

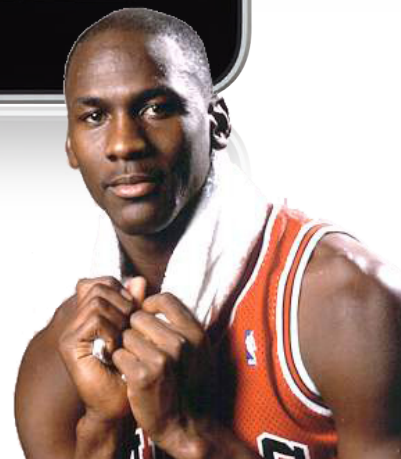
The unpredictable path to greatness.



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How many record labels rejected The Beatles? How many publishers said 'no' to Harry Potter? If the next Facebook walked into the Facebook boardroom, would Mark Zuckerberg and colleagues invest in the new pretender? Or would they think that the company was simply too speculative, too different, too risky? Remember, eight years later the original Facebook listed at a \$100 billion valuation, having added an average of over 300,000 monthly active users *a day* since its launch in 2004. Revolutionary successes are by definition easy to see in hindsight, but how do you spot a business that will define a generation before it becomes great?

Around the world, opportunities for dramatic and revolutionary change walk in and out of meeting rooms every day. Projects that offer a billion dollars of upside opportunity, with genuinely limited downside risks, are quietly rejected. Often the risks appear too great, or the vision is too far removed from where the perceived opportunities lie. Meanwhile, some CEOs and leadership teams are being criticised for a lack of boldness. With the benefit of hindsight, some business decisions that maintained the status quo have destroyed tens of billions of dollars of value. But, over the near term, evolution feels much safer than revolution.

There are, of course, many ideas that succeeded in attracting investment, and then have slipped quietly into history without leaving any legacy. But how many truly great ideas or businesses or stories or bands have gone undiscovered, because they were too new, too different, or too far ahead of their

time to resonate with those who had the opportunity to support them? The Fab Four, JK Rowling and Walt Disney all succeeded despite great scepticism, but this was down to a very small number of individuals who decided to back their judgement and try something completely new.

Meanwhile, companies sometimes talk about reinventing or future-proofing their businesses as they try to adapt to the digital, more social age. In practice, some seem to struggle to reinvent even their logos. This is a harsh caricature, but what does it really take to deliver true innovation, to invent something genuinely new, that captures hearts and minds and wallets? Over the centuries, many major industries have been turned on their heads by radical innovations. Examples include cars replacing horses, computers replacing ledger clerks and smart phones replacing 2G phones. As a result, new industry leaders have been born and

old industries have been wiped out in a matter of years. Indeed the pace of change is accelerating, so spotting these changes and opportunities is critical for any large company. So, what should we be looking for?

Hard data: predictable innovation

Let's start with predictable innovation. Some future developments are arguably quite predictable if you know what metrics to consider. Although the innovation and design along the way have been wonderful for consumers, the advent of the modern smart-phone itself should be no surprise. At the simplest level, this represents the logical outcome of the miniaturisation of computers, the evolution of touch screens, optimisation of data transmission in the microwave range and improving battery life. None of these developments have been particularly surprising, and indeed even the

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PERSPECTIVES

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timing of progress was relatively clear to those who were close to these elements of the technology.

So in short, there are areas where the individual steps are innovative, but the overall result is relatively predictable over time horizons of a decade or more. True innovation in these areas should be relatively easy to find, as it really just represents the realisation of an anticipated product. So you will know what to look for – simply the best realisation of the product in question.

In practice, though, to find or create the winners requires a very open mind about what is possible. Steve Jobs is famous for his “reality distortion field”, which enabled

more importantly, in many cases, who will lose from the innovation? Where something new threatens a large industry, entrepreneurs may unfortunately learn that the voice and influence of the incumbent is much louder and much better funded than the voice of the future. The inertia created by vested interests will frustrate change agents and stifle the emergence of new, better technologies.

This is the innovator’s paradox. The more dramatic your innovation and the more profound the benefits, the more likely it is that there will be significant losers. So the greater the invention, the harder it will be to bring it to life. Entrepreneurs must be able to address these challenges, thus translating great

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Apple to hit the mark with the iPhone – combining music, camera, telephone and mobile computing into one superbly designed unit with a slick interface. Or as Steve Jobs said, “Amazing!”

The innovator's paradox

No matter how exciting or innovative a new opportunity appears, and how much hype there is around the business in question, you have to look through the short term euphoria and think carefully about the forces that are at work. How many people or customers will benefit from the technology in question? Will they be prepared to pay for it? And

ideas into customer numbers and growing profits. This highlights the importance of clear, conservative and well thought out plans as to how they will create value and achieve sustainable growth at an early stage.

Whatever the near term hype, this type of success will be identified in the traditional way. In particular, valuations will be determined by conventional valuation metrics such as enterprise value to EBITDA. So you find them by testing carefully how they will generate a profit, how long that will take to achieve, and how their valuation multiples should compare to other companies.

WALT DISNEY



“Fired from a newspaper because he lacked imagination and had no original ideas” – about Walt Disney

BARRY MARSHALL



Overturned established medical dogma to revolutionise the treatment of peptic ulcers

MICHAEL JORDON



“I have failed over and over and over again in my life. And that is why... I succeed”.



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The pathway to success is often a long and arduous one, so let's cheer the innovators as they change our world.

Meteoric success, Gangnam-style

There are other examples, however, where invention creates entirely new businesses. This type of invention is a truly intriguing process – both elusive and addictive. Like morning light, you know this kind of invention once it is properly established, but the dawning itself is an imperceptible moment in time. Social media has dramatically increased the ease with which people and companies can achieve this kind of success. The viral success of long established Korean singer Psy's "Gangnam style" video, with some 532 million views on YouTube in barely three months, proves this point. Almost unheard of outside Korea before July 2012, his act is now famous worldwide and the video is one of the most viewed of all time.

Social media itself, and the leading companies in the space, are also great examples of meteoric success made valuable in the business world. The appeal or longevity of businesses such as Facebook, Twitter and Pinterest was genuinely hard to predict at the outset, as they offered something entirely new. Indeed this is borne out by Twitter's slow and patchy growth in monthly average users over the first couple of years.

Inertia and the market power of incumbents can weigh heavily against companies like this, even if it does not impact individual artists like Psy. So these types of opportunities are much harder to spot, just as many people turned down The Beatles and JK Rowling. What does this mean for corporates? More

than anything, that it is incredibly important to keep an open mind, to be prepared to change your assumptions and beliefs if you are presented with something radically new, and to be prepared to unlearn.

So the pathway to greatness is a highly unpredictable one in many fields. There are, however, critical points along the way with binary outcomes, at which truly innovative ideas will flourish or fail, businesses will succeed or go bust. And all too often, the factors that determine success or failure seem almost random. In the same way that you look carefully both ways before you cross a busy road, entrepreneurs somehow need to sense when these defining moments will be, and to make sure that they are as well prepared as possible.

In the meantime, invention is an engine room of growth and prosperity for every economy. The pathway to success is often a long and arduous one, so let's cheer the innovators as they change our world. **P**

By Nigel Lake

Joint CEO of Pottinger



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PEOPLE

WHO HAVE OVERCOME ADVERSITY



• JK Rowling:

J. K. Rowling may be rolling in a lot of Harry Potter dough today, but before she published the series of novels she was nearly penniless, severely depressed, divorced, trying to raise a child on her own while attending school and writing a novel. Rowling went from depending on welfare to being one of the richest women in the world in a span of only five years through her hard work and determination.

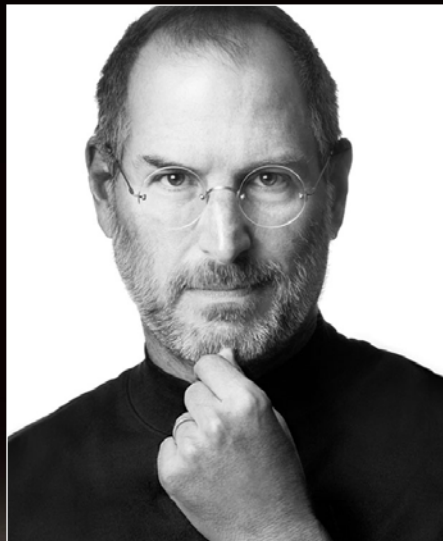


• Vincent Van Gogh:

During his lifetime, Van Gogh sold only one painting and this was to a friend for a very small amount of money. While Van Gogh was never a success during his life, he plugged on with painting, sometimes starving, to complete over 800 known works. Today they sell for tens of millions of dollars.

• Steve Jobs:

Lauded by many as the greatest innovator of all time, Steve Jobs was fired from his own company. He went on to become widely referred to as “legendary”, a “futurist” and simply “visionary” as he received a number of honours and public recognition for his influence in the technology and music industries. Six months before he passed away he said in a speech “Don’t be trapped by dogma – which is living with the results of other people’s thinking”.



Pottinger in the media



Nigel – Financial Hub

Australia could become financial hub? Pottinger joint chief executive Nigel Lake discusses the issues surrounding making Australia into a financial hub for the Asian region.



Cassandra – CEO Hub

Watch Cassandra's interview with Alan Kohler on CEO Hub where Alan asks Cassandra a little about herself and also about her views on the attributes of a great leader.



About Pottinger

Our clients say that we offer a completely different proposition to traditional consulting and investment banking advisors, seamlessly integrating true strategic thinking, commercial insight, financial expertise and execution excellence. Our assignments typically relate to one or more of:

- Strategy and public policy
- Mergers and acquisitions
- Partnerships and joint ventures
- Restructuring and capital advice

Our approach to every assignment reflects a fundamental belief that strategy, business and execution perspectives must underpin any business initiative if it is to be commercially

successful and stand the test of time.

Together our team has advised on over 200 M&A and financing transactions, as well as many significant strategic advisory assignments. Our first hand experience covers most of the world's larger economies, and we are accustomed to working on complex assignments across borders and cultures.

We are highly regarded for our investment in people, most recently being profiled by the Australian Workforce and Productivity Agency as a role model for effective skills development in financial services. In addition, Pottinger is the only organisation ever to have won the ABA's "Recommended Employer" award for six years in a row.



Cassandra Kelly
Joint CEO



Nigel Lake
Joint CEO

