The Outsider's Advantage

How a "skunk-works" team created Green Works cleaners for Clorox

By Larry Popelka

Ask five Fortune 500 CEOs to list their top priorities, and at least four will say they need more innovation. With little room left for price advances or cost savings, and slow organic growth in established categories, innovation is now a hot commodity. It is the fuel that is driving shareholder value in this decade.

Yet rarely are large companies generating more than a few percentage points of growth from innovation, and none of their CEOs seem to have a good solution to get more. Many companies mistakenly think that their people just need to get more creative. This has spawned a whole industry of creativity consultants and innovation gurus. Others believe they just need to throw more R&D resources against the problem. This rarely generates a return.

One of the great conundrums of our day is that despite the shortage of innovation by large companies, we are living in perhaps the most innovative era ever, with exciting new inventions like iPods, Bluetooth, hybrid automobiles and the like. Even in boring old categories like food, beverages and cleaning products there are a host of new innovative products, like Glaceau Vitamin Water, Burt's Bees and Method Cleaners.

Interestingly, almost all of the new innovations coming on the market these days are not from large established players, but from upstarts run by category outsiders with little or no knowledge of existing operations. Method Home Care, a successful new $100M cleaning products company, was created by Eric Ryan and Adam Lowry, two recent college graduates with no cleaning products experience.

Coca-Cola and Pepsico dominate the beverage business and they have an army of new product people working on innovation, but during the past 15 years they have had precious few new product successes. Meanwhile, we've had Snapple, Odwalla, Arizona Ice Tea, Jones Soda, SoBe, Fuze, Glaceau Vitamin Water and Red Bull – all from entrepreneurs. Many of these new brands were eventually acquired by Coke and Pepsi – and for a pretty penny. Coke gave up the equivalent of almost 5% of its market capitalization in cash to take on Vitamin Water.

Why is this happening? Why can't big companies with all their resources come up with any of these innovations themselves?

The problem is what we call the "Outsider's Advantage." Big successful companies are typically victims of their own success. As a company, once you are successful in a category, your success creates several organizational and mental barriers that makes it extremely difficult – often virtually impossible – to create meaningful new innovations. As a result, outsiders – people who are smart business people, but not steeped in the existing rules of category competition – have a big advantage in finding and pursuing new innovations.

Let's take the case of the coffee category. For years P&G (Folgers) and General Foods (Maxwell House) dominated both the retail grocery and foodservice coffee channels. These companies understood how to compete. It was all about the right quality product at the right price, managing the cost of coffee beans and good customer service. There were occasional innovations around packaging, freshness, etc., but nothing that disrupted the general rules of engagement within the category.

That was until Starbucks came along. The team that started Starbucks understood enough of the basics about coffee to know what people wanted, but they weren't living within the existing coffee business. They saw an opportunity to improve the quality of the beverage and make it a larger experience – and attract people who had given up on coffee, because the existing products were boring and lacked flavor.

Today we all know about Starbucks. It has all but taken over the away from home and in home coffee businesses from traditional players. P&G and General Foods were so blindsided that they never even mounted a meaningful response. Once a crown jewel for P&G, Folgers was recently sold off in a fire sale to Smucker's, as P&G essentially gave up on it.

How did these companies go so wrong in missing the premium coffee opportunity? They were blinded by their own success. They never imagined it. They never thought to imagine it. Even when it started happening, they didn't believe it was happening or didn't believe it would really impact them – until Starbucks was well established and it was too late.

It is easy in hindsight to criticize the people involved. But the fact is that this is happening every day in every industry where there are strong, successful leaders. Let's take a look at the biggest, most successful companies of the 1960s and '70s, and see what happened to them.

For years during the 1960s and '70s General Motors and Ford took innovation for granted, while Toyota, Honda and Nissan where slowly taking their business away by offering better, more economical cars with more innovative features.

In the 1960s and '70s, IBM dominated the computing industry. Now we have Dell, Microsoft, Cisco and Apple. Recently, IBM's PC business was such a drain on them that they sold it off to a Chinese company (Lenovo), as they shifted their focus to consulting.

Even after its breakup in 1984, AT&T and the baby bells dominated the telephone market. Now we have Nokia, Samsung, Rim/Blackberry, Sprint, Verizon and others who have led innovation in voice communications.

In the 1960s and '70s, Sears was unparalleled as the world's largest retailer. Now we have Wal-Mart, Costco and Target, which created more innovative store formats and operational models. Sears has become an also-ran, and ended up merging with another weak performer -K-Mart – in a last gasp effort to try to stay afloat.

In all of these cases, powerful, leading companies failed to innovate. They were beat by outsiders with limited resources who created disruptive innovation to change the category rules and win.

But why couldn't these big companies innovate? They had all of the resources in the world to do whatever they wanted. Surely they could have come up with some of these innovations.

These companies were all victims of the "Outsider's Advantage."

The Outsider's Advantage

We have found there are three primary reasons why outsiders in an industry have an innovation advantage over big established players.

Fresh Perspective. People competing within a category - no matter how smart and talented - become engrossed in the "rules of engagement" for their category. Understanding these rules makes for much stronger business management on a day-to-day business. But knowledge of these rules also creates blinders - mental barriers, which make it difficult to see, comprehend or consider alternative approaches. When something like a Starbucks comes along, it doesn't fit the existing model, so it is easily dismissed. Many companies mistakenly think they can overcome this just by getting their people to be more open-minded or creative. But once you have developed a category mindset, it is extremely difficult to get back the "fresh perspective" needed to identify and develop big innovations.

Personal and Organizational Preservation. New business models and "game-changing" innovations are often a threat to people within the organization. They may force people to change the way they do things and/or change or threaten jobs in some areas. The people in Detroit who make Hummers probably do not have all of the right skills to make the next compact hybrid. As a result, the new hybrid is a threat to their way of life. It's not that they're against social consciousness. Most people have a natural reaction to new ideas that is rooted in self-preservation.

Something that requires different skills to make, market or sell is going to have natural opponents right from the start. No one will ever articulate this, but they will feel it emotionally. And this emotion will cause them to present and support rational arguments that are opposed to the innovation.

Incentives. The management of large publicly-traded organizations often lacks the rewards to drive innovation and take risk. In an era where Wall Street judges Management based primarily on quarterly earnings and Senior Executives can make several million dollars per year with average results, there is little incentive to take a risk and invest on a bold innovation that may not pay out for 3-5 years. In fact a single unsuccessful innovation may be career limiting, so why take that risk?

Contrast this with Private Equity and Venture Capitalists who focus only on the longer-term (3-5 year horizon) and invest all their short-term profits back into growth for the long-term. It's no wonder that these upstarts are winning.

Creating an "Outsider's Advantage"

So if you're running a big company, how do you overcome these obstacles – and get your company to be more innovative? You need to replicate the "Outsider Advantage."

A few years ago, I led an experiment for a Fortune 500 Company. We created an independent "Ventures" group that was detached from the rest of the company and reported directly to the CEO and the Executive Committee. We created processes to identify "Outsider Ideas" by tapping into new technologies and trends. We gave particular focus to opportunities that could potentially make the company's existing businesses obsolete.

Once we found an opportunity, we were allowed to build it and test it within our own "skunk works" organization to protect it from the "corporate antibodies" within the company that may try to kill it.

Our Ventures team was successful in developing 8 major new products for the Clorox Company, including the successful new Green Works Cleaners line, which was launched in January 2008 and is estimated at roughly $300M in revenue. As a result, Clorox is enjoying above average growth.

The key to our success was that we operated as outsiders. We had few interactions with the business units. We did not look at or understand their strategies. We did not review their research or tactics. We took a completely fresh view of the categories and tried to find ways to essentially "out-do" all of the existing products they were selling. Importantly, when we found a promising opportunity, it was not run through the existing organization for "analysis" or validation, where organizational barriers might block it. However, as we built out opportunities, we did it in a way that they could be easily integrated back into the company at the appropriate time.

Our success with Green Works came from the fact that a large number of consumers hated using chemicals because they didn't want harmful chemical fumes in their home. No one in the large chemical company was willing to hear this because it didn't fit with the existing model. So even though consumers were asking for this, managers within the chemical company were not really listening. Even some members of the Executive Committee questioned whether this was a good opportunity.

However, because of our independence and support from our CEO, our team was able to press on. We identified external non-chemical technology that delivered superior performance to many of the chemical products within the category – something the R&D group within Clorox swore could never be done.

Another key to our success was keeping our development and testing costs low – thus minimizing the risk to the company. By building the opportunity outside of the operating units, we avoided significant costs and distractions that often come from pursuit of new initiatives. If our small "skunk-works" operation failed, no one outside of Executive Committee would ever need to know, and the cost would be small.

Once we had successful test market results from our "skunk works" operation which proved the concept, Green Works was brought back into Clorox's Home Care operating division for a full scale launch.

The integration at this point was a success, because we had established a complete proposition with a solid business case. We also had the success and backing of the company's senior management team, which had sponsored us. While it took several meetings and discussions to get everyone inside the operating division on board, the integration back into the company was a success. At the end of the day, everyone likes to see growth and wants to be a part of something successful. So our creation was viewed more as an "acquisition of a new brand" from our Ventures team than as a threat.

The success of Green Works proves that big companies can be innovative with the right approach. It does not take a lot of money or resources. Nor does it require the "creativity gurus." The key is to bring in some informed outsiders who don't know the details of your category, but do know how to "change the game." With a small budget and an ability to work outside the normal corporate structure, you, too, can create transformational innovation that will drive more aggressive growth and keep your company in the driver's seat for long run.

Larry Popelka is CEO and founder of GameChanger Products, an Innovation Consulting Firm that helps companies identify and pursue transformational innovation. Members of GameChanger have been responsible for developing and expanding over 25 successful new innovative products that generate over $3B in revenue today. Successes include: Green Works Cleaners, Kern's beverages, J&J's KY brand, Power Bar, Clorox Wipes, Brita water filters, Clorox Anywhere disinfectant, Oxi-Clean and Hidden Valley salad dressing. Popelka is writing a book, ***The GameChanger Manifesto***, which outlines his approaches in more detail.