

Grow like a **CHALLENGER**

How a start-up mindset can help you accelerate growth

Stuart Cross, February 2015

Launched in the late 1990s by three Cambridge University graduates, Innocent Drinks has become a \$300 million business producing smoothies, juices and vegetable meals for sale through supermarkets and other major retailers. By 2012 Innocent was selling over 2 million smoothies per week, had become Europe's leading smoothie brand and had gained over 60% UK market share, and was delivering annual profits of over \$25 million. Unsurprisingly, the business attracted the attention of competitors and brand owners and in 2012 Coca-Cola acquired a 90% share of the business, which it valued at over \$500 million.

In other words, Innocent Drinks delivered rapid, profitable growth and value creation in a little over a decade. The company didn't achieve its high-speed success playing by the rules of the leading incumbents in the drinks market. Coca-Cola and Pepsi have created huge brand recognition and loyalty in the soft drinks market through massive and sustained investment in above-the-line advertising. This investment and loyalty enables them to adopt a strong negotiating position with retailers who, as a result, allow Coca-Cola's and Pepsi's brands to dominate the displays in the soft drinks area of their stores.

The three partners behind Innocent Drinks had only a tiny fraction of the resources they would need to play Coca-Cola or Pepsi at that game. What's more, they realized that, given the huge number of smaller brands in this market, Innocent would have to do something very different to set itself apart from the myriad of other niche players, let alone the market giants. At the heart of Innocent's distinctiveness and success was a different set of values and a brand personality that skillfully combined ethical and commercial elements into a compelling proposition. Underneath the brand statement of "*Tastes Good. Does Good*" Innocent's stated values are Natural, Entrepreneurial, Responsible, Commercial and Generous. These are not values you find in most major corporations.

In other words high-speed businesses like Innocent Drinks look, act and feel different from their more leisurely rivals: their organizational structures are different, their processes are different, their people are different and their level of activity is different. But underpinning all these differences is a distinct set of values and beliefs.

It is these cultural differences that create and sustain the other variances, and without them companies' speed of growth and improvement atrophies. Counter-intuitively, it can be in the most successful companies where this atrophy is at its most destructive. Over time, the desire to hold onto historic sources of success creates an environment that limits speed and growth. The leadership teams in these organizations play 'not-to-lose rather than playing to win.

For example, when Stephen Elop became the CEO of Nokia in late 2010 he quickly realized that Nokia had to radically change in order to survive. In his famous 'burning platform' email, he asked the entire organization, "*How did we get to this point? Why did we fall behind when the world around us evolved? This is what I have been trying to understand. I believe at least some of it has been due to our attitude inside Nokia. We poured gasoline on our own burning platform.*" Over time, the values and beliefs that permeated the Nokia organization inhibited the level of decisiveness and innovation that had created its previous success.

Nokia's decline was not inevitable. Other corporations have been able to sustain a leadership position more successfully than Nokia – or Kodak, HMV, RIM and Olivetti for that matter – in the face of rapidly evolving markets. Companies such as Nike, BMW, Apple, Gillette and Goldman Sachs have consistently led their chosen markets over a sustained period.

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When the sun comes up you'd better be running!*

So what are the specific differences in the underlying beliefs and values that prevent some companies from continuing to succeed, while others manage to improve their performance and pace? Critically, it's not a question of knowledge or insight. Kodak was one of the first companies to develop digital photography technology, and Nokia's scientists developed technologies that were the equal of other players. Instead, the problem is one of attitude.

When I was running once leading a major change program, our team visited Crotonville, GE's leadership development campus just north of New York City. One of the center's directors had a photo of a lion attacking a gazelle in his office. Underneath the photo it said, "*It doesn't matter if you are the lion or the gazelle. When the sun comes up you'd better be running!*" In other words, whether you're the leader of your market or a competitor from the pack of followers, you have to be willing to move as quickly as possible every single day if you are to continue to survive and prosper. This attitude forms part of what I call a 'challenger mindset', which is just as critical to the ongoing success of an existing market leader, like Nokia, as it is to a start-up business such as Innocent Drinks. There are five key attitudes that underpin companies with a 'challenger mindset' and which drives their energy, pace and relentlessness.

1. **Create brands with emotional resonance.** Underpinning Innocent's success has been the creation of a brand that speaks to consumers and creates an emotional response from buyers. In fact, it is the warmth of the brand that first drove the company's success and created consumer and buyer interest. The tone of voice of the brand - which is dry, down to earth, and witty – was the first element to capture consumers' attention. Here, for instance, is Innocent's current description of one of its smoothies: "*How can a drink taste this good? Easy – just pop some strawberries and bananas into a bottle and drink it when it's nice and cold. Bananas for thickness and sweetness, and strawberries for pretending to be posh – a winning combination. And that 'blush pink' goes very nicely with your lipstick. Say no more.*" Many other brands have since copied the tone of voice that Innocent pioneered, but Innocent has built further emotional appeal through its events and programs, including The Innocent Foundation, The Big Knit and even its own music festival, Fruitstock. In the mobile phone market, emotional resonance is just as

important, and Nokia was left in the wake of Apple and Samsung's product and brand development initiatives. Nokia's success and market dominance led to a situation where senior managers simply lost their appetite for risk and, as the level of innovation reduced, so too did the emotional resonance of the Nokia brand. *What level of emotional resonance do your brands have with your customers, and what actions can you take to continue to build and sustain that relationship?*

- 2. Act fearlessly.** As the leader of every 'challenger' business knows there is no growth without risk. In fact, a *Business Week* survey of leading Silicon Valley entrepreneurs found that the #1 factor driving their success was their ability to 'experiment fearlessly'. Unfortunately, the leaders of many successful companies seem to forget the behaviors and attitudes that created their success and, as a result, fail to try anything that has a chance of failure. If you cannot accept failure you are unlikely to see too much innovation, no matter how much money you throw at it. Innocent, like most 'challenger' businesses had its fair share of failures and relied on the ongoing commitment of its leaders to drive its ultimate success. For example, in 2007 the company started to supply its drinks to McDonalds, but after a series of trials McDonalds pulled the plug on the idea as its customers failed to buy in sufficient quantities. One truth of breakthrough ideas is that they will be noticed, and will receive criticism, particularly if there is less than 100% chance of success. Many managers, through experience, fear criticism and only pursue ideas where there is already mass customer support. As a business leader, overcoming these fears starts with you. As Jonathan Warburton, the Managing Director of the family-owned Warburton's bakery noted, "*One of the great responsibilities of owner-drivers is to stick their necks out and be seen to take risks, because they're fireproof. What chance is there of the hired help taking risks if the guys at the top won't stick their necks out?*" *In what ways do you encourage your managers to take prudent risks and act fearlessly?*

What are you doing to become the leader of new, innovative ideas for your markets?

- 3. Become the ideas leader for your market.** Challengers don't often have the luxury of huge marketing budgets, so look for new avenues to tell their story. One way to overcome the marketing challenge is to become the ideas leader of your market. Ideas are newsworthy, and are commented on in the media, providing free advertising for your business and your brand. Innocent, for example, challenged the concept of modern business, talking about their role as a force for good in the world, as much as the benefits of their products and services. For example, in addition to the Innocent Foundation, which is funded by 10% of the annual profits of the business, Innocent launched "The Big Knit" which involves volunteers knitting tiny woolen hats for their smoothie bottles at Christmas with the business donating 10 pence to the charity Age UK for every one of these bottles that are sold. This campaign allows Innocent to talk about the importance of keeping the elderly warm during the winter months, as well as enabling people to get involved in the scheme, in a way that attracts positive media attention. Your ideas don't have to be charitable, however. Ryanair has historically had a far more edgy, colder personality, but has still achieved free publicity, for example, by raising the idea of removing toilets and from their planes so that they can get more passengers onto each flight and lower their fares even more. Similarly, Amazon was the first retailer to raise the idea of using drones to deliver products, leading to many free column inches of newspaper discussion in line with their strategic aim of improving the convenience and speed of product delivery. *What are you doing to become the leader of new, innovative ideas for your markets?*

4. **Err on the side of cannibalization.** Economist Joseph Schumpeter called the symbiotic link between innovation and the elimination of existing forms of value ‘creative destruction’. If you aren’t willing to destroy, you aren’t willing to innovate or, in turn, act like a challenger. All technology companies know that they must consistently add new features at lower prices if they want to stay ahead in the market. While the same principles are true in other markets some companies live in fear of cannibalization while others set out to make their own products obsolete before the competition does it for them. Gillette, for example, has consistently strengthened its leadership in razors through its willingness to make its existing ranges redundant by creating a stream of innovations. The Sensor razor created the initial breakthrough, before being superseded by the Mach3, which has, in turn, been overthrown by Fusion. As a senior Gillette executive once said, “*We have never launched a major new product without having its successor in development. You have to steer the market.*” Gillette’s proactive approach helps drive the speed and momentum of the organization. Conversely, companies such as Kodak and Nokia that preferred to focus on protecting their existing advantages and defending their existing technologies and products for as long as possible, lose speed and momentum over time and ultimately find that they no longer have the ability to accelerate their NPD pipeline once it becomes inevitable that their existing ranges are becoming obsolete. *Where are you willing to challenge your own success and cannibalize your revenues so that you can continue to accelerate growth?*

5. **Don’t just be better, be different.** Innocent had something different to offer consumers when it was launched. There were other smoothie brands, but the industry was in its infancy and Innocent led the way in growing the market. In most established markets it is very difficult to offer something that is a little better than what is already being offered. Buyers of deodorants, pain relief tablets, yogurts and many other commonly bought items have already made up their mind about their preferred brands. Your product or service may be a bit better than what is already on offer in the market, but unless it is massively superior to the incumbents’ offerings, as the Dyson vacuum cleaner was, you’re unlikely to make much impact on the market. Successful challengers, such as Innocent, Ryanair, Amazon and Dyson, offer something that is radically new and different, meeting new and unmet needs, and forcing potential customers to reappraise their existing buying habits. Unsurprisingly, perhaps, Innocent has had less success with its fruit juice ranges than its smoothie products. Consumers have already decided which juice brand they prefer, but were open to a new product where they hadn’t already decided on their preference. *How well do you ensure that your new products and services are radically different to anything else in the market, so that your target customers need to think again about their preferred supplier?*

Historically, it was possible for some companies to build barriers to new entrants – through brand development, business scale and market dominance – and create sustained success without innovation. Those days are gone. All companies now need to continue to innovate and add value for their customers irrespective of their market position. This means that you need to think and act like Innocent Drinks, not Nokia. In short, you need to build a challenger mindset. What steps will you take to build a challenger mindset in your organization so that you can continue to accelerate growth?