



Stanford eCorner

Innovator's Dilemma in Action

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February 26, 2014

Video URL: <http://ecorner.stanford.edu/videos/3295/Innovators-Dilemma-in-Action>

Hemant Shah, co-founder and CEO of RMS, talks about the difficulty and uncertainty of pivoting the company and bringing its culture along once it achieves success. He recalls recognizing a shift away from focusing on continued growth and innovation to defending the status quo, and the challenging experience of eventually getting the company to change.



Transcript

You've all heard of this notion of the innovator's dilemma, by the end of last decade, 2008, 2009, 2010, things were looking pretty good at RMS. We were closing, I think, on \$250 million of revenue, again, up from \$30 million a decade before. We were quite profitable, margins 30-plus-percent operating margins. We were growing steadily, not like a rocket ship, but growing steadily. And we were really woven into the fabric of the insurance, re-insurance markets that we serve. And it's started to get a little uncomfortable, and there was a sense of the language were starting to change, the language of meetings in the company started going from growth to how do we protect our market share. The language started shifting from, how we going to double the company, again, as the key metrics to, how do we ensure we can keep a 50% market share in the business that we're serving. A lot of language that was self-congratulatory, it was language that was, we are the leaders as oppose to we're leading. We are the most innovative company in this space as oppose to innovating, and while what we did everyday was quite innovative after all building stochastic models for typhoons and floods and terrorism is inherently incredibly stimulating and intellectually demanding work, we were running in the same play book that we had been running for over a decade and there was a sense of defending the status quo, celebrating what we had accomplished, as oppose to re-envisioning how we could add value, what we needed to do to invest in new ways of adding value, and how to think of ourselves not as the market leader in the field but rather than the 50% market leader in the niche field what's the market that we could serve that we're the 5% to 10% market share player in. And it's the classic sort of innovator's dilemma which is how do you make the shift from being so invested in one's own status quo to take the necessary risks to try to drive a new round of growth in the business.

And this was a very interesting and challenging time. The company was not a goliath but by our historic standards we sort of 5, 25, 50, 1,000, 800, 900 people in the business, lots of clients, real profits, significant revenue streams, market share position, we re-envisioned in a very top-down way a new strategy for the business. Which was, one in which would require us to take some very significant risks in order to pivot our fundamental value proposition and how we add value in a way when we still had the tools at our disposal, the financial resources, the market position, the momentum, when we could still be in control as oppose to settling on an increasing defensive posture about defending market share, defending position, and then waiting for the time for somebody to change the rules of the game out from underneath us. After all, a lot of these kinds of businesses where you have very significant market positions, don't often succumb because your number two or number two competitor picks up 10 points of market share, is because you become so invested in defending the status quo, you don't see something coming that fundamentally change the terms of value that the customer experiences and the ways in which they can consume that value and there's some disruptive change that causes you to fundamentally loose the plotline and then no matter how much you try to defend your market share, it's like sand running through your hands. So, we went through this process which was very challenging because we went into our own organization and, said, we need to undergo a substantial pivot in our strategy, we need to go from being a - primarily being seen as the world's leading provider of scientifically informed catastrophe models to delivering the exposure on risk management environment for this industry to, yes, analyze risk using models to

manage risk. And, to do so by opening an ecosystem of capability to our competitors and to others to build models in analytics and applications on our platform and deliver all of that software and platform-as-a-service in the cloud. And these conversations were extremely difficult internally. Some of the most challenging - and the story is not over yet, by the way, so I'm not quite sure how this is all going to turn out - we had a number of - this transformation has been going on for over two years now but it start with the lot of very angst-filled internal dialogue about why is there the need for change. And the institutional, internal and cultural barriers to change when you have been able to develop a reasonably successful business that has a well-defined brand and market position that is understood by employees and customers alike to be doing something very specific, very well and getting compensated for that. To make the pivot and do something different only happens in one of two situations, one is when you're under existential threat of death and that's quite a motivator to try something different or the opportunities are so significant, it challenges you to think differently and take some risks.

And we went through a whole internal process and I've made so many mistakes and learned so many things the hard way about how a top-down strategy to take an organization that was intensely proud as it should be of everything that you had accomplished over a 20 years of innovation in a very specific dimension to take that organization through change and build the case for change was extremely difficult. And we got there, we got there, we got full alignment but it took a lot longer than I thought, it was much harder than I imagined and it was very scary at times. When you are starting to pivot the company and try to bring the culture with you and realize that you might fracture the very organization that brought you to this place and you haven't yet made the definitive, not only intellectual case but emotional case for why a company should go through significant change, it's a very scary place as a leader to go through that realization that you might not make it to the other side and often it's not the customers of the market who votes, it's your own employees and colleagues who vote whether they buy-in to the rationale for change and stick with you through the process.