



Foresight Case in a Regulated Industry

The last few years have been distressing for anyone who believes that innovation is key driver to growth. With the emphasis on just making the numbers, some are coming to the conclusion that innovation is dead, and you're better off downsizing and sticking with the basics. The latter is essential to come out of a slump but will not put you on a path of sustainability.

But, what's the alternative? Benchmarking the best practices of everyone else in the business? That may be helpful, even important, but is it going to assist you to fill or validate your growth pipeline?

Benchmarking the strategies of the "industry leaders" and then copying them, by definition, leads to undifferentiated strategies. This, at best, leads to commoditization of product and service offerings, and indeed, commoditization of value proposition. Commoditization leads to price wars and an eventual abyss that no leader wants to face. Price competition leads to declining margins, and a lack of (or a perceived lack of) an ability to invest, which leads to a belief that you don't have the "space" to innovate. If you don't resist the temptation of this thinking right from the start, you plunge into a strategy convergence death spiral.

The Way Forward

This electric utility company story is one of driving basic old-fashioned business concept innovation in a straightforward and systematic way.

In 1996, this utility company decided it was time to re-think its corporate-wide growth agenda. The state was on the cusp of its deregulation efforts, and the company wanted to understand how it was going to grow and thrive in this new environment. Growth was slow, about 1-2 percent annually.

The company took a deliberate and comprehensive look at the industry's closely held assumptions and beliefs, and then considered what would happen if it challenged those industry paradigms. On the "markets" side, instead of looking at traditional segments and their implicit growth rates, the utility wondered whether it could identify big and discontinuous changes going on in the marketplace vis-à-vis demographics, consumer desires, and emergent technologies. Could it leverage any of these discontinuities to its advantage?

What was found:

- Custom, custom, custom: Customers want it the way they want it, and they don't want to hear anything other than "made for me." It doesn't matter if it's their car dealer, internet service provider, or electric utility.
- 24/7 is here: Whether it's 24/7 businesses and workforces, or global operations of companies, the world of "I need it now" is not going away.
- Infrastructure for the 21st century: It's in huge demand and hugely underserved. Developed and developing economies continue to need new and refurbished infrastructure in energy, communications, and water. The company also took a look at the "orthodoxies" of the energy business (its own and its competitors):
- You need to own the end-user relationship. This was pretty common in utility industry thinking of the mid-1990s (and for some, still today). It was as if there was no other option. Many companies spent substantial time and energy looking for all sorts of front-end services they hoped would help them "own" the customer relationship.
- Hold on to your distribution assets in the deregulated world; they'll be your bread and butter. After all, they're the assets that link you to your customer, and they will continue to be regulated in ways that provide you an opportunity to earn a fair return.
- You'll never make money generating and selling kilowatt-hours in the long run. A KWH is a KWH. Eventually, all generation profits were expected to

head south (and in fact have done so).

- And for goodness sakes, get out of nuclear generation first. They're white elephants. In fact, the largest estimated stranded asset costs of the time were associated with nuclear generation plants.

From a company standpoint, they asked themselves, what are the core competencies of this organization and how could they leverage them into new growth pursuits? It discovered it had a distinct ability to manage big, difficult, sometimes old infrastructure. This was especially well-reflected in its efficient management of nuclear power plants.

When the company put its new perspectives together, it began migrating toward a seemingly contrarian point-of-view regarding its growth strategy, calling it strategic architecture:

- Infrastructure excellence: Focus on the infrastructure management core competence to maximize wealth creation for stakeholders. Consult, outsource, and manage it for others.
- Energy logistics: Become the "FedEx of kilowatt-hours." Get customers the power whenever and wherever they need it.
- Customized solutions: You want custom? We'll give it to you. And since we'll be positioning for the larger customer, it will be reasonable to be able to do so.

The results of the exercise of deliberately looking at themselves and building an innovative but well thought out growth strategy, speaks for itself. A couple of years ago, the company merged with another to form the largest nuclear power producer in the country providing about eighteen percent of all U.S. nuclear power.

Systematic Innovation

But all this still begs the question, can companies systematically innovate? The answer is yes. The principles by which companies drive innovation and set up these "innovation systems" are remarkably consistent: Set stretch goals. No company outperforms its aspirations. If you set a goal of gaining an additional five (5) percent on the base,

people will continue to do things the same way and tweak a bit here and trim a bit there. The need to perform well above today's levels sparks the search for strategic insights and breakthrough ideas.

Ask new questions to get new answers. Many organizations' strategic planning processes have the same group of people asking the same questions for five years in a row. Ask fundamentally different questions to start the exploration of developing a new point of view. What are the big unmet needs in the marketplace today (whether it is energy related, or much broader than that), and how might we serve those needs, even if we don't have the capabilities today?

Start with the future first and work backward. You can innovate via an evolutionary path. But you probably won't discern the right road if you start looking for it in the present or the past—the two or three key changes you need to make won't stand out. Better to search for the last few steps needed to get where you want to go, and then adopt successively more realistic lenses as you reverse your view.

Diverge before you converge. Don't expect the deep insights to come easily or quickly. Not only do you need to ask new questions, you need to open up new possibilities before you narrow down to the prioritized few you choose to act upon. Instead of framing the problem and then solving it, frame up multiple problems before you even choose which one to work on solving.

Seek innovation at the level of the business model. Look at your business not just in terms of what you provide, but whom you are serving, how you're doing it, how you're extracting rents for the value created. It provides you with many more levers to use than simply a new product or new technology lever.

De-risk innovation through experimentation. Innovation doesn't have to be risky or you betting the farm. Plant a garden of diverse seedlings. Nurture the healthy young plants and uproot ones that aren't thriving before they rob scarce nutrients from neighboring growth. Learn as you go. If you are going to fail, fail cheaply and learn quickly.

Instill a passion for creating your future. "The best way to predict the future is to invent it." How do you do that? One

way is to involve people in the development of the point-of-view in the first place. New conversations help you get to new answers. One way to develop new conversations is to involve new external voices.

About Vaxa Inc.

Vaxa Inc. is a marketing & research consulting firm whose mission is to support leading corporations to gain deep insights into fresh growth opportunities.

We were founded in 1996 on the principle that we would provide innovative and fact-based research to help our clients to make strategic choices and decisions.

The industries we serve span Health & Sciences, Technology, Consumer Products, Services and Transportation.

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