

The practice of breakthrough strategies by design

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In an environment where the challenge for businesses to stay ahead of the curve calls for new ways of strategizing for future success, design holds some important clues. By broadening the definition of “design” and expanding the application of design methodologies and mindsets to business, enterprises can move beyond mere survival and incremental change, and open up new possibilities for breakthrough growth strategies and organizational transformation.

Drawing from a number of wide-ranging projects, case studies and executive education initiatives at Rotman designworks™ we have gleaned some promising insights into how to achieve breakthrough strategies for success, by design. This article articulates how to embed design methods and mindsets into an organization’s strategic planning practices. It articulates how to unearth new and breakthrough opportunities to strengthen business strategies and create sustainable competitive advantage in a competitive marketplace.

Design as a catalyst for growth

What forces in the marketplace are driving the need for new methods to create strategies for growth? A number of significant game-changing forces are at play. Here are just a few of the seismic shifts that set the scene today:

- Global access to new markets and expanded sources of people and components are breaking down barriers and creating new opportunities for some and threats to others.
- Technology has profoundly changed the way people connect and business gets done locally and globally. Virtual access, interactions and transactions have transformed the physical world and created new ways to connect and compete.
- Marketplace demands are increasing as consumers have come to expect better, more sophisticated offerings and greater customization within the plethora of goods and services. The “category walls” are breaking down as consumers look for more integrated solutions to meeting their needs across products and services, demanding more from manufacturers and service providers than ever before. This expectation transcends all markets – it is now believed that all people in all markets should have access to life-enhancing solutions of all kinds.
- Social values are shifting, with higher expectations on good citizenship and the corporation’s social and environmental role and responsibilities. The “green movement” will radically change future expectations of corporations and governments.

Within this context, many companies are slow to respond to these forces because their historically successful models and infrastructures are making it challenging to shift organizational cultures and evolve rigid business models.

In the face of these dynamic forces of change, companies are searching for better, faster, more effective means of reinvigorating their human capital to get ahead of the curve. The aim: to create new economic and human value.

Economics of design versus design of economics

Herein lies the opportunity to leverage design practices for both cultural transformation and strategic growth, moving from a framework of the “economics of design” to the “design of economics”. The economics of design are indisputable: good design of products and service experiences creates satisfaction, connections, desire and value to the ultimate user, taking a commodity product to a premium position. A smart redesign can also yield economics rewards through greater operational efficiencies. No one can debate that. But where design has its highest value is in applying design thinking to strategy and business modeling – in designing the sustainable competitive advantage of an enterprise. By embracing design methods and mindsets, an enterprise can not only design new products, services and experiences, but they can also fundamentally drive the design of economics in support of dramatic new growth strategies.

While this is not yet a broadly embraced interpretation of “design” it is one where the evidence for success is mounting. While at first this model may seem either radical or abstract, those who discover its advantages find it surprisingly intuitive and practical – just what the business world needs in the face of high-stakes complexities and change.

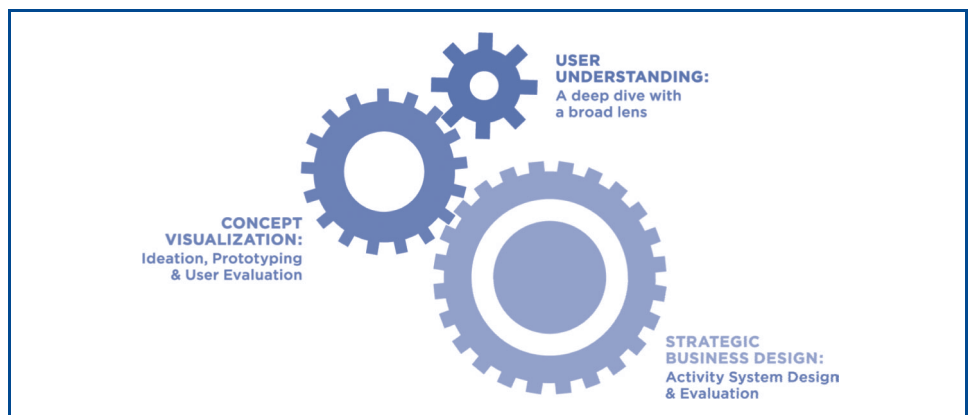
How it works – the methods

Drawing from of the many tools and techniques used in both the design world and the business world, this methodology can be distilled into what we call the “three gears of design” (see Figure 1) that drive strategy and business design: empathy and deep user understanding, concept visualization and multiple-prototyping, and strategic business design. This is not a 1-2-3 linear process, but rather an iterative process anchored in the needs of the user or ultimate customer target. By cycling through these three gears, work teams can get to bigger breakthroughs faster – applying user insights to stimulate high-value conceptual solutions and extracting strategic intent from the concepts to reform strategic business models.

Setting the foundation

Before beginning the design journey, it is beneficial for the business team to frame up its current operating strategy, articulating what the organization is doing today that is driving current business results. Understanding the current business models, operational focus areas and market challenges and opportunities helps to get everyone grounded in the same view of the current state. Furthermore, not only does this help frame up the current business model, but also the team’s mental model that is conditioned by the ongoing, well-entrenched

Figure 1



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activities of an organization. These are the points of reference for the business team that are both valuable and limiting in driving business. Knowing one's working model, organizational competencies and strategic focus areas keep an enterprise moving forward productively. At the same time, if the current framework is viewed as a fixed model, this "mental model" can also be a source of constraint in exploring future possibilities outside current practices and capabilities.

The limiting forces: a drive for "narrow perfectionism" and a reliance on current capabilities and measurements to squeeze more out of the current activity system which may yield diminishing returns over time. Often we hear executives discount opportunities because "We're not in that business. We're a manufacturer, not a service provider." The position that "that's not what we do today" is not a reason for not doing it in the future. Consider where Apple would be today if they had subscribed to old school thinking of "sticking to their knitting"; we would never have witnessed the revolutionary success of a computer company introducing iTunes and iPod, and setting up for another potential step change with the iPhone. Apple does not live within the constraints of their current business model; they follow their user to new opportunities, which is what the first gear of design is all about.

The three gears of design

First gear

The first step is to reframe your business wholly through the eyes of the user. This may sound like Marketing 101, but companies are so often consumed by their current development initiatives, business challenges, budgets, deadlines and quarterly plan delivery that they find it difficult to really turn the telescope around and view their business entirely through the eyes of their end-user in a holistic manner.

To broaden the lens, it is important to look beyond the direct use of a company's product or service and explore the activity surrounding it to gain deeper insight and a broader behavioral and psychographic perspective on the user's life. It is also critical to understand the "whole person" in the context of a given activity – not just what they do, but how they feel and how their needs surrounding the activity link to other parts of their life in terms of other activities, other people, and other cues to their needs.

As an example, Nike's focus on its deep understanding of the runner goes way beyond the utility of the running shoe. The runner is deeply motivated by their drive for "personal best", achievement of personal goals, the achievements and standards set by winning athletes, and their need to ascribe to a "winning mindset." A perfect example of the manifestation of this deeper understanding is the Nike + offering: a chip in a specialized running shoe that measures and motivates personal performance and connects you to a community of runners. In this example, everyone wins. The avid runner wins through a new means of motivating personal performance, and Nike wins because they have established a deeper and more engaging relationship with their consumer than ever before.

To gain a deeper understanding of the user, we leverage one of the tools mastered by one of our academic partners, the Institute of Design at Illinois Institute of Technology (Whitney and Kumar, 2003), as presented in this journal. In applying their POEMS ethnographic technique, users bring photographs of people, objects, environments, messages and services of

significance in an activity. Through a non-directive interview, the photographs are used as triggers to stories that ultimately reveal surprising insights. Interviewers on the business team get a much deeper sense of what the design world calls a persona, the “whole person” as defined by their intellectual, emotional and practical needs surrounding the activity of interest, and in the in the context of their everyday life. Through this exploration, the team discovers a broader range of adjacent needs that can serve as a springboard for innovation and strategic opportunities that go far beyond an incremental product upgrade or direct line extension. Furthermore, against conventional wisdom rooted in a culture of surveys and focus groups, studies have shown that by conducting a relatively small number of in-depth, holistic interviews with the appropriate cross-section of users, we can glean more than 90 percent of the insights we would gather through a much larger sample (Griffin and Hauser, 1993). So this methodology is an accessible, cost-effective means of discovering unmet needs early in the strategic planning process.

To illustrate the power of deep user understanding, a hospital that is focused on objective operational improvements to enhance efficiencies may discover that the “healing process” is enhanced by a multitude of factors beyond the essential medical expertise and “patient flow.” The patient’s need for reduced anxiety may be rooted in many dimensions – their connection to the outside world (physical cues to nature and spirituality), the physical design of the hospital (the width of the halls, the flicker rates of the florescent lighting or the artwork on the walls) or a sense of control or empowerment (the information they receive in communications before, during and after their hospital visits) or the practices and manner of the people on staff. All of these cues – people, objects, environment, messages and services – can enhance or hinder the healing process. A beautiful example of this deeper understanding of patient needs is brought to life by the success of the North Hawaii Community Hospital (available at: www.northhawaiicommunityhospital.org). This is a case where medical acumen and “patient flow” were successfully complimented by a holistic design of the patient experience based on physical and emotional needs. All of this resulted in a better patient experience, operational effectiveness and, most importantly, better patient outcomes and community wellness.

Second gear

With a renewed empathy and broader set of criteria for innovation as the springboard, we move into gear 2 – concept visualization through the process of ideation and multiple-prototyping. Through a number of these workshops and projects, we have seen that user empathy unleashes creativity. We have seen more ideas emerge when a health care organization wholly shifts from an operational focus to a patient focus, or a technology company shifts its focus from wireless infrastructures and revenue-per-unit to community or cultural needs.

In another health care example, Toronto’s Princess Margaret Hospital Breast Cancer Centre looked beyond the treatment of cancer to the more holistic needs of the breast cancer survivor. They created a beautiful “unhospital-like” setting resembling a high-end salon, a program for “beauty” in which survivors can get counsel on how to feel and look their best, and a community for women to enhance their emotional well-being through counsel and support.

In the world of packages goods, a number of companies have thought beyond their manufacturing products to serve deeper needs. One example is the Kraft Food & Family Program – a multi-channel customer relationship program with customizable solution-based

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meal ideas (versus straight product push). This program delivers to meet the needs of time-starved consumers, helping them get meals on the table quickly, skillfully, nutritionally and creatively. Another example is Dove's multi-layered “self esteem” initiative which not only reframes “beauty” in its advertising, but extends their support for young women by offering mother/daughter dialogue content on the subject and sponsoring altruistic programs to fight against the emotionally-damaging media stereotyping of “unachievable beauty.”

All of these initiatives have been inspired by a deeper understanding of human needs. And what better way to leverage the discovery of new needs and capture the creativity of an organization than through ideation and prototyping, generating possibilities of how to meet those human needs in a more imaginative and compelling way before locking down a tightly-defined strategy? By using consumer needs as a point of departure to explore multiple solutions, one can generate a wide range of possibilities outside one's current repertoire of solutions and business framework to expand horizons.

In a recent workshop with 180 executives from the Professional Convention Management Association, participants followed this methodology to think beyond how to perfect logistics and delivery of a well-run convention. In teams, this seasoned group of professionals prototyped 36 breakthrough ideas for better meeting convention-goers needs. For the conventioneer who needed to be alert at all times, they created an on-site “brain food” service. For the time-starved participant they created a technology-driven “personalized scheduling program”. For the ambitious professional who is looking to advance his career, they created a “personal advancement coaching” program to help the participant get the most out of the convention and set himself on a path to personal success. All of these concepts were outside their previous set of considerations. All of them were multi-dimensional and richly constructed around the deeper needs of their user. And all of them were new and valuable to the market they serve. Whether or not they got the concept perfect in two days is not important. What is important is that they discovered new needs and new strategies to meet those needs that had previously not been pursued.

These and many other experiences demonstrate that making solutions tangible is an intuitive and risk-free way to “quick test” ideas as the basis for strategy. Strategy therefore becomes the summation of tangible concepts that satisfy user needs. Through rapid-prototyping and iteration, teams build solutions that facilitate a more concrete basis for discussion, which can be later translated into strategic intent. This is in contrast to conventional practices that analyze and build off existing knowledge and frameworks to lock down strategies before exploring possible expressions of those strategies. Executive teams frequently say that they have sometimes bought into a strategy that makes sense on paper, only to discover that their leadership team all had different interpretations of how that strategy would actually manifest itself much later in the game, when it can be more difficult and costly to reconcile. This is a function “domain perspective” – seeing the strategy through each individual's base of functional expertise and experience. This occurs naturally even in the most collaborative teams – one person's view of “reality” is different from another's.

Anchored in a common understanding of the end user's deeper needs, the prototyping process becomes a “thinking and communication tool” for making the abstract concrete and stimulating productive dialogue within business teams and with users. In addition, when prototyping is done by multi-disciplinary teams early on in the process, both the solutions and the buy-in are more complete, fueling greater momentum down the development path. The design approach is about discussing strategy in the spirit of asking “What if it looked like

this? How would that better serve our user's needs and what would that mean to our business? What would we need to do in order to bring that to life in terms of our capabilities and our organization's activities?" That leads into the third gear of business design.

Third gear

With defined user-driven solutions in hand, the next step is to align strategic concepts with future reality through strategic business design. In this third gear, we explore and define what it would take in order for the "big idea" to become both viable and valuable by articulating the strategies and capabilities required. One useful visualization and development tool for this step is Porter's (1996) "activity system." Applying the activity system tool against a new solution, we define the core strategies that would be critical in bringing this concept to life – the strategic hubs and the mutually reinforcing activities of the self-standing activity system.

For example, a health care company may decide that their patients need more personalized and responsive support. In order to deliver that in real-time, they may need a significant investment in database systems, access and management. It may require new channels of communication to proactively and reactively support patient needs. It will also impact organizational structure and operating procedures. Further, each of these components will cost money, save money and generate stronger revenue and retention – all at the same time. While at first glance this may seem like a tall order with a high price tag, through iterative integration it can be designed to be a net gain for the enterprise.

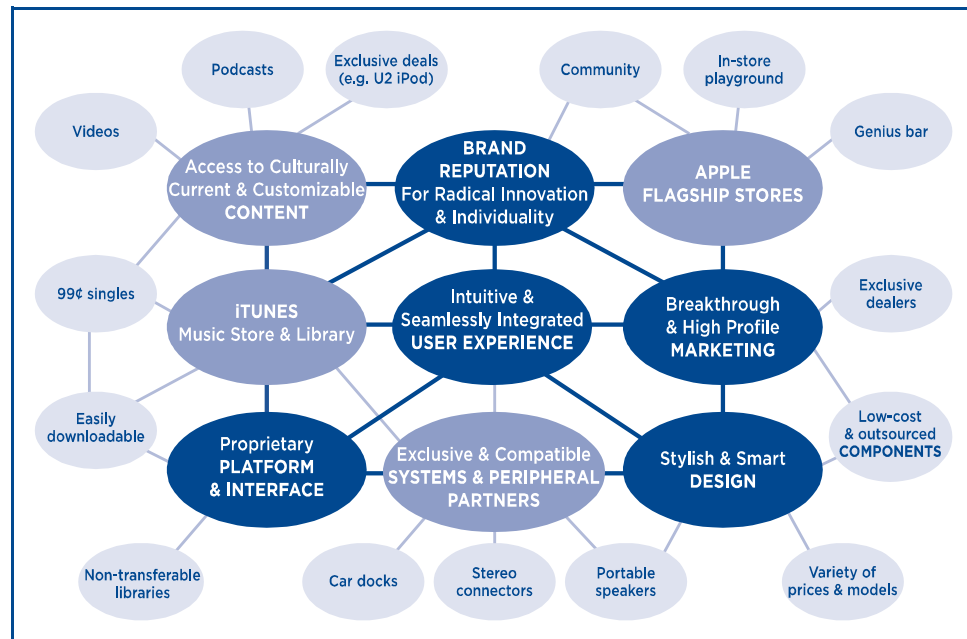
Like the prototyping process in gear 2, this phase entails prototyping the business model to integrate the parts and assess the impact of the activity system as a whole. What is critical is to identify what will strategically drive the success of the solution, prioritize which activities an organization must undertake to deliver those strategies, define the relationship of those parts strategically, operationally and economically, and determine what net impact the new model will have.

With the "stand-alone" model defined, the final step of business design is to integrate this stand-alone system back into the current operating model, always asking: What can we leverage in our current activity system? What tensions (barriers, issues, conflicts) must be resolved in our current activity system? For each tension point, what are possible strategies and tactics for resolution? How can we lock up this system so it is proprietary and sustainable to our enterprise, therefore justifying the investment required to support this breakthrough strategic plan? Through several iterations will come an ownable working model that can deliver value to all stakeholders (the end user and the enterprise) and do so responsibly with a well-planned build-and-transition plan.

To illustrate this point, we can imagine how the iPod activity system may look: a complex network of interrelated strategies and tactics that redefine the game rules of an industry while leveraging and extending Apple's equities in design (beyond just the aesthetics, and including the entire user experience), a distinct and intuitive interface and the brand's reputation for "radical innovation" and breakthrough marketing.

In Figure 2, the dark blue hubs represent the base of equities and capabilities Apple used to build iPod. The mid-blue hubs represent the new hubs of activity which build on Apple's historical foundation to create a new system of competitive advantage. Specific initiatives and supporting activities are indicated in light blue.

What is critical in this particular case is the leveraging of current equities and capabilities and the creation of new activities and capabilities both within the company (iTunes as an intuitive interface to content and an enhanced retail presence) and through partnerships (content alliances and peripherals integration). So while the parts of this activity system may not be entirely proprietary to Apple, the business design is locked up by an interrelated set of activities and partnerships that are not only pre-emptive, but also sustainable in that they cannot be easily replicated within a period of time for the plan to get traction and pay out the investment.

Figure 2

Through this iterative process, prototyping (first on a conceptual solution, then on the strategic business model) and constant assessment of user value (based on the identified user needs and considerations) along with the potential to create sustainable competitive advantage for the enterprise, one can formulate a strategy for a new level of innovation and competitive advantage. By challenging the current model and exploring new ways to drive success, one can find the strategic and operational point of sustainable equilibrium – what is unique and good for the user can be good for the enterprise.

Mindset matters

With that as a methodological framework, the make or break ingredient is the mindset of both the individual and the team. The following are some of the most important emotional conditions that allow design thinking to flourish.

Open-minded collaboration

Everyone on the team not only needs to be committed to “working together” but must also be receptive to new insights and ideas, whether they fit one’s preconceived paradigm or not. Business designers feed off new insights and effectively build off the ideas of others, embracing both the friction and fusion that comes with intense collaboration.

Abductive thinking and the license to explore possibilities

In gathering new user insights and moving from what is “known” to the exploration of alternative solutions, an important capability is “abductive thinking”, as defined and explored in this journal. What is critical is to allow for the “leap of inference” in tackling new opportunities and designing new possibilities. A perfect example of this: Swiffer – a phenomenon that revolutionized the market not as a conventional household cleaner “line extension”, nor as a better version of the traditional mop. It signaled a leap into a new category of cleaning and became part of the cleaning vernacular (with a loyal franchise moving from “I’ve never seen anything like that” to “I’ll just Swiffer that before they arrive.”). To take the leap toward game-changing solutions, it is vital to think beyond what is immediately observable and provable and imagine what could be possible as a radically new solution to unmet needs. Great design does not come without risk-taking and trying new things, with the very strong possibility of failure. There are countless stories of where a really

“bad” or “crazy” idea became the germ of a brilliant concept or strategy. How often have we heard someone shut down an idea by saying “That’s never been done before. What if it doesn’t work? I may get fired.” For those who need to mitigate risk, this method allows for consumer needs to “legitimize” far-out thinking and prototyping to provide a zero-risk way of exploring the otherwise seemingly extreme “what if” concepts.

Imperfection and iteration early in the process

This is not a clean and linear process; it is as messy as finger-painting. What is important early in the process is to explore lots of possible solutions, not perfecting a prototype so it becomes difficult to evolve it or even kill it. Iteration and constant change are necessary and good through every part of the process. That keeps the cost of failure low and the rewards of possible breakthrough high.

Challenge constraints toward creative resolution

No great design is realized without the absolute unwillingness to give in to constraints and obstacles, and that is doubly true for business design. Roger Martin, Dean of the Rotman School of Management at the University of Toronto, has long claimed that one of the single biggest attitudinal drivers in breakthrough success is a mindset of “no unacceptable trade-offs” (Martin, 2002). Good strategy involves making choices. Great strategy includes not making compromising trade-offs. Those who find ways to create new models instead of making unacceptable trade-offs find themselves ahead of the game, as shown by many model-changing successes like Southwest Airlines, Red Hat Software, Four Season’s Hotels, and Apple’s iPod, to name but a few. That is where the design method can help in resolving model conflicts – keeping the user at the centre and prototyping various “what if” strategic business models to ultimately deliver both value to the user and viability, operationally and economically – the point of equilibrium noted before.

The design way

Whatever the sector or the nature of the business, any organization can benefit from the “design way.” It naturally taps into team intelligence, creativity and the ambition to make a meaningful impact in the customer’s life, both functionally and emotionally. The process itself is easy to follow, but should be embedded into an organization’s strategic planning practices to realize the full potential of design thinking. At its core, the design approach is about combining the essential three gears of design with a “design mindset,” and allowing an organization to discover opportunities to capitalize on new and unmet needs, exploring possibilities outside their activity system and then setting the strategies to evolve their business model (see Figure 3).

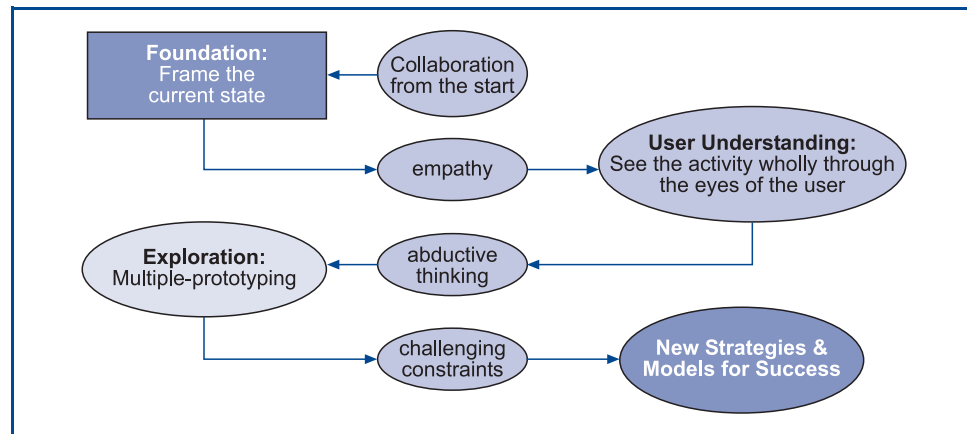
A true “design organization” asks three questions of every opportunity: What is the need driving this initiative? Have we pushed out on the possibilities to best serve that need? How can we embed that into our business model to create a sustainable advantage? It is the power of all three gears that drive breakthrough strategies.

Once embedded into an organization’s DNA, design methods can help generate ongoing possibilities for growth and evolution, recognizing that as the marketplace evolves, the needs of the user evolve and thus the business model must evolve to avoid extinction. The more an enterprise sees its business model or “activity system” as a living organism rather than a fixed model, the more a company will be poised to respond to ongoing opportunities to meet new needs. A company that views “design thinking” not as a one-shot vaccination but rather an ongoing fitness program for strategic growth will be better conditioned to stay ahead of the curve in an increasingly competitive global marketplace.

The result: bigger breakthroughs in thinking, more innovative strategies for success, and development of new business models to better meet user needs and create greater economic and human value.

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Management strategy,
Design,
Innovation,
Thinking styles

Figure 3



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