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INVENTIVE EXECUTION: How Producers Bring Blockbusters to Market

> Don't worry about people stealing an idea. If it's original, you will have to ram it down their throats.
>
> —HOWARD AIKEN

When Michael Jaharis and his business partner Phillip Frost bought Miami-based Key Pharmaceuticals in 1972, they thought they were buying a healthy enterprise with some modest products, a strong foundation from which they could grow. But that hope vanished a few weeks later when Jaharis went to Washington, D.C., for a meeting at the FDA.[1]

"I sat in on a cardiovascular meeting alongside a group of the top cardio people, who were there to advise the FDA with respect to a new law that required drug companies to prove drug efficacy," Jaharis told us when we sat down with him in the New York offices of Vatera Healthcare Partners, a health-care venture capital firm he cofounded after selling KOS Pharmaceuticals to Abbott Laboratories.

One of Key Pharmaceuticals' main products at the time was a long-acting nitroglycerin pill whose sole market distinction was its purported ability to be long acting. "They said it doesn't work," Jaharis told us. "One of the experts, Dr. Philip Needleman, had conducted a series of lab experiments, and his studies showed that long-acting oral nitroglycerin just didn't work. So, at that point I knew I was in trouble. And, it was around the same time that we found out the previous managers of Key hadn't given me an accurate financial picture, so that instead of being profitable, the company had really lost $700,000 in the previous year with annual sales of $1.5 million. So we were in terrible shape starting off, to say the least."

Most executives would have responded by jettisoning the offending product or casting around for a new one. But Jaharis took a different tack—he redesigned the products he had. At that time, nitroglycerin was delivered exclusively in pill form. Those pills took a few minutes to make their way into the bloodstream and were used up quickly, even the supposedly long-acting ones. While at the same meeting in Washington, Jaharis had heard Dr. Needleman talk about a nitroglycerin topical application, which was deployed as an ointment on the skin and absorbed continuously throughout the day. Unlike the oral tablet, the ointment had the potential to be effective as long-acting nitroglycerin.

Jaharis also heard about the use of patches to deliver medication, and had a version developed for Key's topical nitroglycerin. (A similar approach would be used ten years later by Murray Jarvik, the inventor of the nicotine patch, as an aid in smoking cessation.) The resulting Nitro-Dur nitroglycerin patch became a flagship of the Key Pharmaceuticals portfolio, and set the company on a path of profitability that led to its 1986 acquisition for $836 million by Schering-Plough.

INVENTIVE EXECUTION BEGINS WITH DESIGN

The approach Jaharis used to turn a failing pharmaceutical firm into an $800 million business highlights the inventiveness that Producers use to execute their ideas. Through the practice of Empathetic Imagination, they home in on business ideas with large-scale potential, but creating blockbuster value requires not just ideas but also an inventive approach to making those ideas manifest in the market. These are separate skills: the ability to dream *and* act, imagine what is possible *and* design it in a way that captures the greatest value.

The steps Jaharis took to save Key Pharmaceuticals reveal how a true Producer will reinvent seemingly small, fixed, and immovable aspects of the business design to extract the most value. Producers can think small—in Jaharis's case by concentrating on how a medication is delivered—in order to capture something large—demand for a continuous-release nitroglycerin.

We use the verb "design" in this context to describe the solutions to the problem of producing a new offering, and making the necessary deals to bring it to the market. Design takes into account multiple factors: the strategy and tactics, the terms of the sale and the deal, the ownership and distribution, the customer experience, and so forth.

Producers alter or redesign any and every aspect of bringing a product to market. They will tackle physical product design, product delivery, pricing, the business model, and the sales pitch. Perhaps just as important is the fact that they will design the ownership and deal structure to best fit the opportunity. Although they may be inserted into contested or mature markets, blockbuster ideas often manifest as products or services that the world has not seen before. Buyers will not be used to them, so Producers will need to engage in savvy salesmanship and deal making to put the proper foundations in place. Everything is on the table. For Producers, design *is* execution. Without their attention to the details of designing the blockbuster idea for the market, they are not likely to realize the same level of success.

This emphasis on design stood out for us largely because in most companies design is *inherited*—the business model, pricing, functions, sales pitch, deal structure, nearly everything is treated as predefined by the existing models, costs, and pricing that already exist in the company and/or the industry. If a company has a design sensibility at all, it applies almost exclusively to the sensory elements we typically associate with the word—the look, feel, or emotions associated with a product.

But when we examined the way that our study subjects went about the task of creating billion-dollar businesses we saw design everywhere, operating at multiple levels. The billionaire James Dyson, inventor of the vacuum cleaners and hand dryers that bear his name, literally designed his flagship product to be a better solution to home cleaning; *and* he designed the early pricing and delivery approaches to signal that his product was a high-end, high-tech option, closer to a robot than a broom.

Chip Wilson, the founder of Lululemon, was for years the chief designer of the clothing he stocked in his stores, inventor of the seamless yoga pants with a work(out)-to-play style that encouraged his customers to wear the clothes first to the studio and then for a coffee date with friends. The multipurpose fashion design let Lululemon design a high-end pricing model, charging upward of $100 for what would have been considered, in an earlier era, sweatpants. Wilson likewise designed the yoga-focused and meditation-centric culture of the business as well as the experiential environment in his retail locations—Lululemon stores keep only a limited number of items on the shelves to create the impression of high demand, and the art on the walls shows local yoga instructors teaching their classes at the elite studios of the region. Through these design decisions, Wilson signaled the kind of company he wanted to build and the kind of customer Lululemon wanted to target—fashionable, fit, active, local, affluent.[2] In Chapter 2 we mentioned the importance of empathy in conceiving the blockbuster. The same is true of its design—Chip Wilson could understand the boarding and surfing culture he targeted for Westbeach, but he is not a female yogi. Nonetheless, he could tap into the sensibility of the evolving urban "yoga chic" look that women were craving.

REDESIGNING MARKETS FOR BENEFITS AT SCALE

Self-made billionaire Eli Broad launched the home-building company Kaufman & Broad (now KB Home) with the intention of building traditional, single-family houses. But the business was structured from the beginning to pursue a design innovation: houses without basements, an insight that removed thousands from the cost of building.[3]

In the 1950s, when Broad started, gas heat had officially ousted coal as the home-heating medium of choice; basements were used for coal storage and had not yet become the "rec room" options they are today. No coal meant there was no immediate need for a basement. With that first design shift—followed by others such as open-plan ground floors and standard fixtures in kitchens and bathrooms—Broad was able within a matter of years to build hundreds of starter homes for up-and-coming families in the Detroit area. His approach beat out more established players that were, on the basis of their seniority, more beholden to the traditional ways of the industry.

Broad's empathetic insight into the growth of the housing market, and his Inventive Execution of a home-building business that pursued nontraditional

Inventive Execution of a home-building business that pursued nontraditional home design, illustrates the role that design can play in the ability of Producers to execute an idea at scale. His first redesign of the affordable home allowed him to enter the market as an unknown and establish a foothold. Once established, Broad redesigned again, this time by focusing on the operating model of the home-building business.

As a trained accountant, Broad always had his eye on the balance sheet. He saw that the traditional business model of home building required developers to tie up a lot of capital to buy land that they then had to sit on for months or even years before they were ready to build, let alone sell. In this way, home builders operated like landowners. But Broad wanted to operate like a manufacturer, so he worked to redesign KB Home to streamline the building process down to just over a month, delivering only the materials needed to build the home in question and no more. He also shifted the payment terms so that he had cash from the buyer in hand to pay the contractor only after the house was finished, and bought only land he was prepared to immediately build on. These design tweaks gave him far more capital flexibility than competing players, and put him in a position to build a far larger number of houses with far less capital and fewer people.

Producers frequently operate in markets that require them to rethink the fundamentals of product or business design in order to deliver at scale. For example, when Sudanese native Mo Ibrahim began buying mobile licenses in Africa to create the telecommunications provider Celtel, he knew he would have to ditch the subscription pricing model that reigns in telecom.[4] Subscriptions are designed for salary earners, people with reliable, smooth incomes earned in consistent volumes at consistent intervals. They were a poor fit for the majority of people living in the countries of sub-Saharan Africa, where moderate to extreme poverty is common and incomes are “spiky.” In fact, African governments were having difficulty wooing established telecom investors exactly *because* traditional players couldn’t see how the impoverished population would be able to pay.

Where others saw a restriction, Ibrahim saw a design opportunity. Ibrahim bought licenses for a number of countries and engaged the World Bank as a funding partner to increase his leverage. He then set out to redesign the revenue structure for the poor customers who dominated the African mobile telecommunications market. His solution? Sell prepaid credit or scratch cards for a few dollars each. Even people living on a few dollars a day would be able to make the investment. The prepaid phone model is far more common now in a broad variety of markets, but Ibrahim was one of the first to do it. The large number of customers he converted to cell phone use helped keep minute costs low, and within five years Celtel was serving six million people in thirteen African countries.

In these examples, there is an inherent synergy between the design details that the Producers home in on, and the large-scale potential they are trying to unleash in the market. Both Broad and Ibrahim were building their businesses to cater to a much larger, at times less affluent, wave of customers than previous players had tried to accommodate. They paid close attention to the design details necessary to address the specific needs of a market of immense size. The changes were not aesthetic or even design for design's sake. Instead, they focused on easing the path to scale and attracting exactly those buyers who'd previously been shut out of the market by the high cost of ownership.

Consider what Broad and Ibrahim did in light of the more typical approach that businesses take when trying to attract a new segment. In most instances, companies take an existing product and then shift its pricing and functionality—for less affluent groups, they make the product cheaper and provide less. This inside-out approach focuses on what the business already has and how it can repackage it.[5]

On the other hand, Broad, Ibrahim, and other Producers using Inventive Execution manifestly do not do that. They reverse the equation. Instead of focusing from the inside out, they instead look at what the burgeoning customer group needs and design the business with that audience in mind. Over time, they reexamine and redesign, just as Broad readjusted his approach when he expanded to the California housing market, which is defined by high populations living in areas with limited land. His design solution, in that instance, was the town house.

Attending to design in this way can convert a previously niche market into a massive one. Micky Arison, the longtime CEO of Carnival Cruise Lines, and subsequently of Carnival Corporation & PLC, is an example of design thinking applied to re-create the cruising market.

Arison spent a good part of his youth at sea. When he was a teenager, his father owned a cruise ship. Arison went to work on the ship as a break after high school, and stayed for six months until his father pulled him off to go to college. Arison preferred the work, but his father wanted him to get an education.[6]

"I was getting too comfortable with it," Arison told us when we visited him in his offices in Miami. "I was going back and forth between school and work. But once you get into the ships you get hooked. I'm not the only one. If you look around our company, you'd see people thirty years, forty years with us. It's a business that people get very attached to. It's about providing an experience where people have a good time. It's about providing holidays, and so it's a business people really enjoy."

Despite the enjoyment there was a great deal of turmoil in those years. The relationship Arison's father had forged with a business partner soured and ended, and Carnival Cruise Lines was born from the rubble, run by the senior Arison, but partially owned by a holding company that sent a number two executive to oversee the investment. The number two reportedly felt that Arison junior should be given a more formal job, and thus he started moving through the different operational areas of the cruise business. From working as part of the check-in staff at the port to leading the reservations team in Miami, he learned the cruise business in the same way that Joe Mansueto learned about investing, or Chip Wilson learned about clothing retailing. It was a long-term, cumulative process that set him on the path to redesigning his industry.

Arison was busy learning and enjoying multiple aspects of the business when he was unexpectedly put in charge. "I was in my twenties when this was all going on. My focus was on learning and by twenty-six, twenty-seven years old I was running what today would be called the shore operation departments. And I didn't see it coming, but just after my thirtieth birthday, my father called me down to his office. We used to argue a lot, for whatever reason. I can't even honestly remember what the arguments were about. But we really saw things differently. And so at some point, he recognized that it wasn't going to work this way. So just after my thirtieth birthday, he called me down to his office and said, 'You know what? It's time for you to take over.' He took his briefcase and left and never came back."

The company had three ships at the time, and had signed a contract to build its first new cruise ship. The year was 1979 and the ship was delivered in 1982. That kind of slow, methodical growth reflected the vision put into place by his father, but it was not Micky Arison's vision. His idea was to redesign the niche cruising market into one with billion-dollar potential.

"There was a great belief in our company that we had a product that was different from what everybody else was doing. At that time, cruising was thought of as something for the elite. It was for wealthy retirees. It was not thought of as a mainstream vacation. And we really believed—I've used an automotive example—everybody in the industry was trying to be Lexus, Mercedes, and we were saying, 'You know, we want to be Chevy. We want to be available to every man.' And that's where we saw the great potential of size be available to every man.' And that's where we saw the great potential of size rather than having these boutique operations that only could service a small amount of people."

Arison began to expand the Carnival Cruise Lines brand through an aggressive shipbuilding program. By the late 1980s, Carnival Cruise Lines had become the world's largest cruise brand. Arison then set his sights on a much bigger goal. The company went public in 1989, raising needed capital to pursue a plan for creating a diversified, multibrand portfolio of cruise lines catering to different market segments. "I wanted to grow more rapidly," Arison told us. "I thought there was a lot more opportunity. Even later after [my dad] left, as we were making acquisitions and growing, with each acquisition, he'd come and say, 'Do you really need to buy those guys? Do you really need that?' For each one, I said, 'Yeah, yeah.'"

Pausing here, we want to emphasize the fact that the distinction between Arison *Senior* (the company founder) and Arison *Junior* (the billionaire) lies not in Empathetic Imagination but in Inventive Execution. According to Micky, his dad had the same empathetic insight into the potential demand for the vacationing public. He agreed that the market could and would become much bigger. He just didn't want to be the one to do it. "He saw that," Arison told us. "He absolutely saw it as well, but at that time he was extremely conservative and the country was becoming very liberal. It was kind of opening up and he was old school, very old school." This contrast between the two Arisons shows how possessing one of the habits of mind is not enough without the others. It is not enough to have the vision of Empathetic Imagination without Patient Urgency and Inventive Execution to make the idea real.

Arison continued to grow the flagship Carnival Cruise Lines brand through new ship construction. He also focused on acquiring other brands, especially those dominant in other market segments as well as in other geographies. The Carnival parent today owns ten established cruising names, including Cunard, Holland America Line, Princess Cruises, Costa, and others. As Arison explains it, each deal required a unique design in order to determine the right pricing, ownership, and negotiation approach. Some companies had multiple owners, all of which had to accept a deal structure. Others had one owner, but the routes were less obviously profitable.

With a growing fleet of ships in place, Arison needed to also redesign certain aspects of the cruise business model in order to appeal to a larger population of the vacationing market. Branding certainly played a role, but Arison seemed to view brand marketing as a minor element of design. More important were the steps he, and others, took to redesign the business model and sales approach.

“Pricing was an issue,” he said. “You need to get the price down to an affordable level, but also the packaging. In the early, early days Royal Caribbean started chartered programs from LA for cruises out of Miami. Everybody at the time thought they were crazy, but they would fill two 747s a week. And that really, really strengthened everything. Because [the market] was pretty much targeting the East Coast, and Royal Caribbean opened up the West Coast.”

Arison quickly echoed the movements in the market to develop his company’s air-sea packages, now an established concept in package vacations. “We got our first deal with National Airlines, a Miami-based airline at the time. National Airlines flew out of eight cities in North America and that’s how we started. At the time I was running reservations and trying to figure how do you do an air-sea package. We had no computers, we were doing everything manually. It was interesting trying to do that stuff, but we had fun. That was the other part of it—we always had fun. It was a fun job. People were having fun on the ships and we were having fun putting them on the ships.”

Arison relinquished his role as CEO of Carnival Corporation in 2013 but continues to serve as chairman and remains very active in the company. “We merged ten years ago with P&O and Princess and we now have a significant percentage of the world market share,” Arison told us of his current-day perspective. “We can’t grow anymore from an acquisition point of view because we’re not going to get any antitrust approvals. We tried to start a new cruise company in Germany and the German authorities said don’t even bother applying. We’re not going to let you do this.” But these changing dynamics do not faze the self-made billionaire. He sees the challenges but he also believes the market has not yet reached its full potential. “I just believe in the concept,” he told us, “the concept of a cruise vacation.”

DESIGN INTEGRITY

Arison’s belief in the concept that he spent his life growing offers an example of what we refer to as design integrity—a belief not only in the blockbuster idea, but in the necessary design foundations required to turn an idea into a real experience for the customer.

experience for the customer.

Howard Schultz's vision of Starbucks offers another example of design integrity at work. Walk into any Starbucks today and it is clear you are in a carefully designed environment. Each moment is choreographed, from the smell of ground coffee beans down to the placement of the coffee machines so that the baristas have to face the customers as they pull shots and steam milk and then set the finished espresso drinks on those pale wooden ministages.

In the early years of Schultz's tenure he made a lot of operational decisions to support his vision of Starbucks as a place where customers would want to linger. One important aspect is the service provided by the staff. Schultz was influenced by the community nature of the espresso bars he visited in Italy and the way the barista chatted with customers, often regulars, as he made their drinks. As part of his effort to replicate that experience in the United States, Schultz insisted that part-time employees be given decent health insurance. He believed it was the right thing to do, and it acted as a positive recruitment tool, attracting a higher-caliber, more committed employee than he might otherwise have found. Few other retailers offer these kinds of benefits for their workers, but it was part and parcel of Schultz's design, his vision of creating a warm, friendly service atmosphere in his stores—imagine the Starbucks experience with less committed employees.

Schultz insists on such design integrity even now, three decades after he purchased the small Seattle coffee roaster and turned it into one of the most recognized brands in the world.[7] So nonnegotiable is his integrity to the Starbucks experience that he made a costly decision in 2007 to remove a line of profitable breakfast sandwiches from the Starbucks menu for months during the most difficult period of the financial crisis. His reasoning? They were adulterating the Starbucks experience.[8]

Schultz writes in *Onward*, his book about steering Starbucks through a period of change, that the sandwiches were hugely popular. Alone, they upped the per-visitor spending rate significantly. But they corrupted the Starbucks experience in a number of ways, most egregiously through their smell. The sandwiches are served warm, and the employees had to heat them in a microwave. Inevitably, someone would leave a sandwich in a few seconds too long and cheese would melt on the microwave plate. On a busy morning no one has time to clean the plate before helping the next customer, so the cheese would stay and then burn when the next sandwich took its turn. The employees unwittingly removed one of the most important sensory triggers that signal to customers where they are and why. Starbucks became indistinguishable from the half a dozen other places defined by the acrid smell of burning cheese. Schultz preferred losing money over corrupting Starbucks, so he pulled the sandwiches and told the food designers to try again.

These examples reveal how pervasively design defines the experience and, by extension, the success of the product. Only through that close attention to the detail of the experience are Producers able to reach the thousands, even millions of customers who will embrace the product. Often, getting to those customers requires both a re-creation of the old ways of doing things and a concerted effort to help people reframe the way they think about what the product *is*. Producers show an outsized ability to design their products and the experience that feeds into the consumer's demands.

DESIGNING SALES, DESIGNING DEALS

When Philip Anschutz came of age, he joined his father in the uncertain business of oil-and-gas wildcatting in the United States. He spent a number of years acquiring leases and exploring them with only middling success, until he got a middle-of-the-night phone call in 1967, when he was twenty-seven years old, from the rig supervisor on one of his plots. He'd struck oil, a lot of it.

Anschutz reportedly went to the field and found it ankle deep in oil that had gushed out before the supervisor could cap the well. Anschutz quickly bought up as many of the surrounding leases as he could using thirty-day letters of credit, and immediately started drilling his investment. He'd struck liquid gold!

So it seemed, at least, until one of the workers accidentally set fire to the field. Anschutz was out of town when it happened and heard about it on the radio. Leveraged to the gills and desperate, he called Red Adair, the legendary oil-well firefighter, and asked him to put out the fire. Adair refused. The world of oil exploration was small and everyone knew Anschutz was in hock, Adair included. Anschutz begged and Adair eventually relented, but with a warning—he needed to get paid.

Fortunately, Adair was famous and Warner Bros. Studios was coincidentally planning a biopic of the firefighter starring John Wayne. Anschutz called the film production company and offered to sell them the rights to filming Adair dousing the fire. The two parties struck up a $100,000 deal. Adair got paid; Warner got prized footage to use in its 1968 film *Hellfighters;* and Anschutz got the cash he needed for his creditors as well as to pay Adair. It was an epic deal, and it set Anschutz on the path to becoming a billionaire.

Throughout this chapter, we have told stories of Producers designing products, experiences, and deals to bring their blockbuster ideas to the large markets they seek. Seeing a possible deal is an art form, as Philip Anschutz demonstrated in his ability to sell footage of a *burning* oil field. But as important as seeing the potential is the ability to design deals to complement the opportunity. From the negotiations that Mo Ibrahim conducted with the World Bank to give his telecom license bids credibility with the African governments he bought them from, to Micky Arison’s deals to rapidly expand his cruising inventory, Producers bring creativity to the task, designing the deals necessary to bring their ideas to market, and then selling the deal to the partners and customers they need.

Producers are not necessarily born salesmen. But we do see many of them seeking to gain virtuoso salesmanship before they launch their billion-dollar businesses. Seventy-nine percent of the billionaires in our sample had direct sales experience, and the majority of them had their first sales experience before their thirtieth birthday. Forty-six percent of our sample began before they graduated from college, honing those sales skills with the proverbial lemonade stand or paper route: they may have sold Christmas cards, as did John Paul DeJoria, or soda and chips from their dorms rooms, as did Joe Mansueto.

These small ventures may seem childish, but for many such experience is formative. The act of standing in front of people and making a pitch inoculates them against performance anxiety. They learn that rejection is inevitable. Rejection is even productive—it teaches them resilience and allows them to hone the message and learn through experience that they have to knock on the next door to bring a sale. There is no real substitute for what sales experience teaches Producers about the customer and the needs they are trying to fulfill. For some, economically, there was no real alternative. Almost a quarter of our sample grew up in poor or impoverished circumstances (in contrast to half who were raised in privileged or affluent surroundings). John Paul DeJoria, the founder of John Paul Mitchell Systems and Patrón Spirits, was raised by a single mom in a poor household; he began selling to make some money to contribute to the family. Similarly, Kirk Kerkorian earned his pilot’s license at the age of sixteen and started giving private rides and lessons because his family needed the extra income.

the extra income.

James Dyson, the designer and inventor responsible for the dual cyclone vacuum cleaner and the ubiquitous hands-free hand dryers, wrote of the years he spent after college selling a fiberglass sea vessel called the Sea Truck that he'd designed for the British manufacturing company Rotork: "It was time spent away from designing but it was to teach me, above all else, that only by trying to sell the thing you have made yourself, by dealing with customers' problems and the product's failings as they arise, can you really come to understand what you have done, to bond with your invention and to improve it. . . . I had to learn fast about selling, not because I was particularly interested in salesmanship per se, but because I wanted to make a triumph of this thing I had designed."[9]

We could include many more stories of how self-made billionaires gained sales experience, from Mark Cuban selling business software, to Richard Branson selling ad pages for the weekly newspaper the *Student*. But at some point for all the billionaires in our sample, there is an inflection point when the ability to grow and develop depends not on salesmanship alone, which we define as the ability to sell a known product or service, but on dealsmanship, which we see as closer to selling an idea, sometimes by reshaping the context of what is bought or sold, or by changing the product, the service, the terms, the conditions, or the risks. Dealsmanship, like product development, is about design.

Dealsmanship allows Producers to sell the products and services they already have, as well as set up the context and the relationships to sell the products and services they envision for the future. The latter is dependent on the former. Salesmanship is needed to make deals happen, but the deal needs the vision of a Producer who can design a business to make that next exponential leap of growth.

Tom Steyer's Selling and Dealing

The story of Tom Steyer, the billionaire founder of Farallon Capital Management, a San Francisco hedge fund, illustrates the Producer's skill with designing deals and then selling them to buyers. In his case, he adopted a nontraditional approach to investing for his sector, the kinds of investors he courted, and the people he recruited to work with him.

Steyer started Farallon in 1985, a time when hedge funds were viewed as investment vehicles for financial institutions and the extremely wealthy.[10] The pool of investors, already small, was even smaller after 1987, a year notable for significant losses and hedge fund closures. Investors were skittish, which is why Steyer seemed like someone they could work with. Even in 1987—his worst year—he did far better than most, earning a 6 percent return, which seemed like a fortune at a time when others had lost their entire investment.

Steyer made his name from his adherence to the philosophy of "absolute return," the practice of managing an asset for positive returns within a given period of time. Absolute return is more common now, but in 1987 funds were more commonly managed according to relative return, which is concerned with asset returns compared with an external benchmark, such as the market or an index. Absolute return was not a Steyer invention, but it was not common management practice when he started his fund. Likewise, Steyer's management of Farallon as an "event-driven" fund capitalizing on price inconsistencies after a major event, such as a merger, now is more commonly practiced, but it was unusual when he started.

As he described it to us when we met with him in his San Francisco offices, "Our way of doing absolute return was something that other people weren't trying to do, so it was needed. But now I've been doing this for twenty-seven years here. You can't do what we used to do, not because there was anything wrong with it, just because it's old hat. You can't sell a transistor radio on the street, either. It was time to move on, but we were definitely ahead of the curve for a long time."

Within a few years of starting Farallon, Steyer had developed a name for himself and his fund, enough to get the attention of David Swensen, chief investment officer at Yale University and manager of the Yale endowment. Swensen took over the endowment the same year that Steyer established Farallon and started almost immediately looking for nontraditional opportunities.[11] A student of modern portfolio theory, Swensen began looking for new investing options to balance the risk and optimize returns for the endowment. He was reportedly curious about hedge funds, and he talked to Steyer about his business when Farallon was still a very young fund (Steyer is a Yale alumnus and went to pitch Swensen while in New Haven for a Yale event). But Swensen remained reluctant, turned off by the compensation structure that allowed early hedge fund managers to make out big if they produced top returns, but share little of the pain if they lost an investor's money. Worse, Swensen worried that there were no incentives to fight for a better return. "The reason we don't want to do this, honestly, is in this format," Swensen reportedly told Steyer during a second meeting that took place in 1989. "If you lose money, you won't want to earn it back. You'll close down and start a new fund. That's the problem with the whole format."

That may have been the format for other institutions or in other times, but that is not the way Steyer works. Steyer talks a lot about investing and running businesses with integrity, a mind-set that dictates a lot of what he does, from the people he recruits, to the investors he courts, and the investments he makes. Money matters, but Steyer is famous for seeming impervious to its influence: he drives a well-used car and seems unconcerned about fashion or other trappings of wealth. He started his career at Goldman Sachs, and when he was leaving the Wall Street giant to start Farallon, his colleagues and seniors all warned that he was making a mistake. "They told me, 'You'll make more money here at Goldman Sachs than you will at any job you take.' And I said, 'I'm sure that's true. I'm not leaving for the money.' It wasn't about trying to get more money—I wasn't being cunning. I just didn't want to stay there." Doing a job that interested him and working with people he got along with was more important.

He told us, "I'm serious about being good. I really am. We are very serious about the excellence part. And we are very serious about how you treat people and how you treat each other and how you behave. We're trying to do a difficult thing in an excellent way and take a lot of pride in it, in an environment that often has a bunch of creeps in it. And some of them are really creepy. I mean, they've gotten in trouble for it. Obviously one of the big issues in this business is, if you're all about money, how interesting or valuable a person can you possibly be? It can be perverting. This can be like heroin for people. They're hooked on the reinforcement of making and having a bunch of money. And that's their feeling of positive self-worth. I say your net worth can't be your self-worth."

Swensen was eventually convinced that Steyer was building an honest business with strong relationships that he would do right by. That trust was reinforced by Steyer's commitment to take no management fees when his fund was down. Swensen invested $300 million in Farallon in 1990, which increased Steyer's assets under management by 30 percent, and made Yale one of the first university endowments to diversify its assets with hedge funds, now a far more common presence in the endowment portfolio.[12]

Producers do not expect to grow by repeatedly using the same tried-and-true approaches. Steyer's success selling a new pool of investors in Farallon and then managing those investments to high returns earned him a billion dollars. But his past approach to Inventive Execution won't carry his company into the future.

"We have to do something that's very scary," he said of Farallon's future. "It's hard, but we need to be granular and effective around the world."

Steyer's current international focus has caused him to rethink and creatively design the deals he forges with Farallon employees. He told us, for example, about his efforts to find people in Japan and in Brazil whom he could work with —smart professionals with deep cultural understanding of the places where they work, as well as integrity and savvy about the way Farallon operates and the regulatory requirements of a fund domiciled in the United States. "We need what I have called sea turtles," Steyer said. "They can walk on the land. They can swim in the ocean."

Reportedly it took Steyer eight years to find the right person to work with in Japan and about as long for Brazil. "They've got to be comfortable in their country. They've got to understand our risk-reward philosophy and our need to be honest and our general culture." Given how rare this kind of person is, once found Steyer wants to keep him. To increase his odds he has designed compensation deals to make sure his employees feel invested. "They get a big slug of anything they do plus something from the center."

Steyer has gotten plenty of heat for that approach, but overall he thinks it works for Farallon; it makes team members feel appreciated and committed to the firm.

"One of my friends runs a hedge fund in New York," Steyer told us. "He's yelled at me for years: 'You're doing it wrong. It's not how you incent people. You're giving them too much of a share in what they do, blah, blah, blah.' He basically gave everybody a share in the firm. Of course, he gave himself by far the biggest slug of the firm. Everybody left. What we've always tried to say is we want to flow through the actual economics. So if you're creating value, we want to give you your share of what you actually created. Now you're going to get your share—not in the future. Eat what you kill. If you do it, you get it. This deal is not just about money. This is about being partners and working together and sharing the same values."

Steyer expects his deal making—with his investors and with his people—will see Farallon into the next era of growth, which will involve more presence in environments where the rules of engagement are less defined. "Say we want to go invest in Indonesia," he said as an example. "How do you do it? It's a famously corrupt society. So I look for excellence and integrity [in people I hire to work for Farallon in other countries]. Someone who is successful but honest. Because you got to ask yourself: How are you going to be effective in places that are not run by the League of Women Voters? There is no SEC oversight there, but there is SEC oversight of us. So that's hard. And doing it in a number of places and then having it tied in so that it's accurately organized and managed is hard. Very few people are doing that level of management."

The Role of Persuasion in Deal Making

The Producer's ability to sell a deal requires key skills in persuasion. Ibrahim has it, Anschutz has it, Steyer has it. Early experiences with sale making and deal making equip the Producer with the key tools of persuasion that she needs, especially as the deals get bigger and more elaborate. Many people assume these qualities are innate; that persuasion and its sister, charisma, are like blond hair or allergies, ingrained tendencies laid out in the DNA at birth. But the evidence suggests that like many other Producer skills, they can be learned.

Carl Hovland, a psychologist at Yale, first began studying the factors that allow people to be convinced of an idea in the 1940s and 1950s. Hovland had worked for the U.S. Army during World War II and had seen the way Adolf Hitler used mass media to elevate himself to demagogic status. The original model of persuasion that Hovland and his team came up with outlined three key phases to what the listener experiences as he or she listens to a set of content: attention, comprehension, and acceptance. For someone to sell an idea of any kind, the listener needs to pay attention to what is being said, needs to understand it, and needs to accept it into his way of thinking.

Only through the experience of working in the industry, understanding the interests of the person on the other side of the table,[13] and making a pitch and then making it again and again do Producers learn how to design a message that captures attention. As the experts advise in the negotiator's bible, *Getting to Yes,* Producers know how to structure their deals to their own advantage, and to make the pitch in a way that appeals to the interest of the other side. Audience is everything. A great pitch to the wrong crowd will go just as wrong as a bad pitch to the right one. The extensive sales experience that so many of the billionaires we studied have gave them the necessary ability to find the right audience and home in on a message that would not only capture attention but be simple and easily accepted into the listener's mind-set. The key lesson here is that Producers become skilled in the same way that top musicians get to Carnegie Hall—practice accumulated over many years.

Such acumen explains how Dietrich Mateschitz was able, as an unknown businessman, to persuade the young Formula 1 driver Gerhard Berger to walk around with a bottle of Red Bull in his hand without having an official endorsement contract. It explains how Steve Jobs—the same man who had been ousted ten years earlier—was able to persuade the leaders of Apple not only to buy NeXT, a company with little in the way of unique technology, but also to reinstate him as Apple's CEO. And it offers some insight into the history of the Time Warner Center, the jewel in the crown of Stephen Ross's Related Companies portfolio.[14]

Redevelopment projects require a strong, name-brand tenant to anchor the deal. For that role Stephen Ross, the billionaire developer of New York's Time Warner Center, approached Dick Parsons, the CEO of Time Warner, whose offices had been in the Rockefeller Center area of New York's midtown. Parsons did not immediately warm to the idea, according to Ross. "Hey, Time Warner has three million square feet in the city," Parsons told him. "We've got thirty years to go here at 75 Rock. We don't need any space." Ross was undeterred. "Dick, this is not about space," he recalled saying. "It's about showcasing your company. Nobody knows who you are or what you are. They think you're part of NBC and you are the largest entertainment media company in the world. Look what's going on around the world. You need to showcase."

Ross's message resonated. "We talked for about two or three minutes," Ross recalled. "He said, 'I'll give you an answer in ten days and I will have board approval in sixty,'" Ross told us. "And that's how this deal was done." Ross changed the conversation away from what Time Warner had to what it needed—a way to present its name to an international public in association with a high-traffic, high-end, high-profile location. By focusing on his partner's interest, Ross was able to design and pitch a deal that appealed to everyone involved.[15]

Bloomberg's First Deal

Michael Bloomberg is most famous today as the post-9/11 mayor of New York City, but he began his career with the reputable Wall Street firm Salomon Brothers and quickly rose in the ranks until he was a rising star buying and selling blocks of stock sold by large institutions. But Bloomberg's star only shot so high at Salomon. He excelled as a trader, and he was made partner and then given responsibility for all equities. But in 1978, just as abruptly, he was demoted to run the information technology division of the company, where he was still stationed in 1981 when Salomon Brothers decided to merge with the was still stationed in 1981 when Salomon Brothers decided to merge with the commodity trading firm Phibro. Bloomberg was given a pat on the back and a severance check of $10 million. The company he'd worked for since graduating from Harvard Business School—the company he has said he would never have left—was letting him go.

Bloomberg was thirty-nine years old when this happened and couldn't imagine going to work for a different Wall Street firm. He took a chunk of the $10 million and created a business that merged the two skills he had developed at Salomon Brothers—knowledge of the securities and investment business, and of the technologies that assisted in the deals. "When it came to knowing the relative value of one security versus another, most of Wall Street in 1981 had pretty much remained where it was when I began as a clerk back in the mid-1960s: a bunch of guys using No. 2 pencils, chronicling the seat-of-the-pants guesses of too many bored trades,"[16] Bloomberg has written about the state of investment data at the time. Bloomberg imagined that he could build a system that took information about a mass of different investment types—stocks, bonds, currencies—and reveal a firm's position and show what was moving where so traders could see investment opportunities previously hidden by too much (and too inaccessible) data. Bloomberg hired four former Salomon people, including his Performer complement Tom Secunda, who wrote the first analytics programs, and got to work selling and dealing the as-yet-uninvented Bloomberg terminal.

Merrill Lynch's Capital Markets Division was the first prospect. As Bloomberg tells it, he went alone to a meeting with Ed Moriarty, the division head, and pitched the nonexistent product to him and his team as if it were established. When Bloomberg finished, Moriarty turned to Hank Alexander, the head of his software department, and asked his opinion. Alexander said he thought they should build it themselves—a not uncommon response in the "build it here" world of investment banking technology. When Moriarty asked how long it would take, Alexander reportedly said, "Well, if you don't give us anything new to do we'll be able to start in six months." With that opening, Bloomberg said, "I'll get it done in six months and if you don't like it, you don't have to pay for it."[17]

Bloomberg and his team had little more than an idea of what could help the traders at one of the country's most respected commercial banks. But he made a deal on that idea as if it existed already. Bloomberg used his persuasive capacity to sell the vision and then he went to work building a custom terminal that brought in proprietary data and analytics. “It wasn’t elegant,” he said of the first Bloomberg terminal they delivered. “It was laughably simplistic by today’s standards. But we did it, and it worked.”[18]

HOW EXECUTIVES CAN EMBRACE INVENTIVE EXECUTION

Throughout this chapter we have attempted to highlight the Inventive Execution approach self-made billionaires take to execute blockbuster ideas. Through fine-tuned attention to the details of designing products, customer experiences, and critical deals, our study subjects found ways to insert ideas built with Empathetic Imagination into large, expansive markets.

How can executives apply Inventive Execution to their own opportunities?

Take an Integrative Approach

First, look to integrate the various parts of the process involved in bringing a product or service to market. The typical organization is specialized, which means that the people who come up with the idea for a product eventually step off and turn their attention to the next idea, leaving other departments to decide how it will get built and sold. This specialization is manifestly not the Producer’s way. On the contrary, Producers *want* to stay involved. They want to see their ideas actualized according to the vision they set out for them, without the compromises that inevitably take over when an idea touches too many hands that have too little invested in the original concept. We feel very strongly from doing this research and talking with billionaire Producers that the possession of *both* Empathetic Imagination and Inventive Execution is a defining characteristic of the way Producers work, and a source of their success.

What would happen if you integrated more of the pieces? As an example, what would happen if the James Dyson on your design team also had to spend a year trying to sell what he had built? How might the experience with selling change his designs? And how would his experience with design change the deals he seeks for the product?

In keeping with that integrative bent, what would happen if you gave your best deal makers influence over the design of the underlying product or business? Would your deal makers bring ideas around changing the pricing or the business model in a way that would open up new opportunities for scale?

We acknowledge that these suggestions may make a lot of readers nervous. It is instinctual—it even feels like a good idea—to keep your best thinkers thinking, and your best doers doing. That is exactly the right approach for Performers, but exactly wrong for Producers. Performers should be given responsibility for improving processes, for tackling and excelling on specific aspects of Inventive Execution. Your Producers, in contrast, need to think *and* do—there is no separation for them. Organizations that want to capitalize on that integrative bent need to give their Producers opportunities to apply both skills.

Pilot, Pilot, Pilot

One way to give Producers opportunities to think *and* do is to embrace a pilot program. We noted in Chapter 3 that too many organizations spend far too much time planning for a product's release, and far too little time in the market with a prototype engaging directly with customers. If you want to act more like a Producer, embrace the pilot model of launching an early product in a limited market or with a hand-selected group of clients, and do this early and often. It can serve as a tool to test ideas and their design, and it allows Producers to practice Inventive Execution.

When deciding which products or services to invest in for a pilot program, make sure that Producers in your organization are making the decisions about which ideas to pursue. Ideally, those Producers will have concrete experience executing on ideas. Too often, design Performers give other design Performers most of the feedback, which can lead to insular "designer designs" that don't serve the customer. Having Producers weigh in can offer insights that the Performers haven't thought of. Having Producers also lead the product launch can pave the route to the sales and deals, and can even encourage prelaunch design adjustments that ease the path to scale.

Pilot projects are not without risk for the institution. We don't think they should be freebies for your Producers either. Yes, you are trying to encourage production, but you also want results. Therefore, you do need to measure how well your emergent Producers achieve Inventive Execution with the results included in the Producer's evaluation. Remember, the criteria for success are not the same ones you apply to Performers. You are not judging on the basis of incremental improvement but on value potential. Did the Producer execute in a way that substantially changed your market share? Did his Inventive Execution allow you to create or enter a completely new market in a different way? These are the terms of success.

Recruit with an Eye on Execution

The above suggestions apply largely to Producers you already have and have identified in the organization. For those organizations looking to augment their talent pool to include more Producers, look for individuals who have been involved in the design and sale of something completely new, or who bring inventive ideas to the table when you talk to them. These kinds of people can usually find inventive ideas about how to structure a deal, get access to resources, or get a project done. And remember that the vast majority of billionaire Producers have concrete sales experience. Salesmanship is almost a requirement to entry in this elite group. If your high potentials don't have sales experience coming in, make sure they get it quickly.

Finally, throughout your efforts, remember to celebrate. If there is a story of great Inventive Execution in your organization, broadcast it and make it a part of your culture.