

# HOW TO DE-RISK TRANSFORMATIONAL INNOVATION

The Science Behind Managing Assumptions

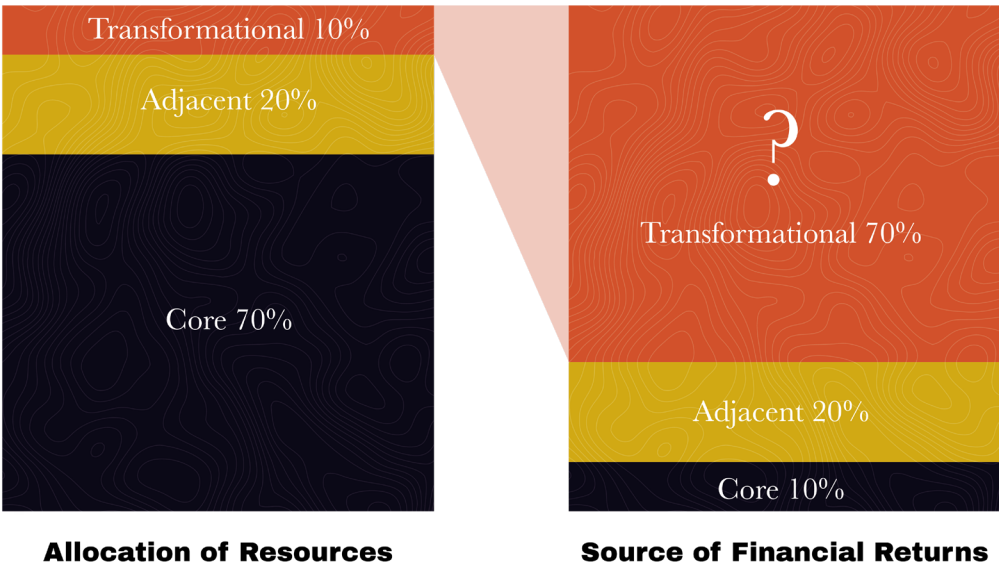
By Dan Adams, *Founder and President of The AIM Institute*



# GET A COMPETITIVE EDGE

Bold, creative thinking and expansive strategic vision in unfamiliar markets can give you a competitive edge and create profitable and sustainable organic growth. In fact, *Harvard Business Review* found that top-performing companies that put 10% of their resources into transformational innovation were getting 70% of the financial returns.

## Innovation Portfolios of Top Performers



Bansi Nagji and Geoff Tuff, Managing your Innovation Portfolio, *Harvard Business Review*, May 2012  
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# HOW DO THEY DO IT?

Your team develops ideas for new applications with unique customer benefits for unfamiliar markets, too. But these concepts are full of risks that your business model may or may not support and are just too unpredictable to pursue... So, you kill the projects before they begin.

Top performers think differently.

Instead of looking at the risks, they study what they don't know — the uncertainties.

States head of Google X, Astro Teller: "We spend most of our time trying to prove we're wrong," and, "We run at all the hardest parts of the problem first."

## UNCERTAINTY VERSUS RISK – THE DIFFERENCE MATTERS

Top performers excel at transformational innovation because they focus on what they don't know rather than the risks involved. With this in mind, let's look at the difference between uncertainty and risk.

*"Uncertainty" is simply something you don't have knowledge about right now. You can change an uncertainty to a certainty by learning about what you don't know.*

*"Risk" is when you "put something valuable or important in a dangerous situation, in which it could be lost or damaged," according to Oxford Learner's Dictionaries.*

With risk, you must be able to assign a probability of a negative event taking place. When you work outside your regular market, you simply have no idea what that probability is. So when you start a new project, don't assign a risk, a probability, an internal rate of return, or anything like that. Instead, simply say, "We don't know."



# SPOT THE LAND MINES

Think of the problems involved in a new project as land mines. These unexpected explosions are a greater danger in unfamiliar terrain, make it difficult to achieve buy-in from stakeholders, and offer “unhappy thoughts” no one wants to deal with.

Now, instead of coming up to land mines by surprise, stepping around them to avoid the negativity they bring, or stopping your entire project, look for them in advance. Then, you’ll have more options to get around them.

This is what top performers do when they start bold new projects.

Don’t let the risks stop you. Instead, approach your problems with uncertainty. You already have assumptions and knowledge from past experiences, so understand those things you are aware of and discover those you are not.

## KEY TAKEAWAY

Top-performing companies face problems head-on. While they may have much larger budgets and resources to work with than your company when it comes to transformational innovation, it’s more about the way they manage the process. Rather than focus on the risks, they look at the uncertainties and knowledge needed to move forward.

**So how do you do this effectively? To begin a new project, start by mapping out the territory based on past knowledge.**

List the things you are aware of, including:

- The facts you know.
- Assumptions of what you think you know.
- Questions for the things you don’t know.

Then, add a different section for surprises and all of the things you are unaware of at this point.

What “land mines” can you identify that blew up your budget, schedules, and even your reputation in the past?

What would have happened if you had spotted them earlier?

Be aware of “factoids” when managing your assumptions. These are “something that is widely accepted as a fact, although it is probably not true.”

*Oxford Learner’s Dictionaries*



The FAQs Map

Reducing uncertainty in B2B innovation

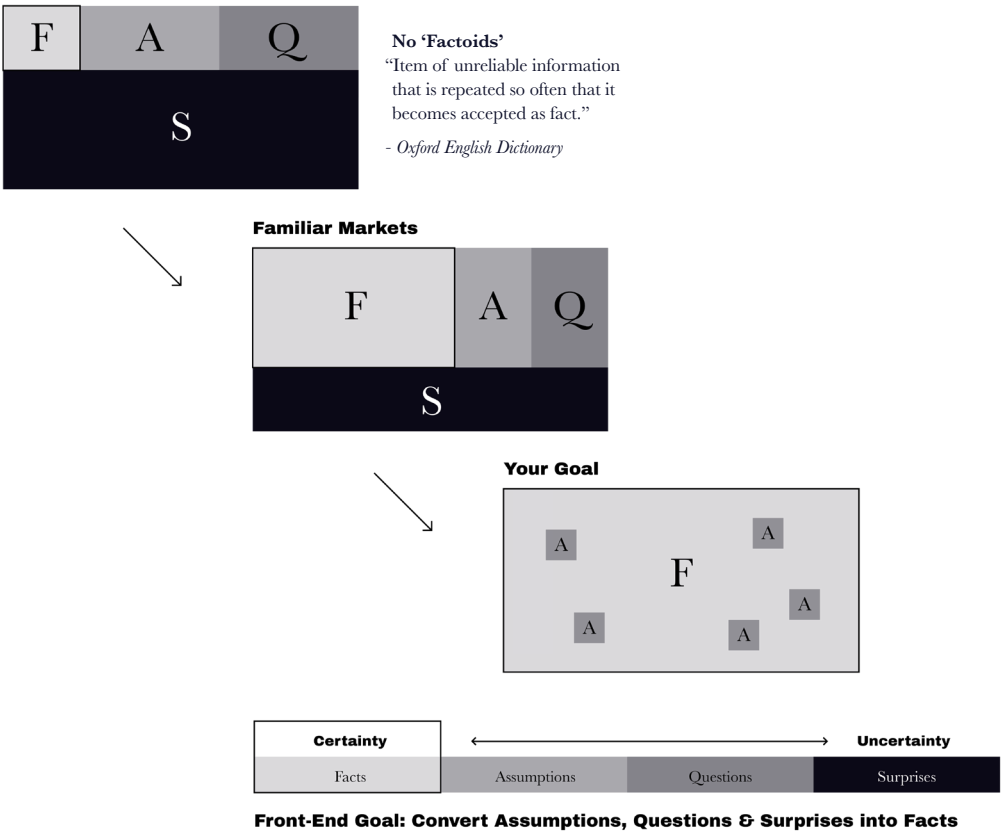


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It's a continuum where on one side, you have high certainty. On the other side, you have complete uncertainty.

The FAQs Map

Reducing uncertainty is your goal



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# HOW TO DE-RISK UNCERTAINTIES

Next, assemble a multidisciplinary team (technology, product development, finance, marketing, and others) to thoroughly review your new idea as it relates to the entire value chain. Focus on each of the six areas of uncertainty to manage:

## 1 MARKET DYNAMICS

Look at external assumptions like market dynamics how fast the market is growing, regulations, product standards, what do consumers want, etc.

### KEY TAKEAWAY

The goal is to reduce the level of risk and proceed with the project by converting assumptions, questions, and surprises into facts.

## 2 REQUIRED OUTCOMES

From the market dynamics, examine the required outcomes necessary to be successful. We must add X to this new product to meet code, we need to reduce the size of Y to meet regulations, etc.

## 3 DESIRED OUTCOMES

Then, review desired outcomes. We want to have less waste, faster deliveries, better water resistance, etc.

## 4 INTERNAL CAPABILITIES

Next, look at internal assumptions. What are your internal capabilities? For example, do you have sales regions in the appropriate markets, can you create this in your lab, can you scale up to full manufacturing, etc.?

## 5 REQUIRED SOLUTIONS

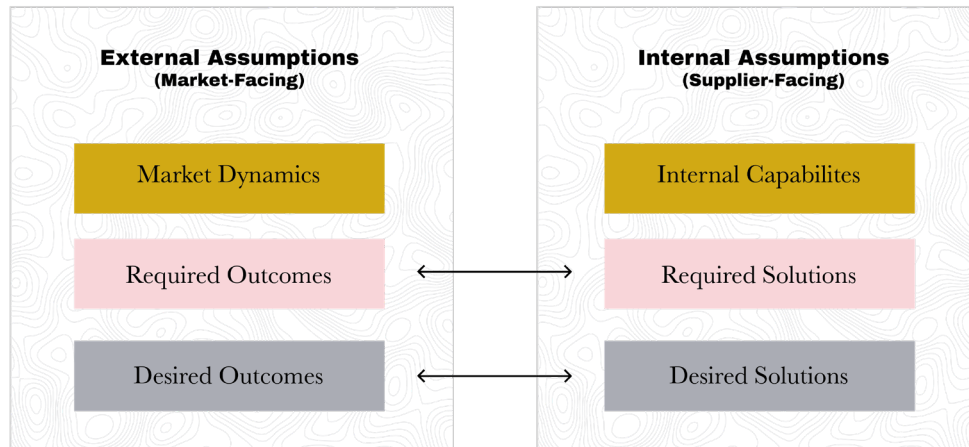
Once you review internal capabilities, decide and list what is going to be required to fulfill these needs. Will you need to hire more sales representatives, rent or purchase more space, etc.?

## 6 DESIRED SOLUTIONS

Then, it's essential to satisfy the required outcomes with a solution. The important point here is to address at least one of the desired outcomes with a desired solution and improve it. After all, the improved solution needs to be something different from what is currently available. Otherwise, you just commoditize what is already in the market.

## There Are 6 Areas of Uncertainty to Manage:

Using Minesweeper® project de-risking software



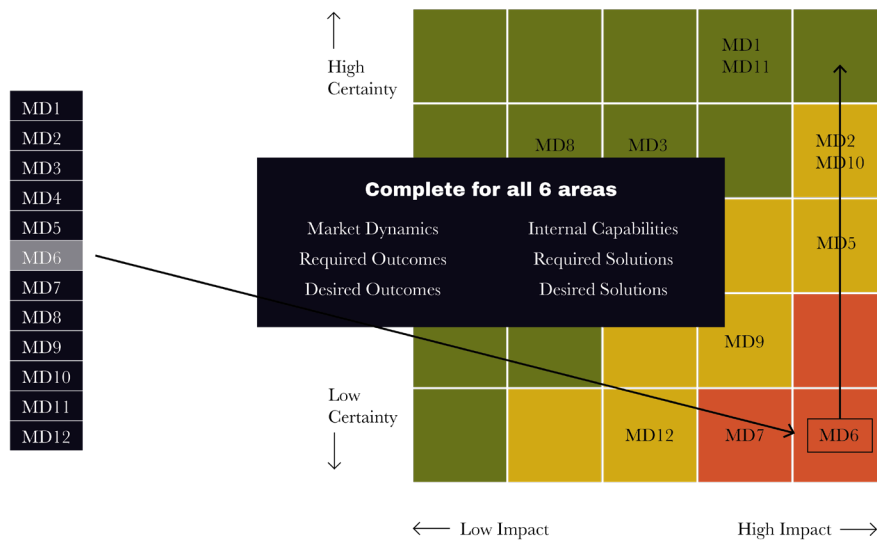
**The team must focus on assumptions with high impact & low certainty.**

As your team brainstorms, try to find the assumptions that have high impact and low certainty, looking at all the things that need to be true for a project to succeed.

Rate each of these assumptions asking, “What is the impact of that assumption on the points of the value chain to change in sync if it’s not true?”

Place this information on a grid like the sample below (assumptions tracked from red to yellow to green for all six areas). Then, you can create an action plan for your team members to investigate low-certainty/high-impact assumptions and drive them to high certainty.

## The Certainty Matrix



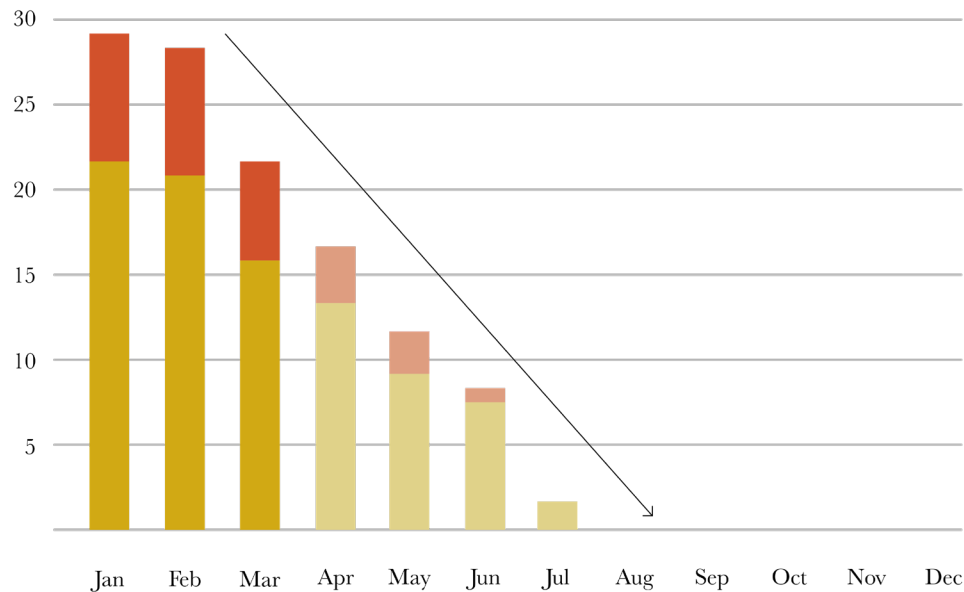
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# THE NEXT STEP IS TO CREATE A CHECKPOINT PLAN

As your team members investigate the data, they drive down the “Danger” and “Caution” assumptions. This can be recorded in a monthly report as seen below:

## Number of Assumptions by Month



**The team builds a CheckPoint Plan to systemically drive a certainty.**



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This process provides a rational plan to remove unwanted risk, reduce uncertainty, and move forward on your project. Now, you can take all of your data and prepare it to share with your stakeholders.

To help gain their support, provide valuable, easy-to-understand information in four steps:

## 1 GENERATE ASSUMPTIONS

First, look at all the assumptions that “must be true” for project success in market dynamics, required outcomes, and desired outcomes. And rather than focus solely on the use of your product, create a consumption chain. This way, you’ll see more information relative to customer outcomes and avoid missing some really important assumptions in unfamiliar markets

### The Consumption Chain



## 2 RATE ASSUMPTIONS

Now, converge on those assumptions that are both high impact and low certainty and have your team members share their knowledge and opinions.

When opinions are repeated, you move on to the next phase of engagement, where everyone involved marks the impact of the ratings as individuals in isolation. This way, you’ll allow people to avoid being influenced by others or “groupthink.” Then, you can get the entire group together with different perspectives to discuss and agree on the Impact and Certainty ratings of each assumption.

### 3 INVESTIGATE THE ASSUMPTIONS

At this point, your team will conduct secondary research (lab work, customer interviews, etc.) and create a Checkpoint Action Plan to investigate the red (Danger) and yellow (Caution) assumptions. This helps move these assumptions from the uncertainty to the certainty areas.

#### KEY TAKEAWAY

Be aware that you do not take the average rating of all of your team members. You take the most cautious voice on the team with the highest Impact and lowest Certainty rating. This way, you don't inadvertently take something that should be red or yellow and move it into green as a "false green" without further investigation.

### 4 REPORT TO MANAGEMENT

With the right market research reports, expert interviews, blueprinting type of discovery, and more, you obtain valuable data in an inexpensive, fast way. (As projects scale and production and capacity increase, this data collection becomes much more expensive.) Once your team has this data and reviews its de-risking progress, you can provide well-defined monthly updates to management to show progress.

#### THIS REPORTING LEADS TO A DIFFERENT TYPE OF CONVERSATION AND DECISION PROCESS WITH MANAGEMENT.

Now, you can show them that you're managing risk in an intelligent fashion with regular data reports that are easy to understand and differentiate "updates" from "decisions." Plus, you separate your success from the project's success and are able to tell management right away if a project doesn't deserve to continue.

#### THIS WAY, THEY KNOW WHAT'S GOING ON, STOP JUDGING, AND ACTUALLY JOIN YOUR TEAM IN THE PROCESS.

You pay a little to learn a lot so you can move from uncertainty to certainty and see your transformational innovation projects become a reality.

#### KEY TAKEAWAY

With the right data, your team can make smarter, faster decisions. Instead of Type 1 "all or nothing" decisions, this reporting process allows your team to make smaller, Type 2 decisions that result in less risk, fewer costs, and an easy way to exit.



# FINAL INSIGHTS

Your team has innovative “big ideas” that can transform your business and provide unique benefits to unfamiliar markets. But the technical and commercial risks may keep you from pursuing them.

This is old thinking that needs to change.

In the past, it may have been difficult to set up customer interviews in the markets you want to enter. After all, a combination of qualitative and quantitative research to get reliable data points from people who aren't part of your current customer base is essential to moving forward. Plus, you need to talk to people with the expertise that you lack and survey hard-to-reach target audiences to learn what you don't know. Then, you have to analyze all of that real-time data to uncover land mines, set an action plan, and create differentiated products and value propositions.

This sounds like an overwhelming process, but it no longer needs to stop your progress.

Now, you can get the current data you need to manage the assumptions of entering unfamiliar markets, provide intelligent reporting to your management team, and make smarter decisions.

External consultation can connect you with the experts and audiences that hold these insights. Depending on your needs, specific strategies may include:

- Assumptions of what you think you know
- Joining expert webcasts, teleconferences, or roundtables
- Conducting product-testing workshops or customer focus group
- Connecting with subject-matter experts for short- or long-term consultation and learning and development
- Surveying targeted populations for insights on trends and/or field-testing strategies and more

Don't let risk get in the way of your innovative ideas. Obtain the real-time knowledge you need quickly and cost-effectively to achieve buy-in from stakeholders and start creating profitable and sustainable organic growth in new markets.

**Looking to enter new or unfamiliar markets? Find out how GLG's network of more than 900,000 subject-matter experts can help your organization gain new insights from consultations, surveys, and more, at [glginsights.com](https://glginsights.com).**

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