Introduction

As a successful scaled company, you cannot run the ship the way you used to. You’ll get run over by a swarm of start-ups.

—Scott Cook, Founder and Chairman of the Executive Committee, Intuit

Have you ever come up with an idea for a new product or service that you thought would be very cool, but didn’t take any action because you thought it would be too risky? Or maybe you just didn’t know how to take the next step? Or at work, have you had what you thought could be a big idea for your company—perhaps changing the way you develop or distribute a product, provide customer service, or hire or train your employees? The fact is, most of us have these kinds of ideas at one time or another. But neither we, nor our companies, are very good at taking advantage of them. Why? Because typically there is significant uncertainty around whether these ideas will work. They are risky. And most individuals—and especially companies—are programmed to avoid risk. But what if you could take much of the risk out of it? What if you knew a process to quickly test and validate whether the idea had merit?
The key message in this book is that new tools and perspectives for validating big ideas characterized by high uncertainty are emerging in many disparate fields. Whether you call it lean start-up, design thinking, or agile software development, these new methods are revolutionizing the way managers successfully create, refine, and bring new ideas to market. These and other tools help entrepreneurs, designers, and software developers lower uncertainty and risk through cheap and rapid experimentation.

To help managers apply these new practices inside established companies, we offer a new method for managing innovation that we call the innovator’s method: an end-to-end process for creating, refining, and bringing ideas to market. Drawing on our research of hundreds of established companies and start-ups, we show you when and how to apply the innovator’s method, taking you step-by-step through these new practices. We answer such questions as: How do we know whether this idea is worth pursuing? Have we found the right solution? What is the best business model for this new offering? We focus on the “how”—how to test, validate, and commercialize ideas using the best tools from lean start-up, design thinking, and similar techniques used by a few corporations and most successful start-ups. We acknowledge that the innovation process is messy and unpredictable—and no process can fully remove the uncertainty. But these tools can be applied to create new innovations for customers or solve internal problems that have an element of uncertainty, whether in HR, finance, or another area.

Let’s start with a story.

Rent the Runway

In 2008, Jenn Hyman, a second-year MBA student at Harvard Business School, spent Thanksgiving at her home in New York. During her visit, Hyman noticed her sister, Becky—an accessories buyer at Bloomingdale’s—struggling to decide what to wear to an upcoming wedding. “Becky desperately wanted to buy a $1,500 Marchesa dress,”
said Hyman. “She felt compelled to buy a new dress—because she knew photos would soon appear on Facebook and she didn’t want to be seen twice in the same outfit.” As she watched her sister wrestle with the cost of the dress, her sister’s emotion was a clue to an important job-to-be-done for young women: helping them feel special and confident. Hyman realized that other fashion-oriented young women might have a similar challenge, an observation backed up by her years spent building a wedding event business at Starwood hotels and working in marketing and sales at Wedding.com. Hyman’s insight led her to hypothesize a potential solution: instead of purchasing designer dresses, women might prefer the option of renting designer dresses online for special occasions.

Like many gifted young individuals—budding entrepreneurs and talented young managers—Hyman had used her powers of observation to generate a potentially valuable business idea. But what should she do next?

Pop quiz: imagine she came to you. What would you advise? For most business professors and executives, the answer would be, “Write a business plan.” The plan would identify the customer need, describe the product or service, estimate the size of the market, and estimate the revenues and profits based on projections of pricing, costs, and unit volume growth. After all, without this type of analysis, how can we know whether an idea is worthy of investment? Indeed, Hyman received just this type of advice. She didn’t do it.

Instead, Hyman recruited classmate Jenny Fleiss to help her test their proposed solution. Hyman and Fleiss set up an experiment to answer two key questions:

1. Will middle- to upper-class young women rent a designer dress if it is available at one-tenth the retail price?

2. Will women who rent dresses return them in good condition?

Then Hyman and Fleiss borrowed or bought 130 dresses from designers like Diane von Furstenberg, Calvin Klein, and Halston and set up
an experiment to rent dresses to Harvard undergrads. They advertised around campus, rented a location, and invited young women. The experiment answered both questions. Of the 140 women who came in to view the dresses, 35 percent ended up renting one, and 51 of 53 mailed them back in good condition (the other two had stains that were easily removed). This experiment resolved some of the uncertainty reflected in the two questions it was designed to answer.

But would women rent dresses they couldn’t try on? To answer that question, Hyman and Fleiss set up another experiment, this time on the Yale campus, allowing women to see the dresses before renting but not allowing them to try them on. In the second trial they had more dress options, because the first pilot revealed that many women didn’t rent because they couldn’t find an option they liked. The Yale pilot showed two things: women would rent dresses when they couldn’t try them on, and the percentage of women who rented increased to more than 55 percent because they had more options.

Now Hyman and Fleiss were ready to test the big idea: Would women rent dresses they could not physically see? The entrepreneurs took photos of each dress and ran a test in New York, where one thousand women in the target audience were given the option to rent a dress from PDF photos. The final experiment showed that roughly 5 percent of women looking for special occasion dresses were willing to try the service—enough to demonstrate the viability of renting high fashion over the web.

So Hyman and Fleiss gathered data on whether designers would go for their idea and whether they could use designers’ websites as their rental channel. Less than two weeks after conceiving the idea, the two women cold-called Diane von Furstenberg, an influential fashion designer and president of the Council of Fashion Designers of America. The initial idea Hyman proposed to von Furstenberg was to set up a rental option on the websites of existing designers. Hyman’s start-up would take care of fulfillment—taking the order, shipping the dress, and dry-cleaning the returns. Von Furstenberg was intrigued by the idea and helped Hyman and Fleiss set up meetings with more than twenty designers.
The initial response from most designers was extremely negative. “We were going to designers asking to buy their inventory so we could rent it at the same time it’s available at Saks Fifth Avenue and Niemen Marcus for 10 percent of the retail price,” said Hyman. “In the first meetings their response was basically, ‘over my dead body.’” Designers were worried about cannibalization. Renting dresses instead of selling them seemed like a bad idea.

Hyman and Fleiss realized that to make their idea work, they would need to have their own website and inventory. So the idea of Rent the Runway—using the Netflix model to rent a wide variety of high-fashion dresses from multiple designers—was born.

Now that Hyman and Fleiss had resolved concerns about whether there would be demand for their product—and what their initial solution might look like—they were ready to launch. But the change in business model meant they needed capital to purchase inventory. The typical advice when you’re going for capital is to make sure you have a top-notch business plan and get capital as cheaply as possible. They didn’t do it.

Instead, as they took the idea to potential investors (including Bain Capital, which ended up financing their first round), they still had no formal written business plan. When asked why, Hyman replied, “We’re anti-business plan people. We think that so many people just sit around all day and strategize but they don’t act.” Fleiss concurred, saying, “We had a bias for action, not business planning.” In fact, one reason Hyman and Fleiss chose Bain Capital, even though it wasn’t necessarily the cheapest capital, was the attitude of partner Scott Friend. “He shared our commitment to learning by doing,” said Fleiss.

With capital in hand, the two women were ready to build the team. The typical advice is to hire experts to head each functional area, perhaps someone who can leverage significant corporate experience to take the team to the next level. They didn’t do it.

Instead, Hyman took on marketing, and Fleiss took on finance. They then looked for individuals having broad skills who could wear different hats. “Having Jenn serve as CMO and me as CFO is typical of
our fluid approach to allocating responsibilities,” said Fleiss. “We need managers who can wear different hats. We learned about the value of all-around athletes when Lara joined on an unpaid trial basis to help with our college market tests. Although she had years of experience at Coach, she wasn’t afraid to move dress racks. Brooke, our director of customer insight, has had several different roles but she’s never worried about the title . . . We make heavy use of unpaid internships to test whether employees have the same hungry jack-of-all-trades attitude.”

With a small team in place, the typical advice would be to carefully develop a flawless website and service with broad appeal, adding features that might attract a wider set of customers. They didn’t do it.

Instead, Rent the Runway quickly launched a beta version of its service for five thousand invited members on November 2, 2009. RTR started with eight hundred dresses from thirty designers—a relatively small inventory. “We followed the minimum viable product approach,” said Fleiss. “At the outset we just wanted to provide the capability to rent dresses. Nothing fancy.” But with the help of a *New York Times* article titled “A Netflix Model for Haute Couture,” initial demand for the small inventory proved almost overwhelming.

Now with proven demand and increasing customer feedback on how to improve the service, RTR was prepared to invest in a complete solution. Over the ensuing months, as demand continued to increase, it expanded its inventory to more than thirty thousand dresses with help from a $30 million round of financing. “Our revenue growth is amazing,” Hyman told us at the end of RTR’s first year. “This is a dream come true.” But a more visible sign of success, perhaps, is that “its inventory dressed 85 percent of the ladies who attended President Obama’s second inauguration.”

**Lessons for Managers: How to Turn Uncertainty into Opportunity**

Rent the Runway’s story provides a window into the innovator’s method. In a nutshell, it’s a process by which successful innovators manage the uncertainty of innovation—a process to test and validate a creative
insight before wasting resources building and launching a product customers don’t actually want. We’ve found that this method is widely used by the most successful innovators in start-ups as well as established companies.

The method doesn’t include writing a business plan. Hyman and Fleiss refused to write one even though virtually every business school holds “business plan” competitions for “start-up” ideas like Rent the Runway. Why do management experts call for writing a business plan? The recommendation comes from traditional management theory that was developed to solve a certain type of problem: established firms attempting to optimize under conditions of relative certainty. Indeed a closer look at many of our management practices—such as strategic planning, the precursor to business planning—reveals that many of our familiar management practices were originally designed to capture value under conditions of relative certainty. However, most new business ideas (inside or outside the corporation) are characterized by a completely different set of conditions: uncertainty. For example, how could Hyman possibly know what the demand for rented designer dresses would be?

Increasingly evidence suggests that our familiar management techniques work poorly when applied to the context of uncertainty. For example, research shows that under conditions of uncertainty, planning simply does not work. Most of the time it wastes time and resources as you conjure evidence that your hypothesis—that is, your guess—is right; it does not resolve the uncertainty. In our example, instead of writing a plan, Hyman designed a set of experiments to test the leap-of-faith assumptions behind her big idea. Each experiment was designed to test specific assumptions, answering specific questions to resolve the uncertainties surrounding her idea.

These experiments helped Hyman and Fleiss “nail it”—our term for deeply understanding the uncertainty and resolving it well. For example, the first RTR experiments were focused on resolving demand uncertainty: Were Hyman and Fleiss really undertaking a problem worth solving? The initial experiments showed that there was definitely
a demand for renting designer dresses. The right designer dress for a big social event nailed the job-to-be-done: making a woman feel special, confident, and desirable.

But these experiments didn’t show whether renting over the internet was a viable solution. To test this assumption, Hyman didn’t waste time and resources building a website. Instead, she created a simple substitute, or minimum viable prototype: PDF pictures that she sent to potential customers in New York. This experiment provided crucial data on what customers wanted, and from there she iterated from the minimum viable solution to become an awesome solution, where RTR fashion advisers talk to customers “like a woman might talk to her girlfriend,” suggesting shoes, accessories, and, when needed, shipping two dress sizes instead of one to make sure the dress fit.

Only after RTR nailed the problem and solution was it time to figure out the business model to ensure that the go-to-market strategy would work. Validating the business model involves experimenting to figure out how to communicate with your customers and capture value from them—developing the right pricing model to generate revenue streams that will cover the operational activities (cost structure) and the key resources and capabilities the firm will need to deliver the solution to customers. Hyman’s initial hypothesis about the channel to the customer—designer websites—turned out to be wrong. A pivot—which we define as changing a key element of the problem, solution, or business model—was necessary. RTR pivoted from a business model as a fulfillment partner for existing designers to a Netflix-like business model.

Although this pivot turned out to be critical, the Netflix business model didn’t exactly work either. It needed to be adapted to fit RTR clients’ needs. Netflix customers don’t need advisers to help clients choose a product, but RTR realized that its success depended on the effectiveness of fashion advisers to coach clients. Moreover, Netflix doesn’t rent a movie for a specific night—and if the movie doesn’t arrive as expected, the service isn’t a failure for customers. So RTR searched for another
approach, finding an analogy in the airlines’ model of selling a product (reserving a seat) for a particular time and place; RTR adapted its business model accordingly.

The RTR experience illustrates the “how-to” of the innovator’s method: a series of experimentation cycles that resolve the uncertainties around the problem you’re trying to solve, the solution you propose, and the business model to take your solution to market. We describe this method in a few steps—insight, problem, solution, and business model—during which your core tasks are to savor surprises (insight), discover jobs-to-be-done (problem), prototype the minimum awesome product (solution), and validate your go-to-market strategy (business model) (see figure I-1). Naturally, in a world of uncertainty, few things are linear. But we describe the innovator’s method as a linear process to simplify a complex process and at other points in the book try to describe how the “steps” may overlap or be recursive.

Sources of the Innovator’s Method

We conducted several overlapping research projects to understand how innovators successfully bring their ideas to market. This research starts with *The Innovator’s Dilemma*, which first called for a different way of managing innovation, and then *The Innovator’s DNA*, which identified the five discovery skills of disruptive innovators that help them generate insights.⁸ Although *The Innovator’s DNA* provides advice on how