

The Advantage of Not Knowing It All

Q&A with Rita Gunther McGrath

In a new book, Rita Gunther McGrath discusses how taking calculated risks, while learning along the way, can pave the road to success.

Q. What is discovery-driven growth, and how does it differ from conventional growth?

A. Discovery-driven growth is an approach to developing new businesses that deliberately contains risk while allowing firms to grab opportunities. It's a very step-by-step approach to growing into new areas of development, whether that's increasing revenue by expanding an existing venture or starting from scratch. Unlike the conventional planning process, in which managers are expected to have a lot of knowledge, discovery-driven growth recognizes that in a new venture it's better for managers to learn along the way.

My coauthor Ian MacMillan and I started writing the book with the intention of speaking to people who were in new-business-development or growth roles. We found, however, that given the recent economic upheaval, people find discovery-driven growth useful, even in their formerly stable core businesses. This approach allows managers to test assumptions at each step, before making a big commitment to a particular kind of investment—like creating a pilot plant before opening a full-scale production plant.

Q. How can a firm transform its core business to be more competitive?

A. We're increasingly coming to understand that we don't live in a world of sustainable competitive advantages—firms' value-creating processes can be rapidly duplicated or imitated by others. It takes innovation to transform your company's capabilities to facilitate ongoing success in such dynamic environments. Innovation is about continual renewal, realizing that competitive advantages are temporary. It's about getting into new markets, developing

new offers and creating new business models. Managers need to think about future advantages and opportunities as soon as they have an established business—taking a step away from the core business of today and looking ahead to anticipate the big opportunities of tomorrow.

DuPont is a good example of an organization that reinvented a lot of its basic business models in this way. Some years ago, it went from a company that primarily manufactured materials to a company that got paid for its knowledge about processes and for the solutions it could provide. It has successfully left a good but slow-growth business—textiles—and moved into producing faster-growth products such as light-emitting diodes and bio materials—green technologies—placing its corporate growth rate on a much more positive trajectory.

Q. Right now many companies are working very hard to keep their heads above water. How is it possible to successfully grow in a tumultuous economic landscape?

A. The time to build for the next upturn is during a downturn. A lot of new firms that are founded during recessions actually do very well. Google, for example, went public in 2004, on the heels of the 2001 recession.

Downturns provide opportunities for companies to consider growth in areas that previously would have been inaccessible—either because it was too expensive or because of fierce competition. Recessions also force companies to be very careful with how they spend money and to be very thoughtful about which customers they want to serve, which are very good things to do.



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Q. How should managers approach discovery-driven growth, and what should they expect in terms of how much and how fast to grow?

A. The first step is setting a framework within which people can operate that gives managers a sense of how big they want the new venture to be or how fast they want it to grow—some goals. Then, they need to look at their operation and decide what mix of investments are likely to get them there. Some investments will be things that rejuvenate the core business, like education initiatives for employees or improving operational effectiveness and cutting costs. Apple, for example, turned around its slumping business in large part by slashing expenses from \$8.1 billion in 1997 to \$5.7 billion in 1999. Others move the business into uncertain territory; with these investments, a manager should be looking more toward the future. Beta testing software before fully launching it, for example, allows managers to make a small investment today and have the option, but not the obligation, to invest in a launch later on.

Then, he or she should drop down to the individual-initiative level and spell out what each initiative will accomplish. As the venture unfolds, the goals should be continually revisited to see if they remain realistic and practical.

Finally, it's essential to recognize whether it's time to disengage. A manager, for example, might learn at the end of a product market-test that consumer demand doesn't exist where he or she thought it did. This is an example of learning along the way.

It's also important to be aware of not growing too fast or too slowly. Starbucks, for example, grew so fast that the market wasn't there to sustain it—it's had to significantly scale back. Alternately, if a company grows too slowly, it is vulnerable to being taken over, it can have its business erode and it risks not rewarding its shareholders.

Q. How can a firm assess whether a new venture is on the right track and what it should do differently?

A. Traditionally, people spend weeks or months putting together elaborate PowerPoint presentations and spreadsheets, and then they go to their board or funding authority, which says, "Great. We approve." They leave with an incredibly detailed plan that they're supposed to execute. One month, two months, six months may pass before they realize that things aren't going the way they had expected. In a typical corporate environment, the pressure to keep going can be overwhelming. No one wants to admit to being wrong.

We recommend allocating smaller amounts of money and evaluating the venture at each step of the way. So, a manager might receive \$10,000 to do a market test. If that test proves successful, his or her firm's funding authority would allocate additional money for the next step, and so on. If at any one of these steps things aren't working out, we recommend that he or she do a thorough disengagement analysis.

Q. And what if the best course of action appears to be disengagement? Is it possible to disengage—or to fail—productively?

A. I think redefining failure is the first step. It's important to communicate with your team and to impose the concept of intelligent failure, rather than stupid failure. An intelligent failure is one that's been well planned; where there's some hypothesis that you're trying to test; where you'll learn something no matter what happens; and where the risks have been contained.

Historically, most successful new-product and -service launches are a result of things that didn't work out. A great example of this is how Amazon.com got into third-party selling. It started off with a thing called



Z-shops, giving a third-party vendor its own section of the Web site. That wasn't successful, but it gave Amazon the idea to put third-party vendors below its own listings. That didn't generate significant revenue either. So, Amazon started a system where it put third-party listings right up against its own, which was a little trying because outside vendors were being given the same shelf space as Amazon's internal people. All of these improvements allowed Amazon to expand its footprint in this third-party channel, which now accounts for one-third of its revenue. The earlier trials that didn't work out paved the way for the later opportunity that did.

Q. It is daunting to learn that only one of every 3,000 raw ideas succeeds. How does that one idea make the cut?

A. I suggest keeping an idea inventory to track ideas that look promising, revisiting the list periodically to see whether an idea's

time has come and being prepared to drop the ideas that become less promising over time. It's also important for an organization to be receptive to fostering ideas—it has to pursue as many small and inexpensive ideas as possible. The two processes work together; eliminate those ideas that don't have a future and, at the same time, nurture those that have potential.

Read More

McGrath, Rita G. and Ian C. MacMillan. *Discovery-Driven Growth: A Breakthrough Process to Reduce Risk and Seize Opportunity*. Boston: Harvard Business Press, 2009.

Rita Gunther McGrath is associate professor of management at Columbia Business School.