



Excel Like Apple

Everyone knows how successful Apple is. The fact is that technology companies in this space can learn a lesson or two from Apple.

Yes, the mortgage market isn't easy, especially if you're a technology vendor. Lenders are still going out of business so there are fewer clients for which to compete for. However, there is opportunity to be had in this market.

Let's take Apple for example. Who wouldn't like to be Apple? They make great products, consumers love them, competitors fear them and they make a ton of money. In the article "How Apple Disrupts Markets and then Goes on to Dominate" by Greg Satell and Tim Kastelle, they note that for all that's been written about Apple, nobody's been able to emulate them. What's more, little more than a decade ago, they were on the ropes. At one point Michael Dell said he would just shut down and give the money back to the investors.

Steve Jobs' secret wasn't that he saw what others could not, although he certainly had vision. What made Apple special was that he had the discipline to not do what others would. He limited himself to developing one new product at a time and focused his energies on building out existing products and platforms. That made all the difference.

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A good lens for understanding how Jobs innovated is the three horizons model. This tool is designed to help you manage a portfolio of innovations that will have an impact over three different time frames.

When you innovate using the three horizons model, the first horizon involves implementing innovations that improve your current operations, horizon two innovations are those that extend your current competencies into new, related markets, and horizon three innovations are the ones that will change the nature of your industry.

In general, H1 innovations tend to be incremental, while H3 are more often radical innovations.

You must have innovation efforts aimed at all three time horizons. If you only look at the exciting transformative H3 innovations, you'll lose business to current competitors who are using incremental innovations to improve their operations. Consequently, you might have the best ideas for the future, but you're no longer around to execute them.

On the other hand, if you only focus on H1 incremental innovations that make your current business better, you'll end up being replaced by organizations that are driving disruptive innovations in your field. Using the three horizons framework helps balance innovation efforts between incremental and radical, which is important.

However, maintaining a balanced portfolio does not mean that you put 1/3 of your effort into each horizon. Every new Apple product started the same way. Jobs would see something not so great and want to change it. After he returned to Apple and launched the iMac, he looked at digital music players, concluded that they "truly sucked" and decided to do something about it. He envisioned 1000 songs in your pocket.

There was, however, a rub: the technology did not exist to do it (which is why music players were not that great in the first place). His engineers cobbled together a suitable screen and battery,

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but couldn't find a disc drive small enough. A while later, on a routine trip to Japan, one of his engineers came across a 1.8 inch disc drive that Toshiba had under development.

It was just the thing. Small enough, with a 5GB capacity or just enough to fit 1000 songs. Then came the design, the flywheel and the interface – all things that played to Apple's strengths. The rest, and the breakaway success of the iPod, is history.

It was a pattern that was to be repeated time and again: Look for something that isn't performing well. Figure out what wouldn't be as bad (i.e. 1,000 songs in your pocket) and then work on technical specifications. Of course, he could have launched the iPod sooner with a standard disc drive, but then it wouldn't have been "1,000 songs in your pocket."

As his biographer, Walter Isaacson pointed out, Jobs revolutionized 7 industries: personal computing, animated movies, music, tablet computing, digital publishing and retail. Yet, no one considers Apple a conglomerate. In fact, most consider it to be a very focused company. The reason is that its expansions are into adjacent markets.

What's an adjacent market? Porter's 5 Forces Framework says it all. What makes Apple such a dangerous company is that they are fearless in turning the arrows outward.

They didn't worry about post PC devices like phones and tablets invading their Macintosh environment, they invaded those spaces instead. They didn't worry about music companies giving them lousy deals, they built their own environment. They didn't whine about the retail environment their wares were displayed in, they revolutionized the space.

It should be mentioned here that Apple isn't always successful in this regard. Their heavy handedness in demanding 30% of subscription revenues from magazine publishers appears to have

flopped and their iAds program has suffered from high prices and poor service. Nevertheless, their hits have greatly outshone their misses.

When Jobs returned to Apple, he didn't look first at how he could change the world. That came later. First, he killed most of the products they were producing so that he could focus on improving operations. He innovated not with breakthrough new products, but focused on the core desktop market that had fallen flat.

One thing that often gets overlooked is Apple's incredible track record in operations since Steve Jobs' return. They not only dream up the next big thing and come up with breakthrough products in adjacent markets, they are also a low cost producer. That's an incredible combination.

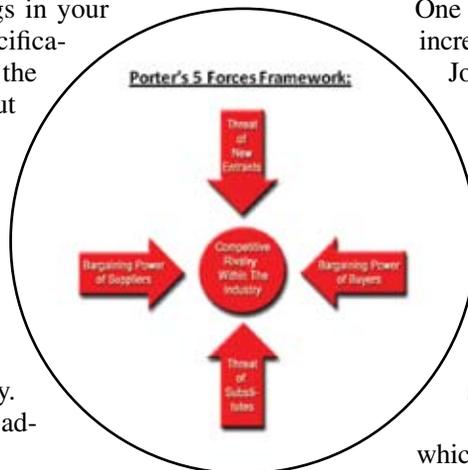
And it didn't just happen, but is an indication of how much focus they put on operations. That focus pays off not only in lower prices and higher margins, but also in their ability to improve their products significantly with each generation.

Those improved products increase scale, which improves their negotiation leverage with suppliers, which leaves room to add more features at lower cost and on it goes.

So, if the three horizons model is pretty simple, that begs an even simpler question: Why doesn't everybody do it? The answer is discipline.

How many technology companies do you know in the mortgage space that try to do too much and as a result dilute their core offering? Similarly, there are also companies in our space that focus too much on the innovation side and produce revolutionary products that the market just isn't ready for.

So, use these principles to go out there and become the Apple of the mortgage space. ❖



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