These components are briefly described below and summarized in figure 1-1.

Creating the Entrepreneurial Frame

The basic objective is to define, in advance, the criteria that would make a business opportunity worthwhile for you to pursue. The way you do this is to articulate challenging objectives for how much value an opportunity should add to your piece of the business. The idea is to improve not only profits, but profitability as well. Your goal should be, in other words, to get into businesses with ever better margins and profits than those you are in today. The trick is to come up with realistic yet challenging targets. What you are after is not just the probable but a stretch to the possible. We'll touch on how you get started on this in chapter 2.

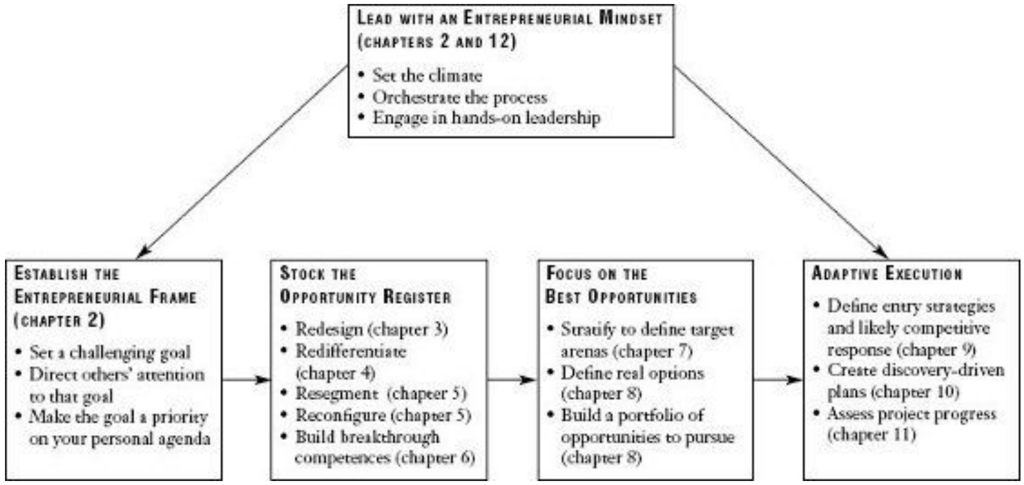
Stocking the Opportunity Register

In chapter 3, we begin describing the techniques for creating an opportunity register for your organization. The opportunity register is like the habitual entrepreneurs' inventory of opportunities. It's a list of your ideas for improving, or even completely reinventing, your current business model or for going into entirely new opportunity spaces. It is meant to be a work in progress, one that you constantly add to and review. We describe techniques that we have seen used to capture five categories of opportunity:

- Redesign products or services (using a methodology called attribute mapping, discussed in chapter 3).
- Redifferentiate products or services (using consumption chain analysis and the quizzing process, both presented in chapter 4).
- Resegment the market (by behavioral segmentation, as described in chapter 5).
- Completely reconfigure the market (by shifting the boundaries that keep the current markets as they are, also discussed in chapter 5).
- Develop breakthrough competences, or areas of competitive strength, that create new competitive advantages (discussed in chapter 6).

FIGURE 1-1

THE STRUCTURE OF THE BOOK



LEAD WITH AN ENTREPRENEURIAL MINDSET (CHAPTERS 2 AND 12)
• Set the climate
• Orchestrate the process
• Engage in hands-on leadership
ESTABLISH THE ENTREPRENEURIAL FRAME (CHAPTER 2)
• Set a challenging goal
• Direct others' attention to that goal
• Make the goal a priority on your personal agenda
STOCK THE OPPORTUNITY REGISTER
• Redesign (chapter 3)
• Redifferentiate (chapter 4)
• Resegment (chapter 5)
• Reconfigure (chapter 5)
• Build breakthrough competences (chapter 6)
FOCUS ON THE BEST OPPORTUNITIES
• Stratify to define target arenas (chapter 7)
• Define real options (chapter 8)
• Build a portfolio of opportunities to pursue (chapter 8)
ADAPTIVE EXECUTION
• Define entry strategies and likely competitive response (chapter 9)
• Create discovery-driven plans (chapter 10)
• Assess project progress (chapter 11)

Targeting the Best Opportunities

Armed with a well-stocked opportunity register, your next challenge is to focus on only the best ideas for inclusion in your portfolio of initiatives. This requires making trade-offs that can sometimes be difficult, but that are essential if you are to avoid spreading yourself and your organization too thin. We'll show you how to establish your strategy and structure an opportunity portfolio that matches and supports it. Chapter 7 covers the use of stratification mapping to define a set of target arenas in which you want to compete.

Chapter 8 shows you how to apply real options reasoning to the different opportunities you consider. Options reasoning is key to entrepreneurial investment patterns, because it allows you to control the potential for downside losses while preserving your upside potential. We'll show you how different kinds of options are useful, depending on whether you are facing technical uncertainty, market uncertainty, or some combination. We offer suggestions on how to manage the different types of options to maximize the strategic benefits to you.

Employing Adaptive Execution

Once you have selected your areas of focus, your next challenge is adaptive execution. By this, we mean capturing the opportunity without falling prey to many of the pitfalls of high uncertainty. The key concern is that new and changing business models imply new customers, competitors, and competences. These will force you to operate with a much higher ratio of assumptions to knowledge than you may be accustomed to. The chapters in this part of the book show you where the greatest dangers lie, and offer techniques you can use to avoid them.

In chapter 9, we describe important considerations for market entry. We start by analyzing which market segments, or niches, you will target first. We then consider competitive responses.

Next, recognizing that nothing turns out exactly as planned, we introduce you to a technique for planning even when you can't accurately anticipate the outcomes. This will allow you to adapt your course of action as the real opportunity becomes clear. This technique, discovery-driven planning, is discussed in chapter 10.

Finally, we consider the problem of monitoring whether a competitive advantage is actually emerging from your investment in new initiatives. Chapter 11 describes a simple diagnostic tool, based on a set of surveys, that can help you make this judgment.

Exercising Entrepreneurial Leadership

The last part of the book focuses on your role as an entrepreneurial leader in your organization. In chapter 12, we show you how leaders create an atmosphere in which everyone plays, that is, an atmosphere in which everyone comes to work in the morning eager and able to help you continue to identify ways to reconfigure your business models and create advantage out of uncertainty.

Chapter 13 is a short conclusion to the book. In this final chapter, we look at the growing intersection between the world of the entrepreneur and the world of the strategist, and bring the book full circle.

Directed Discovery

The techniques we recommend are low risk. We make it a point to caution you against precipitously launching costly, demoralizing actions such as downsizing, reengineering, reorganizing, or introducing other traumatic, systemic changes. You may, of course, ultimately decide that one or some of these actions are necessary, but they are not our focus here. At the heart of our philosophy is directed discovery—plotting a direction into the uncertain future and redirecting as reality unfolds. This calls for speed, the capacity for rapid response, and insight. We need speed because opportunities are fleeting, and insight because people have to act on inadequate, sketchy information. An organization in which people take speed for granted and constantly generate new insights has the capacity to become a formidable entrepreneurial competitor.

We hope that this book provides you with some quick hits: modest ideas that you will find useful right away and a good many more that you will revisit when you need them. As you go through the chapters, you will also start to see indications of major opportunities for your business that can form the cornerstones of a genuine breakthrough strategy for your firm.

In a world of uncertainty, our guiding philosophy is: Take charge. If nobody knows what the future will hold, your vision of how to navigate it is as good as anyone's. The future may as well belong to you.

CHAPTER 2

FRAMING

THE

CHALLENGE

YOUR FIRST OBJECTIVE IN CREATING AN ENTREPRENEURIAL mindset is to make sure that you have clearly established what your business needs to do to make the effort worthwhile. You must create a mindset that pushes you and your team beyond mere incremental improvement to entrepreneurial actions that really make a difference. In other words, you should frame what you must do to create a genuine win for your organization in terms of growth in both profits and profitability. It may sound obvious, but stop right now and think about whether you and your co-workers are truly clear about which results from your efforts would make these efforts good investments for your shareholders. People can be surprisingly vague on this point. This has lots of negative consequences, among them a temptation to be complacent and a tendency to look for incremental improvements rather than major wins.

A vivid demonstration of this tendency toward vagueness constantly crops up in the Wharton Small Business Development Center, which helps hundreds of would-be entrepreneurs each year. Our first assignment to would-be entrepreneurs requires these potential entrepreneurs to describe their new business idea in terms of profit potential. Today, we typically get ideas like creating communities on the Internet for consumers of natural skin-care products. The problem is that these are customarily not businesses that would offer a competitive risk-adjusted return compared to the wanna-be's current secure salary. We force them to think through the profit implications of the idea instead of just focusing on the revenue component and their (natural) tendency to incrementally expand on their current income.

Then we ask the aspiring entrepreneurs to go out and look only for business opportunities with the potential to generate twice as much income for themselves (when the venture is mature) as they would earn if they continued to work in their present position. Sometimes our participants are at firms like GE or major banks and insurance companies, or professors from the engineering or life sciences faculties, or MBA students with job offers from Goldman Sachs or McKinsey & Company. As a result, the standard is quite high. We insist that they double this amount to earn them a premium for taking on the task of starting a business. Then we insist that they design a business to get them there within two to three years.

The results are almost always fascinating. The entrepreneurs leave behind the easy-to-do businesses and get creative with ideas that may not be as quantifiable, but that are usually far more interesting and potentially profitable than the first batch. Setting forth a clear and unambiguous standard for what the business must deliver galvanizes their effort, gives them a force for focus, and helps them get on with it. Notice that we didn't do anything more than tell them how good the idea had to be. Once they knew that, they could do the rest.

SETTING CHALLENGING GOALS

So, how do you get started? The best way to begin is with a hard-nosed look at your business's current performance. Ask yourself, If I were to do something in the next three to five years that I, my boss, and my company's investors would regard as a major win, what would this performance record have to look like? The answer will help you to create what we call the entrepreneurial frame. This is a specific, measurable challenge to enhance the value of your piece of the business. The frame provides focus and creates a sense of urgency for you and those you work with.

The entrepreneurial frame has two components. First, you should be clear on the minimum amount of additional profits you need from a new venture (at maturity) to make a difference to your business. You should stress profits, or bottom-line growth, not merely growth in sales revenues. Second, you need to specify what increase in profitability (meaning return on assets or equivalent number for your industry) your new opportunities need to achieve as well. Opportunities less profitable than your existing businesses are hardly likely to get anyone excited and are poor candidates for investment of either your time or your money. The exception to this general principle is in the case of *disruptive technologies*, which represent potentially important new solutions that don't seem that way at first.[1] More on these in chapter 4.

Note that this thinking doesn't just apply to people who run profit centers. Even if you are running a cost center, you can still develop an entrepreneurial frame. In this case, you specify how to significantly reduce the costs and increase the asset productivity of your operation.

Try to make your goal a stretch, without making it ludicrous. If firms in your industry are growing profits at a rate of 5 percent a year, then expecting 10 percent growth from a new initiative may be reasonable. You decide what is possible—the main thing is to hone in on a number that will frame the challenge. Your job as a leader is to set challenges that push your fellow workers to the limits of their abilities without pushing them beyond those limits—a theme we will revisit several times.

Establishing a frame helps people to realize exactly what is expected of them. It can also begin to create a sense of urgency about becoming more entrepreneurial. For instance, we did some work with Hewlett-Packard in which we speculated on what a frame for HP might look like. Table 2-1 provides some baseline data.

TABLE 2-1

HP's Framing Challenge (Based on 1998 Performance)

Total sales	$47 billion
Net income	$2.9 billion
Net profit margin	6.3 percent

Creating an Entrepreneurial Frame

As you can see, to add 10 percent to the company's profits at current profitability levels, a new business would have to generate $4–5 billion in sales! Not many brand new businesses are this big, which implies that HP would have to grow by developing multiple new businesses. At the same time, since HP is well positioned in a rapidly growing set of markets, has deep managerial and technical skills, and is able to form strong alliances with other firms, it is not unrealistic to think that the company could meet such a significant growth challenge.

The exercise in Table 2-2 will get you started on creating a working frame for your business. It's meant to be a start; you will almost certainly want to elaborate on this as your ideas develop. This is the business equivalent of asking the MBA to find a business to start that will pay at least twice as well as getting a job on Wall Street. The major difference is that we are asking you to define how well your new business must perform to make a substantive contribution to what you are already doing.

Begin by finding out what your organization's profits were for the last full year, and enter these in cell 1. Then enter your return on sales (profit margin) for the same period in cell 2. This should then allow you to calculate the revenues you needed to generate last year's profits, by dividing profit by return on sales (cell 1/cell 2). Put this result in cell 3. Next, put your return on assets for the same period in cell 4. You can then calculate the assets you required to create last year's profits by dividing profit by return on assets (cell 1/cell 4). Put this result in cell 5. What you now have is a very concise description of the performance that today's business model is delivering.

TABLE 2-2

Worksheet: Making the Entrepreneurial Frame Specific

	Current Performance		Desired Performance	
Last year's profits	Cell 1	200	Cell 6 = Cell 1 × 110%	220
Return on sales (profit margin)	Cell 2	10%	Cell 7 = Cell 2 × 105%	10.5
Revenues required to produce profits	Cell 3	2,000	Cell 8 = Cell 6 ÷ Cell 7	2,095
Return on assets	Cell 4	15%	Cell 9 = Cell 4 × 110%	16.5%
Assets required to produce profits	Cell 5	1,333	Cell 10 = Cell 6 ÷ Cell 9	1,333

The next step is to specify how you need to improve on this performance by taking entrepreneurial action. To do this, specify the magnitude of additional profits that your business needs to deliver to achieve a compelling business result. Start off with, say, a 10 percent increase in profits. You can calculate this easily by multiplying the cell 1 figure by 110 percent and entering it in cell 6. Since your new businesses should be more profitable than your existing activities, specify a level of enhancement to return on sales that you require. Again, for illustrative purposes, let's say that it's a 5 percent improvement. As before, you can calculate this by multiplying cell 2 by 105 percent, and entering the result in cell 7. This will then allow you to calculate the revenues you'll need to achieve that level of performance, by dividing cell 6 by cell 7. To reflect your need to improve your return on assets, the calculation would go into cell 9. You can then specify the assets allowed by dividing cell 6 by cell 9.

Simple though this exercise is, it can have a surprising amount of impact. If all the growth is going to have to come from new businesses, you can see how big they need to be (see chapter 9). If instead you need to perk up your existing operations, this gives you a sense for how significant the challenges are. Manufacturing or production people, for instance, can be asked whether improvements in asset utilization would allow you to achieve a better return on asset number. The sales and marketing groups can contribute their views on what it would take to improve sales revenues (and maintain profitability).

It isn't enough, of course, just to specify a number and leave the subject. Turning this entrepreneurial frame into a living goal requires that you use it to direct the attention and manage the agendas of everyone in the organization. As a leader, your guidelines are straightforward: People pay attention to what you pay attention to, and to how this links to success and rewards in their careers.

Here's a simple rule of thumb: If the activities that you decide are linked to achieving your goals are not among the first five issues on your personal agenda at every meeting you attend, in every conversation you have, and in every performance review you conduct, people will pretty quickly get the message that you don't care all that much about them. On the other hand, if you are persistent (even boringly repetitive) and follow through with actions that reinforce your verbal commitment, soon people will understand that you mean it. From this belief, it is a small step toward getting them mobilized to do something about it.

Your entrepreneurial frame articulates the outcome of your strategy. It allows you to communicate your ambitions to others and allows them to understand the direction in which you are all taking the business. A robust frame will be particularly important to those who finance your undertaking, whether they are venture capitalists or shareholders. They will judge the value of your stock on their estimate of your prospects for adding value and on their judgment of your ability to execute your plans.

So far we have not urged you to declare a vision, a statement of mission, or other such grandiose thing. This is done quite purposefully. Developing a robust vision for a business is hard, time-consuming work that calls for real insight. If you are just getting started building an entrepreneurial mindset in your organization, you are probably better served by holding off.[2] Rushing the process all too often results only in the production of one of those meaningless vision statements that gets laminated and bolted to the wall. We've all seen them—vapid phrases that fail to tap the company's potential for entrepreneurial thought and action because they reflect neither its core capacities nor its real values.

A good example of the wisdom of not rushing the process—and of how to initiate entrepreneurial leadership—is Henry Schacht and Rich McGinn's decision to take some time to sort out the entrepreneurial vision for Lucent Technologies early in the company's development. In the fall of 1995 Schacht and McGinn were put in charge of managing Lucent's divestiture from AT&T and its emergence as an independent company. As chief executive officer and chief operating officer, respectively, Schacht and McGinn faced the challenge of figuring out what the brand new company would be like. Schacht was a relative outsider, faced with a longtime AT&T management team. An initial public offering (IPO) was scheduled for April 1, 1996 (six months out). Worst of all, the workforce consisted of "143,000 terrified people," who were wondering whether they still had jobs. What did Schacht and McGinn do? They made a conscious decision not to pronounce a strategy and vision at that time, as Schacht described recently to a class of McGrath's.

What we decided to do was to do nothing. By that I mean that what we said to the 143,000 people was "Go back to work. We're going to need some time to sort the issues out. We have a profit plan to deliver to AT&T, our owner, between now and the end of the year. If we don't get that done, we're not going to have anything to say with respect to the IPO."

Next, we moved to stabilize all the required stakeholders. We quickly put together a group of sixteen people and told them, "You are our management team. We're going to figure out where we are going and how we get there, without going outside the organization for talent. Until you prove you can't do it, we'll assume you can."

We took those sixteen people and put them in a room and said, "We're going to spend every Monday morning together and define for ourselves what our values are, and what our mission is going to be." They were furious to be dragged into this when they had "real work" to do. We got a lot of foot dragging, a lot of cell phones going off in the meeting. They thought it was silly stuff and fought the process initially. We ended up going off campus and banning cell phones and long bathroom breaks. We stuck with it for the better part of two and a half months. Gradually, the team began to come together. Simultaneously, Carly Fiorina (now CEO of Hewlett-Packard) led a team benchmarking the very best in our industry; we wanted the group of sixteen to understand the metrics that defined the standards of performance in high-tech companies. Carly and her team reported back their findings to the group as they were developed.

It became apparent to the gang of sixteen that Lucent was a low-growth, underperforming company operating in a high-growth, highperformance industry. The group's mission development activities produced a statement describing aspirations to become a high-performance growth company delivering superior sustained shareholder value.

Carly's benchmarking team provided the quantitative metrics of just what that meant; these became known as the Five Simultaneous Equations and brought specific performance measures to the mission statement. They provided the vital definition link between purpose and performance:

1. Move the top line from 1 percent growth to high teens growth while maintaining the world-class gross margins.
2. Increase R&D from 8 percent to 11 percent.
3. Reduce sales and general administrative expenses (SGA) from 27 percent to 19 percent.
4. Reduce the tax rate 4 percentage points.
5. Lift return on assets (ROA) from 0 to 1 percent.

We went to the IPO market stipulating these goals as achievable. They were our short-term performance targets. We then sent Carly and her team out to do a rough-cut strategy that could provide a more textured set of strategic statements. We adopted a "roughly right" strategy by the end of 1996 and made our first modest organizational changes then. We refined the strategy all during 1997 and adopted a more robust strategy late in 1997 and reorganized the company around the same management cadre.

The results are history. The investment bankers told the board in 1996 to expect the $23 opening price to erode initially, then recover to a modest premium by year end, and that a range of $40-plus could be expected a few years out. The stock was at $320 (on the same basis) by late 1999, four years after the company was formed and three and one-half years after the IPO; it was among the top half-dozen largest firms in the world in terms of market capitalization. All five simultaneous equation goals were achieved.

Same people, same markets, same technology; the only thing that changed was our expectation of ourselves. There is no other explanation available.

Several points here: People will set higher targets and achieve them if they set them for themselves. Self-set goals based on credible evidence (benchmarking) always exceed imposed goals. People will rise to the occasion if given the opportunity.

As one of Lucent's "gang of sixteen" commented late in the process of mission setting, "We have been given the opportunity of a lifetime; we need to grasp this with an audacity of purpose and go for it."

Notice the elements that made a crucial difference in Lucent's emergence. First, the team began not with a statement of sweeping vision, but with a quantified idea of their aspirations. Next, they came together as a group to define what performance meant and establish some clear criteria. Further, they decided to be much more ambitious than their previous performance might have indicated was reasonable. It took time and teamwork for Lucent's eventual vision to emerge, and for the leadership behaviors that made it such a success story to manifest themselves. We will expand these topics in chapter 12. For now, the key message is to begin your efforts to spark an entrepreneurial mindset with a clear picture of what your target aspirations should be.

Setting Up an Opportunity Register

The next step in creating an entrepreneurial frame is to decide on the format of your opportunity register—the place where you will inventory all the entrepreneurial ideas that emerge from applying the techniques we offer in the book and from other sources of insight.

As mentioned, one skill typical of successful entrepreneurs is the ability to hold onto their ideas over time, not necessarily moving on them right away, but not forgetting about them, either. A simple way to hold onto good ideas whose time may not be quite ripe is to create an opportunity register. The concept of the opportunity register was presented to us by a successful multiple-venture entrepreneur. His philosophy is that anyone who can access a full inventory of possible opportunities is unlikely to run out of good ideas for making the next competitive move or capturing the next prospect for growth. You want to store good ideas so that you can revisit them to see how new ideas might fit in, to determine whether the timing is right to implement older ones, or to figure out what to eliminate as your true strategic direction becomes more defined.[3] The originator of the concept registered his ideas on index cards that he would scan periodically.

We like to keep our register in the form of a database because it is easy to scan (and less likely to get lost). That doesn't mean it has to be complicated, though. A template for such a database is shown in figure 2-1, but we encourage you to discuss with your colleagues the type of register that best suits you and your business. Be it simple or sophisticated, the important thing is to decide how you will record and revisit the ideas that your team generates.

FIGURE 2-1

A Simple Opportunity Register

Field 1: Business concept. The business concept is a short description of the idea to be entered in the register. The initial business concept behind Amazon.com, for instance, was to offer an Internet-based service that allowed customers to search for and order discounted books for fast delivery. The company has since extended the concept to other products.

Field 2: Related trends. If you have come across important trends (in the marketplace, in technology, or elsewhere) that might have a bearing on the business concept, record this information here. Data on trends can help you anticipate whether and when a particular concept is feasible or potentially attractive. Conversely, trend data can help you identify when some ideas might become obsolete. For Amazon.com, trends to consider might be household penetration of PCs connected to the Internet and the willingness of consumers to buy over the Internet. The dark side of this trend is evident to local independent bookstores, whose business was already being threatened by big chain stores like Borders and Barnes & Noble—every book bought through Amazon.com (or a chain store) is a lost potential sale for the local independent bookstore.

Field 3: Key data. In this field you should record more specifics on an opportunity by linking the concept to numbers. Specifically, identify the key customer segments you want to address. For Amazon.com, the key segment would be computer-literate frequent book purchasers with time constraints, and the relevant numbers might include total books sold and where, the margins on books, the growth rate of various kinds of books sold, the value to the customer of not having to go to a bookstore, and so on. The key thing here is not to deploy armies of researchers to capture information but to have a place to put any important information you run across.

Field 4: Obstacles and barriers. Here you note what is stopping you from grasping the opportunity. Some great ideas can't be developed unless certain barriers are broken down. These might be technological, market, regulatory, or even company-policy-related barriers. For instance, many experts believe that the Internet will not achieve its full potential as a mass medium unless several barriers are cracked simultaneously, including processor speed, bandwidth, and technology cost. It's important to note such barriers as you encounter them because it will generally require some investment to dislodge them. (Obstacles and barriers are further discussed in chapter 5.)

Field 5: Company position. Here, you note any particular competences, skills, or resources of your company that might make the business concept particularly attractive or defensible (see chapter 6).

Field 6: Competition. Here you note your likely relevant competitors and their likely response to your idea. Opportunities that are widely known to be attractive are often attractive to a great many firms, meaning that sometimes they are actually not such great arenas to enter (see chapters 8 and 10).

Field 7: Sources. In this field, note the sources for all of the information you have obtained; you may need to tap these sources again or use them to validate the information you are using. Such sources might be publications, Web sites, or personal communications.

Field 8: Type. Here you determine and record what type of opportunity you are pursuing. As we explain later in the book, there are generally two types of opportunity: *arena-building* (which takes you into a major new competitive environment) or *model-transforming* (which is designed to disrupt the business model in a current competitive environment).

Field 9: Timing. Here you consider the timing. Will you carry out an outright launch, or will you invest in a positioning option, a scouting option, or a stepping-stone option? Later in the book, we provide you with guidelines for determining which option is best.

Some advice on nomenclature: To the extent possible, be consistent in the names you choose for particular concepts, opportunities, and barriers across the entire database. This will make it easier to sift through the database to determine which opportunities you want to pursue. Consistent naming can also provide you with insights into related applications or products that you might otherwise overlook if they are treated as totally different simply because they meet the needs of different customer segments. This is particularly important for companies that are organized functionally or by major customer group. Unbeknownst to you, your idea may already have been put to work in other units of your company or for similar customer segments. For instance, making a breakthrough in the weight of a battery might be important to customers manufacturing mobile phones, but could also be extremely important to those making portable toys, radios, personal digital assistants and other battery-operated devices. When spread across multiple markets, the opportunity is more substantial than it would be were it to be applied only to a single market.

SUMMARY OF ACTION STEPS

At the end of each chapter, we summarize in a series of steps the chapter's implications for action. The idea is to start with some simple core ideas that you can tackle right away, and then move on to more complex challenges. Moving through the steps will naturally lead you to act increasingly like an entrepreneur. You will discover opportunities that others overlook and take advantage of insights that others don't have.

STEP 1: Identify the current key performance numbers of your business as it is.

STEP 2: Articulate a set of target numbers for your business in two to three years (or whatever time frame you select) that will represent a substantial enhancement in both profits and profitability. This set of target numbers becomes the goal for growth that you will achieve by thinking entrepreneurially.

STEP 3: Communicate your thoughts on these numbers with the others in your organization who might be important to help you achieve them. Revise upward or downward as the feedback and your own improved understanding of each individual's role suggests.

STEP 4: Monitor your own behavior to make sure that you yourself are modeling the entrepreneurial behavior you seek in others—specifically, make sure your growth goals are consistently on your agenda and in your conversation, and that you consistently express a sense of urgency with respect to these goals.

STEP 5: Create an opportunity register to record the ideas that you will use to meet the challenge you have framed.

CHAPTER 13

THE

ENTREPRENEURIAL EDGE

When Strategy is Discovery

WE HAVE BOTH STARTED BUSINESSES. WE WERE BOTH TRAINED as strategists. In the ten years that we have worked together, we have seen the boundaries between entrepreneurship and strategy blur. This is because in today's business environment, we no longer have the option of holding on to yesterday's business model; we must create entrepreneurial organizations that continuously come up with new models. An organization incapable of constant innovation and change will in short order lose its franchise and be acquired at best, dispersed at worst. Managers who seek to act strategically have no choice but to embrace the entrepreneurial mindset. In so doing, they will have to leave behind some of the comforting premises under which strategy, the "art of generalship," has long been practiced. In this chapter, we summarize what this means for managers and strategists as individuals, and why practices such as reducing complexity and observing uncertainty to make things simple are so crucial.

An entrepreneurial mindset invokes a far more dynamic view of competitive advantage than is typically used in strategy. When the old rules—about share advantages, scale economies, and decreasing returns, for instance—stop working, we lose time-honored guide-posts through our competitive landscape. Levinthal's research suggests what this means. People and organizations, he argues, can only deal with a limited amount of complexity; systematically dysfunctional behavior results when they are confronted with rapid change in their competitive and technological landscape. The ray of hope he offers is that if you can capture the main features of these landscapes, you can reduce complexity to a level that an organization can absorb, increasing its adaptive capacity.

In other words, though the world is getting more complicated and uncertain, there are ways in which you can simplify it enough to function in it. If you can pick out the few most salient features of a rapidly shifting landscape, you'll be better able to cope than if you try to capture every last wrinkle and ridge. In this book, we have offered some simple ways to think about complicated things; our goal is not to pretend that the world isn't a complex place but to help you to understand enough to take action in spite of complexity and uncertainty.

Besides overwhelming complexity and increasing uncertainty, a second kind of pressure we increasingly see has to do with how people are coping with the flood of issues and events demanding their attention. In the companies we study and work with, there is a noticeable increase in the stress that managers are feeling. They desperately need better tools to manage their own agendas, to tame the flood of messages and inputs seeking their attention, to husband the scarce resources of time and energy, and to make space for other things that are important to them.

This is why, throughout the book, we have tried to emphasize focusing, setting priorities, making choices, and having the discipline to let things go, as well as taking on new things. The things you elect not to do are as much a part of your entrepreneurial mindset as the things you elect to do.

Core Guidelines for Managing with an Entrepreneurial Mindset

Below we provide some key guidelines for managing with an entrepreneurial mindset—in effect highlighting again some of the points we made in the book.

In a world of great uncertainty, you can be as right as anyone else. Using the tools in this book, you can influence, if not shape, your destiny, just like habitual entrepreneur Bob Goergen, who built a billion-dollar candle enterprise in an industry that had been in slow decline for 300 years, and John MacCormack, who turned a chain of hairdressing salons into one of the fastest-growing businesses in the United States.

We say that you can shape your destiny, but we agree that only a fool believes that it can be dictated. Throughout the book, therefore, we have suggested generous injections of reality into the way you should think about strategy. Whether it is a reality check on the reactions of customers to a new attribute, the use of benchmarks to critically evaluate your advantages in a discovery-driven plan, a ruthless reassessment of progress at major milestones, or our insistence that you act parsimoniously and take our options, we recommend that you find ways of minimizing the impact of competitive reality. The first reality to recognize is to remember that a business is simply a mechanism to capture value by using its competences to deliver an offering that satisfies a customer's needs better than do competitors' offerings. To win, you need to understand customers' experiences almost better than they do, and certainly better than the competitors do. You need to get into customers' heads, experience the effects of your offering on their needs, and figure out what they will be willing to pay for, not just what they would like you to do. This leads to the final guidelines.

DEVELOP INSIGHT INTO THE CUSTOMERS' BEHAVIORAL CONTEXT. This is a powerful weapon in your entrepreneurial arsenal. It's fashionable to talk about looking outside the box. It's much harder to find anyone who can show you how this translates into opportunities to redesign, resegment, reconfigure, redifferentiate—after all, the boxes that people try to look beyond are there in the first place because they made business sense at the time. Successful entrepreneurs often don't have to have a revolutionary product. What they have instead is a revolutionary insight into the context in which their customers live and an idea on how they might solve an important problem for the customers within that context. We have emphasized customer and competitive context—the consumption chain, attribute map, and segmentation and reconfiguration ideas—to help you structure your out-of-the-box thinking.

IN AN ENTREPRENEURIAL MINDSET, EVERYBODY PLAYS. We stress that you do not need to use these tools alone. Besides, no matter how brilliant you are, you can rarely be as brilliant alone as a competitor who has learned to mobilize the entire organization. The act of bringing other people into the entrepreneurial process is essential, and you can use the tools we have provided to engage all your people to generate opportunities. They must believe that any and all new ideas are welcome, but also understand that not all opportunities are economically feasible even if they are good. They must feel strongly that execution, not analysis, is what will make a real difference to the company.

EXPERIMENT INTELLIGENTLY. You can't analyze your way to competitive advantage. If you could simply think rationally about creating advantage to make it happen, so could your competitors. Strategy today is more about strategic experimentation and trial-and-error learning than it is about analysis and forecasting. How do companies experiment? Companies experiment, and therefore execute their strategies, using real options reasoning: by continually starting, selecting, pursuing, and dropping projects and businesses before launching aggressively in those projects whose value is finally revealed. In an uncertain world, real options give you flexibility, the potential to learn, and a way of hedging bets. They allow you to learn at minimum possible cost.

One of the key managerial tasks of the years beyond 2000 will be to manage the company's portfolio of options, just as a key role for future strategists will be maximizing the learning from real options investments.

EXERCISE DISCIPLINE. Manage the experimental process with the rock-ribbed discipline of successful, habitual entrepreneurs. They can't rely on surplus resources to buffer them from big, expensive mistakes. We have described the techniques they use to achieve the necessary discipline and showed you how it can be used. The opportunity register, your options portfolio, your discovery-driven plans, and the responses to the questions we ask throughout the book are all ways of imposing discipline and constructive control on new business creation for your firm.

SPEND IMAGINATION INSTEAD OF MONEY. Many of the ideas presented here are not expensive to implement. They have little downside and represent few risks. They spend creativity and imagination instead of funds. In a world of increasingly ruthless competition for shareholder returns, parsimony is essential. As you continue to build your own entrepreneurial arsenal, look for ways in which people can be encouraged to utilize their own creativity before asking for material resources. If you are working with the right group of colleagues, they will welcome the challenge.

FRAMING IS CRUCIAL TO THE ENTREPRENEURIAL LEADER. Without a frame to work with, people freeze in the headlights of oncoming uncertainty. Your job, your most solemn responsibility as a leader in an entrepreneurial context, is to provide the frame within which people can meet the challenges of the future. You may find yourself framing what a product should look like, as Keizo Yamaji did when he launched the personal copier business; framing what constitutes a legitimate business through the establishment of a ballpark, as did Peter with his “50 to the power of 4” rule; framing the specific challenge a business must meet, as we do in discovery-driven planning; or framing a business around a focused set of priorities, as Thomas Engibous did when he propelled Texas Instruments into a focus on digital-signal-processing technology.

BE RUTHLESS WITH RESPECT TO PRIORITIES. Trying to do too many things has sunk many an entrepreneurial business, and it can sink yours, too. We have offered some rules of thumb. Whether you use them or not, it’s important that you understand your company’s capacity. Trying to do more than the firm is capable of handling is tantamount to doing nothing. Dropping things that don’t merit your attention or the attention of co-workers is every bit as important as starting things that might lead you to a brighter future. You need to specify clearly what is not going to be done, or will no longer be done, and act on it.

USING FUZZY MEASURES EARLY ON IS BETTER THAN USING PRECISE ONES TOO LATE. As a manager, you want two things from measures: forewarning (so you’ll see the warning signs of a problem before it becomes too serious to handle) and actionability. Measures should serve as your guide. The better access people have to measures, the better they are able to link their job to something that drives strategy, and the better they can control their own actions and help create an attractive future. Make sure your measures are operational—not “increase market share by 20 percent” but “sell fifty more this week than we did the same week last year.” This gives people the basis for acting in a consistent way.

PAY ATTENTION TO THE COST—NOT THE RATE—OF FAILURE. As we have emphasized throughout, you will sometimes fail. If you are doing the experimental, options-oriented job that you should be doing, you could fail a lot. Becoming comfortable with real or potential failure is one of the most difficult challenges for a manager trained in the old school of infallible, numbers-oriented leadership. We’ve made this point throughout, and we’ll make it again now. In conditions of significant uncertainty, you are likely to have very little control over your rate of failure. Indeed, failure is often the tuition fee you pay to access new opportunities. What you can control is the cost of those failures. Using the disciplines in this book—validating assumptions prior to investment, operating with parsimony, redirecting, keeping your priorities straight—will help you do this.

The Upside

We have spoken a good deal about the pressure of operating under uncertainty. The risks, the visible downside, and the constant change are, understandably, hard to cope with. The long hours spent grappling with new information, the intense discussions to try to understand what's going on, and the genuine personal effort it takes on your part as the leader to embody what you want the organization to be is at times exhausting.

What we haven't spent nearly enough time on is the exhilaration of winning in an entrepreneurial environment. It's a lot of fun to create something new and see it develop. It's a lot of fun to outwit and outmaneuver your competitors. It's a lot of fun to see customers genuinely respond to your efforts to add exciters and eliminate tolerables. It's a lot of fun to be vindicated after experiencing disappointment but sticking with it. It's also a lot of fun to make a lot of money for your firm or for yourself. It's a lot of fun to win.

So this is our encouragement to you. Use what seems to be helpful to you here. Start simple, skip the complicated parts until your team has built some confidence, and then perhaps come back to the book and revisit the more challenging sections. Get more and more comfortable with your emerging role as an entrepreneurial leader. And when you and the people who are working alongside you win, enjoy the celebration you deserve so much.