



The Three Fs of Innovation

When entrepreneur Elon Musk started production of Tesla's electric vehicles in 2004, it must have looked bizarre. There was effectively no market for such cars anywhere, with fewer than 2,000 on the road within the next year and virtually no public charging stations. That's only slightly more than all the 1,549 747 jumbo jets that aircraft maker Boeing has ever built. But we know how this story has shaped up: within a decade, Musk's prescience was proven, with around 1.9 million battery-powered electric vehicles of all brands on the road in 2017, along with 430,000 public chargers.

What Musk did, which involved producing a product for which there was no discernable demand, is something that all savvy executives must now embrace. "When you go to a new venture, you cannot use the traditional metrics," says Ivo Pezzuto, a professor of global economy at The International School of Management in Paris. In Musk's case, he couldn't accurately forecast the size of a market that

didn't exist. All he could do was to bring his product to market then listen to consumer feedback.

The pace of technological change, including developments in artificial intelligence, means that business leaders must act before they have all the facts at their fingertips. To dither will likely involve getting thrashed by the competition because the marketplace now moves at lightning speed. Such an approach might sound uncomfortable to some executives, because it turns traditional business planning on its head. In the past, a firm wanting to introduce a new flavor of toothpaste could rely on a stash of robust data that already existed when making forecasts.

These days the approach may better be taken by following the three Fs, which stand for fail fast, fragmented approach, and fast follower. Using these methodologies, entrepreneurs in Silicon Valley have given birth to some spectacular businesses, including Facebook, Apple, Instagram, and Twitter.

Fast failure means experimenting with



new products and services. Ultimately, that means some will fail, but that shouldn't be seen as negative. It's just a matter of "making them part of the learning process," says Pezzuto. In other words, when a new product doesn't get the desired reaction from customers, then use that knowledge to inform future endeavors. TV companies have long done this with so-called pilot episodes. If the pilot fails, then the series is canceled.

The key in deciding which new ideas continue to live within a company's potential product lineup is through something known as "metered funding." That means each project must continually prove success to get more cash funding. Efforts that don't show meaningful commercial triumphs get cast aside or denied future funding.

Knowing that some ideas will fail means that many ideas need to get tested. In other words, it is a fragmented approach. Just as you wouldn't plan your finances by betting all your retirement funds on a single stock, you shouldn't bet the entire future of a company on one unproven idea or product. "You have to have the mindset of a serial entrepreneur with a portfolio of ideas," says Pezzuto. Just like with stocks, some will do well while others flame out. Overall, there will be a lower level of risk.

Leaders usually don't like following, but in the case of innovation, it can be a necessary evil. It means watching what the competition does, evaluating their efforts, and seeing where it falls short, says Adam Johnson, author of the *Bullseye Brief* investing newsletter. "Then you make one better and blow them out of the water," he says. An example straight out of Silicon Valley is Instagram, which wasn't the first

social media company but it did something better than Facebook or other social-

type firms. "They made a better product that was like Facebook but with more photos," says Johnson. It was so successful that Facebook purchased the upstart.

Following the three Fs of course can create a lot of queasiness, and requires special leadership. "The word 'courage' comes to mind," says Ken Eades, emeritus professor of finance at the University of Virginia's Darden School of Business. But never mind if it's scary: it isn't as frightening as having the competition make your company obsolete. ▀

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