SUMMARY

NEW TO BIG

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Summary of New to Big by David Kidder and Christina Wallace

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Learn how to operate your established business with the dynamic attitude of a start-up.

Introduction

“In the same way an MBA program teaches a form of management for administering and growing existing businesses, entrepreneurship and venture capital are, together, a form of management for discovering and building new businesses. Enterprises need both.”

Authors Kidder and Wallace propose radical steps for established businesses to follow a strategy of ongoing growth and evolution. Taking cue from the culture of start-ups and examples from companies like Amazon, Microsoft, and Kroger, New to Big is a guide map to fostering organic growth.

A Shift Towards Shortsighted Greed

Since the mid 20th century American business culture has seen a shift in focus and zeitgeist on what it means to be successful. The idealized image of American capitalism was that companies provided consumers with a needed product or service, and through quality and responsible business practices they would achieve customer loyalty.

However in the mid to late 20th century a shift occurred. Basically by the 1970s more and more businesses began using stock options as part of executive pay packages, whereas before CEOs and the like were primarily paid by a salary, now the majority of their income comes from stocks.

The idea was that this would make executives more invested in the wellbeing of the company and in the interests of their shareholders, since they themselves would be shareholders as well. The problem is that it also incentivized them to focus on profits above all else, especially short term profits. And this focus on profits became more important than focusing on the needs of their customers, and on the good of society as a whole.

This led to a change in worldview, the idea was no longer that the point of companies were to fulfill the needs of society, but that the point of companies was to generate profits and the needs of society were irrelevant. Worse even, the very notion of worrying about the needs of society became a joke, something only hippy moralizers cared about.

In the 1950's and 60's companies like IBM had large R&D departments, many modern technological advances came from these departments and have been hugely important to society. But these departments were expensive, and while in the long term they often proved extremely profitable, they didn't provide any short term profit. Thus they were eliminated, as were pensions and other employee benefits, companies began lobbying to eliminate environmental protections and workers rights laws. Everything in the name of immediate shareholder profit, regardless of the damage it did to society, or even to the company in the long term.

Start-ups Are More Flexible and Willing to Adapt

As large businesses became hyper-focused on immediate shareholder profits, they became less and less willing to take risks and move in new directions. The problem is that markets don't care about shareholder returns, they'll shift and change based on technology, world affairs, and consumer needs whether you want them to or not. And the rate of technological advancement in the 21st century means these changes happen more frequently and more drastically. Which means businesses that are inflexible, that aren't willing to take risks to stay relevant, eventually die out.

So a major point the authors try to get across is that if you want to understand how to survive and thrive in the modern business world you shouldn't be looking at old established companies, but rather at the culture and strategies of start-ups.

Start-ups, by their nature, don't have the war chests to weather temporary set-backs, they have to adapt immediately if they want to survive. This is why start-ups so often "pivot". A pivot is when a company shifts its business model to adapt to new trends, or to abandon a clearly failing model.

For instance, did you know Yelp was originally intended to be an automated service you used to ask friends for business recommendations? The company pivoted when they noticed users began writing business reviews just for fun, rather than resist people using the site in ways the founders didn't intend, they embraced it. Now it's impossible to find a restaurant or store without a Yelp rating.

Youtube was originally a dating website. The idea was that users would upload videos describing what they were looking for in a partner, and other users could respond. Only by massively pivoting did they become the dominant video streaming platform, possessing a virtual monopoly of that market.

Twitter was originally called Odeo, and was a platform you could use to subscribe to podcasts. But the rise of itunes led them to pivot, rebrand as Twitter, and become the face of micro-blogging to such a degree that most people probably couldn't even name a competing service.

The point here is that by being willing to make radical changes start-ups foster innovation, and long-term success, more effectively than established mega-companies. Ironically sustainability requires risk-taking. It turns out that being set in your ways and being risk averse is actually the riskier behavior.

Which is why the biggest companies in the world today are relatively young, Google, Facebook, Apple, etc. Companies that encourage the forward thinking strategies of start-ups, because it's not been very long since they were start-ups themselves.

Microsoft

Microsoft is an example of a mega-company that almost failed because they followed the old conservative strategies, then turned things back around by embracing the new start-up ways of thinking.

By the 1990's Microsoft was so huge that they actually faced government intervention for having anti-competitive practices, in violation of anti-monopoly regulations. But after founder Bill Gates left his position as CEO at the start of the 21st century, the company began behaving as many established companies do. Which is to say they adopted an attitude of risk aversion, prioritizing not rocking the boat in order to keep shareholders happy. The problem was this was at a time of unprecedented technological innovation. The internet was no longer the sole purview of tech geeks, universities, and academics. It was now in the everyday home and companies like Google were growing rapidly by embracing and driving the tech revolution.

Meanwhile Microsoft was relying on their established business model. They sold software, that was what made them big and that was the way things would stay. But people weren't buying their boring and unoriginal products anymore. In fact the entire model of software as a product was dying. Microsoft floundered.

That is, until 2014 when a new CEO was brought in. A serial entrepreneur named Satya Nadella came in and completely changed the direction of the company. Microsoft would no longer use profit and revenue as it's yardstick for measuring success, these were outdated ways of understanding business, Nadella said. Profits only told you what was happening in the short term, in the immediate moment. If you wanted a long term understanding of what your company needed to do, you needed to focus on customer satisfaction. And if you wanted the ability to stay flexible and nimble, so as to shift directions as customer interest shifted, you needed to foster an environment that encouraged innovation and risk taking.

And so the company did in fact shift and adapt. They began focusing away from software as a product, and towards software as a service. They moved away from a business model so closely associated with them that it was literally known as the Microsoft Model.

As a result they've experienced rapid and consistent growth on a scale they'd not seen in years.

Total Addressable Market

The authors define the two major ways of looking at business in the form of contrasting models. The Total Addressable Market (TAM) Model and the Total Addressable Problem (TAP) Model.

The Total Addressable Market model is the old school way of thinking. It has existed for decades and it tends to be the model older, established businesses are naturally inclined towards. The Total Addressable Market model looks at the market a business works in, and focuses its efforts on controlling as large a percentage of that market as possible.

It isn't concerned with altering the business model of the company, because the goal is to control the market the company is already in. If you're a paper printing company, you're focused on controlling the paper market. You're not concerned with other products and services unrelated to paper, because you're a paper company, right? If you're dealing with competitors you focus on beating them, on altering your existing products and services, not on taking the company in an entirely new direction. You measure success by quarterly profits and by market share.

The problem is this sort of company has no way to deal with the market changing. What happens when less people use paper because everything is online? What good is controlling the paper market, if the paper market becomes obsolete?

It's an issue with understanding the purpose of a company. Sure you founded the company to sell paper, so what? Was your goal simply to supply people with paper, or to be a successful business? Because if it's the former, congratulations your company has served its purpose and can now be disbanded, right? If its role as a paper provider is no longer needed, then why would you want your company to continue existing?

Well because, obviously, that’s not the purpose of the company. The purpose of the company is to serve consumer needs and be financially successful. If consumers needs shift, then you need to shift with them.

Total Addressable Problem

The second model the authors put forward is the Total Addressable Problem model. The Total Addressable Problem model doesn't focus on the market you currently occupy, it focuses on consumer needs. The word "problem" in this context refers to problems consumers have, that companies seek to solve. For instance in the previous example the problem was the need for paper.

The goal of the Total Addressable Problem model isn't to slightly alter your existing products and services to entice customers, it's to try and identify, as well as predict, new consumer needs.
Take the smartphone, for the better part of two decades the purpose of the cell phone was to be just that, a mobile telephone. What do you do with a telephone? You talk on it. That's it.

There were small innovations by phone manufacturers, like texting. But it was still based on the fundamental understanding that the purpose of the cell phone was to talk to other phones, whether by voice or by text. Phone companies were utilizing the Total Addressable Market model to base their thinking on. It took a non-phone company, Apple, to see what direction the future was heading. Using the Total Addressable Problem model Apple was able to see that there were multiple tools consumers were using to fulfill multiple needs. People wanted to be able to walk around listening to music, so they had MP3 players. People wanted to be able to use the internet even when not on a PC, so they had laptops.

Noticing this, along with noticing the possibilities that 4G technology provided, Apple decided to combine the telephone, the MP3 player, and the laptop into one device, the Iphone. Thus by using a Total Addressable Problem way of thinking, rather than a Total Addressable Market way of thinking, Apple branched out into a new market and completely revolutionized it.

Innovation Inherently Involves Failures

There are two kinds of mistakes, destructive mistakes and productive mistakes. Destructive mistakes are what most of us are referring to when we use the word. It's dropping the type of mistake that causes a project to fail.

Productive mistakes are mistakes you make along the way to innovation. Thomas Edison famously described this process when, in response to the fact that it took him over 2000 tries to successfully create the incandescent lightbulb, he said "I didn't fail 2000 times, I found 2000 ways how not to make a lightbulb".

Viagra wasn't originally an ED medication. Originally it was being tested as a medication for blood pressure issues. It failed in that endeavor, but that failure also led to the discovery of what it is good at. Bubble Wrap was originally invented as a wallpaper, unsurprisingly nobody wanted it for that purpose, but people did discover that it was really good for protecting fragile objects during shipping.

These sorts of accidental innovations require admitting that you failed at your original goal however, and modern corporate culture doesn't allow for that. Failure isn't seen as a learning opportunity, it's simply a bad mark on your performance review. Or bad news that will make shareholders uneasy.

But innovation requires experimentation, and experimentation requires failure. The first every word processor program, computer mouse, video chat program, hypertext, and dynamic file linking systems were invented by Xerox's R&D department in 1968. But they wouldn't successfully be implemented in consumer computers until the 1980s. That couldn't happen in many modern companies, if it doesn't have an immediate payoff companies aren't interested.

If you want to stay relevant and competitive, you need to not only tolerate productive failures, but encourage them.

Building a TAP Team

So you're ready to shift your company's focus to a Total Addressable Problem model, how do you do it? First and foremost you need a team of people who understand your goals. It might be difficult to put this sort of team together if your company has operated on a Total Addressable Market model up until now. That's the way your employees have been taught to think, and shifting that thinking can be a slow and arduous process.

Because of this you need to look at employees, whether already in your company or outside recruits, who have never operated well with the TAM model. You're looking for the free thinkers, the rebels. People who have the jobs they have because of their competence, but have never really moved up the corporate ladder because they don't know how to play the game well.

Look for employees who've shown in the past that they're willing and able to shift and adapt rapidly, who respond to changes in the direction of projects without hesitation and without stress. Look for the people who are passionate about keeping up with market news and are naturally curious.

And look for the people who have been advocating for change, for risky new ideas, and maybe weren't previously listened to.

The Finances of New to Big

So far the ideas we've covered haven't really seemed to have had many downsides. But there is one major downside to becoming a company of ongoing innovation, it requires risking money.

New ideas, new products, research and development, these all cost money. The good news is, established businesses and mega-corporations likely have the ability to secure funds, the bad news however is that the process for securing funding for new ideas can be slow and full of bureaucratic nonsense.

So the authors suggest the creation of what they call a Growth Board. A C-suite team or committee whose purpose is specifically to review new ideas and allocate funds to develop them. The difference between this strategy and your company's normal budgeting process is that the Growth Board will fund multiple projects at once, and fund them based on milestones rather than one lump sum budget.

The Growth Board then tracks projects, and allocates more funds as needed to the projects that show promise, while terminating projects not going anywhere. This model of funding serves two purposes, first it's quicker than traditional budget processes and risks less overall money, and secondly it mimics the environment start-ups operate in. By giving the teams developing new ideas high levels of autonomy, but also only funding the projects as they advance, you recreate the sort of urgency and innovation-through-adversity that start-ups experience.

The point of funding multiple projects at once is also to spread out your risk. Most new businesses fail, and as such most new business ideas will fail. By allocating funds to multiple projects at once, and only funding them based on milestones, you are in a sense diversifying your investments. Plus the more projects you fund, the more chances there are that you'll find a winning idea.

Final Summary

Long term growth requires a mixture of fiduciary responsibility and entrepreneurial risk taking. Companies that are too afraid of losing what they have to take new risks will ultimately die out. Companies more concerned with shareholder returns than consumer needs will be made obsolete. Ongoing, sustainable growth requires behaving like a start-up, which is to say trying to anticipate customer needs and being willing to take drastic shifts and pivots without concern for old fashioned ideas like market share or short sighted measurements like quarterly profits.