



Ron Johnson, Sr. Vice President at Apple, Inc.

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

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Today's Civic Caucus discussion, not typical for us, is in a class by itself. However, you might find the discussion so informative, so interesting and so stimulating that you might hope that more such sessions could be held. Ron Johnson, a Minnesota native and Senior Vice President at Apple Inc., describes how the company's user-centered method of developing products leads to significant innovations. This method's focus on users' needs is in contrast to others' focusing first on a product and on making that product better and cheaper, or in contrast to governments' focusing on improving services, without first considering what the users of those services are seeking to do. The company's financial turnaround as a result of this method of user-focused innovation can be instructive for Minnesota.

Summary of Johnson's comments: This discussion is about a way of thinking about innovation. It can be applied to companies, to organizations, or to governments.

Ron Johnson, Senior Vice President at Apple Inc, and head of Apple's 300 retail stores worldwide, describes how the company's retail stores' customer-focused approach asks first 'how can we enrich someone's life by helping them pursue their passions', and then 'imagines without limits' new approaches to help pursue them.

The same innovation that Apple applies to its products is applied to the service in its stores. This is in subtle but powerful contrast to the practices of companies that focus on their products, on making them better and/or cheaper, or to the practices of governments that focus on improving services without first considering what the users of those services need to have done.

Schooling is an example of this. America is full of expensive schools with competent experts, to which students do not want to go and in which they do not want to learn. Meanwhile, after learning that, instead of sitting in a lecture to learn software, users simply wanted specific questions answered by a smart person, Apple put in place its "One-to-One" learning package that has had extraordinary success.

Johnson describes the company's success during his ten years in charge of retail strategy, from an \$8 billion market capitalization, losing money, to profitable growth and \$220 billion capitalization-second in the United States behind Exxon and, notably, ahead of Microsoft.

In addition to their user-centered way of thinking Johnson describes five key factors to Apple's retail success: strong leadership, passionate employees, a clear mission, uninhibited innovation, and a sense of significance in the work they do. He describes how the Apple retail experience shows customers that the products can change their lives.

Responses by several persons present to John's comments appear at the end of the notes.

A. Context of the meeting- The Civic Caucus has been hearing from speakers about redesign of public services. Today's speaker—a son of Verne Johnson, chair of the Civic Caucus—provides an opportunity to hear about a global company's innovation-fueled turnaround, and how its approach could have broader applicability, possibly including the public sector.

B. Welcome and introductions- Johnson is a native of Minnesota, and attended Edina high school. After receiving his B.A. in Economics from Stanford and his M.B.A. from Harvard, Johnson decided to pursue a career in retail and accepted a position with Target Corporation in California. His move to Apple came in 2000, when that company, needing a retail strategy to present Apple's innovation directly to customers, turned to Johnson, then a vice president in Target's merchandising division, to design its retail operation. Working closely with Steve Jobs, Apple's founder and chief executive, Johnson has built Apple's retail presence from the ground up. Known as an effective delegator, inspiring and empowering employees, he has been with Apple as its architect of retail operations for the past ten years.

Today's meeting is taking place at Apple's new Uptown store on Hennepin Avenue in Minneapolis. The store has a second-floor briefing room, a new feature designed to better service business clients.

C. Comments and discussion- During Johnson's visit with the Civic Caucus, the following points were raised:

1. Proud to be speaking to the Civic Caucus- "I'm very proud to be here," Johnson began. "I've watched the Civic Caucus from its start, and still read the notes regularly. Its importance is in how it stimulates thinking, because that's what a democracy is about. I remember when the caucus was just a couple of buddies who would meet around a table for breakfast and talk politics; then other people started to come," and it grew and formalized.

"And now to see a generation of veterans thinking how to incorporate technology, and with a reach at 2,200 participants, and the kinds of legitimate figures that come in to speak," it's really encouraging.

The chair thanked Johnson for his kind words. The speaker then set the scope for his comments: "I have a family, I coach youth sports, I teach Sunday school, and my priority is Apple—I don't devote many cycles to solving public problems so please keep my experience in perspective."

Admittedly because he's unable to focus on public issues at this point in his life, he offers no detailed solutions to specific areas of concern. "But I will describe what we have done in our retail stores, and show how it might apply to public problems."

2. Apple's comeback can be illustrative for Minnesota- "When I joined Apple the company had a market capitalization of \$8 billion, which put us barely in the fortune 500. We were a relatively large company, but we were losing money. Steve (Jobs) had come back a couple of years before, and determined the only way we could grow is if we innovated."

"I've had the bird's eye view. I've reported to Steve, and observed firsthand the company's growth." The situation is not unlike Minnesota, he said, with its \$6 billion deficit, projected to continue losing money, confronting problems with values, schools not achieving objectives, shifting social and economic conditions. "But here we are nine years later," he said about Apple. With innovation and the right values a company or a state can turn around very rapidly.

Change does require time. "To change things you do need to have time." Unfortunately a key challenge in the public sector is public leaders aren't given much time for success. So that may be a call for leadership from the private sector. But "every time the desire for change comes up you've got to be thinking 'opportunity' and you need to be willing to pursue innovation. Human nature is such that you want change. What kid at 5 years old doesn't want to travel somewhere new; have a new school year; play a new sport?

"A perfect example of change is China. I've been traveling to China now for 20 years. China is rapidly becoming the most significant player in the world. If you look at what's happened there, when you look at the young people in China, it's truly incredible. Eighty percent of those that work in our store have college degrees. They have spirit, they're happy. It's not about the money. If a country can change that dramatically in 20 years, why can't the state of Minnesota change dramatically in ten years?

3. Apple is user-centered, not product-centered - The question to ask when applying Apple's experience to public policy, Johnson suggests, is not 'does Apple have great products?', but 'why does Apple have great products?'

"Why does Apple have the products that people want, and why are the stores the busiest and most successful retail store in the world by many measures? We don't just have great products, but we also have the experience and the culture that the stores cultivate and represent." At the stores you can try before you buy, and talk to well-trained people who are passionate and look into your heart, not at your wallet. They provide personal service through the Genius Bar and one-on-one training.

As effective as those ideas have proved to be, the root question is how such passion is supported and shared by those inside the company. Partly, they have a mission: Apple is helping users to achieve their goals and desires, and in ways that are fundamentally new and better. From movies and photos, to publishing, to communication, Apple does not lead by improving products but by reinventing ways to help people pursue work and lifestyle.

This is what has made Apple untouchable as a company: They are other-centered, or user-centered. By anticipating what users are trying to do, and helping them achieve it by 'imagining with no limits,' the company has found a durable competitive advantage over those whose product development process and retail strategies are essentially product-centered. While others seek to develop and improve a product, Apple re-invents how to achieve the things people in the world want to do: listen to music, create and share, stay connected on the go, run a business.

How?

4. Understanding the five key factors to Apple's success - "We have created a model at Apple retail that's pretty interesting," Johnson said. Gateway, Nokia, Samsung, and Microsoft (to date) have all tried to forge a retail presence and all have failed. What are the key factors that make Apple successful?

a. Strong leadership: "Steve sets the vision for Apple, but also pays attention to critical details." He is a very passionate leader. But understand what leadership truly means: leaders are those that can produce unbelievable results; leaders are those that not only can imagine the future but also empower and inspire others. Managers meet plan, leaders produce unexpected results. Great leaders inspire leadership throughout their organizations. Leadership is a culture. Leaders want to be told what needs to be accomplished but then be let loose to achieve it. Steve has been by far the best and most inspiring person with whom I have worked.

b. Passionate employees: Johnson told a story of his roommate at Stanford, who one evening stayed out all night. Thinking he'd hear a good story of youthful travails, Johnson was surprised the next morning to hear that Tom had spent the night outside the office of a company called Apple, having heard they would be hiring. He was that passionate about joining the company, which at that time had only 100 employees. There continues to be something organic about the passion of Apple's employees and users, because it is natural. The passion is genuine, and is sustained by the culture of the company. The passion customers have for Apple mirrors the passion employees who work for Apple have for the company. Passion is key to enduring success.

c. Mission: "Never in my time at Apple has the executive committee had a meeting where we talk about making money," Johnson said. Instead, they seek to make technology easy for people to use. "We're all about mission, the desires people have deeply embedded within themselves," and creating products that enable them to pursue these desires and stores that enable them to get more out of themselves. Profit is our reward for serving people well. We truly earn recognition with our results versus generate revenue as most businesses think.

d. Innovation: Johnson said that at Apple they innovate, and don't really do 'improvement.' And to innovate you need to live in a world of imagination without limits. When we said we were going to open stores in malls people thought we were crazy. Why would you put a computer store in a mall? But we wanted to be part of people's lives, and to do that we needed to be within ten feet of where they spent their lives rather than ten miles. People will always find reasons for why something will not work, he said, and they will be overly cautious. To innovate you can't let the skeptics get in the way of the dream.

Ask, What is it that people are trying to do, and how can the company, organization, or government meet that need? The process is not about improving a product, but better meeting the task users would like to accomplish. Sometimes there is a need out there—often not immediately apparent, such as the capacity to manage photos on a hand-held device that also serves as a phone, that would open wide up if the right product were available to meet it. For those products, imagination is required.

Johnson described Target's launch of the Michael Graves designer house wares line with 140 products. Most people within Target believed the upscale products probably wouldn't work, and counseled they should 'walk the line out' a few at a time, instead of launching all 140 items.

Perhaps the products would not catch on; perhaps a loss would be taken, so best to keep the launch small and test it. Johnson understood that while there is risk to everything, the only way to get noticed was to do something big. He also was confident that Target's expanding customer base could support the upscale products. So he launched Michael Graves with boldness: "I learned back then that innovation is about letting your imagination win. True innovation involves risk but it is the only way to get extraordinary outcomes"

e. Significance: A big word, but simple. If you look it up in the dictionary the word significance is defined very simply 'To have meaning.' People search for meaning in their lives. A company must find out how they can provide their customers and employees with a sense of meaning, and this ultimately will achieve significance.

Understand what it is that customers are trying to do, and then help them do it more effectively, conveniently, and affordably. Do that, and you will have success. Pursue a mission; provide people with a sense of purpose. This is a key method for gaining significance.

5. Diagnosing public services- "I don't think this is a public/private thing," Johnson said about the delivery of services. It's about organizational design.

"Government delivery of services may not be effective, but there are a lot of companies that aren't very effective as well. If you want to produce superior outcomes, it might be worth thinking about the five factors (above). A lot of organizations have trapped themselves in trying to produce great performance from an organization that is not structured to deliver it."

Johnson took the five key factors listed above, and asked these questions of the public sector:

Does the public sector have strong leadership? Leadership with a vision, focused on doing well for the future-not merely managing budgets or political processes?

Do the employees that work in the public sector have passion? Do the employees working at the DMV have the same passion that the employees who work at the Apple store have. If not, why not?

Does every area of the public sector pursue inspiring missions? Is the work something they love, or is it just a job?

Does the public sector produce innovation? Real innovation, breakthrough innovation?

Does the public sector achieve significance for citizens? Do the services delivered, and public sector employees, produce meaningful outcomes for people's lives?

The focus by public sector management on fulfilling required responsibilities for service and by public sector employees on pay distract from the points of central importance. "One of my theories in life," Johnson said, "is that each of us has a career or mission in life that is unique to us, to our life

experiences. And if we find that, and are in an environment that supports it, we will respond with passion, no matter what we're paid." If we don't find it, or if the organization suppresses it, then no matter what people are paid, there will be no passion.

An attempt to apply Apple's strategy to public services (whether provided by or simply financed by government) compels a basic rethinking of customer service. In its essence the goal is not to be nice to people, to smile, though those are often functions of a successful service.

Instead it is to help a member of the public solve a problem that needs to be solved-whether obtaining care for illness or an effective education, or registering a deed.

The loyalty of leaders should be to accomplishing the task that needs to be done, not to the particular mode of service. The process for re-imagining services, like Apple's process for product development, must be user-centered, not service-centered. By approaching public services with the goal of helping people most effectively accomplish what needs to be accomplished-focusing on the need, not the service-entire processes may change, improving the value, and the experience for everybody including employees.

6. Imagine 'with no limits'- In our Apple stores we imagine the future without limits. Limits are artificial barriers that are in our minds. When my son was four, we were walking through a football field and he wanted to kick a field goal. We were at the 40-yard line, and he started to set the ball up. We were in a bit of a hurry, and I said to him, 'no, let's go try it closer,' move up by the five yard line and try it there. Afterward a man who was with us asked, Why did I place limits on my son? Why did I presume to decide for him what he was or was not capable of? Let him try it; then, if it doesn't work, help him think of an alternative. Don't set limits on people's dreams.

We need to ask ourselves as a society how to imagine in the world without limitations. We have got to get organizations to believe there are no limits.

7. The Apple retail strategy is deeply rooted in values- "Our employees are passionate, and live the passion," Johnson said; they literally run into work. Yet most are paid much less than other professionals that society commonly assumes can't succeed because they are not paid well enough: teachers, hospital workers, and of course public service employees.

Johnson described how each employee has a credo card from Apple with notes written down about the values of the company. "It's about meeting the passions of people-serving the passions of people." The strategy has its roots in the company's user-centered philosophy.

"If you can tailor a store uniquely to its setting," Johnson described, "it creates a community." Locations are important to their city, and the architecture must blend. When considering a new store they spend time out in the street, "feeling what the locals feel." Stores look different depending on location-at times they look classic, at times, very modern.

As with product development, there are no barriers to imagination in designing the spaces. The store in Shanghai, located underground, features a 40-foot glass cylinder rising aboveground, constructed

of the largest panes of curved glass in the world. "We've learned over time there's something great about the history of the spaces. So we've respected that." They went to lengths to restore a building in Paris, in which a store would be housed, to show respect for history.

This is deeper than cosmetics, more than flash, and more than seeking the favor of local communities that appreciate the marvelous structures. The entire retail experience—from the stores, to the packaging, and the personalized trainings—help users to recognize that Apple's products and services can help them pursue their passion. It is counter-intuitive, for a store model that displays its small products artfully, cleanly, on tables in large rooms, as if framing a small piece of art with large matting. Apple is after something grander than the electronics themselves: "When done right people understand these stores can be transformational to their lives."

Responses by attendees

After Johnson concluded his remarks, the discussion went around the table to the participants, who gave their reactions to the comments.

1. Curt Johnson, managing partner, Education|Evolving and co-author, Disrupting Class (2008 McGraw Hill)—I have one reaction and one question. Listening to you, two things sprang into my head that I wouldn't have expected. One is about a book written by Steven King while he was lying in a hospital bed. How was it, King thought, that he was able to conceive of plot lines that would continually intrigue his readers? 'You've got to let your mind misbehave,' he concluded, and went on to observe that almost all the cultural conditioning we receive encourages us not to misbehave.

Another thing that came to mind was watching a smooth operator who works for MGM Grand advocating a gambling proposition to a Detroit business audience. He was being hit with questions about social impact, economic implications good and bad, etc. Eventually he stopped the conversation and said, 'Wait a minute—you're all talking about gambling. This isn't about gambling. What we're all selling is an experience.'

If I translated your testimony here, he told Ron Johnson, I'd say you succeed at making values measurable; elevating what is in most sectors intangible stuff, into reality." Failed companies show that it is not sufficient to think only about money. As you said earlier, in Apple's executive meetings you do not talk explicitly about making money but instead finding ways to serve users' needs in new and better ways.

Is politics in the public sector the functional equivalent of profit driving in the private sector? If a company is driven only to make profits, they get nothing else. If leaders are only interested in politics in the public sector, they crowd-out mission and values. They too will fail (though they may be reelected).

RJ: Good analogy: Apple doesn't believe in focus groups. The analogy would be if I'm a politician I wouldn't care about polls, I just want to do the right thing. Spend more time thinking deeply about values. I'd say Apple's values are firmly planted today, but it's because we think about them, and talk about them.

2. Peter Hutchinson, President, Bush Foundation— Organizations produce the results they do on purpose, not by accident. One of the reasons education looks the way it does is that the organization failed so many kids. We have special education laws because students were abused. Teacher unions exist because teachers were abused. The fundamental ethic of the public sector is mistrust.

Alternatively, the fundamental ethic of Apple is the reverse—it is faith and trust. How can we map the genome of the public sector, and do a DNA transplant?

For example: Minnesota will lose 50 percent of its teaching force in the next 10 years. If you could sustain 50 percent of the spirit brought in by the new human capital, demanding of an organization to meet their spirit, the system could change. The power of human capital could be seen by Target last week, when the CEO ended up apologizing to employees for contributing money to an organization that ran ads supporting a political candidate who does not support gay marriage. The employees were offended—he violated the DNA of the organization.

There are some parts of the Apple metaphor that are strained when you bring it over to the public sector. Apple's market share is 8 percent; in the public sector the market share is 100 percent. I'd say this is Microsoft's problem. They're too big; the cost of failure is too large, so they limit themselves.

Over half of what government does is not delivery of services, but delivery of obligations. Though you do have a compliance challenge as well at Apple: we as customers have got to comply with your code. You've made compliance fun.

3. Dave Broden, aerospace and defense system consultant; President, Broden Resource Solutions LLC—One thing that strikes me is that you have been able to keep the innovation and leadership going. Most organizations collapse into management. How do you prevent that management idea from getting in the way?

RJ: We never have a meeting that addresses profit, and in our executive team we are always thinking without limits, imagining without being constrained by current ways of doing things.

DB: This is a stark contrast to the defense industry. Every meeting you go to in the Department of Defense begins with the question: 'What's it going to cost?' Instead, we need to turn it around. I remember an expensive new weapon that had gone under years of development. They sent it out into the field, and the soldiers never used it. They couldn't make them use it. So some engineers introduced a replica to some students, and watched how they handled it, naturally, without instruction. Within weeks they had the problem solved.

4. Joe Cavanaugh, Founder, Youth Frontiers—What you're talking about with your five factors of success apply to schools, and what I say to parents when they are choosing a learning environment for their student. If one of those five factors is missing from a school you can get in there and fix it. If two of the five are missing, you may be able to fix it if you are involved. If three are missing, run from those schools because they won't change. It's like getting an alcoholic to stop drinking—they have to be interested in changing, and want to change.

Time is an issue with values-rich leadership. How do you substantively respond to 100 emails a day? How do you sit as leaders and reflect. There's no way to reflect any more, with so much information coming in.

5. Tim McDonald, Center for Policy Studies, author of *UNSUSTAINABLE*, a forthcoming book on system design and technology in schooling (Rowman & Littlefield) — What Johnson is describing is that Apple's success as a company is not ultimately about the products, but about how the products help people to better achieve their dreams, passions, and everyday tasks. In education, information technologies are yet to be widely incorporated to improve productivity. In most instances they're added-on to the existing school model, and become cost increasing with no significant improvement in productivity.

Improvements in productivity may occur as a function of innovation by teachers, private for/not-for profit entities, and the government—if the conditions are right. Entrepreneurial minds will find ways to be more effective at less cost if they have the ability and proper incentive to do it.

The question then becomes determining the conditions that make it most likely that productivity improvements will occur, that technology will be applied to remake and improve learning (not merely to reinforce what is being done now), and determining what prevents that from happening now.

I've found it is helpful to cast the potential of improved productivity in terms of: Innovation in Technology (+) Innovations in Organizational Model.

It is not sufficient to have one without the other. It is possible to get better productivity changing only the organizational model, but the game-changing improvements will likely involve new technologies. A common mistake however is to attempt to apply new IT to old school models. That almost always cost increasing, without seriously improving performance.

Something particularly compelling about Johnson's factors for Apple's retail success are the focus on empowering the user to contribute (such as through the iPhone apps store), and putting the user, not the product, at the center. In education most everyone focuses on the institution; they do not ask what it is that's causing widespread ambivalence among students and teachers. When most think about education reform, they think inside the box assuming the schools and the system we presently have. There is a need for re-imagining, 'with no limits.'

RJ: When I talk about education, I follow how we think in the company. What Steve's really good at is showing you need to start from ground zero. You've got to get to ground zero. So I'd start here:

First: To be a great teacher, all you need to do is be a little bit ahead of your student.

Then: You need time to work with a student.

So: What if a teacher were given 30 students and worked with them for 18 years? Each student has to be pursuing a mission. Give a student an iPad, an environment that lets them use it, with the teacher as guide.

We are often thinking technology centric, instead technology is the enabler. If you don't call it the enabler, then you're on the wrong track.

6. Marianne Curry, former public official and public policy activist —I want to bring a consumer perspective. Consumers drive change. I ran for public office, and served as a change agent. Meanwhile my children were in school and were not allowed into a gifted program because it did not exist. I went to the leaders in the community, and leaders of the public school system and they wouldn't respond. So I went back to work and paid for private education. The consumers are already voting.

7. Duke Zurek, Western Regional Director, Apple Computer —You must have a mission and values, or else you have very little else to guide you.

When I talk with teachers and care givers about what their frustrations are in their careers it's often because they're missing the 'why'? That's the mission. You've got to have a mission.

We work hard to select employees well. We're all about the people at Apple—it underlies everything. To work in our store now you have to go through eight interviews. The regional managers meet every one of them. Those that work at Apple are smart, interesting, passionate, believers.

RJ: We first had to determine those values that we believe, that we seek, and then we work hard to select well. We are only going to hire people who are positive, optimistic, and team players. When I came in I knew that if I hired someone who fit those characteristics, and told them only to hire positive, optimistic, and team players, we would end up with an organization that creates positive change. We have 25,000 people in our stores now, and they're all the same-like that.

8. Lonnie Broden, museum exhibit designer, and adjunct Instructor, University of Minnesota School of Design —I've been in education for 40 years. Nothing has changed. I think the thing that has moved Apple is that you are focused. You have clarity. I see this having worked at the science museum for many years, running their education programs. But we did not do things the traditional-school way. The system needs to change completely. If you're going to do well you've got to focus. Let people loose, and let them focus.

RJ: Kids work at an entirely different pace today. They're creating constantly, communicating constantly. Then they go to school and have to sit in a lecture and eyes glaze over.

The stores now have thousands of individuals and families that come in and learn how to do things, and to do one-on-one learning. We move them from inexperience to proficiency, and we do it well. We first tried lectures, but it quickly became apparent that people had different interests, and different questions. So we readjusted, and went to the one-on-one format.

For one hundred dollars per year, customers get one hour with a trainer each week. The customers love it, and they come, motivated. They learn, go home and 'study,' and come back with questions. The staff is fulfilled. And, the economics work—one more example of anticipating the users' needs, and re-imagining ways to meet them.

E. Closing —The chair went back to Curt Johnson to provide closing reflections on the day's discussion. "The parallels are almost frighteningly simple," he observed. Ron keeps going back to the fact that significance and impact are about understanding what drives organizational behavior. How can you design something inside the public sector so that the incentives are aligned to drive people to do what they are capable of doing? Unless the incentives work, the performance won't follow.

What Ron's talking about within Apple is a carefully designed culture where you are rewarded for doing the things that are positive, and are helping people. If you do that, success follows. I'm optimistic for the opportunity this shows us.

This is one big, ongoing disruptive innovation.