

Why Not?

By Barry Nalebuff and Ian Ayres

Ideas Waiting to Happen

While some people claim that the route to innovation is indescribable, we believe there's often a simple, recurrent structure to creative thinking. Most original ideas aren't completely original, but instead are the result of two basic things: problems in search of solutions and solutions in search of problems.

Both approaches have their advantages. If this seems odd, think of television game shows. *Who Wants to Be a Millionaire* looks for the right answer, while *Jeopardy!* starts with the answer and looks for the right question.

Once a problem has been identified, how do you go about finding a solution? Watching your customers is a fine place to start. Rather than invent a new solution from scratch, you can take the imperfect, often Rube Goldberg solutions that people have already found and improve on them.

But consumer watching has its limits. While the unexpected reaction of consumers often signals that something is wrong with a product, there are many problems customers cannot solve on their own. This is because real-world consumers have limited resources.

So an alternative tool is to ask how an unconstrained consumer would solve the problem. We call this approach "What would Croesus do?" as a shorthand for imagining solutions where price is no object. These may lead you to a solution that is affordable.

In his day Howard Hughes had a Croesus-like flair for spending money to find solutions to problems. Imagine that it's 1966 and that you're Hughes. You sometimes have a hankering to watch old Bogart films. Unfortunately, the VCR has yet to be invented. What do you do?

Hughes bought a Las Vegas television station and used it as his private VCR. Whenever he wanted, he'd call up the station's general manager and tell him what movie to put on that night. We understand that the station played a lot of *Casablanca* and *The Maltese Falcon*.

In this spirit, our "What would Croesus do?" approach begins by imagining a customized and very expensive solution. We don't begin with a view that the

solution has to be practical. Instead, we ask: Are there any solutions at all?

Problem: Having to wait on hold at a customer service number.

Donald Trump or Bill Gates wouldn't spend much time on hold. They would have an assistant stay on the line and buzz them when the call goes through.

Mere mortals can't afford personal assistants. Is there any way ordinary folks could emulate this "personal assistant" strategy? Well, yes. Instead of waiting on hold to speak with an airline customer representative, why not have the airline call you back? With caller ID, you wouldn't even have to enter your number. Waiting on hold is not only a pain for the caller, but also expensive for the company if it's paying for a toll-free line.

Huge sums are being spent right now on technology to move telephone support centers to low-wage countries. We invite airlines and other corporations to think about applying a little technology to the problem of making your customers less irate.

Problem: cash management for the household. Your checking account earns next to no interest, yet you may be paying 6% on your mortgage. Why don't you just take all your cash and prepay your mortgage? That way you would effectively earn an extra 6% on your money. Unfortunately, this proposal is impractical. You need to have some cash to pay bills and cover emergencies. If you put all of your money into your mortgage, you couldn't get it back when you needed it.

A modern Croesus--or any sizable corporation--could solve the liquidity problem by employing an assistant to do sophisticated cash management, using money market funds and a standby credit line. Ordinary folk can get the same result only by spending an inordinate amount of time shuffling balances back and forth. But what if the bank were willing to help out? What if the bank set up a combined mortgage/checking account that charges the homeowner only for the net indebtedness? A person with a \$200,000 mortgage and a \$10,000 checking balance would be charged mortgage interest only on \$190,000.

If you are a retail banker, your first instinct is to reject the idea. Your profitability hangs on having a certain number of customers with idle cash balances. Why give the homeowner an easy means to shrink checking balances or to prepay high-rate mortgages? But think about all the time customers squander right now trying to manage their cash. Wouldn't it be possible to price the combo account in such a way that the bank is as profitable as before but the customer is still happy because he has been

spared a lot of paperwork?

In 1997 Richard Branson's Virgin teamed up with AMP and the Royal Bank of Scotland to offer the Virgin One account, which nets cash balances against mortgage debt. Your salary is electronically deposited into this account. Any checks you write or credit card charges you incur are taken out of the account, thereby increasing your outstanding mortgage.

By late 2001 Virgin One had 70,000 customers. Today it's a very successful mortgage product in England. This creative idea was worth money. The Royal Bank of Scotland bought out Virgin and AMP's combined 50% share for \$150 million in July 2001.

The combo account has come at long last to these shores. Wells Fargo launched a similar product in October 2002 and claims that it is its most successful product launch.

Sometimes it isn't helpful to start the problem-solving process by identifying a problem. The solution has to come first. Only after we've discovered a better way do we realize in retrospect that there was a problem to be solved. Take an existing solution and find a new application.

Solution: round-the-clock rental start times. Avis rents cars 24 hours a day, starting any time of the day (or night). What's the new application-- that is, what other rentals should be flexible with the starting time? Anyone who's landed in Europe on an overnight flight can answer this question: hotel rooms. You arrive at 7:00 a.m. and want to shower and change, but it's six hours until check-in time.

Hotels would have to make an effort to provide this convenience. Coordinating room cleaning would be more challenging. And reservations would have to include a check-in time to ensure that a room would be available. But if Avis can program its computers to handle the problem, surely Sheraton can, too. Some airport hotels have begun offering this service. We think that some city center hotels should follow suit, perhaps dedicating one floor for this service.

Solution: inflation-indexed bonds. The U.S. Treasury protects you from unanticipated inflation by offering TIPS, or Treasury Inflation-Protected Securities. What else could be indexed? Municipal bonds. This has been done only a handful of times. They would be immensely attractive to investors who worry about both inflation and taxes. Right now investors in TIPS still face the risk of uncertain taxes on their returns because federal tax is due on both the real return (now about 2%) and the inflation kicker. If inflation

hits 8% and the bonds start paying 10%, your aftertax, net-of-inflation return will be in the neighborhood of negative 1.5%. A state offering an indexed return could probably offer a real return not much more than 1% to 2% and still get a lot of takers.

Solution: battery-operated spinners. The Spin Pop, introduced in 1993, was one of the most successful new interactive candy launches ever. More than 85 million of these motorized lollipop holders have been sold worldwide. Hold your tongue steady and spin the candy against it. Now, what other question does the Spin Pop answer? After roaming the aisles of Wal-Mart, the Spin Pop creators found the right question: how to drive down the price of the electric toothbrush. Spin Pop gave birth to SpinBrush. In a little under four years John Osher and others turned a \$1.5 million investment into a \$475 million payout when Procter & Gamble bought them out.

Sometimes flipping things around provides a useful solution to a different problem. What we call symmetry takes an existing solution in a given context and turns it around to get a new perspective.

Inflation-indexed bonds are a great idea. Turn this around. Would it also work to borrow at an inflation-indexed rate? This flip leads us to the inflation-indexed mortgage. Each year your payments go up with the rate of inflation. In countries with high inflation, such loans are standard. Even with low inflation, such as the 2% in the U.S., these loans would allow people to borrow up to 50% more or to start off with payments that are a third less. Young families could suddenly afford to buy a lot bigger house.

For the most part, people find an answer that works and don't get in the habit of looking for an even better solution. Or we think there is some natural way of doing things and stop looking for alternatives.

Take the ketchup bottle. Did you ever store one upside down in order to make it flow faster? How long did it take for Hunt's and H.J. Heinz to figure out they could turn the label upside down? According to Heinz's Casey Keller, the change was no small matter: "We believe this is probably the biggest idea in ketchup since the invention of the plastic squeeze bottle. "In the old days Heinz used Carly Simon's "Anticipation" in its marketing. The updated campaign is "No wait. No mess. No anticipation." Ketchup is not the only product to take advantage of this insight: Toothpaste, shampoo and even sour cream are now available upside down.

Coming up with a great idea is only the beginning of the battle. If you really want to change your company or the world, you need to sell the idea and you need others to buy in. In pitching an idea, try to make it familiar. It's

hard enough for listeners to absorb a radically new idea. Don't make them also absorb a new context. Colgate has applied this rule brilliantly with its new Simply White tooth-whitening gel. The home-use tooth whitener is an unfamiliar product. Yet the Colgate product evokes a strong déjà vu--its packaging bears a powerful resemblance to that for Wite-Out, the familiar typo corrector.

Got a good idea? Don't get carried away with secrecy. If you can't make money on it yourself, share it.

The open-source movement in software development shows that a dispersed community of code writers can succeed in developing interlocking products that are free to the world.

We propose an open-source movement for everyday ingenuity.

If you generate valuable ideas, even ones that seem to speak for themselves, you are likely to be in demand to help put them into practice. Being known as an idea person tends to pay big rewards in our society. Instead of hoarding ideas in hopes of a killer payoff, put the ideas out there and see what happens.

Join us in cyberspace at www.whynot.net. Add your ideas, come for inspiration and come to react to other people's ideas. We'll write about the best submissions in our FORBES column. We'll also challenge industry leaders to respond to your ideas: Why haven't they already put these ideas into practice, or why won't they?

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