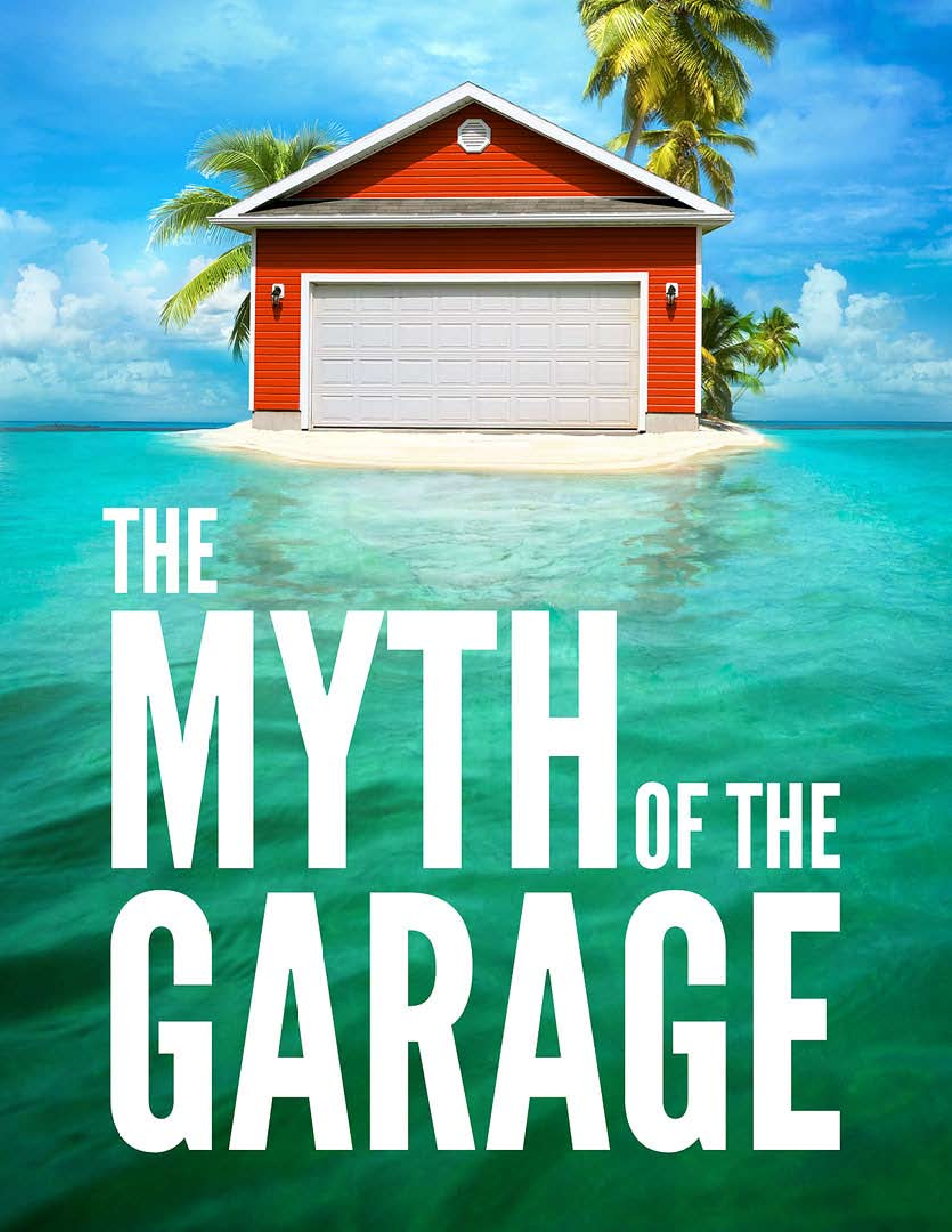

THE MYTH OF THE GARAGE

THE MYTH OF THE GARAGE
AND OTHER MINOR SURPRISES

by Dan Heath and Chip Heath

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It has become a Christmas tradition in the Heath household to order the "Surprise Bag" from Archie McPhee, a quirky toy store based in Seattle. One of the kids in the family does the honors of opening the bag, which arrives as a brown grocery sack stapled at the top. You don't know what will be inside; you have to take your chances. The goodies range from the practical (Corn Dog Lip Balm) to the entertaining (Emergency Yodel Button) to the thought-provoking (Sigmund Freud Action Figure).

This collection is, roughly speaking, our surprise bag. We wrote a column for *Fast Company* magazine for four years, from 2007 to 2011, and we've selected our favorites for *The Myth of the Garage*. Some are extremely opinionated; we'll insist that you never buy another mutual fund (*The Horror of Mutual Funds*) and we'll call out some of the sleaziest marketers of modern times by name (*Stigma Abusers*). In other pieces, we'll try to shed some light on certain mysteries in the business world; for instance, why did Second Life fail to take over the world, as seemed inevitable five years ago? (*The Future Fails Again*) Or, why will customers often pay to have some of their choices revoked? (*On Handcuffs*)

If you're familiar with our past work, you'll know that it has a pragmatic bent—***Made to Stick*** explained how to communicate with impact, and ***Switch*** discussed some principles for making change easier. (Some brothers fix up cars; we write "how-to" books.) You'll find practical pieces here as well: Some thoughts on sparking creativity (*Get Back in the Box*) and some advice on explaining innovations (*Anchor & Twist*).

We hope you enjoy the collection—and also the price point, which is a minor milestone. (This is the first free e-book published by Crown Books.) The first surprise in the collection is the title piece, "The Myth of the Garage," in which we'll argue that Apple did not, in fact, start in a garage. Read on!

- Dan & Chip, November 2011
brothers@heathbrothers.com

THE MYTH OF THE GARAGE

First published March 1, 2007

Tales of groundbreaking innovation sound a lot alike. Like action-adventure movies, they have a predictable structure. You know how *Die Hard 4* is going to end and you know how YouTube began: Some ordinary guys, without money or power, triumphed via a brilliant insight and scrappy groundwork, just like Hewlett and Packard, who started in a garage. Or Jobs and Woz, who founded Apple in a (different) garage. Or Michael Dell, who lived the same tale but upgraded to a dorm room. Rebels, all of them, who triumphed over Big Business.

But what if those stories mislead us about what it takes to generate great ideas? Two researchers from the Haas School of Business at UC Berkeley, Pino Audia and Chris Rider, have debunked the Myth of the Garage in a recent paper. The garage, they say, "evokes the image of the lone individual who relies primarily on his or her extraordinary efforts and talent" to triumph. The reality is that successful founders are usually "organizational products." A separate study of VC-backed companies found that 91% were related to the founders' prior job experience. Audia and Rider say entrepreneurial triumphs aren't due to lonely, iconoclastic work—they're "eminently social." Wait a minute: Entrepreneurs aren't rebels, then, so much as recently departed organization men and women.

Consider two of the founders of YouTube, Steve Chen and Chad Hurley. Both cut their teeth at PayPal; in fact, Hurley was one of PayPal's first employees and even designed its logo. (He is also the son-in-law of James Clark, who founded Netscape and Silicon Graphics.) Top-tier venture-capital firms were calling them, offering money, counsel, and connections, within months of launch. You have to admit, this tale isn't quite as uplifting as the more familiar YouTube origin story, in which twentysomething buddies create a cool site to swap videos with friends and then it goes gangbusters.

As for Jobs and Wozniak: yes, there was a garage, but less discussed is Jobs's background at Atari (he was employee #40) and HP ("What I learned there was the blueprint we used for Apple," he told a journalist in 2003). Meanwhile, Wozniak was an engineer at HP, and he gave it the first shot at his microcomputer idea. (Bad call, HP.)

In other words, companies aren't born in garages. Companies are born in companies.

This reality shouldn't diminish these monumental achievements. Yet it feels like it does, because we crave the excitement of these creation myths. Your startup "emerged from a systematic discussion of market opportunities, conducted at a networking function at the Marriott"? Yawn. Give us the garage. In fact, the Apple story would be even more satisfying if Jobs and Wozniak had actually built the garage first, by hand, out of toothpicks scavenged from local restaurants.

Because we eat these stories up, ideas tend to evolve to suit our fancies. Christopher Columbus, we all know, wanted to prove he could reach India by sailing west. But no one believed his absurd theory that the earth was round; his own sailors were terrified their ships would fall off the edge. His crew almost mutinied!

But that version of Columbus is a myth, according to historical sociologist James Loewen. In Columbus's day, most people knew that the world was round. The evidence was there for them to see: People noticed that, when another ship receded into the horizon, its hull disappeared first, and then the mast later, which suggested that there was some kind of curvature in play. Furthermore, Columbus's three ships enjoyed "lovely sailing," with no record of mutinous talk. And he actually set sail to find gold, not to strike a blow for geography.

Columbus arguably discovered the New World. Kind of a big deal. But as with garage entrepreneurs, we want more. We like Columbus's story even more when, en route, he has to fight off a feisty crew.

As stories are told and retold, they evolve. They come to emphasize individuals, not organizations; to celebrate a flash of insight over stepwise improvements; and to exaggerate obstacles while downplaying institutional support. In years to come, expect YouTube's triumphant story to grow even grander than it is today. But if you're starting a company or launching a product, don't get lured into scouting out a garage. Learn from your predecessors: First, get a job.

THE BIRTH OF A STICKY IDEA

First published April 1, 2010

If you were on a New York subway last fall, you might have noticed a provocative ad that showed soda being poured from a plastic bottle into a glass tumbler. By the time the soda hit the tumbler, it had transformed into fat—globby, disgusting, yellow-orange human fat, which pooled in the bottom of the glass and burped over the brim. The headline: "ARE YOU POURING ON THE POUNDS?"

You would have regretted encountering this ad with a mouthful of cheese Danish.

The ad struck a chord. New Yorkers couldn't stop talking about it, and it was everywhere in the media. It was, in fact, the first punch landed in what may be a 10-round fight against sugary soda.

We are witnessing the birth of a sticky idea: Soda makes you fat. So three questions: Why did the ad campaign stick? Is it fair? And what would you do next if you were a soda executive?

It's no surprise why the ad stuck: It packed an emotional punch. It abandoned the typical statistico-caloric factoids about soda and, instead, simply made you want to vomit. That's what sticky ideas do—they make people feel something. Change comes from feeling, not facts.

Not surprisingly, the soda companies punched back. American Beverage Association PR representative Kevin Keane said of the ad, "It's absurd and over-the-top and unfortunately is going to undermine efforts to educate about a serious and complex issue like obesity." Is Keane right? Are soda companies getting blamed unfairly?

The soda executives say, look, people eat and drink lots of stuff. A calorie is a calorie. Why single out sodas rather than burgers or fries or, for that matter, bananas? Why reduce a multivariate equation (obesity) to a single variable (soda)?

That's a fair point—it's certainly true that a 200-calorie soda isn't more "culpable" for obesity than a 200-calorie bag of chips. But here's another way to think about it. Imagine your business is losing money and you need to save some cash. Then you discover that your sales reps have been spending thousands of dollars renting out the Champagne Room at the local strip parlor, allegedly for "business development." It might occur to you that the Champagne Room is a pretty good place to start cutting back. Your reps would squawk, of course: "A dollar is a dollar! Why single out our dollars?" Well, duh.

That's why it's a bit disingenuous to claim that a "calorie is a calorie." No one's disputing that. Public-health officials are making a different argument, namely, that sodas are the low-hanging fruit in the obesity battle. (Or perhaps the low-hanging fat.) A small behavioral change—ditching sodas—would have a big impact on health.

But wait a minute, are sugary sodas really so bad? Even coffee drinkers like to use a little sugar. Should we demonize coffee, too? Well, as a thought experiment, imagine that you're in the office kitchen as a colleague adds some sugar to his coffee. As you watch, he adds a teaspoon. And then another. And another. And another. And another. And another. And another. And another. And another. And another. And another. And another. And another. And another. And another. And another.

Absurd, right? Nope, that's the amount of sugar that's in a 20-ounce soda. Except add another half-teaspoon.

It's evidence, not meanness, that led New York City public-health officials to focus on sodas rather than raisins. Here are the facts: 1) Drinking one can of soda per day can add as much as 10 pounds to your weight in a single year. 2) Studies have shown that people do not eat less food when they drink more calories. Beverage calories are extra calories. 3) "For each extra can or glass of sugared beverage consumed per day, the likelihood of a child becoming obese increases by 60%," according to an article coauthored by a Yale professor and a former health commissioner. 4) And meanwhile, what's the case in favor of soda? Let's face it: A Snickers is a nutritional wonderland compared to a Coke.

How should soda executives respond to this rough treatment? So far, they seem to be trying to practice the art of misdirection. A recent op-ed by Coca-Cola's CEO, for instance, says don't blame Coke for obesity: You sedentary Americans need to exercise more!

To the soda-company executives we say, Why fight this? You've done a brilliant job over the past 20 years of diversifying into anything drinkable: water and juice and tea and diet soda. You have absolutely nothing to lose. Trust us: people won't switch from Pepsi to tap water. They'll switch from Pepsi to Diet Pepsi. You'll just take a dollar out of one pocket and put it in another.

But if you keep speaking like the Defenders of High-Fructose Corn Syrup, then you might as well get sized for your black hats. Picture yourself in front of Congress, just like the cigarette execs who raised their hands to swear that cigarettes were not a health risk. Except you'd be attesting that Mountain Dew is part of a "balanced diet." Is that the future you want?

I LOVE YOU. NOW WHAT?

First published September 17, 2008

Your frustrations feed a lot of families. In America alone, there are about 2.7 million call-center employees who are standing by, ready to soothe you. That's roughly the population of Kansas. But what if you've got joy in your heart? Good luck finding someone who cares. In essence, there's a state full of people who exist to handle our complaints and, at best, a canoe full of people to handle our compliments. Why do companies make it so hard for us to say thank you?

Imagine you're in a Tex-Mex restaurant, eating an awe-inspiring quesadilla. You may rave about it to the waiter, but chances are, your praise will never make it to the person who counts: the cook. Or maybe you appreciate the extra-deep cup holder in your Toyota, which holds your venti latte snugly. Where do you send the thank-you note? If you send it to Toyota, then if you're lucky, it'll be read by someone in corporate communications, who'll write you back a soulless acknowledgment. But the engineer who designed it—and the product manager who fought for it—will never know how you feel.

That's a tragedy on multiple levels, starting with the employees who never receive your warm fuzzies. Pick any non-customer-service employee at random from your company. When was the last time that person received positive feedback directly from a customer? If the answer is "never," that's as cruel as an unwatered plant. Or an ignored Lady Gaga.

This is an economic issue as well as an emotional one: In a survey of 10,000 employees from the 1,000 largest companies, 40% of workers cited "lack of recognition" as a key reason for leaving a job.

This thank-you scarcity is, just as important, a tragedy for your customers. Because when a customer says thanks, they make you happy, but they make themselves even happier. In her book *The How of Happiness*, Sonja Lyubomirsky, a professor at the University of California, Riverside, describes a dozen scientifically proven strategies to make yourself happier. The first? Expressing gratitude.

In one study, researchers asked a group of people to make a list, once a week for ten weeks, of five things they were thankful for. Other groups in the study wrote different kinds of weekly lists, such as "five major events" or "five hassles." The "thankful" group felt more happiness, excitement, and joy than the other groups. They even reported better physical health: fewer headaches and less coughing.

Another study found that making a "gratitude visit"—writing and delivering a letter to someone who was kind to you but whom you had never thanked, such as the friend who suggested it was time to ditch the legwarmers—caused people's happiness to spike for a full month afterward.

A thank-you from a customer, then, creates a radiating halo of happiness—employees feel recognized, customers feel joyful, and there's less coughing. (Contrast this with AOL's beacon of hatred, which causes even people who've never used AOL to despise the company for its poor customer service.)

What is your company doing to let gratitude blossom? Yes, we know, you have surveys, but they're impersonal, and no one ever sees the results except the marketing department. And no, it doesn't count to say that your customers could call up your support hotline and offer some praise. That's like complimenting your wife's new haircut by leaving her uncle a voice mail.

Suppose there were a way to lower the transaction costs of a thank-you so much that praise became effortless. Think of those obnoxious engaged couples who skip around Macy's with UPC scanners, zapping waffle irons and cutlery for their registry. What if there was some way to zap the cup holder in your car, or the quesadilla on your plate, and instantly deliver a thank-you to the people who count?

American Airlines has taken a step in the right direction with a program called Applause. It gives frequent travelers who've reached "elite" status a set of preprinted cards—instant Hallmark moments—that can be handed to employees who provide exemplary service. Applause isn't ideal—who'll remember to carry the cards?—but it has the right spirit. (United has a similar program.)

For more inspiration, consider Kelmar Safety, which manages those How's My Driving? programs for trucking fleets. Ever wonder if the drivers hear the comments you make when you dial the 800-number? Absolutely, according to Kelmar's CEO and president Christina Kelly. Every single time. At least one company has figured out how to get the right comment to the right person.

We know you're thinking that gratitude may not be foremost among the sentiments expressed on those calls. But take heart, cynical one: 18% of the calls are compliments. (Actual compliment: "He was great. He blinked his lights at me to let me out.") Maybe one out of six isn't such a great hit ratio, but think how much better your organization might perform on this metric if it's in an industry not known for road rage.

Companies should pave the way to praise. If it works well enough, maybe someday we'll see call centers that receive as many thank-yous as complaints. And that will make the population of Kansas a lot more satisfied with their jobs.

THE HORROR OF MUTUAL FUNDS:
WHY FALSE INFORMATION CAN BE CREDIBLE

First published August 13, 2008

Let's pull off the Band-Aid quickly. You've come to believe that mutual funds are a smart place to put your money. They're not.

That's the assessment of the smartest minds in finance, supported by a mountain of historical data. If you own actively managed mutual funds, you will almost certainly retire with less money—a lot less money—than if you'd simply dumped your money into boring index funds. So two questions: How can this possibly be true? And why, in gleeful defiance of the data, do more people keep buying mutual funds every year?

First, the proof. A team of finance researchers conducted an exhaustive study of mutual-fund returns from 1979 to 1998. Mutual funds underperformed the Vanguard 500 Index Fund by an average of 2.8% per year (after taxes). From 1984 to 1998, the deficit was a stunning 5.1% per year.

It gets worse. Of all 203 mutual funds with at least $100 million under management from 1984 to 1998, only 8 managed to beat the Vanguard 500. Your odds, then, of picking a "winning" mutual fund during that time were less than 4%. By way of comparison, if you get dealt two face cards in blackjack, and your inner idiot shouts, "Hit me!", you have about an 8% chance of winning.

"Overwhelming evidence proves the failure of the for-profit mutual-fund industry," says David F. Swensen in his revealing book Unconventional Success. Swensen knows a bit about investing. Since he began managing Yale's endowment in 1985, he has grown the fund from $1.3 billion to $14 billion (a 16.1% average annual return). And his opinion is clear: "Overwhelmingly, mutual funds extract enormous sums from investors in exchange for providing a shocking disservice."

None of this is breaking news. The data have been lying around for years. Yet we keep buying mutual funds, just as people still buy bogus herbal remedies and corporate execs keep making statistically doomed mergers and acquisitions. Our behavior seems impervious to the truth. It's like waking up in a world where 91 million Americans drive Ford Pintos while wearing flammable pajamas.

Here's why this idea doesn't stick: It's true, but it violates common sense. Mutual funds are actively managed, which means that there's a team of Harvard and Wharton MBAs who come to work every day and hunt for good investments on your behalf. Whereas index funds (technically a kind of mutual fund) are passively managed; they simply track the market's overall performance. There's a robot behind the wheel.

We can't handle the truth that the robot beats the Ivy League MBAs. And even if the MBAs manage to outperform the robot, you might still come out behind, because of the fees they charge. (Those fees ensure that, while you may lose, the MBAs never will.)

So why do mutual funds thrive? They take advantage of a mistake we all make: We treat cherry-picked data as typical. To document this mistake, two business-school professors, Jay Koehler and Molly Mercer of Arizona State, studied the way investors respond to mutual-fund advertisements. For instance, if a mutual-fund company advertises a 31% return on one fund, investors get more interested in other funds from the same company. But if the investors are reminded that the data was cherry-picked—i.e., "the 31% return is from one fund of many managed by this company"—then they are able to avoid this mistake. (Just as when you read an impressive bullet on a guy's résumé, you don't conclude that he's always awesome.) Unfortunately, though, mutual funds aren't inclined to provide helpful warnings like, "The returns we're hyping are anomalies!"

The consequences of this mistake can be profound—and invisible. Consider two 50-year-olds who each invested their life savings of about $140,000 in 1984. Vanessa put all of her money in the Vanguard 500, and Muriel put hers in an average mutual fund. If they both retired in 1998, both would be happy, because their assets would have grown substantially.

But happiness comes in different sizes. If Vanessa's nest egg was $1 million, Muriel's would've been about $550,000. Now, remember, Muriel is happy, because she has no clue what she could have made. You know who else is happy? The mutual-fund managers. Muriel has padded their multimillion-dollar retirement accounts with roughly $150,000 of her own foregone income. Forget sponsoring a child in Africa. You're sponsoring an MBA. And you don't even get a photo for your refrigerator.

The final irony is this: every few years, one of Muriel's mutual funds would have a great return—say, 22% in a single year!—and the fund would then spend millions of dollars (including some of Muriel's own retirement money) touting its performance, like a movie trailer that showcases the one funny moment in a deeply unfunny movie. Vanessa sees those ads, too, and she wonders, "Am I losing out by sticking with these boring investments?" It's ironic: Vanessa feels insecure and Muriel feels smart.

It's possible, we suppose, that Muriel's feeling of investment-superiority might be worth something to her, and it might be worth something to you. But surely it's not worth as much as it's costing you. The solution is simple: Stop buying mutual funds. Swensen's advice is to buy index funds from TIAA-CREF or Vanguard, whose fees are minimal. (And if your 401(k) plan doesn't offer a selection of index funds, raise a ruckus!)

Stop driving that Pinto. With your investments, boring is beautiful.

IS TALENT PORTABLE?

First published May 1, 2010

The business world is obsessed with "talent"—hiring it, retaining it, rewarding it. We're urged to "get the right people on the bus." (And, really, what better symbol of the high-performing enterprise than a bus?) The metaphor implies that good workers are portable units of competence. They can bring their talent to your bus or your competitor's bus, but ultimately, it's their prize to bestow.

But what if talent is more like an orchid, thriving in certain environments and dying in others? It's an interesting question, full of nature-versus-nurture overtones; we could debate it endlessly. But Boris Groysberg, a professor at Harvard Business School, has spoiled the debate with an unsporting move. He's gathered some data. And what he has discovered may change your perspective.

In his new book, *Chasing Stars: The Myth of Talent and the Portability of Performance*, Groysberg studies a group of professionals renowned for the portability of their talent: Wall Street research analysts. Analysts are a hybrid of researchers and pundits; they study public companies and write recommendations about whether to buy or sell their stocks.

To do that, analysts need good research and writing skills, and more important, they need great relationships with top executives (to get the straight dope) and with reporters (to spread their conclusions). This would seem to be the ideal free-agent job because when analysts switch firms, they retain their skills and their network. In fact, there's a common saying on Wall Street: "When an analyst moves from one firm to another, the only thing that changes is the letterhead."

Furthermore, it's easy to track the performance of analysts. The magazine Institutional Investor ranks analysts based on both the opinions of their peers and their customers, and these rankings serve as a kind of universally accepted scoreboard.

You can see the science shaping up here: If talent is portable, then when analysts switch jobs, they should maintain similar rankings.

So what happened? Groysberg reports, "Star equity analysts who switched employers paid a high price for jumping ship. Overall, their job performance plunged sharply and continued to suffer for at least five years after moving to a new firm." Worse, switching firms doubled the chance that an analyst would fall off the rankings entirely (32% versus 16%).

So talent is not, in fact, perfectly portable, even in a job that is one of the most independent around (except for, perhaps, janitors and NFL placekickers).

What gives? Wall Streeters mistakenly see analysts as solo stars, but in reality, Groysberg found that even the best analysts depend heavily on an array of resources inside their firms. They rely on junior analysts who do their number crunching, other analysts who give them feedback, and salespeople who promote their ideas to clients. Not to mention the systems and culture within their firms.

There was one fascinating exception to these findings, a group of people who didn't suffer the lag in performance after transferring. Women. Groysberg contends that the alpha-male culture on Wall Street, which never fully embraces women, forces them to compensate by beefing up their external networks, which are more portable. (Or maybe the more parsimonious theory is that women are superior. No argument here.)

So what do these findings mean for the world outside of Wall Street? Should we conclude that there's no such thing as different innate levels of talent? Of course not. The Baldwin brothers alone are enough to refute that. But the only way to take control of your firm's talent pool is to create it yourself. (As a side note, you should definitely get your child on the Wall Street-analyst career track. A job that entails writing persuasive essays on trucking firms must surely be the world's most preposterous route to a seven-figure salary.)

One fan of the DIY approach to talent is Hindustan Unilever, the Indian subsidiary of the consumer-goods giant. Its senior managers are expected to spend 30% to 40% of their time grooming leaders. And executives usually change roles every two to three years so that they learn different aspects of the business. As a result of these programs and others, Hindustan Unilever has developed a reputation as a talent factory.

When you own the factory, you've created a permanent competitive advantage. So if one of your stars leaves, you can simply wish him the best of luck on his new bus. And then grow another star to take his place.

ON HANDCUFFS:
WHY CUSTOMERS WILL PAY YOU TO RESTRAIN THEM

First published March 18, 2009

Consider the piggy bank. It's an odd invention. A piggy bank is like a security system for a world where you are the burglar. In purchasing a piggy, you're basically paying $10 in hopes of protecting $22 in spare change *from your own hands*. Life is full of these piggy-bank situations, where we crave restrictions on our own behavior, and this suggests an odd frontier of potential innovation: Might your business benefit from helping your customers handcuff themselves?

A piggy bank is an example of a "commitment device"—a way to lock yourself into an option you might otherwise dodge, such as saving money. One graduating Stanford business-school student used a commitment device to lock down his own career choice. As reported by Jim Collins in a *Harvard Business Review* article, the student wanted to start a company, but first he needed to pay down some debt. So he took a job at a big company, promising himself that he'd exit after five years and live his entrepreneurial dream. But he also worried about being seduced by the benefits-and-bagels comfort of corporate America. So he wrote a resignation letter, dated five years into the future, and distributed signed copies to several people he trusted. His instructions: If I don't resign in five years, put this letter in the mail and do it for me.

All of us seek ways to save ourselves from our own weaknesses. Some alcoholics take Antabuse, a pill that makes you sick when you drink. Some obese people undergo gastric-bypass surgery. Other people even live in fear of their own procrastination. They're called college students. In one study, students were told they had to turn in three papers by the end of the semester and were given the option to assign earlier binding due dates for the work. Almost three-quarters of them jumped at the chance, thus saving themselves from a frantic Red Bull & Wikipedia bender in the last week.

Commitment devices are commonplace in business as well. Google has pledged to give its engineers 20% of their time to pursue personal projects. With that pledge, the company forecloses its ability to claim that time (at least without causing a lot of squawking). Small businesses get in on the act too. Norm Brodsky, an entrepreneur and a writer for *Inc.* magazine, runs a document-storage-and-retrieval business. He committed to taking four weeks of vacation a year, forcing himself to create systems that would allow his operation to run smoothly without him. He was successful, and since then, he has announced an even tougher commitment device: Now he'll take four months of vacation per year. This would appear to commit him to becoming French.

Meanwhile, your customers are struggling, every day, to bring out their better selves. Katherine Milkman, a doctoral student at Harvard Business School, has studied the way customers wrestle with two kinds of products: "Wants," which are things they crave in the moment, and "Shoulds," which are the things they know are good for them. For instance, Milkman studied the Australian equivalent of Netflix and found that when customers rent a Should film, such as *Schindler's List*, along with a Want film, such as *Die Hard 3*, they tend to watch (and return) the Want film much faster. We aspire to be the kind of people who watch *Schindler's List*, but two weeks later, it's still sitting on top of the DVD player, unwatched, as we rotate through the complete oeuvre of Bruce Willis.

Milkman has found a similar pattern in the purchases of people who buy groceries online. When people are purchasing for next-day delivery, they order many more Want foods than when they're ordering for a more-distant delivery date. We are salad people in the future and Cheetos people in the moment.

In short, people need help saving themselves from themselves, and that presents a business opportunity. What if payroll companies offered "contingent paychecks," dispersing your earnings only if you met the conditions you'd specified (e.g., taking four hours of Spanish lessons or watching *Schindler's List*)? Or imagine that someone set up a national Opt Out of Fat registry, and if you signed up, restaurants would deny your requests for nachos, and grocery stores would refuse to scan your Oreos. Might people pay for that?

We admit these ideas are a bit far-fetched and perhaps likely to end in bloodshed. But Milkman has offered more practical suggestions, such as cleverly bundling Wants and Shoulds. For instance, exercising is a Should, so what if your gym offered to receive your magazine subscriptions? That way, to read the new *Vanity Fair* (a Want), you'd have to drop by the gym. Or what if movie theaters offered you a free tub of popcorn (a Want) for every documentary (a Should) that you watched?

It's a compelling idea: Might the future of business lie in encouraging Shoulds rather than indulging Wants? Could corporations help us bring out our better selves? We hope so. But let's face it—our wants are powerful and stubborn. Cheetos will not go quietly into the night.

FROM THE ANNALS OF UNLIKELY:
'MUST-SEE' COMPLIANCE VIDEOS

First published December 1, 2009

Russ Berland's first assignment at BearingPoint was a doozy. He was asked to redesign the company's ethics-and-compliance training program. If simply reading the phrase "compliance training" sapped a little of your will to live, perhaps you can empathize with Berland.

Most companies—including yours, probably—have an ethics program, and often the "program" looks uncannily like a three-ring binder. It may be sitting on your bookshelf right now, between *What Color Is Your Parachute?* and the 2003 Metro Area phone book. It's filled with cold, knuckle-rapping prose, just like the code of conduct Berland inherited, which, he said, appeared to have been repurposed from a law firm.

Yet compliance training was critical at BearingPoint, a management and technology consulting firm, because the company's employees often spent more time on client sites than at headquarters. Berland, the chief compliance officer, had to influence the behavior of employees who were scattered across the country, operating in organizational cultures very different from BearingPoint's. (Note: BearingPoint filed for bankruptcy earlier this year, due to an excessive debt burden unrelated to an ethics issue.)

Berland and his colleagues began to interview some of the company's associates, asking them about real-world "gray areas": What situations make you feel squishy? What have you seen happen in the field that gave you pause? Soon, they'd uncovered stories of ethical quandaries and anxious situations and strained relationships. It was exactly the sort of drama that was absent from the three-ring binder.

Then came their epiphany: Let's bring this drama to life. They hatched the idea to film a fictional series, modeled on *The Office*, that would highlight the activities of a single consulting team. The team would work for a fictional company called Aggrieva, which was designed to be the evil doppelgänger of BearingPoint. (Motto: "Aggrieva says yes when everyone else says no.")

Berland hired filmmaker Marc Havener to direct the series, and they shot an entire season of 10 short episodes in a weekend. The episodes deal with touchy areas such as bosses hitting on subordinates, teams misrepresenting their expertise, and managers trying to pass along inappropriate expenses to the client. In other words, comedy gold.

Here's a scene where Kevin, the lovably oily boss, has proposed throwing a grandiose surprise party for Ricardo, a client, as a way to curry favor. Vanessa, a levelheaded analyst on Kevin's team, objects:

VANESSA: Sir, how are we going to pay for this?

KEVIN: We'll just work it into the bill somewhere.

VANESSA: We can't bill a client for a birthday party.

KEVIN: [Exasperated] OK, you know what? Fine. I tried. You know what, Vanessa? I want you to look Ricardo in the face and tell him that we don't care enough to throw a party for him.

VANESSA: Wasn't this party supposed to be a surprise? Why do I have to tell Ricardo that the party is off if he never even knew about it in the first place?

KEVIN: Well, now it's "Surprise! There's no party!" Tell him that.

The episodes were an immediate sensation. The emails poured in: "This is the best training I've ever had." "I think that episode was based on my team." "I'm cackling like a madman," and so forth. Soon, the characters and situations became part of the company's vocabulary. Many employees admitted to Berland that they had "worked for a Kevin."

New episodes debuted each Monday, but employees were so ravenous for the next episode that they started tracking them down on the company's staging server, where the videos were posted on the preceding Friday. Thousands of employees watched the videos before they were released.

Observation: When your company's employees are madly searching for your compliance videos, you've done something right.

The series also changed the tenor of the internal conversation about compliance. The company had always operated an ethics hotline, and traditionally it had been used largely to make allegations. After the episodes, though, more people called the hotline to talk over current situations. The episodes gave people permission to discuss tough topics, to see that these predicaments weren't private, shameful secrets. They were, in fact, recurring issues. "It gave people a feeling of comfort that 'Oh, Maria went through that, too,'" Berland said. "'It's not just me.'"

Every business has these "untouchable" issues. They make us uncomfortable, and we usually deal with our discomfort by retreating behind legalistic language. But if we really take these incidents seriously—if we're committed to putting an end to sexual harassment or improper billing or dishonest communication—then we need to show a little bravery. Our three-ring binders won't change a thing. But a little humor and humanity might.

[Authors' note: To see a sample of the Aggrieva videos, go to: www.resonatepictures.com/corporate/sample-videos/]

THE CURSE OF INCENTIVES

First published January 15, 2009

Ken O'Brien was an NFL quarterback in the 1980s and 1990s. Early in his career, he threw a lot of interceptions, so one clever team lawyer wrote a clause into O'Brien's contract penalizing him for each one he threw. The incentive worked as intended: His interceptions plummeted. But that's because he stopped throwing the ball.

Years ago, AT&T executives tried to encourage productivity by paying programmers based on the number of lines of code they produced. The result: programs of Proustian length.

Incentives are dangerous, and not just because people game them. They often yield collateral damage. Remember the tale of the Darwin Award winner who strapped a jet engine to his car, dreaming of a joyride for the ages, and then met his sorry end as a human flapjack on the side of a mountain? Incentives are like that jet engine. There's no question the engine will take you somewhere, fast, but it's not always clear where. Or who you're going to mow down on the way. Yet incentives are still the first resort of most managers. We all think we're smart enough to create the perfect carrot.

Take Merrill Lynch. In the book *Riding the Bull*, author Paul Stiles describes his experience as a new trader at the investment bank. Merrill wanted Stiles, then 29, to trade complex international bonds in volatile markets. He tried asking advice of the seasoned traders, but they ignored him—a minute spent helping Stiles was a minute spent not adding to their monthly bonuses. They kept barking into their phones for hours at a time and yelled at Stiles every time his shadow fell across their computer screens. Eventually, Stiles was reduced to silently observing their behavior from a distance, like a rogue MBA anthropologist. It surely never dawned on the person who set up Merrill Lynch's incentive system that the traders' bonuses would make training new employees impossible.

Why are we so bad at anticipating the effects of our well-intentioned incentive plans? The answer has to do with something that psychologists call a "focusing illusion." Behavioral economist Daniel Kahneman and management professor David Schkade surveyed Midwestern students and asked them to predict the satisfaction of students in California on several dimensions, such as "job prospects," "climate," "personal safety," and overall life satisfaction. They also asked the Midwesterners to rate their own satisfaction. The professors then posed the same questions to actual California students and compared the answers. The Midwest students correctly predicted that the Californians would be happier about their weather.

But the Midwestern students wrongly predicted that California students would be happier with their lives in general than Midwestern students. The overall scores are identical. Schkade and Kahneman showed that, in essence, the Midwestern students erred by focusing too much on a single variable. When you're a Midwesterner contemplating a long, cold winter, you can't help but think that Californians must be happier. But you're ignoring the larger happiness portfolio, in which weather recedes to insignificance among the other things that may influence a Californian's satisfaction—good friends, terrible traffic, career opportunities, laundry, and a governor who compulsively repeats bad Terminator jokes.

Focusing illusions even distort our judgments about ourselves. In another study, some college students were asked, "How happy are you?" and then "How many dates did you have last month?" The researchers found a pretty weak correlation between the level of happiness and the number of dates. But then (hilariously) the researchers flipped the order of the two questions. Suddenly, there was a strong correlation. Having just confessed to a lack of dates, students reported that their lives were joyless.

And this brings us back to the incentive puzzle. When the football team's lawyer hatched a plan to minimize O'Brien's interceptions, he was suffering from a focusing illusion. He reduced the world to a one-variable equation, like a college student fretting about his flatlining dating life.

To be fair, there are some contexts where one variable dominates. If you're employing a field sales rep who is selling a simple, self-contained product, then it probably makes sense to tie incentives to the sale. If you're traveling a long, straight road, the jet engine will get you there faster.

But chances are you don't live in a one-variable world. In your complicated, squishy, matrixed world, if you're dreaming up an incentive plan, you're almost certainly in the grips of a focusing illusion. You're trying to maximize or optimize or minimize something. And you may unwittingly find that when you maximize the length of your programmer's code, you end up minimizing your job tenure.

There's another option. In a maddeningly multivariable environment, great management trumps great incentives, for the simple reason that managers are multivariable. Wouldn't it have been better for a coach to give O'Brien some help on refining his field vision? Shouldn't a Merrill Lynch exec have made it clear that traders were expected to help out the new guy?

Incentives are dangerous. Good managers aren't. So forget about that jet engine and get back to the slow, messy business of actually interacting with your employees.

STIGMA ABUSERS

First published May 9, 2008

A classic TV commercial for Wisk detergent opens with a housewife closing a suitcase she has packed for her husband. Suddenly, the suitcase springs open, as if possessed, and we hear from within a chorus of devil children shrieking, “Ring around the collar! Ring around the collar!”

Another Wisk ad of that time shows a man on a cruise. He is approached enthusiastically by the female cruise director, who tugs playfully at his collar—you know, in the way cruise directors are always playfully tugging at your collar. But then she spots his Ring Around the Collar. She recoils, disgusted. *Ad Age* ranked the Wisk campaign No. 62 in the 100 top advertising campaigns of the 20th century. It’s also despicable.

People are incredibly sensitive to social stigmas. The most serious forms—aimed at a particular race, ethnicity, class, or sexual orientation—are pernicious and destructive. Others, less serious but more plentiful, govern our day-to-day behavior. Think of the way you quickly judge a person who sneezes on a crowded bus without covering up. The Ring Around the Collar message creates an everyday stigma of this kind.

Marketers deliberately construct stigmas for the sake of selling you a solution to the ensuing embarrassment and disgust. They smack you on the head so they can sell you an aspirin for the headache. Why do we put up with this?

If Ring Around the Collar seems laughably old-school, a relic of a more naïve time, then consider one of the present-day variations. A commercial in Visa’s Check Card campaign shows a deli where people move through the line with elaborate, precise choreography, like a Broadway production number. Customers complete their transactions by swiping the check card, and they all seem delighted to be part of the capitalistic clockwork. That is, until the moment when one misguided schlub pulls out some cash. Then everything comes to a crashing halt. No more dancing, no more delight. The cashier looks disgusted.

Yes, Visa and its ad agency, TBWA\Chiat\Day, are trying to make you feel embarrassed about paying for your lunch with cash.

Folks, that takes gall, since for most of the past 30 years, it has been the cash people who have waited patiently for the credit-card people. Remember the guy in front of you a few years back who was trying to buy a 79-cent Fanta Orange with his Visa, and the clerk used the card-imprint machine to grind the raised digits onto the carbon, but the machine didn't work right, so he pulled out a Bic and began microscribing the 16-digit credit-card number into those tiny preprinted boxes? And then he had to call for an approval code. Sheesh.

Sadly, Visa isn't alone in making shame one of our leading exports. Get a load of this astonishing statement in a *Strategy + Business* article that advised companies how to grow faster in China: "Too often, companies focus on understanding only the current demand of the consumer," wrote Edward Tse, a VP with the consultant Booz Allen Hamilton. "A better course is to anticipate or even create demand. Through smart marketing, Procter & Gamble, for example, created the perception that dandruff—traditionally a nonissue for the Chinese—is a social stigma and offered a product (Head & Shoulders antidandruff shampoo) to 'solve' the problem."

Well played, P&G! And, quick, let's get a team from Gillette to solve the Arm Hair Problem in Ecuador! Other marketers should take notes on how to demonize the ordinary. Here's a suggestion for Coca-Cola: "Because who knows where your water has been." For Hallmark: "So he wrote you a love poem. Guess he couldn't afford a card, huh?"

You may be asking, what's the harm? A thoughtful paper from two Columbia University professors on this topic addresses that question. In "Conceptualizing Stigma," Bruce Link and Jo Phelan point out that while stigmatizing certain groups can lead to direct discrimination—for example, against people regarded as "mentally ill"—it can also have subtler effects. A depressed woman, for instance, who is aware of the negative perceptions of the mentally ill, may begin to act more cautiously for fear of the way others may respond to her. Stigmas breed self-censorship.

This is precisely the response that the sleazy Visa campaign wants to elicit. Picture yourself in a crowded checkout line. You reach for the cash in your wallet. At that moment, the folks at Visa and TBWA\Chiat\Day hope you'll feel a whisper of shame. The people behind you are cursing under their breath.

That's icky. Stigma should be reserved for people who violate community standards, like nonhandicapped people who willfully park in handicapped spots. It shouldn't be used as a way to peddle new products for private benefit.

This is why we need one more stigma: a Ring Around the Collar for badly behaved marketers. It's time for the marketing community itself to be the first to turn up its nose at people who shamelessly use these techniques to sell creams and detergents and credit cards.

ANCHOR & TWIST:
HOW TO EXPLAIN AN INNOVATION

First published June 23, 2008

When an adult suddenly collapses in public, cardiac arrest is the likely culprit, and with any luck, there will be someone on the scene who can deliver CPR until help arrives. CPR stands for cardiopulmonary resuscitation. The "cardio" part—pumping on the chest—manually forces blood to circulate. The "pulmonary" part—mouth-to-mouth breathing—gets oxygen to the lungs.

CPR has been ingrained in mass culture for the past 35 years, but what if a new innovation came along that supplanted it? That's precisely what happened in March 2007 when a team of Japanese researchers published a surprising paper in the prestigious Lancet medical journal. It tracked 4,068 adults who'd gone into cardiac arrest with bystanders present (outside of a hospital). The shocker: Victims who received only the chest-pumping part of CPR had slightly better health outcomes than those who received full CPR, including mouth-to-mouth. For most victims, then, mouth-to-mouth was pointless.

This was great news, because it meant that people could save lives without knowing CPR, which is complicated to learn. It takes hours of training to master, and even people with CPR certification often freeze when a real person collapses, afraid they'll screw up: *How many times do I pump before doing a breath?* The study suggested that all you need to do is call 911, then push hard and fast on the person's chest until the ambulance arrives. That's it. You've saved a life without getting your lips involved.

Freeze here. The American Heart Association (AHA) had a brilliant innovation on its hands that could help a lot of people. But the information wasn't helping anyone because only the AHA knew about it. Businesspeople routinely deal with this issue, even though we may not all save lives. How do you spread a new idea—fast—and get people to pay attention?

Innovations require lots of explaining. (We just spent one-third of this column laying out the CPR case.) Explanations require lots of attention, but attention is scarce. So don't explain. Instead, anchor your communication in what people already know. Some people within the AHA thought it wise to use CPR as an anchor for the new technique, because the public already understood what CPR was and when it should be used. From an explanation perspective, that's a big leap forward. Perhaps, they suggested, the new technique could be called "Mouth-Free CPR" or "CPR lite."

Others, though, rejected the CPR analogy as inaccurate—the whole point of the new technique, after all, is that there's no more "pulmonary" action, so the "P" in "CPR" is wrong. They lobbied for a more precise term, such as "cardiac-only resuscitation." After much debate, the CPR analogy prevailed.

And thank goodness it did, because anchoring is easier than explaining from scratch a term like "cardiac-only resuscitation." Here's an example: Wikipedia says an alpaca is "a domesticated species of the South American camelid." That's the explanation. As an alternative, you could say an alpaca is like a small llama. Which one is easier to understand?

Breakthrough technologies often need an anchor so customers can grasp them. Consider an innovation called Lumineyes. It allows people with brown eyes to turn them permanently green or blue. According to the product's Web site, Lumineyes uses "a laser to heat the pigment layer [of your eye]. The process either bursts the pigment cells, resulting in the release of free pigment into the iris, or simply damages them."

Um, great. Everyone who has been craving some good cell-bursting or pigment-damaging action, you've found your solution. Perhaps Lumineyes can upsell a savaging and plucking package.

How could you anchor Lumineyes in a more familiar (and less scary-sounding) technology? A Stanford MBA student named Rose Roll, who was helping Lumineyes with its message as part of a class assignment, suggested that the company anchor its innovation in LASIK, the procedure that permanently improves eyesight: "Lumineyes is like LASIK for eye color." In fact, Lumineyes is actually less invasive than LASIK—it doesn't require peeling back the cornea to allow the laser to do its work.

Roll's idea is the right one, because LASIK has already done the hard work of explaining an eye-altering technique to the public. And that was no easy mission, by the way. You think it's hard to sell your innovation? Try persuading people to sit still while someone shoots their eyeballs with a laser.

The only downside to anchoring is that, by hooking into existing ideas, it creates sameness. Sameness helps people understand what you're doing. But to sell something, you usually need difference. It doesn't work to say, "Introducing new Gleemy toothpaste—it's perfectly interchangeable with Crest!"

That's why a good innovation story couples an anchor with a twist. For instance, the AHA eventually named its new life-saving technique Hands-Only CPR. CPR serves as the anchor, and "hands-only" is the twist. Lumineyes may anchor itself in LASIK, but its purpose is so different that it carries a powerful twist: It's like LASIK, but it makes your eyes blue.

The iPhone, too, shares this structure. It's billed explicitly as a phone, but the "i" signals the twist, and when you see people poking and pinching it, you realize what a departure it represents. No doubt there was a faction within Apple that hated the idea of calling it the iPhone. "Guys, this is nothing like a normal phone!"

This craving to break the mold is understandable. After all, your colleagues are probably proudest of the things they've created that are unique. But making something is different from explaining it—from a communication standpoint, similarities are your friends. So anchor away.

WATCH THE GAME FILM

First published June 1, 2010

Football coaches pore over game film to spot things they'd never see in real time. "Hey, check it out: When the defense blitzes, the free safety picks up the running back. So by picking off the safety, the middle of the field will be wide open for a screen pass." The value of this meticulous observation is intuitive in the sports world. After all, coaches get a week to review a 60-minute game. In the organizational world, where every day is game day, such analysis is less common. That's unfortunate, because studying the game film can yield unexpected insights.

Consider the work of Doug Lemov, a consultant to school districts that were desperate to improve. Lemov, a former principal and teacher, was convinced that better teaching was the answer. Stanford research shows that in one year, the top 5% of teachers can raise students a grade level and a half. The bottom 5% put their kids a half-grade behind.

Given those stats, some people have suggested firing the bottom 5% of teachers. (Somewhere, a teachers union rep just had a good chuckle.) But there are 3.7 million teachers in the United States. To replace the bottom 5% with fresh talent, you'd need 185,000 new recruits. That's a big number, equivalent to recruiting every last dentist in the country to join the ranks. (Somewhere, a dentist just had a good chuckle. On his boat.)

Lemov wondered: What if we could make all teachers a little bit better? There was a problem, though. No one knew what made some teachers better than others. Most people thought some teachers just had "it" and the rest didn't.

Lemov suspected there was technique underneath the teaching magic—and if he could find it, he could teach it. So he identified a classic top-5% teacher at North Star Academy in Newark, New Jersey, and asked if he could observe the class. Lemov's buddy, a wedding videographer, agreed to record the teacher in action (a welcome relief from the Electric Slide).

Five years later, having recorded and analyzed hundreds of hours of videotape, Lemov has some answers. In his new book, *Teach Like a Champion: 49 Techniques That Put Students on the Path to College*, Lemov reveals what he learned. As he expected, great teachers have a lot in common. For instance, star teachers circulate around the whole space of their classrooms. They are always within seconds of being at the shoulder of any student in the room. Less experienced teachers rarely "broke the plane," the imaginary line running between the blackboard and the first row of student desks.

Great teachers also start class before the opening bell rings with a "Do Now" assignment on the board. (*Find the area of a triangle with a base of 3 inches and a height of 4 inches.*) Their students are trained to come in, get settled, and begin working on it. The technique is powerful: If a teacher can transform five minutes of "transition time" into productive time, that's like adding 15 extra class periods to the school year. Lemov now spends his time training crowds of teachers to use these techniques, which are easy to absorb with practice. And the tips would have remained unknown if Lemov hadn't watched the game film.

Businesses tend to get itchy when you talk about filming employees. The word "surveillance" is never far behind. But you don't need videotape to generate new insights. Consider Jump Associates, a nontraditional strategy-consulting firm whose past projects include helping Target revamp its back-to-school offerings. Jump consultants like to watch the game film from their client meetings. Video isn't feasible; you can't put a Flip cam in your client's face. Instead, staff associates are asked to watch the action and write down their observations. When was the client very engaged? When did Jump employees seem off their game?

After every client meeting, the staff holds a debriefing, modeled on the Army's after-action reviews. People give each other feedback, offering at least one positive example and one concrete suggestion about how to improve. One pattern uncovered by a debriefing was that the firm's gen-Y staffers tended to use "uptalk"—that vocal tic where, like, a statement? Comes out sounding like a question? The uptalk tended to make the young staffers sound less confident, and they resolved to work on it.

Even top executives get their own game-film breakdown. For instance, a Jump senior associate shadowed founder Dev Patnaik for six months. The two debriefed after every meeting and every client interaction. The implicit barter was clear. The senior associate got incredible insight on how senior leaders act, and Patnaik received something that senior executives rarely get: feedback.

Patnaik recalls a comment on one of his presentations: "The associate told me, 'You started with an intro but didn't hit your stride until about 10 to 12 minutes in, when you told a story. Why not start with the story?'" Patnaik says the advice boosted his energy in presentations. It helped him see that "stories are what excite me."

What insights might your team be overlooking because no one is observing carefully enough? Might be time to press the Pause button and start screening some game film. There are many things you'll never see unless you look.

THE FUTURE FAILS AGAIN

Published on Slate magazine, Nov 8, 2011

You—sitting right there, reading this article—you're an avatar in Second Life. You work a Second Life job, earning Linden dollars. You have blue hair and a serpentine tail, and you're dating an androgynous digital skateboarder named Rikki. Also, you are a ninja. Life is great.

At least, that's the way things were supposed to unfold. In 2006, the future was Second Life. *Business Week* put Second Life on the cover. American Apparel, Dell, and Reebok, among many others, rushed to build virtual storefronts. Reuters even created a full-time SL bureau chief. People rushed to sign up and create their own avatars. Blue hair and Linden dollars were the future.

Looking back, the future didn't last long. By the end of 2007, Second Life was already losing its fizz. "Businesses are shuttering in Second Life, it seems, because no one is using them," wrote Morgan Clendaniel in a brutal piece in *GOOD* magazine. "There were never any employees at stores like Dell and Reebok when I visited, nor were there any customers. But that wasn't that shocking because, for the most part, there seems to be no one in Second Life at all."

Today, Second Life limps along. In the first half of 2011, the company reported that an average of about one million users logged in every month—which, you have to admit, is about 999,990 more than you expected. But during this same period, Facebook averaged roughly five hundred million logins per month.

How did we misread the future so badly? Mind you, this Second Life hype didn't involve distant, sci-fi predictions about the future. ("Someday we'll all commute to the moon using unisex RocketCrocs!") This was just five years ago. We were just months away from the iPhone.

After enduring a lifetime of mega-fads that flame out—the Apple Newton and PointCast and the Segway—why are we so quick to extrapolate a few data points into a Dramatic New Future? Well, here's the frustrating part: Sometimes the Dramatic New Future arrives, exactly as promised. The mega-hyped Internet? Yep, worked out OK. Ditto Google and Facebook and iPods and iPhones.

This predictive crapshoot is rough on business leaders—your employees are going to bug you, every time, to greenlight the corporate blog. Or the storefront in Second Life. Or the special on Foursquare. Which efforts are worth it? How can you know, for sure, in advance?

Well, you can't know for sure. You just can't. As Yogi Berra said, "It's tough to make predictions, especially about the future." But in our experience, there's one tool that has proven useful in separating the YouTubes from the Segways. It's adapted from Clay Christensen's *The Innovator's Solution*, and it hinges on, of all things, building a better milkshake.

Christensen asks us to imagine a group of marketers at a fast-food restaurant who want to sell more shakes. As they comb the customer data for insight, they discover something interesting: Most milkshakes are sold to early-morning commuters who buy a single milkshake and nothing else. Why milkshakes?

These commuters, according to Christensen, are "hiring" milkshakes to do a job for them: to supply a breakfast that is filling and non-messy and cupholder-compatible. So to sell more milkshakes, the marketers don't need to create a more delicious milkshake. Deliciousness isn't really in the job description. Rather, the shakes need to be an ideal commute copilot. (If only having a milkshake in the car would let us use the HOV lane…)

So the restaurant's marketers, inspired, create a self-serve milkshake lane to speed up the morning transaction. They add tiny, straw-suckable chunks of fruit to the shake, which make it last longer and add variety to the dreary commute. These tweaks made the milkshake a more useful "employee," and sales improve. (Note that Christensen tells this milkshake story as a disguised version of an actual project he did, which apparently had nothing to do with milkshakes. But you get the point.)

So when you evaluate the next big thing, ask the Christensen question: What job is it designed to do? Most successful innovations perform a clear duty. When we craved on-the-go access to our music collections, we hired the iPod. When we needed quick and effective searches, we hired Google. And looking ahead, it's easy to see the job that Square will perform: giving people an easy, inexpensive way to collect money in the offline world.

But what "job" did Second Life perform? It was like a job candidate with a fascinating résumé—fluent in Finnish, with stints in spelunking and trapeze—but no actual labor skills. The same was true with the Segway. No one was interested in employing a $5,000 walk-accelerator. (Though, to be fair, Segway eventually got a part-time job saving tourists from exercise.)

What about the Apple Newton, the first widely hyped PDA back in the 1990s? It was clearly applying for the right job—to give us mobile access to our calendars and to-do lists and such. But it was a lousy employee, with notoriously poor handwriting recognition and a limited attention span (from low battery life). PalmPilot got the job a few years later.

If the Christensen test alone could predict the future, then the two of us (along with Christensen) would be the richest venture capitalists of all time. It's not a perfect predictor. But by our count, Christensen's test calls correctly about a half dozen of the big technology hype cycles of the last 20 years. At a minimum, it provides some protection against over-optimism. Think of it as a tinfoil hat to insulate you from the nuttiest predictions.

IN DEFENSE OF FEELINGS:
WHY YOUR GUT IS MORE ETHICAL THAN YOUR BRAIN

First published July 1, 2009

If you've ever been part of a discussion on ethics, in school or elsewhere, chances are you didn't spend much time talking about your feelings. It's believed that to live ethically, we must engage our reason, which reins in the whims and follies of emotion. Ethics, then, is heavy on Spock and light on Sally Struthers. But what if unethical behavior is actually spurred, rather than prevented, by reason?

Consider a provocative series of experiments conducted by Chen-Bo Zhong of the University of Toronto. He put test subjects into interactions with anonymous partners where they had two options: to treat their partners fairly or to lie to them. If they decided to lie, they would gain at the expense of their partners.

Before making the decision to cheat or be fair, the test subjects were given some guidance. Some were encouraged to think rationally about the situation and to ignore their emotions. Equipped with this advice, the great majority (69%) analyzed the situation and concluded that, yep, they should screw their partners. Others were primed to "make decisions based on gut feelings." Their guts were pretty trustworthy: Only 27% lied.

There's a twist: Even though the study shows that we would be treated better by people who trust their feelings, we're leery of them. When people were given a choice to interact with a rational decision-making partner or a gut-trusting one, 75% chose the rational partner.

Zhong concluded that "deliberative processes can license morally questionable behaviors by focusing on tangible monetary outcomes and reducing emotional influence." If only such behavior were limited to the lab.

In reality, it seems to have played a role in the Great Economic Kidney Punch we all just suffered.

One small player in the real-estate bubble, Mike Francis, worked at Morgan Stanley before the economic collapse. He bought up scads of questionable mortgages, including some of the NINA (no income, no asset) variety, meaning that the bank giving the loan would not verify the customer's income or assets. The customer applying for the loan knew his answers wouldn't be checked, so he didn't face much risk in declaring, say, a $300,000 salary as a Taco Bell night manager. ("What can I say? The people love my gorditas.")

As reported on *This American Life*'s must-listen episode, "The Giant Pool of Money," Francis said that, with the NINA loans, the banks were "setting you up to lie. Something about that feels very wrong. It felt wrong way back then, and I wish we had never done it. Unfortunately, what happened … we did it because everyone else was doing it."

When you're getting rich, it's pretty easy to soothe the ol' gut. If you need a rationalization, your mind will provide one. For instance, many bankers clung to their analytical models, which "proved" that their investments would be OK even if default rates reached historically high levels. Unfortunately, because it had never occurred to the bankers of yesteryear to give $500,000 loans to minimum-wage workers, the historical models weren't all that accurate. You've got to love the logic, though: *Historically, the most weight I've ever gained in a year was two pounds, so I might as well start eating a quart of Ben & Jerry's every day for breakfast.*

Looking back on the subprime-mortgage debacle, it seems the only accurate information in the whole ecosystem was Francis's bad feeling. And one suspects other people had it too. What if a few dozen others in the chain had listened to that feeling?

A different industry provides a lesson in the value of heeding your gut about ethical choices. In 1987, Paul O'Neill took over as CEO of Alcoa, the world's largest producer of aluminum. On his first day, he announced that no one who worked at Alcoa should ever be hurt at work. The acceptable rate of accidents was no accidents. This raised a lot of eye-brows. Working with aluminum is a dangerous business, and there are plenty of ways to get injured. And Alcoa already had a good safety record, in the top third of companies. O'Neill recalls the skeptical hallway conversations among senior managers: "When the next tough economic time comes, he'll shut up about this."

He didn't. O'Neill walled off the topic of safety from the "deliberative processes" that Zhong warned about. "If anyone ever calculates how much money we're saving by being safe, they're fired," he told his team. Safety wasn't a priority; it was a precondition. He told people, "From now on, don't budget for safety." O'Neill's resolve paid off. Alcoa became one of the safest companies in the world, despite the aluminum industry's inherent risks.

Guts aren't perfect. For instance, we tend to feel so much empathy for individuals that it can doom our efforts to be impartial and consistent. But in the business world, we've tipped too far toward pure rationality. We need an emotional counterweight—and we already have it. When you're in an ethically loaded situation and your gut talks, listen to it.

GET BACK IN THE BOX

First published December 19, 2007

We're always told to think outside the box. But it's about time someone spoke up for the box. Because, paradoxically, thinking inside a box can spark creativity, not squelch it. So maybe you don't need to think out of the box. Maybe you just need a new one to think in.

For instance, let's say you manage a bank. Your top marketing person comes to you with an idea to redesign the service areas of the bank. He says, "We want the bank to be less formal—hipper and more inviting to our young professional customers." Quick: How do you envision the new space? What do the light fixtures look like? What color are the walls?

Your mind is probably a blank. Perhaps that's what people seek when they recommend an outside-the-box, "blank slate" approach. But the blank is not helping you create a less-formal lobby. After all, your team might sit at the conference-room table and nod vigorously that the goal is to be "more inviting to young professionals," but secretly, the team members are envisioning success differently. Jon imagines Alicia Keys music piped into the lobby, Brenda ponders adding a playroom for young children, and Sonny thinks all the customers would be happier if the clerks would just smile more. ("*We should develop a smiling policy!*")

What if your marketing person had said this instead: "We want the space to be more like a Starbucks and less like a post office." Suddenly, it's easier to picture the goal (and to answer the light-fixture and color questions). Notice, though, that the Starbucks vision is constraining. It takes options off the table. The Starbucks vision is judgmental—it says yes to Alicia Keys and no to the playroom. But meanwhile, it also dramatically improves the chances that your team will hit the target.

Boutique hotelier Chip Conley has used this principle ingeniously in creating his unique properties. He told his team: Let's bring magazines to life. His company, Joie de Vivre Hospitality, designed the Hotel Vitale in San Francisco to be "*Real Simple* meets *Dwell*." That's a crystal-clear box. And it makes it easy for his team to brainstorm features of the new hotel. The architects elevated the yoga studio to a prime top-floor location, rather than tossing some token yoga mats next to the elliptical machines in the gym. The front-desk clerks waged war on clutter; imagine a countertop with no pen cups or rewards-club brochures. And the housekeepers don't just clean the rooms, they organize them. Other Conley hotels feature a *Rolling Stone* theme and a *New Yorker* theme. We can all be grateful that he hasn't yet unveiled the *Economist* hotel, where staffers continually remind you of your ignorance of foreign affairs.

We don't know how the HBO show *Entourage* was pitched, but it easily could have been "*Sex and the City* for men." There's a lot of meaning packed in those six words. You know the male friendship will be the heart of the series, that it will involve a mix of comedy and drama, and that there will be a lot of skirt chasing (but fewer cosmos). This high-concept pitch ensures consistency across lots of different decisions: who is cast, what they wear, what they say, where episodes are set.

As we've seen, a well-constructed box can help people generate new ideas. Imagine if, as in the case of the Hotel Vitale team, you could flip through hundreds of pages of *Real Simple* magazine for strategic inspiration. Research tells us that brainstorming becomes more productive when it's focused. As jazz great Charles Mingus famously said, "You can't improvise on nothing, man; you've gotta improvise on something."

Keith Sawyer, author of the insightful book *Group Genius*, spent years studying the work of jazz groups and improvisational theater ensembles. He found that structure doesn't hamper creativity; it enables it. When improv comedians take the stage, they need a concrete stimulus: "What if Romeo had been gay?" The stimulus can't be: "Go on, make me laugh, funnyman."

"Improv actors are taught to be specific," Sawyer says. "Rather than say, 'Look out, it's a gun!' you should say, 'Look out, it's the new ZX-23 laser kill device!' Instead of asking, 'What's your problem?' say, 'Don't tell me you're still pissed off about that time I dropped your necklace in the toilet.'" The paradox is that while specificity narrows the number of paths that the improv could take, it makes it easier for the other actors to come up with the next riff.

Starbucks founder Howard Schultz famously fell in love with the concept of the "third place," a term coined by sociologist Ray Oldenburg to describe meeting places other than home or the office. The third place, the focus of Oldenburg's book *The Great Good Place*, is an outside-the-box kind of term. It says, "Think about something other than home or work." But it lacks specificity, which dulls its usefulness as a creative stimulus. Fortunately, the subtitle of Oldenburg's book fills the gap: "Cafés, Coffee Shops, Community Centers, Beauty Parlors, General Stores, Bars, Hangouts and How They Get You Through the Day." Pick any one of those and combine them with our starting point—the redesign of the bank. Could you envision a bank that feels more like a coffee shop? More like a beauty parlor? A bar? Some of these are terrible business ideas, but the stimulus is effective. Your mind is off to the races.

So don't think out of the box. Go box shopping. Keep trying on one after another until you find the one that catalyzes your thinking. A good box is like a lane marker on the highway: It's a constraint that liberates.

THE INEVITABILITY OF $300 SOCKS

First published September 1, 2007

You wouldn't pay $30 for a can of soup. Or $80 for an undershirt. Yet many of you reading this have paid a few hundred dollars for a pair of jeans. What happened to the Lee Jeans era? In a flash, our price threshold for jeans has increased from $50 to $200. And it's not just jeans that have gone ultra-premium, it's markets as varied as bourbon, workout clothes, and even peanut butter. Could we live in a world seven years from now where "normal" people (including you) would pay $300 for, say, a pair of socks? If so, how would it happen?

Products make the leap from pedestrian to premium when their creators think of them as ideas. Some products are heavy on ideas: perfume, spa treatments, life coaching, alcohol. Others are practically idea-free: mailboxes, fax machines, oil changes. Notice anything about those two sets of goods? You make mega-margins on the first and mini-margins on the second. Margins feed on ideas.

Jeans used to be idea-light. They were workmanlike, durable, and casual. But workmanlike doesn't become a $700 million-plus-a-year category within a decade. What ideas does a pair of $300 jeans hold that Lee jeans do not? Let's start with expertise. Paige Adams-Geller founded Paige Premium Denim in 2004. Prior to that, she helped shape the fit for many of the top denim brands, including 7 For All Mankind, which deserves much of the credit for the modern jeans boom. The idea presented to the Paige Premium buyer, in a pamphlet on each pair, is clear: This person has committed her professional life to finding you the perfect pair of jeans.

As if that weren't enough, meet José Auguilar, who works for Paige in Los Angeles. His job is to mess with your jeans. He takes each "finished" pair, and, using a piece of sandpaper, starts scraping away at certain spots on the leg, in order to create the color fade the designers wanted. Let's admit that paying extra for this service is a bit like paying $50,000 for a Taurus because José Auguilar hit it with a hammer a bunch of times. But without Auguilar, and without Adams-Geller, those jeans lose their status as a curated item and become more like Lee. Just jeans.

Part of the underlying reason for consumers being more receptive to this morphing of products into ideas is that our concept of luxury has evolved. Luxury has become more about personal pleasure and self-expression and less about status. In the 1980s, people generally stuck to their social class, says Zain Raj, executive director of the ad agency Euro RSCG, Chicago: "You wore $200 pants with an $80 shirt and a $65 tie. There was a relative order to the world in terms of value. Today, it's all personal." That's why it's not surprising to see people wear $300 jeans with $8 T-shirts. Or to see folks who can barely make rent pay $15 a pound for Costa Rican organic coffee.

Luxury goods are no longer a sign of status; they're the mark of connoisseurship. Go ahead, ask a rich guy about his $3,900 David Yurman watch. "I love watches," he'll say, and he'll probably tell you about the watch's modern Swiss movement, its anti-glare sapphire crystal, and how it's more a work of art than a timepiece. See—he isn't a rich jerk, he's a watch connoisseur! Our world is populated by watch people and wine people and coffee people and jeans people. You are, it seems, what you blow a lot of money on.

But we haven't completely left behind the status era, because connoisseurship only works when you are recognized as a connoisseur. What fun would it be to wear the world's nicest watch or jeans, and have no one recognize it? A connoisseur lives to be recognized by fellow aficionados. Kindred spirits can only recognize each other, though, if the product allows some "signal" that insiders can notice, such as the subtle back pockets of ultra-premium jeans that can only be decoded by other connoisseurs.

This signaling effect might be the key to launch a community of sock connoisseurs. "I could only see [people paying a lot of money for socks] if there was a new fashion craze—if people started wearing knickers or long shorts that showed off socks," says Adams-Geller, who knows a bit about phenomena.

But $300 socks might benefit from one or two additional ideas. V. K. Nagrani, a designer of high-end men's socks that retail for about $35, believes socks are a signal of intimacy. Think about it: In a formal situation, you'll rarely see someone's socks. Then, if they take off their shoes—a sign of comfort or familiarity—you'll see their feet. If they recline, and their trousers creep up the leg, you'll see more. The more comfortable they get, the more sock you see. It's a sock tease.

Nagrani designs his socks accordingly, so that, as the trousers creep up, you see more and more detail that was once hidden. You're not buying something to keep your feet warm or dry; you're buying seduction. (Though with men, of course, the seductive effect will be extinguished with the first glimpse of hairy calves.)

In this way, slowly but surely, products become ideas. And it dawns on consumers that your product—be it jeans, socks, or a high-end gas range—is a meaningful symbol of their personal aesthetics, their inner selves. Yes, we all know that no one in their right mind would ever pay $300 for socks. But might they pay $300 to be a connoisseur of ankle-seduction? Only time will tell.

THE GRIPPING STATISTIC

First published August 10, 2009

Imagine that the federal government announces a second-stage bailout in the amount of 703,000 hectoshekels. (We've gone metric!) You're probably not sure how to feel about this. Though if you're already incensed, you should probably cut down on the Fox News.

To assess the bailout, you'd ask: How much money is that, exactly? Is it too much or not enough? (Also, in this crazy metric world, how many centiliters do I weigh? And do I look skinnier?)

For all practical purposes, an $800 billion stimulus package is as opaque as a 703,000-hectoshekel package; we have no real grasp of what it means. Big numbers fuzz our brains, and that is just as true in business as it is in public policy. Speaking in "millions" and "billions" is like your second year of Spanish: You've memorized the vocabulary, but it's hard to think in the language. The challenge of communicating the significance of numbers—and acting on them—is to find ways to bring them closer to people's day-to-day experience.

Take the $800 billion stimulus package. Some commentators have tried various ways to put the figure in perspective—if you laid those bills end to end, how many times would they circle the earth? (Because if there's one thing people have a keen intuition about, it's the earth's circumference.)

How can you connect this enormous figure with the realities of daily life? Well, there are roughly 112 million households in the United States, with a median household income of about $50,000. So an $800 billion stimulus works out to be the rough equivalent of seven weeks' income from every American household. Is that worth it? By way of comparison, we already work three or four months a year just to pay our federal, state, and local taxes.

So maybe this seems like a no-brainer to you: seven weeks' worth of work to stave off a potential depression. Or maybe you're appalled. Regardless, we can finally have a real argument, because we have a better idea of what we're arguing about.

Putting a number in a day-to-day context is critical. For instance, years ago, Cisco Systems was contemplating whether to install a wireless network for its employees (a no-brainer today, but not at the time). The company had calculated that it would cost roughly $500 per year, per employee to maintain the network. Was that worth it? Hard to say since we don't have much intuition about $500 yearly expenses.

One employee brought the number into daily life, computing that given what Cisco paid its average employee, if the wireless network could save that worker one to two minutes per day, it would be a good investment. Suddenly, our intuition is activated. Can we imagine a situation where the network might save someone two minutes? Almost certainly yes. (Whereas if the network had required 52 minutes of daily savings to pay off, that would have been a hard sell.)

Building intuition about numbers is different from shocking people with numbers. We've all heard stats like this one (which is real): 27 billion disposable diapers are used each year in the United States, enough to stretch all the way to the moon and back seven times. What to say about this? For starters, it would be a funny joke to play on the astronauts.

But notice that the astronomical analogy blocks any useful intuition. Would we feel better, for instance, if the diapers only stretched to the moon and back once? That would be just as gross, yet it would mean that six out of every seven families had given up disposables.

It's possible to create intuition without losing shock value. In the film *Super Size Me*, documentarian Morgan Spurlock mentions a media campaign that encourages kids to eat five fruits and vegetables per day. Its ad budget is $2 million. Meanwhile, McDonald's annual ad budget for the United States is around $750 million. That's a ratio of 375 to 1.

Spurlock could have gone one step further. His ratio is good—better than millions and billions—but we still haven't pulled it inside the frame of daily life. So suppose your five-year-old daughter watches three hours of cartoons every Saturday morning and sees two McDonald's commercials per hour. Every Saturday, then, Ronald McDonald engages her six times.

How long will it be before your daughter sees a fruits-and-veggies commercial? She'd wait about 14 months to see the first one, and she'd have a driver's license before she saw 10 of them (the same number of McDonald's ads she'd see in two Saturdays). This may help explain why your daughter is more likely to beg for a Happy Meal than a fruit salad.

A good statistic is one that aids a decision or shapes an opinion. For a stat to do either of those, it must be dragged within the everyday. That's your job—to do the dragging. In our world of billions and trillions, that can be a lot of manual labor. But it's worth it: A number people can grasp is a number that can make a difference.

LOVING THE SLOG:

WHY TRUE GRIT MATTERS IN THE FACE OF ADVERSITY

First published March 1, 2011

Sometimes a slog can be beautiful. In 1990, Sally Herndon became the program manager in North Carolina for Project ASSIST, an antismoking initiative. Her mandate was to improve the public's health by reducing smoking. But how could she prevail against one of the world's most powerful lobbies—on its home soil of North Carolina? A knockout blow seemed highly unlikely. Rather, Herndon knew that to succeed she would need to chip away at the problem.

Herndon and her team spent two years planning, but just as their rollout began, they suffered a terrible setback. In 1993, the tobacco industry persuaded the state legislature to pass a law mandating that 20% of the space in government buildings be reserved for smoking. Devilishly, the law limited local governments from passing stricter regulation. Herndon called it the "dirty air law."

So the team had to chip away where it could. It started by picking a fight it thought it could win: making schools smoke free. "Even tobacco farmers didn't want their kids to smoke," Herndon says. Her team had to go from school board to school board, one at a time, grinding out tough victories at the local level. By 2000, it had persuaded 10% of the state's districts to go tobacco free. In 2004, it reached 50%. In 2007, it hit 100%, thanks to a statewide ban on smoking in schools.

In the meantime, more winnable fronts opened up: private hospitals, where sick patients often had to walk a gauntlet of secondhand plumes as they entered and exited. Several progressive hospitals declared their facilities smoke free. Then came prisons, the state's General Assembly, and, finally, in 2009, restaurants and bars. Chip, chip, chip.

During Herndon's relentless 20-year campaign in North Carolina, the adult smoking rate has dropped by almost 25%, and millions of people have been spared the effects of secondhand smoke.

Herndon's willingness to withstand such a slog in a challenging environment is an undeniable showcase of "grit." In fact, new psychological research suggests that grit, defined as endurance in pursuit of long-term goals and an ability to persist in the face of adversity, is a key part of what makes people successful. In a culture that values quick results—this quarter's numbers, this week's weight loss, this month's click-throughs—grit can be an underappreciated secret weapon.

Consider the difference grit makes even in a naturally gritty place: West Point. To be admitted, cadets must have impressive marks on multiple dimensions such as SAT scores, class rank, leadership ability, and physical aptitude. They've been tested as leaders. Yet during the first summer of training, a grueling period known as Beast Barracks, 1 out of every 20 cadets drops out.

When Angela Duckworth of the University of Pennsylvania analyzed these incoming West Point cadets, she found that a very simple survey gauging grit—in which people self-assess on statements such as "I finish whatever I begin"—could predict who would survive the Beast Barracks better than any existing West Point measure. "Grit may be as essential as talent to high accomplishment," Duckworth wrote, and her research has shown the payoff of grit for audiences ranging from Ivy League undergrads to spelling-bee winners. (Though, to be fair, the latter prefers to think of it not as "grit" but as "eschewing pococurantism.")

Grit is not synonymous with hard work. It involves a certain single-mindedness. An ungritty prison inmate will mount a daring new escape attempt every month, but a gritty prison inmate will tunnel his way out one spoonful of concrete at a time.

Grit is often undervalued in business, because businesspeople adore breakthrough innovations, which are basically good ideas that you plan to have next week. ("I'll tunnel out one spoonful of concrete at a time until I can innovate the spoon into a jackhammer.")

But even when grit is looked upon as a last resort, it works. A UK-based website that hosted popular features for teachers, such as a job board and a threaded-discussion forum, decided to revamp its site. For a year, developers worked on the upgrade, but on the big launch day, there was a nasty surprise: The new site was incredibly slow. It sometimes took 30 seconds for a page to load. Traffic plummeted as teachers abandoned it.

Jon Winny, the product manager of the web group, recalls that discussions initially focused on finger-pointing. Software developers insisted the problem was the servers, while the server people insisted the problem was buggy code. "People were looking for the magic bullet that would solve all the problems," he says.

It took about a month for the group to accept that there was no magic bullet. Then came the grit. The web team took over a large conference room and wallpapered a 40-foot wall with electrostatic whiteboard panels. Then they began to list all the flaws that might contribute to delays, clustering them into eight key stages in the process of serving a web page. Soon, the wall was covered with hundreds of hypotheses.

Every morning started with a standing scrum meeting in the conference room, which became known as the "war room." The group would identify a few problems to chase down that day. "It was slow, slow progress," Winny says. "We'd eke out two or three seconds per week." Notice the similarities to the antismoking effort in North Carolina: a big goal pursued in small increments, as well as a kind of "siege mentality." *We are fighting a war on load times.*

Four months later, after countless late nights of work, the team shaved the average load time down to five to eight seconds. And the teachers started coming back.

Grit is tough because you don't get the psychic payoffs that come with an exciting discovery or a shift in direction. You rarely get big wins to celebrate. In fact, you may never truly win. You will never have a web page that loads instantaneously or a state with no smokers. All you can do is shave a few seconds off a load time or persuade a few more rural school districts to join your campaign. And that slow, inch-by-inch progress? It's called winning.

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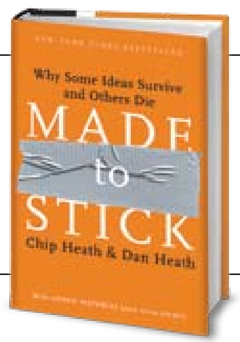

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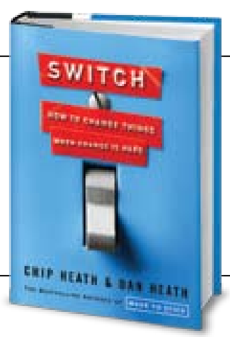

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