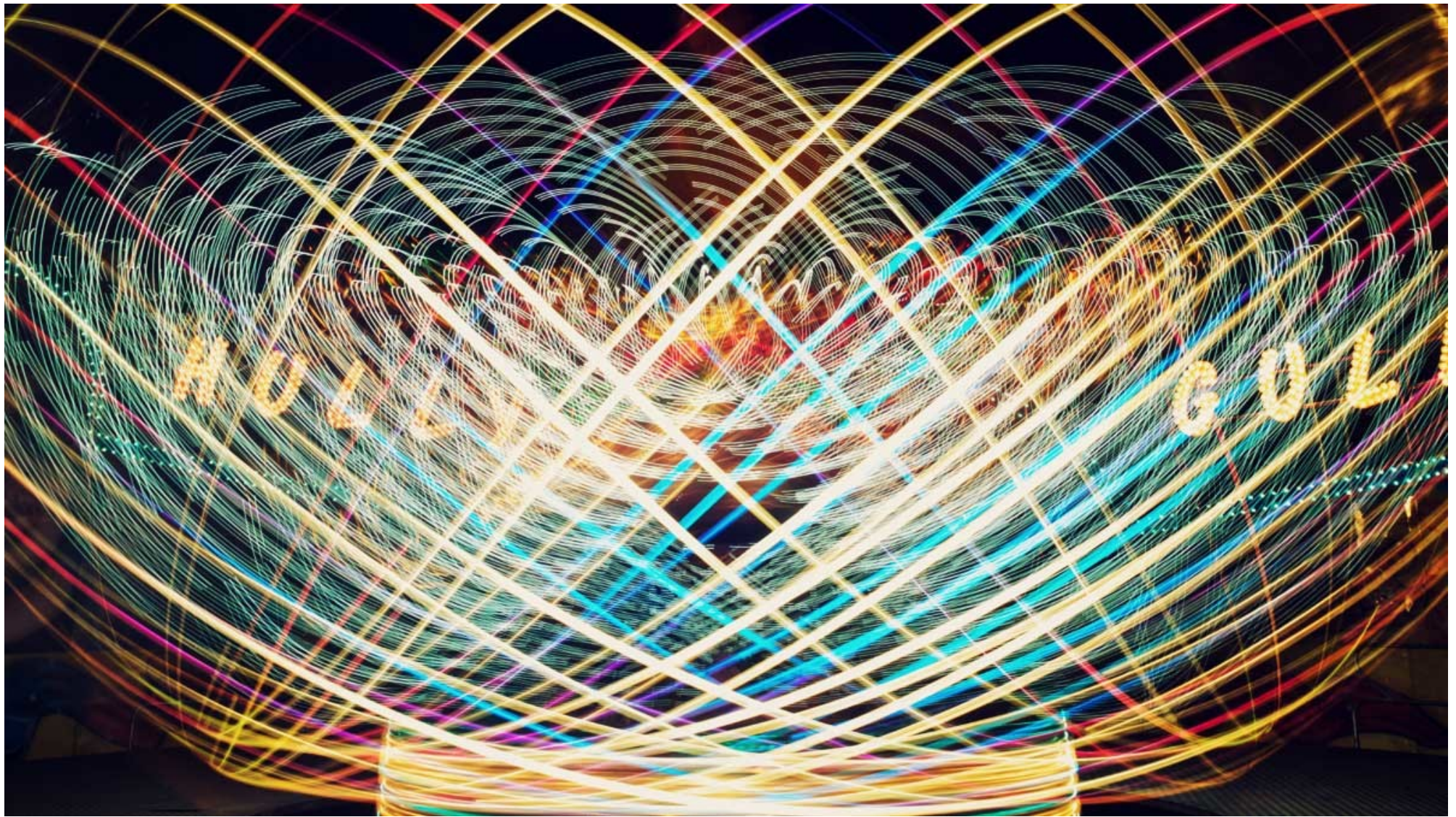


BUSINESS MODELS

How to Create an Exponential Mindset

by Mark Bonchek

JULY 27, 2016



Digital business models are a bit of a misnomer. It's not digital technology that defines them; it's their ability to create exponential value. The music and video industries, for example, weren't redefined by converting analog to digital formats. Just ask Sony about Minidisc players and Netflix about their DVD

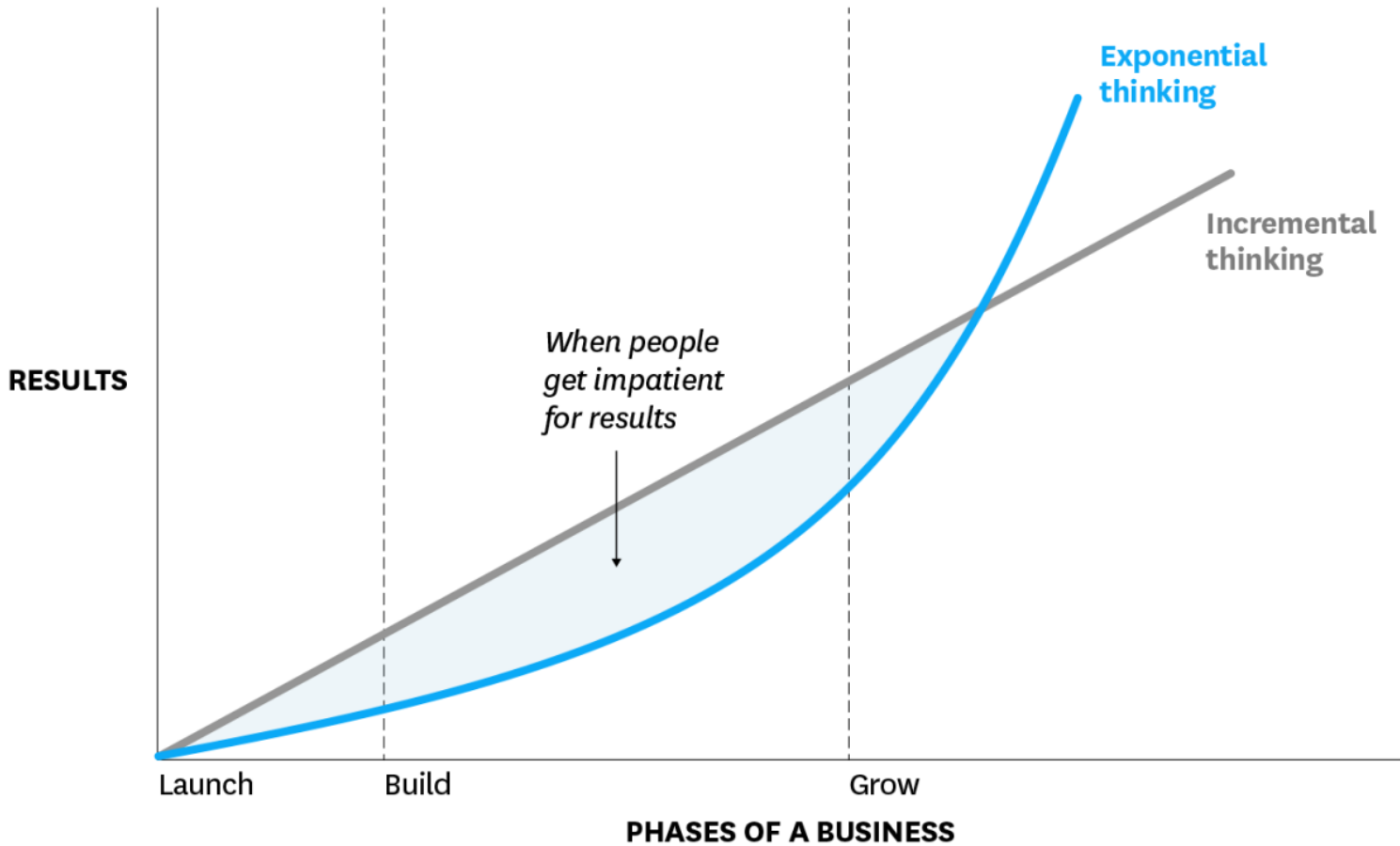
business.

To create exponential *value*, it's imperative to first create an exponential *mindset*. The incremental mindset focuses on making something *better*, while the exponential mindset is makes something *different*. Incremental is satisfied with 10%. Exponential is out for 10X.

In the last century, industrial business models were defined by their use of machines to create *increasing* returns to scale. Digital business models use network effects to create what Ray Kurzweil describes as *accelerating* returns to scale. The key difference is that industrial models are linear while digital models are exponential, as shown in the chart below.

Incremental vs. Exponential Thinking When Growing a Business

Incremental thinking delivers immediate and steady results, while exponential thinking generates results that accelerate over time. The wrong expectations can lead teams to quit the exponential path too soon.



SOURCE MARK BONCHEK

© HBR.ORG

While others have written about how to design exponential strategies and organizations, I want to focus here on how to create an exponential *mindset*. My work with clients suggests that the incremental mindset is more deeply embedded than we might think. Unless you are conscious and diligent, you can end up with a strategy that looks digital (i.e. uses digital technology) but doesn't actually operate digitally (i.e. achieves accelerating returns).

The role of incremental and exponential mindsets vary in each phase of the business journey: launch, grow, and expand.

Launch: Vision and Uncertainty

In the launch phase of a business, the team needs to develop and refine the business model. The Lean Startup approach of test, iterate, and pivot is the right thing to do. But you also need the right way to think. Are you thinking about your business incrementally or exponentially?

The incremental mindset draws a straight line from the present to the future. A “good” incremental business plan enables you to see exactly how you will get from here to there. But exponential models are not straight. They are like a bend in the road that prevents you from seeing around the corner, except in this case the curve goes up.

How Digital Business Models Are Changing

SPONSORED BY ACCENTURE

No strategy is static.

where all 7 Billion people can Belong Anywhere.” Similarly, a group of innovative organizations in the public sector are out to solve global social issues by achieving “transformative scale.”

In Maine they have an expression that “You can’t get there from here.” In the launch phase, you need to realize that an exponential strategy has inherent uncertainty. You can’t know what things will look like on the other side of the curve. You can’t draw a straight line from where you are to where you are going. There’s no step-by-step plan. The exponential mindset helps you become comfortable with uncertainty and more ambitious with your vision.

Build: Courage and Patience

These days, many companies are able to get through the launch phase with an exponential mindset. They manage their uncertainty, take the leap, and start the journey despite being unable to see around the bend. Fear of disruption and envy of unicorns can be a powerful motivator. But then something happens. Or more precisely, something doesn’t happen.

Without an exponential mindset, Google would never have created such an ambitious vision as “organizing the world’s information,” Facebook would never have set out to “make the world more open and connected,” and Airbnb to “create a world

Take a look at the chart above. In the first part of the build phase, you don't see a lot of change. It's not until the second part when the line starts to bend. It's simply the nature of exponential change. Things happen very slowly before they happen very quickly. If this was the only world we knew, it wouldn't be a problem. But we were raised with an incremental mindset. So we can't help but compare the exponential path to the incremental path. And this creates a problem.

We are accustomed to measuring progress linearly and incrementally. If 30% of the time has gone by, we assume that we should be 30% of the way there. That's how things work in the physical world when we are traveling to a destination. But exponential models don't work that way.

What happens is that businesses run into something I call the "expectation gap," where the exponential strategy is at greatest risk from the incremental mindset. It's where many companies abandon the exponential model for the incremental.

I see this consistently on a micro scale in my own work. My workshops are designed with an exponential mindset to generate new ways of thinking about marketing, culture and strategy. Somewhere around a third of the way into a workshop, the leader invariably says something like "so when are we going to get something done?" The reason is that they are still operating with an incremental mindset. A third of the

time has passed, but it seems like they are only 10% of the way to our destination. In fact, most of the progress happens once the curve starts to bend. Invariably by the end of the day the same people are remarking that they can't believe how much we got done in such a short period of time.

In your exponential journey, pay attention to when people get the most impatient for results. It's the point in the chart where there is the largest gap between incremental and exponential paths. This expectation gap is a risk to the business strategy because the impatience can be used by opponents or skeptics to convince stakeholders to jump from the exponential to the incremental. You will have the immediate relief of having "line of sight" once again and see steady progress. But you will also have given up the possibility of accelerating returns and the opportunity to keep up with customers and competitors. The exponential mindset helps you have the courage to persevere and the patience to see it through.

Grow: Agility and Control

In the third phase, you have managed the uncertainty of the early days, the impatience of the middle phase, and now you are firmly "in the curve." Growth is happening faster than you can handle. At this point, the incremental mindset is to try to rein things in and get things under control. But that would be a mistake. To sustain the accelerating returns, you need to shift your mindset about how to mobilize and manage resources.

The incremental mindset assumes that it takes more inputs to produce more outputs. So as growth starts to accelerate, teams start to look for more resources in proportion to the growth. But the addition of too many people or too many resources can “flood the engine” of growth. You need an exponential mindset to figure out how 1X additional input can create 10X additional output.

You also need to apply an exponential mindset to how you manage the resources you have. The incremental mindset about management is like creating a line of dominos. Everything needs to be highly coordinated with active oversight to make progress one step at a time. The exponential mindset is like this demonstration with ping pong balls in which things happen in parallel with a focus on the interactions among participants.

As I’ve written about separately, there is a way to let go without losing control. In the exponential mindset, managers replace control of people with control of principles. The use of doctrine to guide decision-making generates alignment, consistency and empowerment. But most leaders are accustomed to *making* decisions rather than *empowering* decisions. The anxiety from a loss of control can easily push companies off the exponential path back onto the incremental path. The exponential mindset helps to grow output faster than input, and empower teams to achieve both alignment and autonomy.

To summarize, digital business models require a shift from incremental to exponential. At the start, it takes vision and a leap of faith to commit to the unknown. In the early days, it takes courage and patience to build the foundation for growth even when results aren't yet apparent. When growth kicks in, agility comes from empowering others and letting go without losing control. In all of the stages, the challenge is to “unlearn” familiar ways of thinking and embrace the unfamiliar. But with a shift from the incremental to exponential mindset comes the opportunity for real innovation.



Mark Bonchek is the Founder and CEO (Chief Epiphany Officer) of Shift Thinking. He works with leaders and organizations to update their thinking for a digital age. Sign up for the Shift newsletter and follow Mark on Twitter at @MarkBonchek.

This article is about BUSINESS MODELS

+ FOLLOW THIS TOPIC

Related Topics: STRATEGIC THINKING

Comments

Leave a Comment

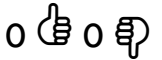
POST

3 COMMENTS

Mennatullah safwat 7 hours ago

have patience, courage and agility

REPLY



▼ [JOIN THE CONVERSATION](#)

POSTING GUIDELINES

We hope the conversations that take place on HBR.org will be energetic, constructive, and thought-provoking. To comment, readers must sign in or register. And to ensure the quality of the discussion, our moderating team will review all comments and may edit them for clarity, length, and relevance. Comments that are overly promotional, mean-spirited, or off-topic may be deleted per the moderators' judgment. All postings become the property of Harvard Business Publishing.