Keep Moving Episode 3. Disruption

Intro

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Hello and welcome to the Keep Moving podcast with MIT Professor John Donovan.

Over a 40 plus year career Professor Donovan has impacted thousands of organizations and founded 27 companies, six of which went public. He is a sought-after entrepreneur and business adviser throughout the world. We will dig into what makes businesses tick and how to make them more successful. Welcome.

Paul: You have a great story about counting.

John: Yes. The way MIT people count, we're very precise. The way Harvard people count is one, two, many. There's also a difference. My colleagues at Harvard always say, "At MIT, you people take a decimal point, and the further to the right of the decimal point, MIT people get more and more excited. 'Parts per million. Nanoseconds. Microseconds. Wow this is really good.' Here at Harvard, we look at the decimal point, and we go to the left of decimal point. Lots of zeros with a dollar sign. That's our distinction."

Paul: So, there's something else you said, about first approximation or something. What was that?

John: That's right. You can have a first approximation, and it's sort of like Harvard Square. They talk about Harvard Square being a square, and you people all over the nation, and the world, have heard of Harvard Square. Harvard Square is not a square. It only has three roads coming into it. It's a triangle. Well, Harvard people call that a first approximation. You got three out of four sides right. That's good enough. Magna cum laude.

Paul: Well, this is the next step in our journey. We're really going to be looking at events. In the past we've looked at lazy assets and what they are, the idea that you have assets in your organizations that are not being fully leveraged, or fully utilized. And so that was last week.

Today, we're going to be talking about disruptions. Disruptions are not usually things that you plan for. And so, we're going to be talking about external disruptions, internal disruptions, natural disasters, laws and things like that. So, let's jump right into it.

Disruptions. What's a disruption?

John: Let me see. Disruption is either a crisis or an opportunity. Now, I find it interesting, the Chinese character is the same for both. So, every disruption presents an opportunity.

Now, I find it interesting, again, for those people that talk about entrepreneurism, my colleagues in academia that have tenure, that have no idea of the safety or feeling disruptions. A tenured professor at Harvard University does not face a disruption of his employment. So, it's hard sometimes to identify with the disruptions that an entrepreneur might have.

But let's go through some possible disruptions that a real entrepreneur would have. I should tell you that most people in the field talk about technology disruptions. So, all of a sudden, there's a digital technology. Let's say the reason why Blockbuster went out of business is because there was a technological disruption of digital... Internet came along, and Netflix took advantage of that disruption.

Yes, there are technological disruptions, and we'll talk about those. But there are many, many more disruptions that real entrepreneurs have a problem with. Let me give you some of them. President Bush.

Paul: Which one?

John: The second one. The younger one.

Paul: George W.

John: It's W. Bush. W. Bush turned around, came into office and deregulated the pharmaceutical industry. Boom. Disruption. Is that an advantage or disadvantage?

There was a company called Hamilton Thorne, small company. She had testing equipment for testing drugs before they are released. All of a sudden, that day, all their customers didn't need to test the drugs. Their business went to zero. What do you do? Is that a crisis or an opportunity? She took it as an opportunity. She gathered up the chairman, Meg Spencer, gathered up all of her employees and said, I can carry the company for a little while, take a severe salary cut, I'll give stock to everybody if they stay, and we'll move into building equipment for the new world of biomedicine, stem cell, biogenetics. We'll use our lazy assets to do that, but it's going to take us a year to make that transition.

Most people stayed and the company is now profitable in that new area. It went public last year. That was a disruption.

There can be a disruption of a disaster. Circuit City, poof, blew up for British petroleum. 12% of our petroleum refinery capacity in the United States went offline. That's a disruption.

9/11 was a disruption. You could have internal disruptions when two founders start arguing with each other. It happened with Arizona Tea. Seven years ago, the two founders argued with each other, and it was just settled a few months ago, finally. But that disruption – not handled well – turned around and lost their comparative advantage for all those years.

You can have disruptions of a competitor. You can have disruptions in technology. You can have disruptions in the press. The press can falsely come at you, or one person in the press can come at you. That reputation is sort of like... It's difficult. Disruption can be so great. It's sort of like going up to the top of Mount Monadnock in New Hampshire, and you open up a pillow, you let all the feathers go. How do you gather up all the feathers afterward? Even if you were right? That's a disruption.

So, I've just mentioned a few disruptions that the entrepreneur faces, and if you'd like, I'll take any one of those and go down deeper.

Paul: Well, I guess... Is it inevitable that disruptions are going to happen?

John: Yes. Inevitable. A disruption has to happen for many, many reasons. Exogenous events are going to happen. Let's just take the press. If you ask what the press does, it takes the exalted and humbles them. It takes the humbled and exalts them. So, you have a whole bunch of people out there looking at if you're successful, they're going to humble you.

So, if you're successful, there's going to be a disruption in that area. If you're very successful, there's going to be a disruption in your competitors.

Technology is now moving at such a rate, there's going to be disruptions in technologies.

Paul: So, it sounds like it's the rule of the road for the entrepreneur.

John: Yes.

Paul: They're going to hit disruptions. So, an entrepreneur is somebody who gets up in the morning and see an opportunity. So, how do you counsel them when they're being hit with disruptions?

John: An entrepreneur not only has to see opportunity, he must be also a leader, because his people around him have got to see the calmest person in the room. When a disruption occurs, he has to be, not only opportunistic, he has to be optimistic. He has to, every minute, look for an optimistic outcome. He has to be persistent. He also has to worry about relationships because all of a sudden, you have to, in the disruption, gather up other assets.

Now, an entrepreneur would say – one of my rules – you've got to have a big brother.

Who is the third party big brother that can sit there and help you argue this? Because if you argue it yourself, you're going to be a) compromised because they're going to say you've got a self-interest and be) you're too little to argue with.

Paul: Are there disruptions that happen over bigger time frames? Or can it all be traced down to one transient?

John: No, there are disruptions that occur over a period of time. Certainly that's in the case of technology disruptions. You've got a disruption that the whole digital world evolved, where 15 years ago, the internet was used for email. There is now an ecommerce sector of the internet that is $2.2 trillion.

Paul: You're right. That sort of has just oozed out.

John: Oozed out over a long period of time. As a result, at different times, people have taken advantage of that. Those that have taken advantage of that disruption, crisis, those that didn't, Sears Roebuck. When I was a little boy, I'd read through the Sear Roebuck catalog. It was just the... It was Christmas dreaming about those things. Their decline, their stock is declining. They're selling off their real estate and such. Where other people took advantage of that, such as Amazon and others.

As you say, it's always... Some people now are in their transition to go from the stores to the digital world, like JC Penny, who is really going down. In the past month, they made a new thrust in that area. You have Barnes and Nobel trying to make a thrust in that area. So, the answer is that has occurred over a long period of time.

It also took a sophistication of the user as well. So, the user had to be educated.

So, the entrepreneur has to do an interesting thing. He not only has to see the vision of the future, but he has to then has to educate his customers because the customers are stuck in old ways of thinking. So, it's not a matter of just selling it to them. It's doing that.

I can give you examples of where I have... There is something that I will say, is you've got to be careful not to be too early sometimes.

Paul: Well, explain that. I know you have some specific experience with that.

It's pretty profound. Let's go ahead and talk about that.

John: There is an expression in New England. We always say, "The early bird gets the worm." Well, in New England, that's not always true. The early bird sometimes freezes to death. He came too early. There are no worms. It's frozen, knocking his beak against the ground.

I'll give one example that occurred to me personally. We had this vision of establishing a company that would help children learn about computers. This is in the 1970s. So, we built a game, a wizard game, by which a child would go in, and he'd have to get to the wizard. To get to the wizard, he'd first have to write a little program next to a little spreadsheet, next to a little another thing in word processing. It took each one of the major things – Lotus one, two, three – took each one of those things. He had to do something, and he finally got to the wizard. Perfect.

John: Well, it turns out the market hadn't matured. The PC market wasn't ubiquitous. We had to educate the people on the idea of using games for education. You didn't have Atari and all these other games going on. And the company eventually had to sell its assets and close down. If it had been more frugal on money and had been able to go for several years, it would have hit that enormous game market. It could have been an incredibly valuable company. But it entered it a little bit early and didn't have the staying power to stay. So, that was an example of where, as you say, a disruption was about to occur in education and in using computers for education, in games. A nice disruption came in. I came in too early.

Paul: We're going to talk a little bit about that next week in the model – the Donovan Model – which sort of gives a structure and a context for all of what we're talking about.

So, continuing on disruptions, I know you've mentioned a disruption was Obamacare.

John: Right.

Paul: So, explain how that was a disruption. Tell me what you think that.

John: Well, Obamacare or any major government change in policy presents an opportunity and a crisis. It's an opportunity, certainly for somebody that realizes... Let's say what the opportunities would be.

Obamacare is too expensive. And all our politicians are saying it's to expensive. How do you cut back on those expenses? Medicare is too expensive. Well, if you go down one level, what are some advantages an entrepreneur could turn that crisis into an opportunity?

If you take the state of Florida in Medicaid alone, in Medicare, has a $16 billion, identifiable fraud. $16 billion in fraud. What would that do to the cost of Obamacare and all of that, if you could pull that out? Where's the fraud coming from?

There are companies that are servicing elderly people, sending nurses to their homes to help them. It turns out, they never show up to their home. But yet, those companies bill for that underneath Obamacare and Medicaid and all those other government programs.

What you'd like to do is have a computer system – an entrepreneur would do this, and nobody's done this. For example, an entrepreneur would turn around and look for unusual patterns.

Paul: Pattern. I'll translate that for the people at home. You said "Patterns," right?

John: Yes. Patterns.

Paul: Okay. I just wanted to make sure it wasn't patents.

John: No. It was patterns.

Paul: Alright. Go ahead.

John: What you could do is you could look for patterns of the same doctor always asking for certain reimbursements. You could look to see if some of the people are dead, that they're visiting allegedly. You could imagine enough data where these nurses were supposed to be seeing this patient, this patient, this patient. If you look at the times they've seen it, it would be impossible for them to have seen that many patients in those different locations in that short period of time. So you could catch that within an elaborate computer system that was monitoring all that and go beep, beep, beep, beep. I think there's the possibility of fraud here. You didn't have to make it accuse it. But you could say there's the possibility.

Who's going to build that system? Some entrepreneur is going to do that. I just gave one little example of a crisis and opportunity.

Paul: That's a great one. How would you go, being a lowly entrepreneur and get that. Let's say we built the technology, because it's not all that hard if we have access to the data, add some correlations and things like that. How would you then get to the level where you're on their radar? Do you go to the government? Do you go to insurance companies? How do you get that?

John: The first thing you have to do is, as you say, build the technology. Now, we have to talk about how to do that and how to get funding. Then what you need is an early adopter. You have to get an early adopter. The early adopter could be in the case of a district attorney's office. It could be in the case of the government in Medicaid, Medicare. But you go in there and you make it so the person cannot say no for you to be an early adopter. You offer to do the system for free.

Now, how do you get to do that? Along with the early adopter, you've got to get a partner. You've got to get the big brother. I would turn around the say, who benefits from this? You've got a big database you're going to do. You're going to peruse through that big database. Hmmm... Who sells databases? Oracle. Let's go try to get a partner with Oracle, go into this place with an early adopter for this technology.

So, now you've got a partner that can help you scale. You've got credibility and you've got a big brother that can protect you. And then you go and make it so the person can't say no.

What's another partner? You might do this all with handheld devices, mobile devices. So, all the nurses have to do is carry these Apple or Samsung phones around so that when they go into a patient's home, they log in where they are, they state what they did, hit return. Boom. It goes in there. What's the advantage of that? It makes it much more efficient for these companies that own these nurses and that's saying it. So, maybe that's your early adopter, to turn around and go to these people.

And you'd say, "Gee-wiz, now they're not able to fraud." Well, some of them are honest. So, what they want to do is lower their cost. This could lower their cost because all of their backend stuff of doing the billing and everything would be done by the nurses in some sense.

Paul: Sure.

John: So, you could automate that. Now, who do you get for big brother there?

Who's selling mobile devices? Samsung. You go to Samsung and say let's team up with this company here that has these nurses. And I like this idea better than going to the government because the sales cycle, or the adoption of an early adopter for a private company is much shorter. You can make that happen in a week. With government, you've got to go through procurement and all of that sort of thing.

But you get one of these people, you'd offer them to do it for free or for a dollar. You'd have Oracle there to help you. Once you shared it with one, you'd scale it. Thinking about it, that's what I'd do.

Paul: I can understand, based on your experience and your profile, you could call Samsung, and they wouldn't say, "Who are you?" They'd say, let's talk to you. But people aren't going to know me from Adam.

So people know who you are. You have a reputation. You've been very successful. It's likely that if you called Samsung, they'd take your call. Joe entrepreneur, Sally entrepreneur that's out there, that has this idea – it's a good idea – has built the technology, even. How are they going to get Oracle or Samsung to listen to them?

John: They're going to try to find a person like me, presenters that's got that flexibility, and he introduces them to some person in Samsung. Some person in Apple.

Paul: You said earlier the relationships are important.

John: Absolutely important.

Paul: I know later on we're going to talk specifically about relationships and some of the tools you've used over the years and recommendations for that. But it is important. So that's very good counsel.

Let's talk about the disruption. There was a... Blackberry was the king of the hill for smartphones. Now they're barely alive. What happened there?

John: There were several revolutions that occurred. They missed the touchscreen, the whole user interface, the idea of being able to see a person while you're talking to them at the same time. All of those technologies they didn't.

Now, what held them back? One, no entrepreneurs inside, or the management said you don't move these things, or I'll say two other things. And this is my son's thesis. One thing is their customers held them back. Their customers liked that keyboard. I did. I didn't want to move from that keyboard. I like the idea of using my thumbs on the keyboard. And customers said no.

And then the other thing holding them back is their success. They had 50%, 60%, 70% market share. Why fix it if it isn't broken? So, they were faced with three things. A management that didn't support entrepreneurism, customers that didn't want them to move, and success. Doomed. |

Paul: It did take them a while to come out with a touchscreen version of the Blackberry, but that wasn't very successful. I remember when the iPhone first came out, and I was like, this is really hard to touch type on this because there's nothing to touch. And if I were betting, I would say, people aren't going to like this. Well, I was wrong. They loved it. So, do you think that was fundamentally the bet that they made, that people aren't going to like this...

John: I can’t believe that was the bet, because it was not logical. It was, “We're successful; we're doing what we're doing,” and you didn't have an internal entrepreneur that said, "Let's try this."

See, your hypothesis was they missed that one because the user didn't... They could have invested in it. They could have gotten 2,000 users together, educate them, and see how they reacted. And if they reacted good, then, Paul, you were wrong. They didn't even test it. They didn't even try.

Paul: So, is testing part of the entrepreneurial equation?

John: Yes. Testing is definitely part of the entrepreneurial equation. But the other thing is, you cannot listen to what your customers are saying they want. You've got to find out what their real need is. If you do an analogy here, if you asked a person in 1910 what they wanted for transportation, they would say a faster horse.

Paul: That's horse, for people at home.

John: They would never have said an automobile.

Paul: Sure. Because they couldn't comprehend it.

John: That's right. What they needed was an automobile. What they said they wanted was different than what they needed. So you have to... In the early automobile people, what did Ford do and such? They had to educate their customers. Then they had to turn around and get an infrastructure put in place to support all that.

So, going back to Blackberry, to take my learned colleague of you, that knows a lot more about technology than I ever even dreamt of, certainly about these sorts of things, I would say, there was not an internal entrepreneur. They could have said, "Let's try out these 15 new ideas, see which ones work, we'll do it with groups, and support me." Because you've got all of this energy.

I don't know whether or not there were people like that that they killed, or there weren't people like that. But it doesn't make any difference. The point is their culture didn't allow it, and nobody could pop up.

And that was happening at Apple, by the way. Your hero Apple was going downhill. The Macintosh was going downhill. That company, you forget how bad it was. And then they brought back their entrepreneur, Steve Jobs.

Paul: Unprecedented in the history of business.

John: That's right. And they didn't buy him back as a hero. They brought him back by buying his company. And then they let him have the freedom to do what he wanted. They fired the Procter & Gamble guy. They fired this other guy, and they said, "Okay. Save the company."

Well, he then turned around and went into gear and tried all kinds of crazy ideas. It wasn't like he took a straight path to that Apple phone. There were a ton of other idea that he tried that just fell by the wayside.

Paul: So, I guess what you're saying is part of the entrepreneur equation is you've got to be willing to fail.

John: You've got to be willing to fail. That's exactly right. Dare to fail.

General Durio is really the father of venture capital. He was a full professor at Harvard.

What he did is he formed a company called American Research & Development, lent Ken Olson $50,000. He got 50% of the debt for doing that. And out of ARD, all of venture capital firms you've heard of, Kleiner Perkins and all of that, they're his children that came out of that.

What he said is, "I want to invest in companies. If I invest in companies, I want to invest in a person that's already failed once." Because he wants him to have learned from that failure.

Now, the reason why you have in America this great entrepreneur spirit is because it's okay to fail. If you fail, George H. W. Bush failed to become president his first time around, failed even in his first run for senator. It's okay to fail in this country. If you go to other places like Japan, it's humiliation. You don't want to fail. So, it's harder. Not impossible, but it's harder to have entrepreneurs in cultures in which failure is looked bad upon. That's a cultural thing.

So, the entrepreneur has to feel comfortable about failing.

Paul: Thanks for listening to Keep Moving. To get in-depth show notes or to contact Professor Donovan please visit professordonovan.com

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