

Strategic Agility: using Agile teams to explore opportunities for market-creating innovation

Stephen Denning

As the Agile mindset and processes – small cross-functional teams, a focus on customer value and network collaboration– increasingly enter the management mainstream, firms are learning how to draw on the full talents of those doing the work, involve customers at every stage of product development and generate innovations that customers value.[3]

While most organizations using Agile processes are still preoccupied with operational agility–upgrading existing products and services through cost reductions, time savings or quality enhancements for existing customers–they and the wider management community need to realize that the main financial benefits from Agile management will flow from the next frontier, the concept of Strategic Agility, generating innovations that create entirely new markets by turning non-customers into customers.[4]

Operational agility is increasingly necessary for a firm to survive. But in a marketplace where competitors are often quick to match improvements to existing products and services and where power in the marketplace has decisively shifted to customers, it can be difficult for firms to increase prices for incremental innovations and quality improvements (see box “Strategic Agility theory”).

Strategic Agility theory

The related article “The next frontier for Agile: strategic management” in the previous issue of *Strategy & Leadership* explored the theory and possibilities of enterprise-wide Strategic Agility, a combination of Agile mindset and processes with strategic management theory to produce continuous market-creating innovation. This second installment offers insights from noted practitioners about implementing it.

The Strategic Agility playbook for market-creating value propositions

Systematic strategic thinking about market-creating value propositions establishes a basis for conceiving and developing products or services innovations that will appeal to both current and new customers. The aim is to create products or services that enjoy little competition, precisely because they meet a need that is not being met – the so-called “blue oceans” of profitability described by as W. Chan Kim and Renée Mauborgne in *Blue Ocean Strategy*. [5]

Market-creating value propositions involve a shift in thinking from the known to the unknown – from existing products to potential products, and from users to non-users of the firm’s products. This in turn means that Agile teams must redefine how needs are being met and

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It also means a shift from thinking of outputs of the organization to thinking of outcomes for the customer or end user, a strength of Agile teams. “Instead of thinking of your company as providing a particular type of product or service – electric power, health records management, or automobile components,” writes PricewaterhouseCoopers consultant Norbert Schwieters, “think of it as a producer of outcomes. The customer needs to get somewhere, so you’re not a car company; you’re a facilitator of that outcome. The house is cold, so you help make it warm, possibly without supplying the necessary fuel. . . Customers, in turn, are making fewer purchases to accumulate physical things and more purchases to achieve outcomes, convenience and value.”[6]

To identify desired customer outcomes that are not being met, firm teams have to start thinking more broadly about the function that a product or service is performing Clayton Christensen and his colleagues offer a new approach in their book, *Competing Against Luck*. “Defining customer needs through typical market research and then delivering against them” can lead to a focus on “functional needs without taking into account the broader social and emotional dimensions of a customer’s struggle. . . And in many cases emotional and social could be on the same plane as functional needs – and maybe even be a driver.”[7]

Christensen’s “Jobs to Be Done” theory revolves around the observation that “customers don’t buy products or services,” but rather “pull them into their lives to make progress” in some way that is particularly valuable to them. In viewing innovation from the perspective of Jobs theory, instead of only seeing the customer at the center of the innovation universe, innovators focus on “the customer’s Job to Be Done,” which “may seem like a small distinction,” but, in reality, “it changes everything,” notes Christensen.

Identifying a well-defined Job to Be Done produces the start of an innovation blueprint which is unlike the traditional marketing concept of “needs” because of the much higher degree of specificity required to identify precisely what problem your potential solution would address.

Outcome-oriented decision-making also means a shift in thinking from looking at the industry as currently conceived. Sector boundaries as we knew them in the 20th Century are collapsing.

Developing market-creating value propositions can be difficult, particularly when we don’t really know what the eventual product or service will look or feel like. It’s hard to imagine because it may mean doing something nobody else has ever done.

Four components of a market-creating value proposition

A helpful playbook for developing a market-creating value proposition was pioneered by Curt Carlson and his colleagues at the Silicon Valley icon, SRI International, where Carlson was president and CEO from 1999 to 2014. It is described in his book, *Innovation: The Five Disciplines for Creating What Customers Want*. [8] Called the Innovation-for-Impact

Playbook, it describes an organizational design and value-creation process that led to major SRI International breakthroughs, such as HDTV, Intuitive Surgical and Siri.[9] The Playbook offers a concise but complete definition for a value proposition. There are four main components – Need, Approach, Benefits per costs and Competition (NABC). “They are the fundamentals,” wrote Carlson. “Once those fundamentals are in place, the full business plan is much more efficiently developed.”

1. Identify the “Need”

It begins with a focus on outcomes and the customer’s need, not the firm’s need for a new product, or a shareholder’s need for value. “Does the customer have a need for something?” writes analyst Anand Venkataraman, a colleague of Carlson’s at SRI. “How acute is this need? Would a solution be a lifesaver, a painkiller or a supplement? Furthermore, how can you quantify the need? Is the need relevant to one person, a few people, or an entire demographic? The first thing you do is to record the need as you see it and determine just how big the scope is. If it’s not large enough (doesn’t impact a significant number of people) can it be made to? These questions can’t be answered and refined until after you’ve quantified the need. So as a first step, write down a tentative number on how big you think this need is.”[10]

Understand non-customers: “Obviously, the first port of call should be the customers,” write the authors of *Blue Ocean Strategy*. “But you should not stop there. You should also go after noncustomers. And when the customer is not the same as the user, you need to extend your observations to the users You should not only talk to these people but also watch them in action. Identifying the array of complementary products and services that are consumed alongside your own may give you insight into bundling opportunities. Finally, you need to look at how customers might find alternative ways of fulfilling the need that your product or service satisfies.”[11]

Study markets: “You also need to be aware of what these markets are about today,” says analyst Haydn Shaughnessy. “Although there is a lot of attention on global markets in smart phones dominated by Apple and Samsung, most markets are fragmented. We have quite narrow market segments. What you need is a product base that addresses the long tail, the narrower market segments and an ability to reach those narrow market segments. So addressing all the narrow segments of the big market is important. We tend to see success where the firms are moving into markets that are bigger than their current market. It can be a mistake to chase a single narrow market niche. It’s necessary to look at the larger markets.”[12]

Scale: You also need the capabilities to operate at scale. When Apple made its move into mobile phones, suddenly they had to have an enormous transaction engine capable of dealing with billions of transactions in a year. Market-making organizations have to make an organizational transformation and execute on it, not just talk about it.

2. The “Approach”

“It’s all about how you solve this particular need of the customer,” writes Venkataraman. “Here is where you’ll ask yourself what your secret sauce is. It’s important to have a secret

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sauce because that's what tells you how innovative your original idea is. Besides, a secret sauce is your entry barrier. A successful company needs an entry barrier to give it an opportunity and a kind of monopoly and incentive to develop its idea to its fullest. Without an entry barrier, rather than focus on refining the core of the idea at a time when it's needed most, you would be expending all your energy on deterring others from eating your lunch. Instead of simplifying your idea, which is the key to success, you'll end up making it more complex which spells certain doom.” Carlson notes that the approach must also contain a working hypothesis for the new innovation's business model – how it will generate revenue and make a profit. Many companies fail because they don't have one and disruptive companies – such as Uber, Amazon and Space-X –often have disruptive ones.

Think platforms: “What happens with companies that have successfully externalized,” says Shaughnessy, “is that they manage to lay off a lot of the burden of change onto their ecosystem. That frees management to make decisions without having to think about all the issues of scaling the base. If you think about Apple, they were able to grow an ecosystem of somewhere in the order of 500,000 developers. This meant that management wasn't faced with the administrative burden of investing in growing an army of internal developers that made Apps. This kind of externalization relieves the burden of managing scale and enables very rapid scaling.”[12]

“The race is now on to develop and expand the platform ecosystems to deliver such outcomes for many different sectors,” writes Schwieters, “Amazon already provides a platform for sellers to use. Leading companies are strengthening their positions as platform providers in a wide range of industries–GE and Siemens, for example–have each developed a cloud-based system for connecting machines and devices from a variety of companies, facilitating transactions, operations and logistics and collecting and analyzing data. GE lists no fewer than 10 different industrial sectors that it is targeting with its Predix industrial operation system.”[13]

Acquire digital competency: “Once you have digital competency,” writes Shaughnessy, “you are able to make much more radical adjacency moves than in the past . . . There are many articles talking about the dangers of adjacency moves. But now you see firms being able to make quite radical adjacency moves. Amazon has built its business on a willingness to make moves into markets it has no business to be in. These ideas fit together – the idea of a fluid core, radical adjacency moves, and externalization.”[12]

Be willing to adapt: “It's also related to a willingness to adapt and supplement your core competency very quickly,” says Shaughnessy. “Some companies get locked into a debate about the next thing they want to do: is it core to our business? But firms like Amazon are continuously hiring people with new competencies so that it can execute on its adjacencies. How did Google address Smartwatches? It bought a small company that's great at wearables. In this way, you can grow competency very quickly.”

A bias for action: “I used to attend conferences in Europe where Nokia people would talk about the digitization of everyday life,” say Shaughnessy. “It was fascinating because this was 2005. They were talking about how we would end up digitizing absolutely everything. The problem is that it was Facebook that captured that, and Google who sold the ads on the Web and Apple sold the smart phone. So for all its knowledge, Nokia didn't execute. It

comes back to the business of managing adjacencies. What Nokia needed to do in 2005 was to launch something like Facebook and really commit to its vision of the world. It had a fabulous vision. But all it did with its vision was to carry on making phones with keyboards.”[12]

The indirect approach: Google search is free, but huge financial gains accrue to Google from data-focused advertising. The service provided to users feels costless and frictionless. The monetization is happening in the background.

Build on an existing strength: Deloitte consultant John Hagel gives the example of State Street Bank. It “started as a very conventional retail bank. It was founded in 1793. In the 1970s, it faced increasing pressure in its core business. A C-suite executive realized that they needed to find a different way of doing business and came up with the idea of renting out some of their transaction processing capabilities to other banks, who were facing similar pressure. It met a need in the marketplace and they scaled that very rapidly. Over time, they walked away from their traditional core business. It gave them a new way to define their business, their processes and operations, their approaches, and their culture. It served them well.”[14]

3. “Benefits per costs” for both the customer and the producer

“This tells you not only what a difference for the better your solution will make in the life of the customer,” says Venkataraman, “but also how much of a difference. It’s important to understand that almost every significant benefit can be quantified even if only by proxy. Sometimes we may consider benefits that seem vague and think that it’s impossible to quantify them, but that’s only because we haven’t yet got the discipline to look at them closely enough. We give in to the euphoria of having identified a need and run with it without critically examining it. Or we give in to the fear that if we looked at it too closely it might turn out there wasn’t really a need after all. Discipline gives us the courage to transcend the fear and the willpower to resist this premature euphoria.”[10]

“With patience, perseverance and practice we will learn to identify things in a customer’s life that are inherently valuable. It doesn’t always (rarely, in fact) boil down to the number of dollars a person would save by using an invention. Often the quantification of a benefit may be in terms of intangible but yet quantifiable things - for example, increasing the number of hours of their free time that they would spend with family and friends or on their hobbies, the number of words they have to use to communicate a particular idea, the amount of effort expended (in footsteps or calories, for instance) to get to a certain place, or the number of minutes one could be continuously immersed and engaged in an entertaining or other valuable experience. It may even be some combination or collection of multiple benefits, each of which has its own quantification cell. The important thing is to get this down, and not worry about putting down something incorrect because you will get numerous chances to go back and revise it. Remember that NABC is an iterative framework.”

4. “Competitors” and alternatives

“This is what others are and could be doing to address the same need you have identified,” says Venkataraman. “Many times young innovators are bound to think that their idea is so radical that there exists no competition. But that’s a mistaken notion. Every idea and proposal has competition if we look at it closely enough. I appreciate that an empty slate

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is hard to get started on, so here's at least one competition you can write down for any possible idea. . . your first competitor is the prospect that users would simply continue to do whatever they've been doing in the past to address that need. The number one competitor to your invention is the alternative of not having it.”[10]

“The source of the difficulty that most people have in identifying competition,” says Venkataraman, “is that they always think of their approach and not the need when trying to find competitors. It's understandable that the approach takes center stage, of course, because that's where your secret sauce is - the thing of value you bring to the table, and naturally the thing you feel the greatest affinity for. But to really understand your competition, the NABC framework teaches you to step back and give up being intoxicated by the coolness of your approach for a bit. Think of the need and try to make a list of everything anyone is or could be doing to address the need. Don't think “Who else is using the same or similar approach as mine to meet that need?” but think “What have people done or could do to meet this need.” If you came up with the idea of sticky tape as a way to fix notices to doors, don't only think of glue as your competitor. Think of thumbtacks, chalk, email, Facebook, Twitter. . . as competition.[10]

“Once you identify and make a list of the competitive approaches as exhaustively as you can, you'll find it to be a list of approaches to solve the original need. Your own approach will now be one of those in the long list. You can now start enumerating the pros and cons of each approach quantitatively. Does a particular competitor reach the same users (market) as your idea will? Does it offer the same benefits? Is it cheaper or more expensive to make? And so on. If the answer to any of these questions is unfavorable, this is your chance to go back and see if either the need or the approach can be adjusted to accommodate this shortcoming. Feel fortunate that you found this issue now, before investing thousands, if not millions, of dollars into productizing your originally short-sighted idea.”

Continue to iterate

“When you've looked at all four components of the NABC once,” says Venkataraman, “you get to go back and revisit the ‘Need’ again, repeating the whole process as many times as needed. Chances are that your original thoughts on what you believed to be the need have changed. So you revise it. Just like a Scientific Theory. . . you start with the original need, and after having gone through one cycle of analysis, you come back and augment it to account for its shortcomings. You may patch it up here and there, or make fundamental changes.”

For most organizations, implementing NABC propositions will be an important shift in the organizational culture. As Carlson notes, “NABC value propositions apply to every position in a company. The framework is simple and fundamental. Just having every conversation in the company start with the customer's needs is transformational.” To get an idea of what this involves.

Notes

1. This article draws on insights from the author's blog: <http://blogs.forbes.com/stevedenning/>
2. The SD Learning Consortium is a non-profit corporation registered in the state of Virginia. <http://sdlearningconsortium.org/>. Disclosure: The author is an unpaid pro bono member of the board of directors.
3. Denning, Steve, “The Age Of Agile,” *Strategy & Leadership*, Vol. 45, No. 1 and “Understanding the three laws of Agile,” *S&L*, Vol. 44, No. 6.
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