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Savoring surprise: the leadership learning opportunity

Soren Kaplan

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All the management books on Amazon.com with the word “surprise” in their title promote approaches to avoid, prevent or minimize the likelihood of businesses being struck by a bolt from the blue. It’s fair to say that most management authorities regard surprises as problematic wildcards that disrupt the best-laid strategies and plans.

But some astute leaders have learned to look for opportunity in surprises, sometimes discovering important strategic variables that contribute to long-term success. Their anecdotal accounts raise the question, could surprises be routinely mined and sifted for bigger and better ideas, strategies and solutions? Could surprise be used as an impetus for innovation and market differentiation? And if so, is there a 2 × 2 model managers could use as a decision-making guide?

In today’s turbulent environment, living with uncertainty is the norm. To cope, some leaders have learned the value of embracing uncertainty – and specifically surprise – into their organizational learning cultures.

Scott Cook, the Founder and Chairman of Intuit, once said, “I’m a big believer – and this is something I’ve come to learn – in savoring surprises. If there’s something that’s really a big surprise, upside or downside, that’s generally the real world speaking to you, saying there’s something you don’t yet understand.”[1] Cook sees Intuit’s unique ability to proactively discover surprises as a catalyst in creating many of its breakthrough products and establishing its market leadership.

Intuit’s flagship product was Quicken, the leading software program for managing home finances. But early on, Cook and his leadership team kept hearing that small businesses were using the product. Quicken was designed for balancing checkbooks, not for the type of debit accounting needed to run a business. Cook dismissed his own market data for over a year. But when a survey came back indicating about 50 percent of Quicken’s customers were small businesses, Cook decided to look into the cause. What he realized surprised him – twice! He first discovered that the vast majority of small business owners didn’t know how to do debit accounting, and didn’t want to learn it, which was precisely why they were using Quicken. This initial surprise led to an even bigger one: the market for small-business-accounting software was ripe for the taking. Cook and his team went to work and created QuickBooks. Three months after launching the small-business-accounting program, Intuit captured almost 70 percent of the market. The product remains one of the company’s biggest and most profitable businesses today.[2]

Few companies view the surprises discovered in market research as an opportunity for strategic innovation as avidly as Intuit does. Most leaders assume that being surprised, even by opportunities, equates to a lack of control, and few leaders have the self-assurance to relish the opportunity to learn from the surprise of bad luck.

But in their book *Great by Choice*, Jim Collins and Morten Hansen found that “luck events” play a significant role in business success.[3] Leaders who capitalize on good luck when it happens, and who are the best prepared when they experience bad luck, win out in the long-term. Collins and Hansen’s research brings unpredictable events to the forefront as a critical factor in the success of individual leaders and entire organizations.

No one is advising leaders to rely on luck to improve business success, but leaders need to learn how to harness the latent opportunities that reside within the inevitable surprises they will experience. The goal is to quickly turn unexpected positive or negative events into opportunities to challenge assumptions and shift strategies.

Tuning into surprise

While some companies like Intuit have learned to appreciate positive surprises, others see the value only after unintentionally stumbling upon good luck. Canon USA President and CEO Yoroku “Joe” Adachi recently aimed the launch of the EOS 5D Mark II camera on still-image photographers. Several months after the launch, accolades started pouring in from TV producers and filmmakers. The camera’s digital video quality matched that of much more expensive cameras used by professional videographers. To Adachi’s pleasant surprise, without intending to, Canon had just established itself as a disruptive technology in this market.[4] The company is now developing cameras specifically designed for movies, television and commercials – and leapfrogging the competition in the process.

Clearly leaders cannot rely on lucky surprises to fuel their innovation pipelines and guide their strategies. But being vigilant about how customers and non-customers respond to what businesses do or don’t do can provide clues into the next big thing.[5] Many companies passively dismiss feedback that runs counter to their plans, or fail to use such unanticipated information as the basis for exploring a new market. In the case of both Intuit’s Quickbooks and Canon’s Mark II camera, however, customer segments outside of the intended target revealed surprising market opportunities.

Seeking out surprise

The fields of design and product development introduced “design thinking” as an approach for collecting insights into unmet customer needs and problems using ethnographic methodologies. The idea behind design thinking is simple: by immersing ourselves in the daily lives of others, we can obtain a deeper understanding of their challenges and needs, which reveals new insights that can be used as the basis for creating new products and services. The Silicon Valley design firm IDEO popularized the approach and top universities like Stanford have created “D-Schools” (“D” for Design) to further formalize the theory and methodologies.

Many companies have now adopted design-thinking principles and tools in their product development efforts. Some companies have gone one step further by infusing the design-thinking value of customer-driven surprise into their cultures. For example, at Intuit, two software engineers from the TurboTax business were experimenting with importing smartphone photos of W-2 tax forms directly into the designated data fields within the program. When they shared the promising idea with customers, the response was, “Why can’t I complete my entire taxes on the phone?” As it turns out, many people don’t use the full feature-set of TurboTax on their computers since they don’t itemize their deductions or have

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investment income. Their taxes are simple; they only transfer the numbers from their W-2 forms. This unexpected customer insight and the discovery of an unmet need had profound implications. As a result, the TurboTax leadership team created SnapTax, now one of the most popular finance apps for the iPhone and Android. With SnapTax, people can take a photo of their W-2 form, answer a few basic questions, and electronically file their taxes from their phone – all in about 10 minutes.

Turning negative surprises into new opportunities

Some surprises represent significant threats to the business. Chuck Templeton, co-founder of OpenTable, now a leading provider of free, real-time online restaurant reservations for diners and reservation and guest management solutions for restaurants, quickly redefined his company's business model after being surprised by a conversation with a potential customer. Templeton initially assumed that all restaurants would be eager to subscribe to OpenTable's restaurant network because they wanted to fill their tables with diners. But in a meeting with famed New York restaurateur Danny Meyer, Templeton received an unexpected reality check. Meyer stated, "Look, I don't need more business. We're full every night."^[6] In that moment, Templeton realized that one of his prime target customers in one of the most important food cities in the country didn't need the service on which his startup was based.

Meyer's revelatory remark led OpenTable to redefine its business model to include customer-relationship-management tools. This strategic shift allowed proprietors like Meyer to provide even better service to existing patrons and also help other restaurants that needed customers gain additional business.

Not every negative surprise can indeed be transformed into a value adding insight. But anticipating that a firm's best-laid plans may be disrupted by an illuminating surprise keeps managers vigilant. Various tools like scenario planning, trend analysis, contingency planning, and war games help leaders prepare for quick responses to unforeseen events. With the complexity of variables that most businesses must consider, the most important capability for managing surprise isn't a tool but rather a mindset that recognizes the role of unpredictable events in shaping the future.

Shaping surprise

Another dimension of surprise that leaders can apply involves proactively using the unexpected in their interactions with customers. Shaping how customers encounter surprise can actually make the difference between a trivial product or service experience and a memorable one that builds excitement and loyalty.

Take, for example, the fiercely competitive hospitality industry. Many hotel-chain loyalty programs now involve some type of "surprise and delight" customer experience. Marriott, for example, has been known to provide its best customers with unexpected perks that can range from free gifts upon check-in to friendly notes during the stay.

Perhaps the most compelling example of the strategic use of surprise is Apple. Steve Jobs and Apple accomplished many things in the past decade. Not only has the company consistently surprised customers with delightful new user experiences through its products and services, it also established a public relations model that utilizes surprise. Apple's dual approach of breakthrough innovation coupled with tightly controlled product

announcements and corporate communications, results in consistent market buzz that few other companies enjoy. Using surprise as a dramatic PR tactic contributes to the frenzy for Apple's new offerings, keeps competitors in the dark and reinforces the cache of its brand.

Apple's strategy of dazzling customers with unexpected user experiences is being imitated by rivals, setting up a competition for differentiation based on surprise. To gain advantage, Microsoft built a special sound room to test and perfect the noise made by the kickstand on its new Surface tablet computer, a direct competitor with Apple's iPad. Microsoft's goal was to make opening and closing a Surface tablet sound like a well-engineered car door, thus adding a satisfying surprise for the customer.

A model for managing surprises

Surprises have two key dimensions:

- They can be considered positive or negative.
- They either support or hinder existing strategies and plans.

This matrix (see Exhibit 1) identifies four tactical responses for harnessing surprise: Seek & Shape, Prepare & Pivot, Catch & Capitalize, and React & Respond.

- **Seek & Shape:** Proactively seek out positive surprises through looking at how existing and non-targeted customers are using products and services "incorrectly" or in unanticipated ways. Introduce surprises to the market through tightly coordinating communication and introducing unexpected features, products and services that create buzz and delight customers.
- **Prepare & Pivot:** Prepare for negative surprises when evaluating core assumptions. Pivot to new strategies or business models to address new customer needs or competitive environment.
- **Catch & Capitalize:** Recognize positive surprises when they occur. Capitalize on them by shifting strategies or creating new offerings.
- **React & Respond:** Wait until a negative surprise occurs. React and respond as quickly as possible.

Taking an integrated approach to harnessing the power of surprise requires a big shift for many leaders and organizations – not because it requires radically new behavior, but because it involves modifying mindsets. Most managers are taught early on that minimizing uncertainty is one of the most important tasks of leadership. In today's world where uncertainty pervades all aspects of business and life, embracing surprise, the heart of uncertainty, is imperative.

Exhibit 1

		Approach to Surprise	
		Integrated	Separated
Nature of the Surprise	Positive	Seek & Shape	Catch & Capitalize
	Negative	Prepare & Pivot	React & Respond

“In the case of both Intuit’s Quickbooks and Canon’s Mark II camera, customer segments outside of the intended target revealed surprising market opportunities.”

Notes

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