

***THE BREAKTHROUGH BUDGET™***



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Incorporating Innovation  
in the  
Orthodox Organization

Michael F. Latimer

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The Breakthrough Budget:  
Incorporating Innovation in the Orthodox Organization

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## **Dedication**

This book is dedicated to that lone warrior in the trenches who knows what it will take for the company to win, and endures a constant barrage of friendly fire to fight and make a difference.

You know who you are.

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## **Foreword**

### **By the Author**

In spite of all of the compelling arguments and evidence in favor of innovation, there is still an ongoing debate about its priority in the workplace. Judging by its continued absence from the corporate agenda, many critics doubt that innovation will ever make it to the front burner of business.

This book seeks to resolve that doubt by challenging the conventional wisdom about strategic innovation and its role in the workplace. Looking at strategic innovation from a practitioner's point of view, it seeks to dispel the variety of myths about its proper place and purpose in the business world, myths that have kept it mostly isolated in the upper realms of management.

Readers of this book will quickly discover that strategic innovation is not some lofty concept or proprietary phenomenon propagated at the sole discretion of top management. In its strongest form, it is a dynamic combination of creative thoughts and behaviors that can be factored into the daily routine of every member of every business organization.

While everyone in an organization has the capacity to think and act creatively, they do not always possess the freedom. Many large, well-established companies prefer not to encourage innovative



thinking at the lower levels, fearing that it might disrupt daily job performance. On those rare occasions when forward-thinking leaders of major enterprises *do* attempt to instill creative thinking and behavior throughout their organization, management resistance can be overpowering. Some of the most publicized initiatives in this area were those undertaken by Jack Welch at General Electric. While his efforts were ultimately successful, the tortuous process exacted a considerable toll from the workforce. The fact that GE had to unleash someone as forceful as Welch to alter its collective mindset was a very clear demonstration of how incredibly difficult it is to institutionalize innovation in a mainstream business organization.

Today, orthodox business practices continue to prevail, repeatedly ruling out newer, more innovative approaches. Due to a widespread lack of understanding about its application in the workplace, employees are ill prepared to accept responsibility for strategic innovation, and managers are equally unprepared to relinquish it. Until managers and employees alike are convinced that the cost of their complacency is too high, many who hear the cry for innovation will fail to heed it in time.

For that reason, the first part of the book is devoted to a forward-looking view of commerce in the next century. It strongly emphasizes the strategic

imperatives that organizations must undertake to compete successfully in a radically changing business environment.

In the second part of the book, the means for undertaking those imperatives is discussed. In this Breakthrough Budget section, the behavioral aspects of strategic innovation are revealed, allowing readers to transition from a conceptual understanding of the issue to a behavioral understanding of it. From this different perspective, they will discover how their own organization's abundant supply of human capital can be used to revitalize roles that have become insignificant, and revolutionize processes that have become irrelevant.

Readers will also discover that the book has unique insight into the selfish motives that influence workforce behavior. If we have learned anything at all from our collective corporate experience, it is that human nature, with all of its virtues and frailties, is *the* indomitable force to reckon with in the world of business. It prevails in spite of efforts to ignore or circumvent it. Organizations that fail to harness its power for the sake of change are destined to find themselves fighting the same fight, pursuing initiatives unlinked to strategy, and getting better and better at less and less.

To successfully indoctrinate innovation into this type of environment, an organization must put in

place a combination of people, process, systems and structures that can tactfully administer change in the face of occasional resistance from the workforce. It is time to abandon the mythical quest for a corporate culture that automatically and unquestioningly embraces change. In the real world, innovation is a destabilizing force in organizations that value consistency of effort and outcome. The mere hint of the need for innovation can signal an impending breakdown in the established order, and an unwelcome shift in the balance of power.

To acknowledge these powerful forces is to acknowledge the need for an organized approach to innovation. Organizations thrive on organization. That is their nature. The ever-constant change that characterizes a business during its startup phase quickly becomes too unwieldy as the business grows and matures. The only practical way to perpetuate change in a maturing business organization is to build in an infrastructure that can support innovation on a daily basis. This adjunct infrastructure serves as the platform for addressing the unique needs of innovators throughout the organization. Its separate and unique functionality also serves to minimize the disruption of everyday business operations.

Building, preserving and perfecting this platform for change is what the Breakthrough Budget is all about.

## PREFACE

The appropriate starting point for this book is to ask the obvious question.

“What do breakthroughs and budgets have in common?”

In other words, “What do strategic innovation and business administration have to do with each other?”

The answer until now has been, “Very little.”

Efforts to extol the virtues of strategic management have fallen largely on deaf ears. Organizations continue to suffer from a lack of competitiveness that stems from an excess of unproductive activity and an absence of innovative initiative. On the administration side of business, the situation is no better. Managers’ continued fixation on the dollars and cents side of the equation has left them hopelessly preoccupied with finding convenient solutions to immediate problems. This posture has left them unprepared and unwilling to take a strategic look at the longer-term issues.

In many instances, the interests of strategic management and business management actually *compete* against each other in a tug-of-war over current and future profitability. This ongoing

struggle further undermines the long-term competitiveness of the organization.

In the search for a win-win solution, the Breakthrough Budget constitutes the essential ingredient. It assembles the most desirable attributes of the strategic and day-to-day management disciplines. It incorporates them into a comprehensive and cohesive structure that organizations can use to engage their full complement of resources, and realize the full benefit of their creative capacity.

As such, the Breakthrough Budget does not constitute a “dollars and cents” approach to management. The Breakthrough Budget represents a “dollars that make strategic sense” approach to management. It is a creative mechanism designed to rejuvenate under-performing organizations whose constituencies have languished from years of over-management and under-utilization.

Its ultimate goal is to restore the momentum that established companies must have going for them as they head into the next century.

## A NEW AGE

“The future isn’t what it used to be.” George Land

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As the new millennium dawns on the world of business, many would say that we have entered an entirely new age. The last vestiges of the Industrial Age have given way to the Information Age. The Information Age has now been around for nearly sixty years, but you wouldn’t conclude that by looking at the current state of commerce.

Many people believe that it was the internet that spawned the Information Age. In reality, the Information Age began with the introduction of the first high-speed computer in the early 1940’s. At the outset of the Second World War, the first high-speed computers were developed out of necessity. Their inventors Alan Turing and Thomas Flowers were British cryptographers stationed at Bletchley Park outside of London. There, they developed high-speed computers to crack the German secret military codes. The enormous military value of information in deciding the European and Pacific conflicts was all too evident by the end of the war.

In the theater of business, the information revolution also progressed, but at a less astounding rate. Those who managed to prosper early in the Information Age were companies like Wal-Mart and

McDonald's who employed technology to introduce expedient and cost-effective ways of satisfying customers with desirable and affordable products. Those who fell behind were less willing or able to embrace the significant role of information in the new economy. With the advent of the internet in the private sector, the pace of information network-driven change accelerated exponentially. Organizations that failed to grasp the significance of this development saw the momentum in their markets turn against them. By not using information to the maximum extent possible to anticipate the needs and expectations of their customers, these companies eventually abdicated control over their destiny to competitors who were more able with CAIN. (Commercial Application of Information Networks).

Information emerged as the single most compelling force shaping the twentieth century economy. In some cases, its influence spread at a faster rate than companies could manage. Most significant was the emergence of information as a separable commodity. Its value stemmed from its ability to influence the actions of product/service providers and consumers. Information about the way consumers were behaving suddenly became more important than what the consumers were buying. As the understanding of consumer behavior demonstrably increased the success rate for new products and services, companies began investing in

information systems to acquire and disseminate this knowledge. One early adopter in this area was United Parcel Service (UPS). UPS invested millions of dollars in new information technology when they discovered that logistical information about when packages were shipped, where they were in transit, and when they were due to arrive was more important to customers than the contents.

With the widespread growth in internet traffic, new information is being generated at a staggering rate. While it was not the precipitator of this information boom, the internet was definitely the accelerator. The internet has introduced the equivalent of a pure oxygen environment into the combustion chamber of commerce. Whereas it once took considerable time and extensive resource commitments to effect change in the established order, the internet has effected instantaneous change worldwide. The luxury of time once afforded late adopters of new business techniques and technology has virtually disappeared overnight.

The spontaneous eruption of dot.com entities is a visible outgrowth of the internet-powered Information Age. Their proliferation stems from the growing desire of companies to discover newer, more interactive ways of communicating with customers. This movement transcends the conventional advertising approach that favored mass-produced, one-way messaging. The dot.com



movement represents an altogether new way of *combining* once separate and isolated cells of like-minded individuals into *commercially* viable *commonwealths*.

The purpose of these commonwealths will be to provide their constituents with an experience that transcends the purely mercenary act of buying and selling. In these new commonwealths, the emotions and imaginations of their constituents will be engaged through meaningful interactions that ignite their senses and excite their interests.

What will these communities of consumers look like?

Some will be no larger than a family, others the size of a neighborhood. Some will encompass a small municipality while others will canvas the entire nation. Together, these communities will force a major change in the way products and services are bought and sold. As they gradually reshape the way consumers *buy* goods and services, there will be a corresponding change in the way companies *sell* those goods and services. In the future, companies will be compelled to find ways to transform their outward-focused organizations into inward-looking forums that offer their patrons fulfillment beyond the customary buy-sell routine. As the emphasis shifts from what people buy to the way they buy it, the quality of the experience will become more

important than the quantity of product sold.

The significance of this change cannot be over-emphasized. Present day commerce is largely defined by the way providers choose how and what they want to sell. They exert almost complete control over how their goods and services are priced, packaged and distributed. The only forces they must contend with on a regular basis are those exerted by regulators and competitors. Historically, individual consumers have exerted little or no influence over sellers' behavior. Some of the most egregious examples of this lack of control involved durable goods manufacturers who went so far as to incorporate the cost of death and disability claims into the pricing of potentially dangerous products.

As business enters the consumer age, companies will need to adopt a more reformed approach to their customers. Driving this change will be an increasingly informed consumer who, by virtue of the internet, will have substantially greater knowledge of and access to alternate products and services.

Marketing and sales tactics that once exploited consumers' lack of information and choice will have diminishing impact.

### **Orthodox Approach**

*Orthodox organizations traditionally employ a*

*variety of segmented marketing approaches that are customized to attract individual consumers who meet a targeted profile.*

### **Innovative Approach**

*Rather than allowing company-engineered profiles to target the acquisition of customers on a hit-or-miss basis, innovative companies will select organic profiles such as neighborhoods or extended families as the basis for their offering. Offering each of the people in a community or family the chance to collectively purchase and mutually benefit from a product or service will increase the level of awareness and consideration given to the purchase decision.*

This reformed approach to marketing and selling will need to respect consumers as informed buyers. It must view them as peacocks instead of pigeons. Companies will be compelled to relinquish their once-supreme position of power over the consumer. The magnitude of this power-shift will be felt across the competitive landscape.

- Advertising approaches that once attempted to coerce consumers into thinking and behaving in the company-prescribed manner will be forced to give way to more genuine and open forms of interaction.
- Companies will be forced to respect privacy

and accommodate individuality. Consumers will be the ones to decide how, when and where companies will make contact with them.

- The strictly quantitative principles of price/volume and cost/benefit will be forced to give way to concerns about the consumer's quality of experience.

Companies whose current mantra is margin per transaction will awaken to a strange new world where margin per *customer* emerges as the standard measure of success. For some, it will involve forfeiting part, if not all, of their once-precious profit margin in order to ensure a more valuable outcome – a lasting relationship with a loyal customer.

For the most successful companies, that sort of forfeiture will rarely be necessary. Their formula for success will involve patience. Their willingness to take the time to learn what it takes to satisfy customers will afford them invaluable access to those customers over the long term. By repeatedly having (and exploiting) the opportunity to understand people's personal interests and desires, sellers will come away with an exponentially valuable understanding of how to reach more people, in more places, more often.

### **Orthodox Approach**

*Consumer durable manufacturers and dealers try to steer customers into buying product by offering reduced prices and unlimited options for the product and the financing. They compensate for the price reductions by capitalizing on the consumer's lack of knowledge about the value of their trade-in, or their lack of knowledge about how much it will cost to have the dealer warranty or service the product.*

### **Innovative Approach**

*Innovative companies will realize that consumers have access to information about the cost of the new product they want and the value of their trade-in. Having calculated the value of the customer's repeat business over the next ten to twenty years, they will price and perform each aspect of the sale and service in a way that will avert any unpleasant surprises or buyer's remorse. This approach will keep reminding the customer that his or her decision to do business with the company was the right one.*

This new and discreet awareness of the emotional aspects of buyer behavior will characterize the nature of commerce in ...

## **The Age of Fulfillment**

The look and feel of this new age will be altogether different than anything that preceded it. Far more emphasis will be placed on the intangible aspects of buying and selling. As the demographic profile of the U.S. continues to shift towards single adult and single parent households, people will increasingly want to spend what little time and money they have available in venues where they gain the greatest sense of fulfillment. As the technology-empowered Generation X becomes a growing part of the consumer population, they, too, will seek creative outlets that indulge their interests. In practical terms, the following types of behavior will begin to evolve:

- People will prefer the escape of an online auction to captivity with a pushy salesperson.
- People will gladly pay more for a product or service knowing the premium they paid will benefit a worthy cause.
- Companies will voluntarily give consumers free access to popular goods and services as a way to captivate their interest.
- Companies will find ways to make people's lives more interesting and enjoyable, thereby adding to the entertainment value of their

products and services.

Organizations that cultivate an environment in which patrons can share a sense of identity and community with others will be those who prosper in the new age. Satisfying the expectations that these communities engender will be very difficult for most conventional business organizations. These expectations bear little or no resemblance to the ones that underlie today's brand-based marketing strategies. While brands create unique identities for consumers, tomorrow's consumer will want the ability to establish their own unique identity. They will not only seek a unique identity, but a unique experience as well. For companies who cannot fulfill their customers' desire to create their own identities and experiences, the Age of Fulfillment will find them filling orders for companies that can. Their once-venerable status in the old world of business will be supplanted by new age, customer-facing *companies* who know how to fuel, and then fulfill consumer desires.

### **Orthodox Approach**

*Conventional purveyors of products and services engineer them to limit the level of beneficial enjoyment to the one individual who purchased them. To increase or extend the benefits of the product, additional and incremental purchases are required.*

### **Innovative Approach**

*Innovative manufacturers and service providers will engineer-in the capability to extend the benefits of use beyond a single user or application. This could encompass everyday products such as life insurance contracts designed to cover more than one family member or residential security systems designed to protect more than one household. By enabling consumers to automatically multiply and extend the benefits of their purchase to others, it will expand interest in both the product and the provider.*

The schism between those who have the customers, those who have the products, those who have both and those who have neither will widen dramatically as time goes on. The experiential approach to business that attracts and retains large consumer followings will ultimately be lost on most organizations. Many will not be prepared to move beyond the instinctively adversarial behavior that has characterized their twentieth century approach to customers, employees and stakeholders alike. In this old familiar world, rules are dictated by the dominant, industry performance is closely regulated, company boundaries are regularly patrolled and employee behavior is carefully monitored. Whatever sense of community that happens to evolve is closed-end. Its overall look and feel is more captive than captivating. Without the urge to relate to a larger whole, and embrace something profoundly new and different, life in these



organizations will continue to lack any real meaning or purpose.

In business as in nature, the only thing separating the living from the lifeless is the quintessential search for archetypal-altering relationships. Rather than function as vibrant cells whose nucleus (the business) and surrounding matter (the community) are constantly engaging, growing and reshaping one another, many organizations will continue to exist as lifeless forms. As such, they will find themselves out of place and out of touch with their surroundings, struggling to maintain a limited existence, destined to become nothing greater than the sum of their own parts. Such a posture will condemn each and every part of the organization to the equivalent of self-imposed evolutionary extinction.

To keep pace with the changing environment and the shifting expectations of customers, organizations will need to know how to interpret and communicate what they see happening around them. To do this successfully, they must be prepared to embrace...