

Innovating for a digital future
Extended case studies



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Foreword

This paper is a companion paper to *Innovating for a digital future: The leadership challenge*. In this version we have included extended versions of the case studies which comprise the core of its companion paper.

Over the past six months we have been privileged to be given access to some of the leading innovators in the technology, media and telecommunications (TMT) sector. All of whom were happy to share their views on innovation with us. As you will see in the extended case studies innovation is not a one dimensional game. Leaders looking to create innovative environments need to look across all facets of their organisations. And it is undoubtedly a tough task. Yet there are great examples of organisations who are successfully innovating, who are thriving in this harsh , competitive market place. This is a paper which shares some of their successful approaches in a reasonable depth. We hope you find it as enlightening as we did while we were undertaking the research.

Just a quick note on the paper: If you have previously read *Innovating for a digital future: The leadership challenge* then you do not need to read the first few pages in this report. Please turn to page 4 for the extended case studies.



Ed Shedd
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Innovation: The leadership challenge

It would be fair to say that innovation is at the core of the human race's success as a species. Be it by trumping the claws of predators with slings and arrows, grinding otherwise inedible wheat into bread to secure our food supply or by developing vaccines to eliminate the scourge of smallpox, humanity has survived and thrived by innovating.

And the same natural selection that has been true of human beings is true of innovations. People passed them on from person to person, generation to generation. Those that were good survived and those that were not were forgotten. Communication was therefore vital to the process of development and refinement of innovations – as communications have advanced, so has the pace of innovation.

The emergence of the Internet has accelerated the decision-making process to the point where a product can be launched one day and pulled from sale only weeks later, the victim of the huge and immediate swell of information available to would-be consumers almost immediately after its launch. Success and failure have never been so polarised.

At the same time, acceleration is also reflected in consumers' willingness to embrace new technologies, which means that the process from inception to mass adoption can now take place over the span of only a couple of years. Even well entrenched incumbent market players can quickly lose their footing unless they adapt quickly to the new market conditions.

Because of these market pressures, companies that are built on creating and monetising intellectual property within the digital economy need to consider how they need to transform in order to remain relevant, competitive, and continually responsive to this pace of change. Many existing major corporations are finding that orthodox management practices and organisational principles are not well suited to support them on this journey.

Innovation emerges as key differentiator

Over the past 18 months we have been interviewing leaders of technology, media and telecommunications (TMT) firms to understand how the phenomenon of digital transformation is impacting on them and their businesses.

During this period, we have held in-depth interviews and working sessions with over 30 CxOs of leading TMT organisations. On the back of this research we have published two papers to date. In the first paper we looked at whether incumbent players were reshaping their businesses to take advantage of digital, or whether they were resizing to cut the cost out of legacy businesses. Our sense was that people were not being radical enough; for example, up to three years ago Channel 4 had a standalone New Media unit, instead of fully integrating new Media into its operations.

It came as no surprise that the need to innovate and to create an organisational environment which embraced, rather than rejected, innovation was top-of-mind for all of executives we interviewed. For this reason, at the end of 2010 we decided to do a deeper dive on innovation in order to understand how some organisations have achieved standout success in terms of innovation; within TMT, who is introducing the new management models that are supporting and empowering continuous innovation in the key aspects of company operation?

All of our interviewees reflected that legacy organisations entering the digital era are operating in an arena alive with agile new market entrants who are rapidly introducing new products, new services and new business models; for many operators, the pace of change and intensity of competition can seem bewildering. Incumbent businesses need to adapt, and fast. Now more ever, innovation is not a 'nice to have'; it is a core element of a successful TMT organisation.

Leadership

Finding leadership styles that promote innovation

Our research would suggest that the role of leader is essential. Not inspirational, 'heroic' leadership. But leadership more of the Mandela style of setting a tone rather than charging ahead; leadership which creates an environment where their people can thrive and which focuses relentlessly on designing an organisation which maximises creativity and interactions, whilst making the acquisition and retention of talent everyone's primary task. Processes and appliances cannot innovate; only people can. If there is something that unites all of the organisations that we spoke to, it is their fundamental belief that the only long term differentiator they have is their people, and that their people – if provided with the right environment and supportive organisation – will successfully innovate beyond where they are now.

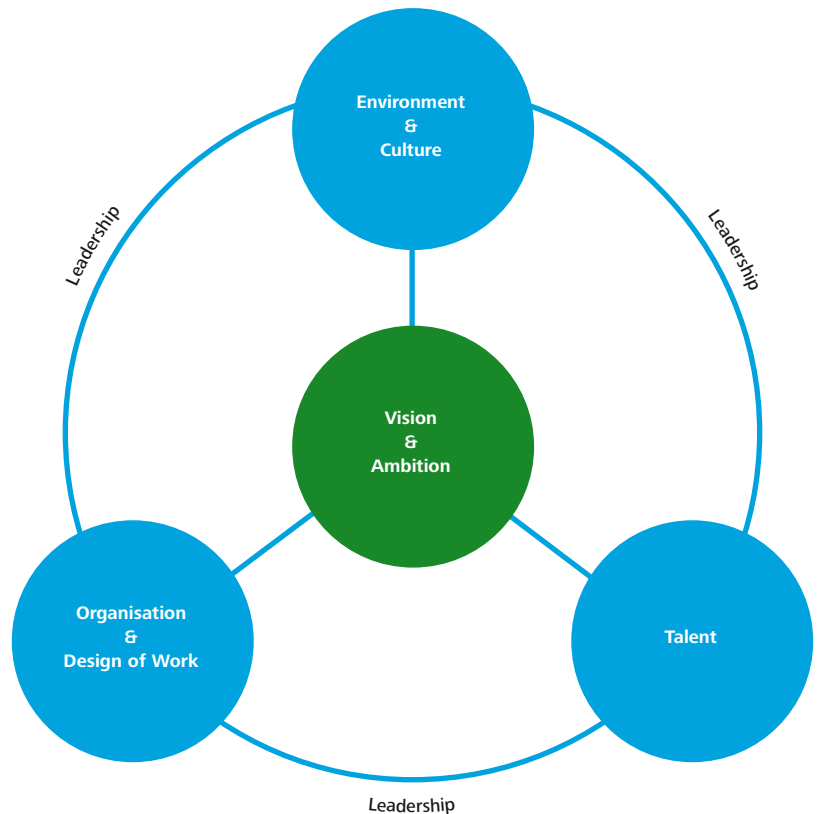
Our research has shown that leaders operate across four organisational dimensions to create an organisation which is able to successfully innovate. They are:

1. Strategy & vision
2. Environment & culture
3. Organisation & design of work
4. Leadership & talent

Summary

	Strategy and vision	Environment and culture	Organisation and design of work	Leadership and talent
Culture	<ul style="list-style-type: none"> Engrain an institutional acceptance of failure as a route to success Promote "total innovation" as part of everyone's job description 	<ul style="list-style-type: none"> Instil a culture where mobility is the norm Push the idea that experimentation is not just good, it is expected 	<ul style="list-style-type: none"> Actively and visibly reward innovators at every level Manage performance metrics to dis-incentivise "playing it safe" 	<ul style="list-style-type: none"> Openness Respect everyone's contributions and talents equally
Structure	<ul style="list-style-type: none"> Have a clear innovation strategy – based on a portfolio approach Create silos for innovations, not silos for innovators 	<ul style="list-style-type: none"> Promote cross-functional ways of working that enable communication between silos, but do not break them down 	<ul style="list-style-type: none"> Support silos of deep expertise provided they have adequate communications in and out Create organisational structures that cut across silos 	<ul style="list-style-type: none"> Recruit and promote talent that is not wholly bounded by today's silos
Leadership	<ul style="list-style-type: none"> Have unreasonable expectations of teams – drive them to push the boundaries 	<ul style="list-style-type: none"> Lead by example, by visibly connecting different parts of the organisation Secure lines of funding for innovations and reducing short-term financial targets 	<ul style="list-style-type: none"> Set simple rules to manage complex innovation processes without stifling them 	<ul style="list-style-type: none"> Promote real leaders into management positions, not simply those who excel at their current role

Crucial elements for successful innovation



BBC iPlayer

The BBC iPlayer story as told by former Director of Future Media and Technology at the BBC, Erik Huggers.

Background

As the largest broadcasting organisation in the world, the BBC is more than a national institution. The BBC's mission to inform, educate and entertain and the established principles that have served the organisation for the last 80 years remain unchanged by the arrival of the digital age. However, the manner in which the BBC delivers on these principles has changed significantly. Arguably the most high-profile example of this transformation is the BBC's iPlayer, which has proved a resounding success since going live on Christmas Day 2007. It is generating ever-increasing usage figures and bringing catch-up TV to the mainstream. Viewing figures confirm this popularity: monthly programme requests on the iPlayer jumped from 145 million in December 2010 to 162 million in January 2011.

It began with the simple idea of making all the television and radio programming available on the Internet for seven days. Yet, the actual task of bringing eight national television networks, ten national radio networks and forty local radio stations together in one place, was a vast challenge. New ways of working and new skill sets were required, along with a number of crucial innovations.

The iPlayer presents an interesting case in terms of its conceptualisation and development and, further still, in how it has catalysed the transformation of BBC Online services and positively influenced new methods of working at the BBC.

Approaches

Strategy & vision

A clear vision. The iPlayer was a major project with incredibly ambitious scope. The decision to amalgamate all existing programming on the BBC onto one easy-to-use platform was a serious challenge, but it also provided the team with **a simple, yet inspiring vision**. Instead of replicating the linear programming experience, the organisation decided to market through a single integrated brand that users could talk about and associate with. The go-live date of Christmas day 2007 was set to coincide with a marketing campaign, and the brief was: *"it's got to stream, it's got to use Flash[player], it's got to use the CEMs and it's got to be a fantastic user experience"*. A crystal clear remit with defined parameters allowed those involved to simply *"get on with it"*. Former Director of Future Media and Technology at the BBC, Erik Huggers recalls: *"That's a huge amount of output and so that required quite a bit of getting the entire organisation together... For the first time people came in at weekends and they really cranked... it felt more of a start-up environment than a big media environment."*

Small steps towards a big vision. The BBC has moved away from the *"traditional waterfall method of engineering to an agile engineering process"*, pursuing **a strategy of continuous improvement and innovation for the iPlayer**. *"...What many consumers don't know is that actually, probably on an average week we ship two-to-three new things on iPlayer – optimisations or small features and tweaks – and we continuously iterate. And I think that's what got us to the place we are today."*

...What many consumers don't know is that actually, probably on an average week we ship two-to-three new things on iPlayer

Within this delivery model the **iPlayer continues to evolve**, spreading across different platforms including Playstation 3, Nintendo Wii and Virgin Media, and more recently in February 2011, on iPad and smartphones running Google's Android software. The iPad app went straight to the top of the App Store charts, with 54,511 downloads in its first 24 hours alone. The next and most high profile development will be the new BBC-backed joint venture YouView, and upgrading the Freeview and Freesat platforms to incorporate web-based functions, part of a strategy to standardise delivery of digital content on multiple devices.

Innovation pyramid – taking big ideas outside the core business. In planning the delivery of the iPlayer, the important strategic decision was made to actively **segregate the project team from the rest of the organisation.** This approach was profoundly different for the BBC, but it gave the iPlayer team the freedom to explore a new, game-changing delivery model. At the same time, it also protected the core broadcasting services of the BBC from potential disruptions during the trial and error period and from future cannibalisation risks.

Environment & culture

Room to manoeuvre. The **decision to segregate the delivery team** was also motivated by the significant level of ‘noise’ which the iPlayer project created around the organisation. *“If there is something fantastically exciting happening, everyone wants to be part of it and that’s exactly what you don’t want at that point in time, because you need to be heads down, not interrupted, focused on results rather than having to deal with stakeholders”.* The complexity of stakeholder management, which can impede fast decision making, is a key challenge for the large BBC organisation. The iPlayer project had tight timeframes for delivery, which catalysed the establishment of a dedicated Executive Board for the online service, running as a cross-silo virtual corporation within the BBC. Input was channelled through one individual who decided what feature requests would be progressed. This **enabled the project team to focus fully on delivery.** It also immediately eliminated cross-divisional competition for resources and established an environment where the whole organisation “owns a stake” in the new part of the business.

Organisation & design of work

Simple rules. Recognising that simplicity in decision making has been critical to the swift progress in delivering the iPlayer, BBC Online **now operates a ‘phase gate’ product development model of working** – one which is used extensively across Silicon Valley. The concept comprises five delivery phases from design through to launch. On completion of each phase, there is a clear decision point where key stakeholders come together with the nominated sponsor to make a simple yes/no decision. The BBC intends that this will achieve greater visibility of decision making and will simplify the way in which innovative ideas are moved from conception through to delivery.



“This model is how Silicon Valley works today, no question. And we are going to try and use it at the BBC”.

Silos are important; Cross-functional partnerships are essential. Prior to the iPlayer project, the established design of work throughout the BBC was via specialist functional silos. The iPlayer initiated a radical shift in thinking, as it was realised that the only way to create a truly innovative product was by **fostering a partnership between the technical and the editorial** teams at the BBC. Whereas previously most of BBC’s online activity was commissioned by the editorial side, this new approach led to equality of working: *“no one is commissioning with no one, editorial is not commissioning with technology and technology is not commissioning with editorial, it’s a partnership... Only once we found a way to get the best technology talents, creative technology talents to work hand in glove with the best creative editorial talent, were we able to succeed”.*

As a fixed-income organisation, the BBC can't necessarily match the remuneration available elsewhere. However, the cutting-edge nature of the project and the investment in its delivery helped attract top talent.

Talent & leadership

Recruiting. In addition to prompting changes in the design of work, the development of the iPlayer also initiated the **recruitment of new individuals with specialist skills, particularly across the critical areas** of software design and engineering. As a fixed-income organisation, the BBC can't necessarily match the remuneration available elsewhere. However, the cutting-edge nature of the project and the investment in its delivery helped attract top talent. *"We don't have the ability to reward these people with options or big pay packages so they come here for the love of it. They certainly don't come to be rich but they come to work on stuff like iPlayer, things like YouView, mobile applications, and they get to play in every box and on a very big stage".*

These handpicked individuals were recruited into new roles of varying durations, from permanent roles to two-week specialist advisory input. *"I had the Rolodex, I opened it up and called in favours left, right and centre. And so I was able to get the best video coding expert flying in from the West Coast for a week or two to make sure that our guys knew what was possible".* The end result was a **blend of established BBC people and technically specialist new hires with the right skill mix** to create a much more complex architecture and functionality than any BBC online project before.

Retention of top talent. Having attracted the right specialists, the BBC actively **invests in their further development.** The BBC's product management focus is new to BBC Online and relatively new to the UK, so the organisation has made active steps to formalise it. It has introduced a defined career path for product managers and the BBC Academy is running product management courses, open both to BBC employees and to the wider industry. The intention is to establish the organisation as a **development ground for top media talent,** accepting that some medium-term churn of talent is likely to follow. *"We should actually be proud of that if we can achieve that sort of a role... A sign of early success is that headhunters are actually starting to target the BBC now and we've had people depart to Google, Facebook".*

Summary

In successfully delivering the iPlayer, the BBC has set new standards in online content delivery. Its challenge is to optimise the opportunity that this presents to further progress the BBC's online presence across an increasing variety of platforms and mediums.

Endemol

The Endemol story as told by Chairman & Chief Executive Officer, Ynon Kreiz.

Background

Endemol is the largest independent production company in the world. The company annually produces over 10,000 hours of programming across a network of production businesses in 31 countries, with genres including reality TV, game shows, comedy, drama and entertainment. It continues to develop popular new shows across a variety of different platforms, including international hits such as *The Money Drop* and *101 Ways to Leave a Gameshow*.

Endemol famously specialises in delivering high value productions that deliver strong ROI to global broadcasters by using a single location for the filming and production. An example is the game-show 'Wipeout' has been sold to 29 national broadcasters, but with the exception of the US show, each local version is filmed and produced from one international set in Argentina. Innovation is critical to Endemol's success; without employing creative people and giving them the platform to develop new concepts, it would be impossible to stay ahead of the competition.

Approaches

Strategy & vision

A clear innovation strategy. Endemol recognises that innovating cutting edge production ideas means taking risks. Since new ideas typically evolve at country level, Endemol Head Office will selectively underwrite the costs of programme ideas which carry a high risk but which might also become the next global hit. *"If there's a big idea that the local operation wants to drive – but which might jeopardise the bottom line... we say that we will neutralise the cost because it's worth taking [the risk] in the interests of the whole group"*. This approach gives a clear message to Endemol's teams – it removes fear of failure, enabling the country to develop and road test ideas which wouldn't otherwise be commercially viable. It also demonstrates a clear innovation pyramid – although many innovative ideas are generated day-to-day, few are promoted to a position where they attract this level of organisational support.



Endemol famously specialises in delivering high value productions that deliver strong ROI to global broadcasters by using a single location for the filming and production.

Environment & culture

Room to manoeuvre. To create space to innovate, Endemol fosters a **stimulating environment where new and exciting ideas are given the opportunity to be voiced and then explored.** There have to be rules in place, but a large degree of freedom is crucial. "I think it's important not to quash ideas. It's easy to say 'we tried it before, it never worked', but you can't baton it down too much, you can't prescribe specific systems and processes. It's got to be a bit anarchistic...". A specific role of the country leadership teams is to nurture and protect the process of ideas generation, such that good ideas are given an opportunity to blossom.

Organisation & design of work

Simple rules. In nurturing free-thinking creativity, Endemol mixes the rules of “**Think global, act local**” and “**Think local, act global**”. The conceptualisation and development of programmes at a local (country) level ensures that ideas generation is focused on the needs of specific, local clients and thereby delivers to a defined brief. At the same time the company is looking to drive global hits that translate to as many cultures and countries as possible. “There is a careful balance to be maintained... if you centralise too much, then you neutralise the effect of being local. If you give everything to the local operating companies you don’t gain any of the efficiencies of being part of a global system... We need to find the balance organisationally, culturally, and financially.”

Silos are important but cross functional working is essential. Endemol tries to balance the focus on country specific silos of working with the need for collaborative working by leveraging its international platform to deliver “the world’s biggest brainstorms” – a series of **global exchanges** across the calendar year, such as a Creative Exchange, Reality Exchange, Big Brother Exchange, and Production Exchange. “Recently we had over 60 people from all of the world for two days to discuss ideas... It’s exciting to see what comes out of these meetings and how everyone gets empowered and boosted with ideas.” Such global collaboration has led to huge successes such as Deal or No Deal, which has been locally produced in 67 territories.

Talent & leadership

Recruitment & the right mix of talent. Endemol recognises that there is no short-cut to creativity, and that the quality of its innovative output is directly associated with the quality of the individuals within the organisation. “There are no machines... you have to have a culture in which people create and invent every year, and then do it again and again”. Endemol specifically sources outstanding creative people who have an innovative track record, who are open minded, on the cutting edge of creativity and unafraid of breaking rules and share “an instinctive sense for what the audience will like”. It is apparent that **Top talent is increasingly being recruited from a range of disciplines**, not just broadcasting. “There is no specific formula or type cast... for example, we have some people with strong online, digital experience; we have others who are more advertising driven...”

Endemol has previously used **acquisition as a method of bringing creative talent** into the business. One example is Tiger Aspect, acquired in 2009 as a method of breaking in to the scripted market in the UK where the company had virtually no presence. It is clear that there can be no single person who has the variety of skills required to deliver creative output required – it takes **the right mix of people** with a variety of backgrounds are needed to link together the innovation process.

Summary

Endemol leads the field in maintaining deep silos of expertise to develop creative ideas which are rapidly scaled up to appeal to multinational audiences. In itself, Endemol’s business model presents a unique approach to delivering high quality and competitive productions, on a global scale.

Facebook

The Facebook story as told by Vice President of Sales, Asia Pacific, Latin America & Emerging Markets; Blake Chandlee.

Background

Launched in 2004, Facebook is synonymous with social networking, and has an insatiable appetite for new and exciting ideas. Facebook's stated mission is; "to make the world more open and connected". So far, it appears to be succeeding and has experienced unprecedented success across a variety of mobile device platforms in the summer of 2010 Facebook passed 500 million members for the first time and according to the Alexa traffic rankings, Facebook is the second most popular website in the world; it is number one in ten countries.

As a privately held company, Facebook maintains strict confidentiality around its financial performance and growth plans – allowing the freedom to move and change at pace. However, according to news reports¹ the company more than doubled its advertising revenues from 2009 to 2010 to an estimated \$2 billion per annum, and in January 2011 Facebook received a new round of investment valuing it at \$50 billion. Given that it is still a very young and relatively small organisation, its main challenge in the coming years is likely to be maintaining the enormously successful entrepreneurial culture as the company continues to grow.

Meanwhile, the Facebook phenomenon continues unabated.

Approaches

Strategy & vision

Small steps towards a big vision. Facebook's culture of hard work and delivery is founded on the aspiration to foster ground-breaking social change, with stretching objectives set for employees in pursuit of this aim. The company thinks about the world differently and expects people within the organisation to operate on a different level, delivering exceptional results for the organisation.

"We're trying to do something that no other company in history has ever done before... this intensity and passion allows us to ask more of our people and to expect more of our people... for example, I would expect the Sales teams in our London office to have three times the productivity of even the best Sales teams in the digital industry; I would expect each individual to deliver three times the revenue of outsiders in the same job. We have seen the positive results of this approach around the world, where we have productivity levels which are multiples higher than established industry benchmarks".

Openness to failure. Given their culture where people move fast and take risks at the cutting edge of digital delivery, Facebook recognises and accepts failure as being an integral part of its rapid success. It is acknowledged that some risks will not pay-off. Even Mark Zuckerberg openly admits: "I've done more things wrong than I can ever think about. I've probably done more things wrong than I've done right". This attitude leads people to be open and honest about mistakes, leading these to receive swift attention and get resolved quickly. "If you don't know about the issues you don't admit that there are issues, then you don't deal with them and can never move forward... I think that this is a powerful concept to grasp".

¹ <http://www.guardian.co.uk/technology/2011/jan/03/facebook-value-50bn-goldman-sachs-investment>



Mark Zuckerberg literally gets up every day and says, if we were to recreate this company today what would it look like and if it's different to how it looks today, should we change it?

Environment & culture

Rapid development of 'big bet' ideas. Where specific ideas have the potential to be the 'next big thing' Facebook uses 'lock down' periods of time to take them to the next level. During these phases the individuals involved in delivery are removed from business as usual (BAU) to focus only on the task at hand, creating an intensive 'sprint' to deliver a specific outcome. "We called a lock down in October last year, where for 45 days we focused on pushing a whole new set of products, significant product innovations. We essentially said no new ideas, no enquiries go in to these groups... meaning don't distract them with little questions and nuisances." This approach minimises time-to-market for new ideas and helps to maintain a rapid pace of innovation.

Experiment often. Facebook's culture of agile development can be attributed to Mark Zuckerberg. Building on the entrepreneurial values which led the company to be founded in the first place, there is an ongoing focus on redefinition to meet changing consumer needs "Mark Zuckerberg literally gets up every day and says, if we were to recreate this company today what would it look like and if it's different to how it looks today, should we change it?" This promotes a culture of constant ideation and experimentation.

Accessible leadership. Facebook's dynamic, innovative culture is founded on a relatively flat company structure. This is fundamentally different to the traditional hierarchies from which many of the senior leaders within Facebook's executive team have arrived. As such, many individuals have had to adopt a fundamentally different approach – from command and control to **leadership through accessibility; inspiring and motivating others.** Leading by example; leading by doing. Given the company's short lifespan to date and its already phenomenal success, the leadership team has "evolved very, very quickly".

Room to manoeuvre. From their point of arrival, senior leaders within Facebook are empowered to operate autonomously. Individuals are given the business strategy, a clear remit of responsibility, and specific planning cycles. Beyond this, people are expected to use their personal skills and experience to drive progress. "My view on leadership is that if you hire the right people and you empower them by setting a clear strategy... sometimes the more involved you get with the day-to-day, the more damage that you do".

"For example, If I'm responsible for running Europe, I should be able to structure an organisation in a way that reflects the European business environment versus the US business Environment... For Blake Chandlee who's building the sales organisation around the world, I find myself in a situation where there are basic structures that I have to follow; but how we operate in Indonesia is going to be different than how we operate in Brazil or Japan. So the basic structure's there, but regional leaders are empowered to shape the businesses operating within that."

Organisation & design of work

Simple rules. Given the autonomy of working afforded to Facebook employees, the company's mission statement to "Give people the power to share and make the world more open and connected", is used as a '**simple rule**' to guide individual decision making and speed the pace of progress, since it removes the need to discuss ideas and concepts which don't clearly align with the mission. This approach works particularly well for Facebook, given the extent to which the mission statement is core to decision making for individuals within the organisation. "We're so tightly wrapped around our mission statement... commercially and in other ways you actually achieve tremendous liberty because you know when the answer is going to be 'no'. It helps to make our world a more open and connected place".

Innovation as the responsibility of everyone.

Facebook uses 'hackathons' as a method of driving the conceptualisation and development of ideas which are intended to resolve specific problems. Hackathons originated with Facebook's engineers coming together to create 'cool things' and have now spread across all of Facebook's functional groups. **The hackathons galvanise an active contribution from all.** "It's almost a modern day version of the day-long brainstorming sessions that used to happen in business, but you get something tangible at the end of it, rather than just ideas thrown around". This method of working facilitates the swift development of ideas, such that poor ideas can be discarded and the best ones progressed through to implementation.

Talent & leadership

Recruiting for organisational fit. Facebook's culture is one of rapid pace of delivery, leading edge thinking and risk taking, which presents a clear match to the types of personalities which the company is keen to attract. **The congruence between the culture of the organisation and the talent it seeks to attract** helps to achieve a high retention rate once the right individual has been found. "To not always be 100% confident that the decision you make is the right one... can be a scary thing for some people, but for others it's a very motivating place. As a management team we recognise that if we're asking people to be on that leading edge, then sometimes there is failure as a result". Facebook uses an extensive recruitment process to ensure that new hires not only have the right technical skills, but also the 'right fit'.

Facebook uses multiple channels to recruit new talent. Recognising the importance of early integration of new hires, Facebook uses a structured on-boarding process which is intended to make sure that people really understand the company's mission and **how their role will contribute to the greater success of the organisation**; "There's not a person in this company that doesn't come out of the on-boarding week in California, Dublin or Hyderabad... exclaiming that they'd had no idea about what Facebook is really about, and they are so much more excited than before they went there – even though they were pretty excited then".

Retention of top talent. Capability development

is a high priority for Facebook, with the objective of continually building and retaining the talent base. Individuals within the different functional teams are encouraged to rotate through teams in order to build experience; those in leadership positions typically receive individual, personalised coaching to respond to their development requirements within the context of their particular business area.

Summary

Like Google, Facebook is more than a name, it is a verb. It is a powerfully innovative, paradigm-shifting phenomenon that is setting new standards in how people interact socially, professionally and globally. The challenge for Facebook is how to hit its extraordinary ambitions, keep its audience captivated, maintain its high intensity and drive, and avoid the fate of its former rival MySpace.



The Financial Times story, as told by FT.com Managing Director, Rob Grimshaw.

Background

Few newspapers have been able to replicate their print business models online. However, in charging users for access to content and charging advertisers a premium for access to high-value audience segments. The Financial Times is a notable exception. It currently returns a profit and has over 200,000 digital subscribers. It has overcome significant cultural and operational challenges to establishing a single, integrated online and print presence. It currently leads the field in the monetisation of digital content, employing a metered model for FT.com which allows scaled levels of access to content, before ultimately imposing a monthly subscription. Widely regarded for its success, this model or derivatives of it are now being developed by the established print press, including the New York Times.

Approaches

Strategy & vision

Small steps towards a big vision. Early in 2007 John Ridding became CEO of the Financial Times, and made it clear that digital would be critical to the company's success. This **direct senior sponsorship** sparked a shift in the company's strategy and fostered a relentless drive to achieving a clear and ambitious vision. "John very much saw digital as the future and realised we had to move fast on it and so there was consistent backing of the investment case... Leadership is crucially important". The big vision was established; FT.com next had to identify the 'small steps' necessary for it to be realised.

Environment & culture

Agile development to foster fast growth. In driving to deliver the digital vision, FT.com has refined specific data analysis techniques to profile different user segments and deliver targeted e-mail promotions according to specific interests. **By persevering and refining data analysis against a clear end objective,** FT.com has successfully driven up the rate of acquisition for subscribers, as the same time as reducing costs. Additionally, it has simultaneously improved customer perception due to reduced spamming. "We have moved to a world where we have started to understand the behaviours which indicate the likelihood to subscribe.

We monitor the site, pick-out segments of users whose use fits within a set of rules we devise, and target them with an email offer the same day. Typically we now send 9-10,000 mails a week rather than one million".

Learning from mistakes. Per the testing and refinement of the data analysis techniques, the FT's leadership team accepts that risk and occasional failure is an inevitable side-effect to breaking new ground both technically and culturally. "We let the teams own ideas, run with them and fall over. If they make a mistake that's fine, if in the process they are learning how to do digital – that's what it's all about". The principle of working is that failure must be accompanied by learning, and further experimentation which builds on this learning. Despite the fact that the cultural shift to establishing a digital organisation was initiated 10 years ago, there remains further to go.

Organisation & design of work

Structure versus freedom of creativity. Since The Financial Times began to seriously invest in digital, FT.com has used a variety of business models and approaches. The Financial Times currently runs cross-functional teams, comprising digital and traditional print media skills. There are now; "about 130 to 140 digital specialists dotted around the organisation". This has helped to build understanding and acceptance of the digital model "... we are trying to get digital values to stick across the whole organisation so that it's not about geeks in the corner doing digital work that no-one understands". Support tools help to structure output and underpin successful working. "We've just completed a project to deploy a set of editorial tools which provide a representation of our home page and section pages. Journalists can drag and drop content and then edit directly on to the page... The flexible workflow allows editors to engage with the digital content more easily and makes it more compelling".

Innovation as the responsibility of everyone.

In establishing cross-functional teams, The Financial Times has tackled a critical cultural challenge in integrating the 'digital natives' with individuals who have worked within established media organisations all their lives. Given this context, FT.com is intent on establishing the same exciting environment exhibited by successful online start-up organisations "where everybody pitches in and it's very open, collaborative".

A major initiative to facilitate this culture change involves transplanting senior figures into the heart of the business to run specific cross-functional teams. This allows the leaders to actively embed new ways of working and lead the cultural change 'from the front'.

Silos are important, but effective cross-functional working is essential. Despite the significant focus on cross-functional working, The Financial Times recognises that organisational silos enable deep technical skills to be established and maintained. The organisation continues to make provision for this, but emphasises that online projects typically require the capabilities of a variety of different departments, making collaboration equally crucial. A particular example is the iPhone application. This was a small scale project but involved nine or ten different functions such as ad sales, operations, editorial, online marketing, IT and PR. "It's a quite astonishing example of flexible collaboration in an organisation to achieve a specific objective... I'm pretty clear that without the flexibility of our organisation it simply wouldn't have been possible to do that".

Simple rules. The Financial Times uses the **simple rule** of 'quality not quantity' to drive the business model. This confidence in the value of the product and Financial Times content underpins the metered pricing model which has enabled The Financial Times to switch from absolute reliance on advertising revenues to an increasing reliance on content revenues. "We are famously the people who sell our content online when nobody else does...our business model is completely contrary to most of the thinking about how you build a successful web business".

Within the Financial Times, FT.com has realised that the business now resembles a direct internet retail business, rather than a traditional publisher.

Talent & leadership

Recruiting for organisational fit. Within the Financial Times, FT.com has realised that the business now resembles a direct internet retail business, rather than a traditional publisher. Acknowledging that it lacks "organisational heritage in areas such as data driven online marketing, web analytics and some of the more arcane areas of web development", it is targeting the recruitment of new talent who will thrive in this context. "We need a team of people who are collaborative, innovative and entrepreneurial in outlook... we are trying to get those values to stick across the whole organisation, so that it's not about geeks in the corner doing digital work that no-one understands".

The Financial Times has used acquisition to recruit new creative energy in to the business, as well as to expand its presence into niche markets, investing in a number of targets over the past five years – all of which are relatively new and non-traditional. One example is Money Media – a business that aggregates content for asset managers. It continues to operate as an independent business, with the intention that the differentiating features of the organisation are retained. "We've deliberately maintained independence... You bought them for their vibrancy and go-getting and whatever else, and you don't want to merge them in to the mother ship and lose that spark".

Summary

The Financial Times anticipates a multi-channel future, in which a combination of print and online content will run in parallel. Even within the digital space there will likely be a plethora of different channels serving different types of mobile devices. "The challenge for the publisher is to run a profitable business distributing content to all of the channels in a way which is flexible but manageable".



The Google story, as told by Vice President Marketing, North & Central Europe, Dan Cobley and Group Product Manager, Clay Bavor.

Background

Google remains the number one website in the Alexa traffic rankings, with just under 50% of daily internet users visiting the site. The search engine grabbed 66.6% of searches in the US in December 2010, far ahead of a combined 28% from Microsoft and Yahoo. This dominance is reflected in its financial performance; in Q4 2010, the company reported revenues of \$8.44 billion for the quarter, an increase of 26% on Q4 2009.

Google is universally recognised as one of the world's most progressive digital organisations. Google adopts a unique approach to developing and delivering new products and services. This approach is arguably the reason that the company continues to lead in search and marketing as well as successfully breaking in to new arenas; such as the mobile device market where Google continues to gain ground with its Android smartphone software, topping Apple's iPhone in US smartphone subscribers for the first time in November 2010. Latest figures on the US market indicate that it is now also ahead of the Blackberry, the previous market leader.

Google continues to gain ground with its Android smartphone software, topping Apple's iPhone in US smartphone subscribers for the first time in November 2010.

Approaches

Strategy & vision

Small steps towards a big vision. Google maintains a specific focus on transformational outcomes – essentially living the mantra of **'think big'**. When someone had the idea to 'scan encyclopaedias and put them online', this was translated in to an objective to 'make every book in the world accessible to all'. The pursuit of visionary goals fuels the drive to achieve the best solution, naturally increasing the level of discretionary effort from the delivery team and inspiring individuals to overcome any operational barriers. "The goals are so amazing that the localisation of what needs to happen, just happens."

The innovation pyramid – taking big ideas outside the core business. "Digital is dead" Matt Brittin (UK MD, Google) suggests that if you still have a Digital Department you are the equivalent of a company that still had a 'Head of Electricity Supply' in the early 20th century. Instead, Google's culture of constant experimentation is structured through the innovation of new ideas across the business. In a classic innovation pyramid, **lots of small ideas are generated which are carefully funnelled in to a few 'big bets'**.

Stand-alone teams are then formed to incubate and develop high-potential ideas, away from core business products and services. A specific example here is the Google Wave software which enables web-based real-time collaborative editing. It was developed by a team of Google staffers who were seconded to Australia in order to work on the project, allowing them the space to solely focus on building and refining a prototype. While Wave has now been discontinued, much of the core technology lives on, through upgrades to Gmail and Apps products.

Environment & culture

Launch early and learn from the mistakes. Google's agile development processes mean that products "launch early and iterate often", on the basis that the best results often come after launch. This approach also creates an environment where 'dud' ideas **'fail fast'**, thereby minimising time and effort expended in their development. "Our mantra 'always be shipping' drives a heartbeat to the way we work and the progress we make".

Learning environment. Google is accepting of failure, in the context of striving to achieve cutting-edge market success. The culture of openness and learning from mistakes leads energy to be focused on driving success, without the distraction of cover-ups and blame. A particular example of this approach is in the Google Sales team's "Brave Penguin" award, a much coveted recognition of someone who has tried to do something bravely but failed. Where Google does place emphasis is on learning from mistakes – failed ideas are actively recognised and reported, with "post mortems" completed and published when something goes wrong.

Room to manoeuvre. As Google scales up in size, it is taking pro-active steps to **create room to manoeuvre** and to safeguard its participative and innovative culture within the context of an ever larger organisation. This includes creating virtual business units, in to which key decision makers are seeded. Specifically, in developing the Android, Google used this approach to drive fast decision-making within the context of increasingly complex and continually moving delivery environment.

Organisation & design of work

Simple rules. One approach to imposing structure is in the use of **simple rules** to define how employees should use their time in developing new ideas; Google staffers spend 20% of their time working outside their personal objectives to pursue other areas of interest. Individuals are free to choose how they use this time throughout the year (whether one day a week or four days in a row), but understand that all ideas will be put through an Ideas Review where it's determined whether the idea will become a core pursuit. A further 'simple rule' is that two criteria are used to determine whether an initiative should be progressed:

- Is this a proven concept or activity that Google knows how to scale?
- Will the initiative achieve a game-changing shift?

Tension of structure vs creative freedom.

Google is increasingly using its data analysis strengths to inform the use of its resources. The use of data brings a hard edge to Google's innovative approach, which is increasingly important given the need for efficiency of working in a large scale, multi-national organisation.

"During the recession a few years ago, Google's Marketing teams sought to help the Advertising teams by developing a widget that looked at the cost of AdWords on a cross-country basis; discovering that advertising was significantly cheaper in France than in the UK. Offering this information gave advertisers the option to drive down their costs".

The wisdom of the crowd. In addition to data analysis, Google uses the wisdom of the crowd of Google staffers to rigorously filter ideas with regard to their mass appeal.

Specific examples of this type of approach include:

- **Google Marketing Dragon's Den:** Google staffers present their ideas to an audience of colleagues. Success in this forum is highly sought after with tangible, positive outcomes. For example, a "Life in a Day" idea involved everyone documenting their life for one day. The montage became the basis for a film which was launch at the Sundance Independent Film Festival and secured theatrical release through Vue cinemas this year, helping to reposition YouTube as a serious medium.
- **Innovation competitions:** "two weeks to create something cool".
- **Demo days:** in-house testing of prototype product and service innovations, providing invaluable early user feedback, as well as strengthening collaboration and sharing.

Innovation as the responsibility of everyone.

Google's organisation is **non-hierarchical, empowering all staffers to make a positive contribution.** "Google tries to maintain as fluid and interactive a culture as possible... There is lots of flux in day-to-day teams, which leads to very little territorialism. Indeed, drawing an organisation chart is virtually impossible and so matrix management is the only way of managing the fluidity".

Talent & leadership

Recruiting for organisational fit. Google recognises the importance of cultural fit of new employees; they look for people who are smart and flexible, rather than purist or specialist, on the basis that flexible individuals are better able to cope with the fast pace of change. "It's all about having the right attitude and passing the 'airport test' – is this someone you could sit with during a six hour snow-in at Denver airport?".

In pursuit of new talent, Google has repeatedly used **acquisition to build capability.** YouTube, Doubleclick and AdMob are three high-profile acquisitions which were undertaken with the specific intention of building capability in the areas of engineering and technology. A key feature of Google's acquisition process is to embed the employees from these organisations in to small, autonomic working groups, so that they feel they are making progress alongside experienced Google people who can help them to build scale in to their ideas.

Linking outcomes to personal success. Given the swift pace of change, **burnout is a significant consideration.** Google's perspective is that burnout is much less likely to occur if people feel that there is positive progress, and if the outputs of their work are obviously linked to business progress. The role of leaders is to remove the obstacles that get in the way of people being able to observe positive progress.

Blurring of boundaries. Google deliberately blends work and relaxation environments, blurring the distinction between 'work' and 'play' and encouraging greater creativity and ideas generation. "The Google canteen is a well considered... it encourages people to spend relaxation time with colleagues in productive conversations... some of their best ideas have come from this". Additionally, **Google actively blurs the distinction between consumers and insiders,** it engages external users in the launch of new products by inviting a known user base to pilot new products and services – the launch of Gmail being a well recognised example. This enables the 'soft launch' of new products for Google, whilst also giving loyal consumers early access to desirable new tools.

Summary

Given Google's fast pace of growth and increasing scale, the leadership challenge is in finding a way of retaining and optimising the differentiating characteristics which have driven Google's success within the context of an increasingly mature and large-scale organisation.



The false notion of the 'lone genius'

Microsoft

Insights from Microsoft, as told by Ashley Highfield, UK Managing Director and Vice-President, Consumer & Online, Microsoft Ltd.

Background

One of the giants in personal and enterprise computing, Microsoft continues to release successful products across all of its divisions. Windows 7, the latest version of Microsoft's operating system, is the highest selling product in the company's history. Released in late 2009, it sold 90 million copies in its first five months (twice the rate of its previous offering, Vista), and by April 2011 it had sold a staggering 350 million licenses.

Microsoft took a large step in its plans to increase its share of the search engine industry, when it entered into an alliance with Yahoo! in early 2010. In a move designed to provide a competitive choice in the search market, the ten year deal sees Microsoft's Bing search engine powering the Yahoo website, with Yahoo providing the main advertising sales team for Bing. In early 2010, Microsoft also released its cloud computing platform Windows Azure, which has had several enhancements since. Towards the end of 2010 Microsoft re-booted its entire smartphone offering with the completely re-designed Windows Phone 7. In early 2010, market-leader Nokia announced it would change direction and base its smartphone strategy on Windows Phone.

In Microsoft's entertainment and devices division, innovation has been a key driver. Kinect for the Xbox 360 has been hugely successful since its launch in November 2010. Named by Guinness World Records as the fastest selling consumer electronics device, by March 2011 it had sold more than ten million systems and has driven substantial revenues for Microsoft.

Approaches

Strategy & vision

Rigorous filtering. The Microsoft HQ in Redmond, Washington State, USA, is the **filtering centre for big ideas**, where decisions are made as to whether new product/ service ideas should be progressed within the business, should be incubated outside the core business, or should be taken out of incubation and established as a standard product or service. This enables a good level of control and enables Microsoft to ensure that there is an appropriate resource mix deployed to support development of a good model.



Windows 7, the latest version of Microsoft's operating system, is the highest selling product in the company's history... by February 2011 it had sold a staggering 300 million licenses.

"Redmond will identify the emerging themes and therefore whether to take ideas and put them in to incubation, or to take things out of incubation and put them back in to day-to-day operations. We can certainly influence that – as we did with mobile advertising".

Innovation pyramid, enabling innovation at all levels in the organisation. Microsoft has adopted a **bottom-up, local approach to innovation**. Everyone in the organisation is encouraged to think outside the box and contribute innovative ideas beyond their day-to-day roles. A recent example of this was the concept of monetising the backdrop picture of mobile apps, which emerged out of the Mobile sales team in the UK. Ashley Highfield, UK Managing Director of Microsoft, shares: *"[On my team, I aim] to empower people from bottom up... The thing I think I've learnt over the years of getting it wrong, is trying to just push [innovation] down from the top [means] you're never going to get there".*

There's no point in innovating if it's not taken up by the audience... the shift to putting consumer insight and needs right at the heart of product innovation has been big – and it shows with Windows 7.

Country-level **local activity is also used to integrate the product and the go-to-market strategy prior to launch, followed by local launches** to trial innovative products. This is a way of working around the structured processes inherent to the global organisation, but with sound discipline and management imposed through the local leadership team. *"We launched MSN Video Player as a pure UK only product and actually the idea then is to launch something in and if it scales you can then export it to other countries – that model of local innovation"*.

Environment & culture

Experiment often and learn from your mistakes.

Microsoft products such as Windows Vista, Internet Explorer 6 and Windows Phone 6 were launched on the basis that multiple novel features would ensure consumer success. The performance of these products wasn't as strong as hoped, leading Microsoft to **adapt its approach to experimentation** by focussing thinking on consumer insight and needs. This has set the tone for the development of future products. For example, for Windows 7, Microsoft used an entirely customer-driven approach and built the new operating system according to the recommendations of millions of customers based on their experience of using Vista. *"There's no point in innovating if it's not taken up by the audience... the shift to putting consumer insight and needs right at the heart of product innovation has been big – and it shows with Windows 7... where the whole idea is to understand our users' intent and then give them the answers that they're looking for in a quick and easy way"*.

Organisation & design of work

Innovation as the responsibility of everyone. The UK Consumer & Online organisation at Microsoft has taken significant steps to **embed innovation within the organisation as the responsibility of everyone**, including establishing cross-functional teams which focus on generating ideas and driving change.

Every employee is expected to join a team and contribute. Ashley Highfield explains: *"I created a change management programme which is still going on called 'Power of 300', ... because there's 300 people in my division, and the idea was to pretty rigorously follow the process so we created the burning platform, communicate that to everyone, that sense of urgency, and then you create a clear vision of mission... You then engage all 300 people through a series of methods, consultative workshops being one of the most common, because I've got everyone to join a team."*

Silos are important initially, combined with effective cross-functional working in later stages. Products are to a certain extent developed in silos in the initial stages of innovation, facilitating local ownership and helping to build expertise specific to the product. *"The products are developed in the silos, what happens then is we take them to market [and this] is where we improve the connections between them, where we try and innovate further around either marketing strategy or retail strategy"*.

Cross-teaming accelerates at the launch stage, driving innovation in marketing and drawing on synergies with the global product portfolio. The MSN product, for example, was built locally before being launched on a global scale. Cross-team working was initiated at the point where a marketing and retail strategy was developed, which identified cross-sell opportunities with Bing – a product run by a different business group. The development of a coordinated marketing strategy has led to different levels of integration between the two products by country – to the extent that *"in the US the MSN travel channel has become almost completely Binged"*.

For the marketing stage, Microsoft has specifically engineered an EMEA incubation unit which is tasked with identifying high-growth products emerging at country level and taking them to market globally. The incubation unit is specifically incentivised to build solutions, rather than simply achieve sales targets. A specific benefit of a dedicated team working across a number of territories is a robust and highly marketable end product. *"You think; 'this is going to be big, we better take it out and put it into a special incubation unit for x amount of time' – a year or so, with a view then to putting it back into the field once we've developed the products and the go-to-market strategy".*

Innovation and ideation embedded into performance management. Microsoft actively incentivises innovation, through the provision of Microsoft trophies which carry high credibility within the organisation (particularly in the US), and through more tangible monetary awards. *"I have a number of award mechanisms, local quarterly awards which can be quite reasonable – such as a 5% cash bonus or a 10% of your salary in stock... I've given 10 this quarter so a reasonable number of people can get them."* Team innovation is incentivised too. The awards structure is skewed heavily to **favour those who come up with new ideas, particularly if they fall outside their immediate area of responsibility.** *"We are expected to create, whether it's great advertising or great content on MSN or great creative sales solutions... The reason we got Campaign 'Media Sales Team of the Year' was because of the innovation they felt we brought to the market... our interactive Kinect adverts are just one example".*

Talent

Right mix of people. Microsoft is familiar with acquisition as a swift method of building specialist expertise, introducing a different culture, sparking new ideas and new ways of thinking. A particular example is the development of the Bing search engine, which combined multiple acquisitions including MultiMap and Ciao, the pan-European shopping engine, with a massive in-house R&D investment in search engine technology. Microsoft suggests that this has enabled the innovation of a fundamentally different search engine. *"Bing hasn't tried to ape the incumbent; it's tried to zag where Google zigs."*

Blurring of the boundaries. Microsoft has worked hard to build strong relationships with other suppliers, blurring the boundaries between the product offerings of different organisations in order to build a more compelling product. A specific example is the Xbox Kinect, a highly popular technological innovation, which has driven innovative thinking in advertising formats as well. By working with companies such as online clothing retailers Net-a-Porter and ASOS, developers are experimenting with Kinect technology to allow consumers to see themselves trying on clothes from a virtual wardrobe. The outcome is a boost in customer sales for both companies and an additional revenue stream for Microsoft through advertising.

Summary

As one of the largest and most complex corporations in the world, Microsoft has found its unique way of empowering innovation from the grass roots through their local teams, in addition to more centralised, often incremental product development functions in its headquarters. Its future challenge will be to protect its core businesses while continuing to respond to evolving consumer needs in agile and innovative ways.

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If you would like to discuss any aspect of innovation, please do not hesitate to get in touch.

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Designed and produced by The Creative Studio at Deloitte, London. 10980A

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