

# A CHALLENGING CONVERSATION

HOW TO TACKLE THE STATUS QUO SUCCESSFULLY

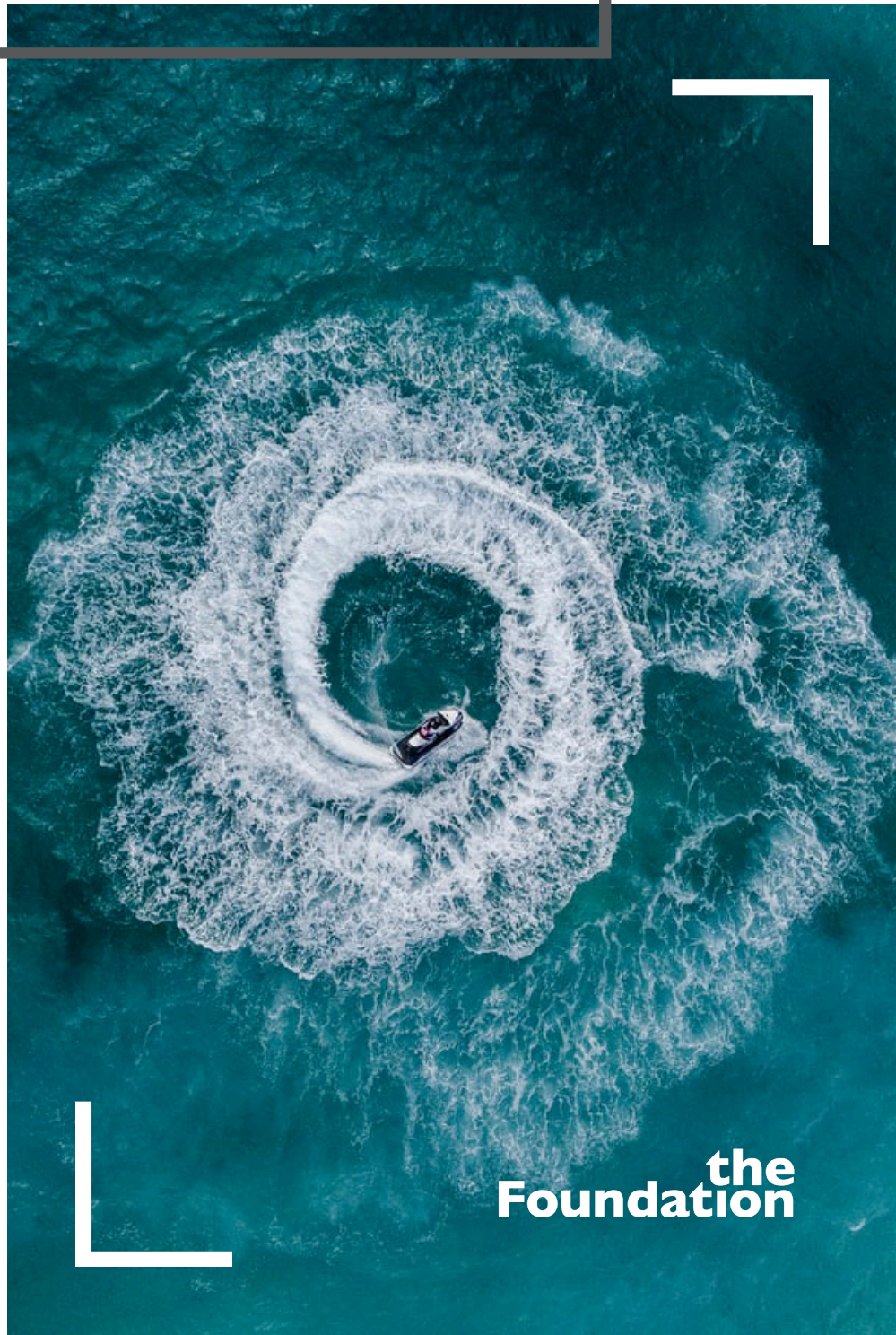
## THE FOUNDATION FORUM

THURSDAY 24TH MARCH 2021

Written up with the help of Simon Caulkin

Our first Forum of the year was an exploration of the world of the challenger. It came at the end of a year of Covid and these are unarguably challenging times. But challenging the established order isn't easy in any year.

At The Foundation we're all about helping organisations pioneer on behalf of their customers, going first to offer something new and better. That means becoming adept at challenging and so we were as keen as anyone to learn more about what it takes



We chose our teachers well.



We had Adam Morgan who, as author of *Eating the Big Fish* published in January 1999, established the idea of the challenger brand, something he's spent the next 22 years helping organisations act on.



We had Martha Silcott, founder of FabLittleBag. She is a purposeful challenger with extreme resilience. She set aside a perfectly good career after exasperation in the downstairs loo of a good friend's house, a disposal crisis with a tampon but no bin. The 'sleeve then handbag smuggle' followed and in her words, 'there had to be a better way, there wasn't, so I invented one'. It's a journey that's taken more than 20 years but the fabulous bag that is the answer has now sold 6 million and counting. She's converted flushers to binners and, somehow, male decision-makers from wary sceptics to bought-in supporters.



And we had Paul Rolles, co-founder of HyperJar, a mathematician and Morgan Stanley moneyman who decided one day to reinvent banking. The big picture twist is to start where money is spent and make it worth putting some aside in advance of spending. From buy now, pay later, to save now, buy later. It earns loyalty for retailers, it earns customers market-leading interest on their money and it helps suppliers get paid on time. But it cuts out the bank.

So we had someone challenging social norms and taboos, someone challenging the system that our economic world is built on, and someone challenging all of us to join in, whatever organisation or situation we're in.

What did we learn? What does it take to do this kind of thing for real? Are there ways of tilting the odds a little towards upstart behaviour and away from the same old thing?

The evening's discussion, summed up by Simon Caulkin, follows.

One of the perennial tensions in business is the tug between big and small, incumbent and start-up, exploitation and exploration. Many economists believe it is the mainspring that propels the economy forward. Every start-up wants to stir things up by doing something different, or the same thing differently, to get big; companies build walls behind which they can concentrate on doing the same thing at scale and ever more efficiently – all the time wondering enviously how they can emulate the ability of their nimbler challengers to turn on a sixpence and stick as close as wallpaper to their customers.

That's the big picture. But rarely can an abstract economic process have been brought to life as vividly as it was at the March Foundation Forum, when a trio of presenters put forward a compelling vision of challenging the status quo via a potted history and struggles to launch products and services as different as tampon disposal, fintech and car rentals.

Challenge and response is as old as capitalism. But for Adam Morgan, who quite literally wrote the book on the subject (*Eating the Big Fish: How Challenger Brands Can Compete Against Brand Leaders*), the modern concept of the challenger brand was born in 1962 when the account director of the ad team pitching for the Avis car rental business tried to kill the famous 'We try harder' slogan on the grounds that it was un-American for a company to present itself as less than No 1. He failed (the team had no alternative pitch), and the rest, as they say, is history.

Nowadays, he says, 'challenger' is a mindset rather than a literal market position, and everyone wants or professes to be one, including new MBAs, pursuers of the American dream, well-established companies looking to address new markets, and even shooting stars such as Netflix – 'prescient', comments Morgan, given the performance of new competitor Disney Plus, which on its present vertical trajectory will overtake Netflix in terms of subscribers in three years. 'So too bloody right, you're in challenger mode – only the paranoid survive.' The other crucial change from half a century ago is that today what's being challenged is more often something in the ether rather than someone over there: habits, culture, conventional practice, for example.

In fact all of the above and sometimes more. Like taboos, which was what Martha Silcott took on when, after a difficult personal moment at a friend's house, she furiously resolved to find a better, ecologically sound way of disposing of used tampons than putting them in a bin, or carrying them around nervously wrapped in loo roll if there wasn't one, as in this case. Or indeed, even worse, flushing them down the loo, knowing that they would end up in a blockage, river or on an ocean beach somewhere.

In Silcott's case, Tom Peters' description of entrepreneurialism as 'unreasonable conviction based on inadequate evidence' seems a laughable understatement:



she had to break all records for obstinacy (winning an accolade for unreasonableness at an LBS innovations awards ceremony along the way). She invented the FabLittleBag, an easy-to-use, hygienic disposal bag for sanitary products, and it took the next 10 years before she could persuade a factory to make them and a B2B distribution channel to get them to users – both achievements in themselves. At one low point during the Great Financial Crash in 2008, when all investment had dried up, she found herself with no patent, no money and no way of manufacturing the product. She just had her original sample made out of a black bin liner.

20 years post creation, the saga continues. Last year the B2B market was abruptly closed down by the spread of Covid, and as for her growing market in Europe... well, we know what happened next. 'Europe has turned into a nightmare to sell to since January,' Silcott sighs.

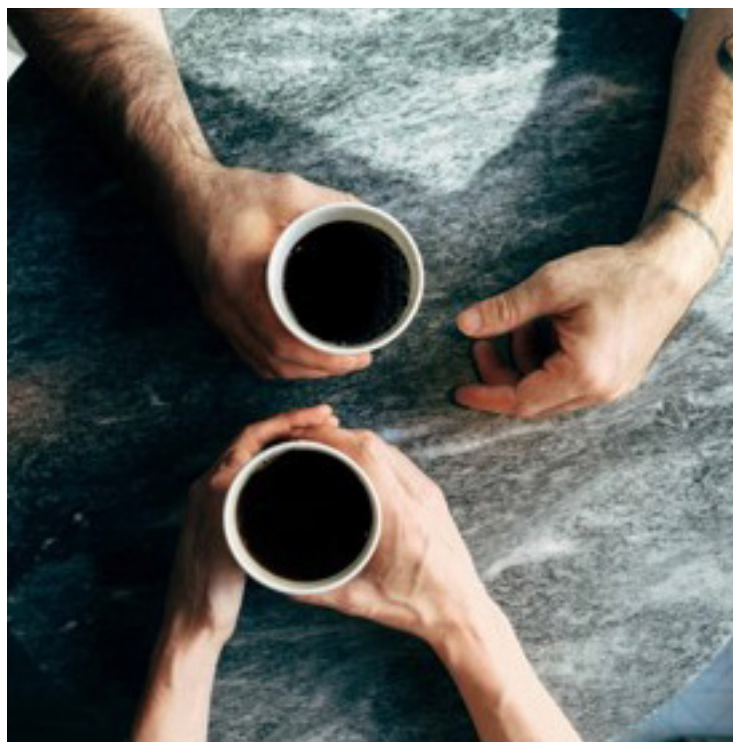
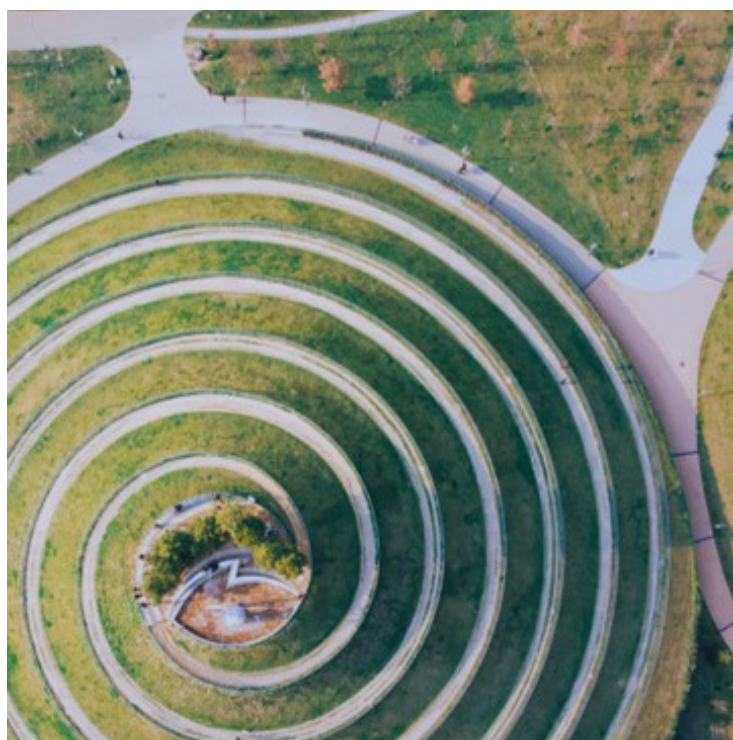
## **'Challenger' is a mindset rather than a literal market position, and everyone wants or professes to be one**

Yet for all the setbacks she remains undaunted. As well as being a nifty and needed product, FabLittleBag is also a means to a larger end, which is change. And that is underway. There is much less taboo about periods today than when she started out, she says. 'We've had massive innovation, there are reusables, tampon tax has gone, we've addressed period poverty to a large extent'. Of course, there's always more to do – but with movement there is hope and encouragement.

Change is also part of the agenda at start-up HyperJar (it launched in November 2020), which through an apparently simple, almost homely, customer-oriented savings product now aims to disrupt, and possibly even disintermediate entirely, a \$7tr worldwide banking market.

Co-founder Paul Rolles, a banking industry lifer, explained how many retailers finance their day-to-day operations with an involuntary float from their suppliers. At any day a large supermarket might pocket millions of pounds for selling goods which it won't pay for until a few months later. Suppliers often bridge that funding gap with lending from banks, who in turn draw on the deposits which we, personal banking customers, provide them almost (currently) for free. On top of this, many retailers are also very focused on lending to consumers, either directly through provision banking products, or indirectly through credit cards or pay now buy later services.

Pondering this, 'we thought it would be cool,' says Rolles, if this could be turned round. How about if retailers took deposits from consumers and extended credit to



their suppliers, effectively reversing the current financial direction of travel. In this way consumers, instead of banking their monthly pay packets in zero interest-bearing current accounts, could put part funds into a 'wallet' offered by retailers with whom they were going to spend their money anyway, paying them interest for the privilege.

This would at a stroke fulfil a huge savings need, at the same time as reducing the reliance on the banks for supply chain finance. HyperJar is a "retail-tech" digital wallet providing budgeting, planning and socially inclusive savings as well as offering retailers a completely new take on data and customer loyalty. Starting small last November, Hyperjar now counts 20,000 users and has signed up 25 merchants so far, from Shell to Bloom & Wild.

## To challenge successfully takes a personal connection to why it matters that runs deep

Interestingly, for neither Silcott nor Rolles is money the most important thing in their venture. Rolles suggests that the founders' Hyperjar endgame may be to build proof of concept and a pot of IP to hand on for others to grow. Silcott likewise reflects that her ultimate aim is to change behaviour, something she won't be paid for and that won't show up on her balance sheet. Much more important as a motivator, both for themselves and others whose paths they cross, is their fierce and unwavering belief.

For anyone going down the start-up route, Silcott emphasizes, 'the first thing in the toolkit is 'unbelievable belief', because if you don't have that then no-one else will believe you. It's the foundation for everything else. I'm not sure where it comes from – it would be nice if you could mine it like cryptocurrency or something – but it has to be there, it has to be genuine.'

That chimes with Morgan's historical view, too. It's the challenger's ace of trumps, and they forget it at their peril.

Consider the behaviour of today's big brands. 'Every brand is chatty these days', he observes. 'It's the illusion of humanity. They're not really human, but they pretend. Then, they have my data, so in terms of understanding, they don't understand my 'why' but they do understand my 'what', which is a reasonably good proxy. Third, I'm a big fan of corporate purpose, but at its worst, corporate purpose is really just a form of industrialised humanity. Bottom line: big brands have stolen the clothing and what we loved about challengers – their character, their empathy, the fact that they try harder – so what's left for the challenger other than this fierce burning idealism?'

Warren Bennis once wrote that 'problem-solving is the task we evolved for – it gives us as much pleasure as sex.' Perhaps, fortunately for us, the drive is as strong too. Rolles started off working on one problem and ended up solving quite another. Silcott notes, 'Challenges are a necessary evil. We've got a vaccine, so COVID is hopefully getting defeated... While challenges are all inherent, I think they drive change. And we can all be part of driving those changes, to make the outcomes as positive as possible'.

## THE FOUNDATION'S VIEW

21 years of our own challenging mean we empathise keenly with this particular discussion. Three big points stood out to us from the evening and they are these:

- 1. Being a challenger is not the easiest way to make a living. To challenge successfully takes a personal connection to why it matters that runs deep. There has to be a cause, a sight in the distance of a wonderful solution to a burning issue. That's what keeps challengers in motion.** Martha's journey has been along a breathtakingly long and winding road. She had the experience described above and then 18 months inventing the clever little bag you could open and close with one hand which in retrospect turned out to be the fun bit. Then she had family-related delays that were for good reasons, factory-finding delays that were bad ones (with nine out of nine 'no's), a patent application that took 7 years, a global financial crisis... and then she was at the starting line, selling something that people didn't want to talk about and that most buyers or financiers being men, had no idea about or empathy for. We met Martha by being part of the judging for the London Business School Real Innovation Awards and in 2017 she won the George Bernard Shaw prize for the most unreasonable person. Never was recognition more fully earned.
- 2. For a large organisation to become a successful challenger there is exactly the same need for personal belief, connection to a cause and the unreasonable pursuit of a goal that follows.** Adam described what he's learned about creating the conditions for challenging at scale and he's seen two ways it can work. One is that a small group takes themselves out of the mainstream of company life and becomes a spirited band of brothers and sisters with a distinct identity and ways of doing things. The other is that the same kind of visceral level of urgency happens for the whole organisation because it's on fire. The CEO and the top team see a burning platform, or have a burning ambition, to do something more important than growing incrementally year by year. This flips the risk. Normally it's brave to do something different. Now it's foolhardy to keep doing the same. But there's a second benefit too. Now it's personal and when we connect to a cause we care about,





each of us becomes capable of carrying out the courageous acts that go with achieving such things.

3. **There are big picture versions of challenges that see issues with an entire system, seeing a better way across multiple organisations and people. But the big picture vision still needs making attractive, which for a challenger means simplifying the choice for each party involved – the established way or the more attractive alternative?** Paul and HyperJar are working on both levels in an immensely impressive way. He described several burning issues that bothered him. Individuals getting nothing from their savings in banks and many being bad at saving and instead getting into debt. Retailers using suppliers to fund their business by paying them so slowly that they sell their goods to customers well before they've had to settle the bill. Then suppliers borrowing money from banks that individuals have deposited, paying plenty of interest for the privilege, in order to fund the retailers' delays.

The idea behind HyperJar is to create a different system. Retailers offer customers generous interest on money that individuals are happy to commit to spending with them. After all, they were going to do it anyway. As a result, customers commit a much greater proportion of their spend to the retailer. And the retailer has a visible, committed future revenue stream they can trust, which they can use to fund paying suppliers more quickly (although this last bit might take some encouragement!)

That's all well and good, but it's complicated. So Paul described how they've made the proposition simple. For customers, set aside some money you're going to spend anyway and get around 5% interest as a thank you. Free money more or less, if you're happy to plan. For retailers, pay that 5% on small customer balances to dramatically grow share of spend rather than investing millions in loyalty card discounts along with everyone else.

Part of challenging is creating a simple alternative to what's established – as Adam described, it started with Avis and 'we're number 2 so we try harder', simplifying the choice of rental company to two and having a reason to go with the alternative.

Complex then simple. Genius.

## ABOUT THE FOUNDATION

We are a customer-led growth company, since 1999 on a journey to promote customer-led success.

Our aim is to create more customer pioneers – organisations and brands that lead their sectors, innovating on behalf of customers in ways that make things better for them and end up working well for the organisation too.

We do it in two ways:

- Working directly with all kinds of entities, making things better for their customers while making the organisations healthier
- And championing the benefits of a customer-led approach more widely.

We have published a first book on the subject, *The Customer Copernicus*, co-written by Charlie Dawson and Professor Sean Meehan of IMD, the Swiss business school. It starts with the observation that some companies are great for customers – not only do they care but they change whole markets to work better for the customers they serve. Think of Amazon, easyJet and Sky. They make things easier and improve what really matters to customers, even when they didn't know to ask. Obvious, surely? They have also enjoyed huge business success, growing and making plenty of money.

So we answer the question that follows – if it's obvious and attractive why is it so rare? And then we answer a second question, because Tesco, O2 and Wells Fargo were like this once. Why, having mastered it, would you ever stop? Because all three did, and two ended up in court.

In the book we explain how to become and how to stay customer-led, making things better for customers by going first, into uncharted territory. More about it is here at [thecustomercopernicus.com](http://thecustomercopernicus.com)

Then practically, we help our clients succeed by working with them on projects across four areas:

- Tackling customer-led innovation of different kinds
- Developing customer-led strategies
- Growing customer-led capabilities
- And building whole customer-led organisations

We do this by challenging the natural self-interested view of the world, working closely with client teams, immersing them and us in outside-in perspectives. Naturally enough we call it Immersion – meeting people with different perspectives in person. Customer Immersion connects managers with customers and what really matters to them, Creative Immersion introduces them to leaders from other sectors who have tackled challenges with similarities, helping them develop ideas and belief around new and better ways to solve their customers' problems.

The outcomes are better organisations, brands and businesses – more successful and better for customers, colleagues and everyone else involved.

Our clients include HSBC, the John Lewis Partnership, Sky, The National Trust, Jaguar Land Rover and AstraZeneca, with achievements including helping create Plan A at M&S, adding £100m of value to a Travelex travel money proposition, and giving Morrisons a competitive direction contributing to their return to growth.

This link will take you to more information about us and our Forum events: <http://www.the-foundation.com>

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