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## BUILD A DEFIANT PIPELINE

We know about the power of a great product, as demonstrated by the waiting lists for the newest models of the Toyota Prius and Apple iPod, or the quasi-blockbuster status of Danone's Activia (a yogurt that helps digestion) and Actimel (a dairy drink that strengthens the immune system). But what makes Toyota, Apple, and Danone successful is not one killer product, which will ultimately be imitated and commoditized, but *steady pipelines* of cool, compelling products. Their pipelines—"defiant" as in defying conventional wisdom and challenging what everyone else is doing—are more than a steady supply of ordinary, same-old-same-old products. Instead, those pipelines provide steady waves of breakthrough stuff.

In this chapter, we dissect the process of developing your defiant pipeline and keeping it constantly replenished with percolating ideas, prototypes, interesting and intimate alliances, fast experiments, and cool design—all for the purpose of bringing to market break-from-the-pack products and services.

## The Power of the Pipeline

As we've learned, in a Copycat Economy, an exceptional product is quickly imitated. When 3Com's Palm division came out with its PalmPilot and Internet-ready Palm VII in the 1990s, sales shot through the roof, and the estimated value of the tiny division soon exceeded that of its multibillion-dollar parent. But within two years, PDAs themselves had become commodities. In 1996, Bandai, a Japanese toy manufacturer, had an unprecedented hit with its tiny digital-pet Tamagotchi. Mass hysteria swept over Japanese teens and preteens for a "pet" that had to be digitally fed and comforted to be kept alive. After quickly selling a whopping 10 million Tamagotchis, Bandai manufactured more of them in anticipation of ever-increasing sales. But as competitors brought similar products to market, Bandai wound up carrying a massive amount of inventory as its sales began to slide. Even though the company ultimately wound up selling as many as 40 million units worldwide, and still continues to do so, overall its entire product line has barely broken even.

Even mighty Toyota is recognizing that its once-breakthrough, now-mainstay U.S. products like the Camry sedan, the Tundra pickup, and the Sequoia SUV are entering the latter phases of their product life cycle. Replenishing the pipeline is absolutely necessary if Toyota is to maintain its dominating position in the auto industry.

But to stay ahead of the pack, neither Toyota nor any other company can rely on a mundane pipeline filled with new but boring, "me-too" products. Nor can they rely on a pipeline of just one home-run product. To break from the pack, a company must develop a pipeline of continuously emerging products that defy and visibly transcend the weaker "me too" value of whatever is currently being offered by rivals, or by the company itself. Strong defiant pipelines have rejuvenated large companies like Procter & Gamble. For years, P&G owed its flat financials to its strong reliance on marketing strategies that emphasized "new improved" (a.k.a. dressing up old existing) products like Crest and Tide. Today, P&G concentrates more on strengthening a pipeline of hot, new, defiant products like Swiffer mops, CarpetFlick nonelectric "vacuum cleaners," Crest SpinBrushes, Home Café coffee makers, and Auto Dry car cleaners. This defiant pipeline is propelling substantial spurts in P&G's revenues, reputation, and market capitalization.

Defiant pipelines allow automobile parts suppliers like Johnson Controls to thrive in an environment where their institutional customers

are obsessed with pricing. Johnson doesn't simply wait for orders from GM and Ford; it generates interesting auto-related products, like pulsating, massage-like seat cushions and devices that can simultaneously turn on house lights while opening garage doors. Because Johnson Controls comes up with innovations before its giant customers do, the company has both the pricing flexibility and the credibility to push its customers to outsource more of the cars' total interiors to Johnson.

Defiant pipelines allow companies like Puma AG, stuck in the midst of crowded mass markets, to differentiate themselves. The Puma pipeline includes "driving shoes," (which have an inner slipper within a sturdier outer shoe), 1950s boxing- and skating-style shoes, and martial arts types of unisex clothing.

Defiant pipelines are so potent that they help companies hedge errors. Electronic Arts (EA), the video game king, took a temporary hit on its *Sims* interactive online game by rushing it to market too quickly, with too high a price. Because of its strong, constantly replenished pipeline of games—*Madden NFL*, *NBA Live*, *Tiger Woods PGA Tour*, *Need for Speed* street racing, and constant new games based on blockbuster movies like *Harry Potter*, *Batman*, and *Spiderman*—the *Sims* setback was just a minor blip. In fact, Electronic Arts nearly made up the *Sims* \$63 million impairment charge on *Pogo*, a downloadable family game that on its own boosted online revenue by \$50 million.

A defiant pipeline allows companies to survive and ultimately thrive under seemingly impossible circumstances. For several years, even after Steve Jobs's return as CEO, Apple floundered, with a 3 percent share in the computer business. Despite repeated claims that the company was dead or irrelevant, it survived by supplying its tiny but fanatical customer base with a pipeline of cool, technologically exceptional multicolored iMacs and related software. In fact, writing in *InfoWorld* in 2003, a supposedly dark year for Apple, Tom Yager sang the praises of Apple's PowerBooks and OSX client and server operating systems, Safari Web browser, and Java platform. "Tracking the innovation coming from this dead, irrelevant company is wearing me out," he declared.

In contrast, mundane or stalled pipelines can lead companies to make bad decisions. Remember when ABC bled its successful *Who Wants to Be a Millionaire*?<sup>9</sup> show to death by showing it three and four times a week, until it died from overexposure?<sup>9</sup> That's what happens when your defiant pipeline is a trickle.

I am convinced that one of the reasons that Merck pushed Vioxx so extensively, even in the face of troubling data that suggested some nasty side effects, is because the company's pipeline was weaker than executives hoped for. When you're not confident about your new product pipeline, you market the hell out of anything that sells and pray for some deliverance later. That's a dangerous way to do business. Until the 2005 hit *Desperate Housewives* finally gave ABC a little lift, the company had dragged down its parent Disney's earnings for years. With the Vioxx debacle, the impending lawsuits, and the shrinking of replacement products, some analysts predict that Merck may not see any significant earnings growth for the remainder of this decade.

## The Power of Defiance

Pipelines are powerful to the extent that their contents defy conventional wisdom, defy what everyone else is doing, and sometimes even defy what the company itself is currently doing. Defiant pipelines are loaded—and constantly reloaded—with transformational intellectual property, ideas that challenge tradition and dogma, provocative pilots and betas, controversial projects and alliances, and constant, quickly executed experiments to test potential new products and services.

Defiance reflects your company's unique, challenging, controversial, even shocking point of view about your business and your market. Defiant pipelines take a company—and, ultimately an industry—to a place of transformation. For example, with video game products like *The Sims*, a game that allows viewers in different locations to create and control an entire community, EA's technological breakthroughs in product after product are now becoming recognized by computer giants like IBM as the future of computing because they are visual, interactive, graphic, sensual, and immediate. Small wonder that from 1994 to 2004, EA's revenues and profits grew at an annual compound rate of more than 20 percent, while 2005 saw operating margins of 21 percent and return on invested capital of 60 percent.

While EA is definitely ahead of the pack, some observers of the video game business argue that the leader of the pack is an even more defiant Rockstar Games, the creator of notoriously violent hits like *Grand Theft Auto* and other products that have a distinct "gangsta" vibe. In developing products that allow up to six people to have a Wi-Fi gang war, one Rockstar executive explained, "We try to take stuff