The Innovators

Conversations

On the Cutting Edge

www.innovate1st.com

July 2014

## Interview with Jim O'Conner

### Private Equity investor, former Corporate VP Motorola Ventures, Chairman 1871 Entrepreneurial Hub

Jim is a senior investment professional with over a decade of private equity and venture capital experience. Previously he held senior management positions within Motorola as Co-founder and Managing Director of Motorola Ventures. Jim also led Motorola's Innovation Program where he built several high growth businesses for the corporation, including the initial successful launch of the Google – Motorola Droid product. In 2006, he was named to the American Ventures Magazine "40 UNDER 40" list.

Jim is now Chair of the Chicago Entrepreneurial Center (CEC), and 1871, the central co-working space for innovation and entrepreneurship in Chicago. He is a Henry Crown Leadership Fellow of the Aspen Institute.

Before Motorola, Jim worked for A.T. Kearney as a management consultant and as a White House Fellow at the U.S. Treasury Department. He holds a BA (Government) and JD from Georgetown University and an MBA from the Northwestern's Kellogg Graduate School of Management. Jim can be reached at jim@1871.com

Interview conducted by Doug Berger, Managing Director, INNOVATE doug@innovate1st.com

Doug: You have been in private equity and entrepreneurship for several years and I have been looking forward to your reflections on your experience as the co-founder of Motorola Ventures and the Motorola internal accelerator. With that in mind, please jump in to the interview with your insights into the C-suite mindset around growth and innovation.

Jim: On a high level, some things have changed and some things have stayed the same. With the C-suite there is always a constant need for innovation and the recognition that you are not going to get all of the innovation that you need on the inside. You have insular cultures and somewhat parochial thinking just based on being stuck on a campus together. The mantra of scouting for outside technologies and looking for some of the best and brightest ideas from the outside has really evolved over the last 10 years.

It has evolved from, "Maybe we'll have a person acting as a scout out in Silicon Valley" to "Maybe we'll actually build a venture team" to "We'll actually be part of an accelerator where we go in and work with outside companies and allow them to develop their software applications platforms on our product." 10 years ago there would have been fear of product contamination and those types of things. Now, there is more of a fear around, "We don't want to be completely disintermediated and knocked out of the industry as a whole." If you look at some of the big names from 10 years ago, where is Nokia? RIM? and even Motorola?

I think there is enough of a neurotic state in the C-suite to know that you have to be reaching out constantly, and not just in Silicon Valley, but across the US and the world where people are making changes happen literally on an hourly basis.

Doug: When executives are thinking about growth and innovation what is on their mind?

Jim: The way that people thought about innovation 10 years ago might just have been a product extension or product line. What has happened today is that they are thinking about innovation as a technology overlay to their current business. We often talk about "tech enabling" technologies. Look at retail and manufacturing and even food, for example, as well as technology's advance over the last two to three years. Executives know that they have to accelerate their efforts - double down - not just rely on a slower product development process, but rethink their focus and rapidly create innovation teams and accelerators within and then look outside to partner and invest. Executives know that they have to broadly innovate or they will be disrupted out of a space and potentially taken out of the value chain.

Doug: When you think back on conversations that you had with top executives at Motorola at the time, in hindsight where would you say that you got it wrong?

Jim: I don't know if anyone got it wrong per se. I think first, it is just about speed. When you are operationally focused on quality, global supply chain and logistics it is easy to think that the product development cycle may take three to four years. Companies missed that things were happening much more quickly and the development cycle was yearly if not even faster. We thought that we were innovating at the speed of the outside world. Only the "outside world" is innovating at that speed. That's the essential difference. Outside, well run start-ups have the freedom and technical chops to move fast and take chances and that is very hard to compete against.

Doug: I am sure you are asked, "Jim, what can you tell me that will help me to avoid some of the pitfalls?"

Jim: I had two conversations yesterday in which it became clear that two fundamentals have not changed. First, you have to have the highest level buy-in from the top with the budget. Now that sounds simple and quaint, but how many times do I still hear someone say, "I got my product guys on board with it." And I say, "Is your CEO on board with it?" If you do not have that ironed out up front, you are going to end up wasting your time, creating frustration, and this could kill the project and hurt the person's career. This is just a critical no-brainer, but I continue to hear, "Well, the CEO's not bought in."

Doug: What would you say to somebody who says, "Well, the CEO's interested in this but not yet 100 percent engaged"?

Jim: I'd say, "Waste of time. Don't do it. It will become a science project." You have to think about innovation like quality. It has to be a mandate. I would rather a company not do innovation and stay focused on their core business rather than claim they are innovating when they are not. You are going against a DNA that says, "Don't change. This has worked for 80 years." It is very tough to change that mentality. It has to come from the very top.

The second no-brainer is who is running this innovation operation? And two big mistakes occur here too. 1) You put a finance person in an innovation role. You are the walking dead because they think only about financial returns. 2) You take a pure product person and they will apply their methodologies that have worked for them on the current product. Doing innovation means breaking glass and breaking away from traditional ways of doing things. Otherwise innovation would be easy and everyone would innovate.

Doug: What happens when companies think that the solution is to bring in an experienced innovator from the outside?

Jim: When you take an entrepreneur, plop them inside the company and say, “Go do your thing” they can't because they do not understand the culture. They get tossed out because they do not understand the elements of the DNA that will fight against them or they simply leave out of frustration.

The solution is to have the right team structure that allows for three things: finance, product, and outside-in thinking. But that cannot be someone who comes in and says, “Everyone's an idiot and you don't know what you're doing” even though the company is 80 years old and has created some of the greatest products of all time. It is a personality game, a humility game and an integration game.

Doug: Motorola was clearly an innovative company even if it never used the word “innovation.” Its products, its technology were always highly innovative. What is the core difference between developing products and technologies that are innovative, and innovation?

Jim: In a technology company you cannot have a major product innovation every 10 years. It really has to be every two years. The competitive forces are so intense. And that is the innovation challenge. Changing this clock speed of major product innovation needs a fundamental shift throughout the enterprise. That would be world class innovation and people need to move at lightning speed.

Doug: Great insight. It is not just the boldness of things. It is the timing that forces you to break a lot of glass. Everything needs to operate on a different rhythm.

Jim: We talk about that in the private equity deal business. The rhythm of a deal and having things cooking on all cylinders between the different deal team members – the buyers, the sellers, the providers. It's the same thing when you’re talking about innovation in a company. The teams need to be in sync with a singular goal in mind and a top-down mandate that sets a clear vision.

Also, with innovation you need to think like the outsider in order to survive. If you don't, you will perish. This is why partnering with outside companies is so critical.

Doug: When looking at building a portfolio a lot of people in innovation speak in terms of 5 years to be up and running. It seems like innovation folks still think in the older conventional rhythm of how long it takes to get something into the market.

Jim: I totally agree and I say, “Why?” I helped found the Chicago 1871 accelerator located in the Merchandise Mart. There are groups coming out of 1871 that can take an idea to launch in six months. One, they are funded. Two, they are ridiculously smart. Three, many have come from these companies so they know the platforms and they move swiftly and seamlessly to attack an open gap. They leave the big companies because they are frustrated with that long term mentality. They want to innovate and not get bogged down by bureaucracy. They are organized to basically attack the mother ship or at the very least build a strong business.

Doug: In one regard it is relatively easy when you are in the purely digital space. But if you look at a company like Motorola making electronic components, subsystems and total systems what do you say to people who are making physical product?

Jim: I say, "Look at the history of your product." More often than not, the innovation occurred at a faster pace than they realize. All of these legendary Chicago companies started from entrepreneurs disrupting a business. Montgomery Ward, Sears, Walgreens, Aon insurance. Go back to the original founders – Leo Burnett, Ray Kroc, Pat Ryan, The Galvin family. They were all innovators. Think how they think. That way of thinking is what you need to be thinking about or you will simply be disrupted.

Look at different industries. Innovations are coming from so many different angles now. If you think that you can rely on your own internal innovation cycles and metrics, you are not going to survive. It is never fast enough.

Doug: Let's look at industries such as chemicals and industrial. Are companies limiting themselves because they're saying, "The pace of innovation from our customers' point of view hasn't really speeded up?"

Jim: Those types of companies are getting tech enabled. They are using systems to improve their supply chains, efficiencies and product development cycles. If you get an old, stodgy company that is not using technology to their advantage, they will get sideswiped very quickly. That is the next wave that's going to occur – tech enablement of the traditional middle market businesses. It can make a total difference by just using Salesforce.com or different outward looking sales tools versus having a guy going around knocking on doors. You can completely change those businesses by using technology. It happens all the time. That is where a lot of opportunities for investment are occurring.

Doug: Where do you think you made some mistakes and you see others making mistakes when going about building their first portfolio?

Jim: The biggest mistake is believing too much in yourself without the benefits of a broader team of peoples' insights. If you have the arrogance to think that you have all of the answers that is failure number one. You have to surround yourself with very smart people as advisors both from the inside and the outside to really come to good conclusions as to where you can go. You can only come to solid conclusions through a team framework that applies diverse judgments and views.

Understanding the best solution comes from a team solution as opposed to some individual genius who may have thought of the light bulb, but also may have wasted billions of dollars in R&D on something just because they thought it was the right thing to do. I often saw someone thinking it was such a great technology but it had no business applicability. You have to ask the question "What is the market for that?" Well, it's not there yet. Markets have different timings for the same technology. You really have to have a critical framework to assess the opportunity and the risks associated with it to get the maximum output.

Doug: How do you think about knowing what the true business opportunity is for innovations that are pre-revenue?

Jim: You don't and that is the key. You can use some guesses and formulations and pro formas but you just don't know until it hits the market. On the other hand, you don't want to be reckless and send five things out in the market and confuse it. It is a middle ground where you have enough data points to get you to an 85% level of comfort that this is the right thing to do. If I wait for engineers and finance people, they want a 99.9% comfort level and you will simply never innovate fast enough for the markets that you serve.

Doug: At what point in developing these innovations do you start to bring a little more financial rigor into understanding the true revenue and profit opportunity?

Jim: We brought those in very early. We took the venture model. What we didn't want was just a bunch of people running around with technology saying, "This is going to work and be big." We would ask, "Do you have a beta? Here is enough money for a beta. Come back to us with that. You did a beta; now let's get a customer test." We were not crazy; we were rigorous like a venture fund. We used external venture fund thinking and applied it to internal research and development projects and it worked. We forced an idea into a working product where customers who wanted these advanced technologies would help the development and ultimately reach a landing ground. And then the business group would want it as well. That is why I say it doesn't have to be perfect at the outset because it will be refined through working with customers.

Doug: How do you think about failure?

Jim: We worked closely with other companies or customer advanced technology teams. Have them take risks with you. Your customers want you to come up with innovative new things. They have to be part of the process. They have to because they are competing as well. We would have innovative sessions with advanced technology teams of our customers across the board to find out exactly what they wanted and have them share some of the expense and the cost in doing joint development. A key learning is for customers to be part of the process to help define your road maps, as well as really testing your beta. Sometimes even after all of that, it still didn't work out. In this environment no one thought of it as failure. You have to take shots and not all of them will hit. You have to understand the risks and rewards. Innovation is not a perfect science by any means.

Doug: What else do you see other people getting wrong?

Jim: Companies think it is the great gold rush. When we were doing ours in 1999, we benchmarked everyone who'd gone before – Intel, HP and others. You have to step back and find out what worked and what didn't. I sensed a number of people coming in who didn't have the wisdom to say, "Let's step back and really ask what we're trying to achieve here. Are we trying to create the next great company? Are we trying to create product extensions?"

They can sometimes get caught up in the euphoria of "We are going to be the greatest innovators of all time" without thinking about lessons learned from the past. That is scary because that tells me there is going to be a whole big boom of corporate innovation that will fail. The basic lessons of CEO level buy-in, cross functional teams, the right kind of funding, the way of thinking about it both strategically and financially, putting the right people on the team, making sure you know how to get it in the product road map by having advanced development sessions – all of those things have been out there forever. Not understanding the lessons learned is a critical mistake.

You cannot have a robotic six-sigma person who has never developed anything new in his life do this. You have to have the passion of an entrepreneur but the understanding of the corporate culture to be successful. Those are the best corporate innovators. You have to have both. That is why we encouraged corporate people to go out and deal with startups and work on some of the accelerators.  Anytime they deal with both the internal and the external it makes all the difference.

If you don't do this you either become just a corporate cutaway or you become so outside-thinking so as not to understand that this isn't going to work within the mother ship.  You have to have both.   To innovate means to be thinking very broadly across the number of different levels, and it is not linear.  It's very much a spiral way of thinking …. inside, outside, up, down.