Smart Failure

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About IPIHD

The International Partnership for Innovative Healthcare Delivery (IPIHD) is an impact driven non-profit dedicated to increasing access to cost-effective and high-quality healthcare around the world. IPIHD supports a diverse and global network of healthcare innovators, industry leaders, funders, and governments. Founded in 2011 by the World Economic Forum, McKinsey & Company, and Duke University, and supported by corporations, foundations, and governments, IPIHD works directly with organizations bringing to market transformative innovations that increase access to affordable high-quality care.

IPIHD provides targeted programming, connections, and resources to help these innovators scale and replicate their models. The knowledge that IPIHD gains from research and working directly with the innovators is translated into insights and reports used to increase understanding of the potential of innovations to transform health systems globally. The IPIHD network includes more than 40 innovators and 15 corporate and foundation supporters.

The IPIHD Forum is held annually – learn more and participate here: http://www.ipihd.org/events/annual-forum

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The stigma of business failure can cast a shadow that is hard to overcome. However, business failure is important to the creative process and, as any entrepreneur can tell you, is a part of the learning and discovery process when attempting something new.

Alden Zecha, the CFO and strategist of Sproxil, Fast Company Magazine’s 50 most innovative companies of 2013, agrees: “Learning and adapting from early failures usually avoids larger, more costly failures later on.”

Although we expect failures to occur frequently during the early pilot phases of a new venture, we are often less comfortable with failure cropping up later along the path to scale. By the growth stage, entrepreneurs have already made it through the trials of prototyping and early development, and are often busy attracting investment and partners. During this stage of putting your best foot forward, failure may seem particularly unwelcome. But failures are both inevitable and vital during the growth stage.

In early 2014, the International Partnership for Innovative Healthcare Delivery (IPIHD) explored the topic of scale and growth failures at our Annual Forum, in a panel discussion session incorporating a variety of perspectives: entrepreneurial, investor, and corporate. The panelists argued that we don’t need to learn how not to fail, we must learn how to fail smart.

This paper summarizes the key themes that emerged during the session and includes effective strategies to identify and leverage failures that occur along the path to scale.

But first, a quick story about traffic.

In 1972, Bill Gates and Paul Allen had the idea to read the raw data from roadway traffic counters and create useful reports for engineers. “We were going to make the machines and sell them to traffic departments. So we set up our first company, which we called Traf-O-Data,” recalls Bill Gates in Fortune Magazine.\(^1\)

The first demo failed, however, and Traf-O-Data stalled.

“Even though Traf-O-Data wasn’t a roaring success,” Paul Allen recalls in the same publication, “It was seminal in preparing us to make Microsoft’s first product a couple of years later. We taught ourselves to simulate how microprocessors work using DEC computers, so we could develop software even before our machine was built.”

While not every misstep will lead to the next Microsoft, failure can be leveraged to increase the likelihood of success through failure management, actively building failure into organizational metrics, strategy, and culture. Smart failure is more than just learning from mistakes. It is about building comfort with and preparedness for failure to increase the likelihood of longer-term success.

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In healthcare the potential consequences of failure are so severe – sometimes even life or death – that organizations are apt to be even more guarded about their missteps than in other sectors. But, during the “Smart Failure” panel at the 2014 IPIHD Annual Forum, organizations openly discussed their strategies for leveraging failure on route to progress.

Moderated by Alden Zecha, the panel included Jean Luc Butel, president of Baxter International, Benjamin Midberry, assistant vice president of Deutsche Bank’s Global Social Finance group, and Dr. Zeena Johar, founder of SughaVazhvu, a primary healthcare provider in rural India.

From this session, four failure strategies emerged: 1) maintaining an openness to adapt your products, 2) establishing failure metrics, 3) failing fast, and 4) sharing failures and the subsequent lessons learned.

Learning to embrace failure may be one of the most useful strategies that entrepreneurs in any field can adopt. It can seem counterintuitive, but a willingness to fail is a key component of success. For innovations in health, this can be particularly tricky. How can an organization remain willing to get it wrong, when dealing with patient health outcomes? The following are four strategies that innovators and supporters within the IPIHD network have deployed successfully.

1. Adapt, Don’t Break

North Star Alliance, an IPIHD network innovator addressing the health needs of truck drivers and sex workers along major transport routes in sub-Saharan Africa, learned from their mistaken assumption that all of their core partners were motivated by the same thing: improving health outcomes. “One of the biggest lessons we learned,” offered Luke Disney, North Star’s executive director, “was that health was not the first concern of transport companies, or at least not HIV and primary healthcare.”

Transport companies supported the initial idea of North Star’s clinic network but despite many meetings, this support didn’t translate into funding for the clinics. “We tried a different approach,” Luke said. “Instead of going into the meetings in ‘broadcast’ mode, telling our story, we started to go into the meetings in ‘reception’ mode, listening to their stories. A different picture quickly emerged: they were losing too many drivers, and rigs, to road accidents. It

North Star Alliance runs Roadside Wellness Clinics, like this one in Maai Maau, Kenya, to serve truck drivers and sex workers. (© Dave Chidley, courtesy of North Star Alliance.)
was an immediate concern, whereas HIV, with its longer incubation period and resulting uncertainty around people’s status, was hard to gauge.”

North Star followed up this hunch with extensive research among the drivers and found a similar picture: the drivers were worried about HIV, but other concerns, including job security and road safety, were more immediate. “With this new information in hand the writing was on the wall,” said Luke. “We needed a new approach.”

Rather than trying to convince the transport companies to change their priorities related to their drivers, North Star adapted its offering and developed an even more comprehensive wellness and educational package for truck drivers. The addition of a driver safety training component supported, rather than superseded, their core mission.

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The series, which drivers can listen to while on the road, includes health topics, but also occupational skills and road safety components. As a result of this adaptation, North Star signed a deal in spring of 2014 with the Road Transport Association in South Africa to deliver more than 3,000 packages to 90 member companies and is now aiming to launch the product in East Africa as well.

Organizations that fail smart relentlessly seek out the reasons why their model or product didn’t generate the responses they expected from the market. Each answer provides valuable information that puts them in a better position for the next iteration.

In the case of North Star, the organization was able to expand and better package their offerings to meet the needs of their partners.

In a similar but related example, Penda Health, an IPIHD network innovator providing affordable primary healthcare in Nairobi, Kenya, learned from pricing failures at their clinics how to create a pricing strategy for their services that worked for customers. Penda experimented with multiple prices that didn’t work before arriving at the final prices that did.

“We are transparent with our pricing, and post prices on our wall in our reception area,” says Stephanie Koczela, co-founder of Penda. Then, they listen. “The receptionist will hear immediately if a customer thinks the price is too high. Even if they are not buying that particular service, they will comment,” Stephanie says. This immediate feedback loop has proven valuable to Penda, since their highly price-sensitive customers often assume that a high price for any one service is an indication that the clinic is expensive, even if the costs of other services are lower than competitors.
“Penda tests out many variations, and has learned from these tests that customers will not pay one cent above competitors for price sensitive drugs like ibuprofen, but other drugs can have more price variation,” Stephanie continues.

Testing their pricing in this manner has allowed Penda to adapt to the needs of their customers and stay competitive in the market while still meeting their financial and social bottom lines. Rather than viewing their price adjustments as failures, they actively embrace the unknown by testing, failing, evaluating, and trying again.

Embracing failure means being adaptable, always ready to incorporate valuable new information to improve your products and services. “Our businesses are not static, they are dynamic,” Alden Zecha of Sproxil said during the Smart Failure session. “The world changes around us, markets change, conditions change, and we need to be able to change with them. Adapt, change, and move on.”

2. Build Failure Metrics

Given that failure is both inevitable and a key source of learning, entrepreneurs should plan for failure at the beginning of any new initiative. Nearly all organizations define metrics for success so that everyone on the team knows what success will look like and how it will be evaluated. But key metrics for failure are just as important to any growth stage enterprise, and provide team members with comparable clarity about how to assess when the model isn’t working.

Failure metrics are indicators that alert you when a core component of the initiative is not working as expected. Jean-Luc Butel, the president of Baxter International, a financial supporter of IPIHD, believes that failure metrics should be determined in the market research stage. “We ask, ‘what are your key success factors?’” he says, “but we never ask ‘what are your key failure factors?’ Both are important as you develop your business model.”

Designing failure metrics from the beginning allows business innovation teams to use facts, rather than subjective value judgments, when assessing a project. For example, the manufacturer of a new device may determine that signing on 200 customers within the first 6 months indicates success, bringing in only 25 indicates failure, and anything in between signals a wait-and-see approach. “Deal with the facts to understand what can break you and what can make you successful,” Jean-Luc advises. “Do not create a design to prove your assumptions are right.”
Jacaranda Health, a high-quality maternity care provider targeting lower-income populations in Kenya, launched their model with mobile clinic vans serving poor areas in Nairobi. The assumption was that bringing care closer to patients would increase demand. However, patient demand for the van clinics leveled off after the first year, even as patient volume at their new brick-and-mortar clinic was increasing. Within 10 months of launching the brick-and-mortar clinic, Jacaranda closed down the mobile clinic initiative.

“The decision was driven by the fact that numbers were really picking up in the hospital but not in the mobile clinic,” said founder and executive director Nick Pearson. “Our assumption was that the van clinics would be easier to access and a more patient-friendly way to access care, but client demand demonstrated that they were willing to travel for the brick-and-mortar maternity care. You can’t ignore that kind of client feedback.”

Jacaranda’s experience highlights the challenge of setting reliable failure (and success metrics) when offering a new product or service. Diligent performance measurement and asking tough questions about whether things are working is important but difficult in the absence of comparable market benchmarks. In this context, testing multiple approaches at the same time can provide valuable data.

“We went into the mobile clinic with targets,” Nick said, “but when we missed those targets, that didn’t immediately drive the decision to close, because we were not 100 percent sure that those targets were realistic. It was a new kind of service in the market and hard to benchmark. Ultimately, it was the fact that we had another service that was outperforming the mobile van that allowed us to make the decision to allocate our services differently.”

3. Fail Fast: Don’t Scale Failure

The speed with which organizations can measure and correct failure is crucial to long-term success and impact. Jean-Luc advises organizations, “Fail fast. Then it’s not really a failure because you’re refactoring already.”

Failure metrics are the first step to enabling a fail-fast strategy. But these metrics are only helpful if they are used effectively. Entrepreneurs and path-breaking ventures typically don’t have time or money to waste. Smart organizations design pilots and trials so that they can fail fast, revise, fail fast, revise, and repeat again, identifying successful iterations of their model as quickly as possible.
One of the worst mistakes a growth-stage venture can make is to continue to scale up a model or program despite the red flags of failure waving along the path. Sometimes external funding pressure tempts leaders to ignore the red flags. Other times, it is the difficulty of looking past the demanding day-to-day pressures to grasp the wider picture. Failing fast prevents organizations from scaling failure, which saves time, money, and credibility.

**SughaVazhu** is an innovative model of primary care delivery in rural India. The CEO, Dr. Zeena Johar, described how the initial SughaVazhu model tried to do too much. “In our excitement of wanting to address all of the problems of rural health at once, we launched too many interventions,” Zeena said. “The intentions and solutions were right but the community was not connecting with them because we were unclear about our value proposition, about our core offerings.”

They learned to build in more structure across the network of clinics, clear communication between clinics and with communities, and well-defined measurement of short-term goals. Zeena noted that the critical component for them was to understand their core and make sure it worked before expanding.

The senior team at SughaVazhu developed a performance management grid that defined indicators such as patient visits, uptake of services, and cost to revenue ratios. This grid helped the organization’s leadership quickly identify the interventions and services that were succeeding and those that were not. For example, SughaVazhu offered a basic dental intervention with well-documented efficacy but customer uptake was low. The target population preferred advanced dental services that SughaVazhu’s infrastructure could not support. Rather than scale the basic dental offering, the team foresaw that the service would not succeed and cut dental services from their network.

This same rapid response to performance management data and population trends drove the SughaVazhu team to design a new service model to reach patients with chronic conditions. “The high prevalence of hypertension and diabetes in the rural geographies where we work forced us to innovate and create a product that worked in favor of both the organization and our clients,” said Zeena. They launched a service package with a set annual fee, which provides a clear cost-saving proposition for customers and an incentive for them to maintain a long-term relationship with the SughaVazhu network. SughaVazhu leaders were able to quickly ascertain that this model was working and are now scaling it across the network.
4. Talk About It

Too often, we want to hide our failures from our colleagues, investors, partners, and even ourselves. However, failures swept under the rug create additional problems in the future. When things do not go as planned, organizations that fail smart communicate their missteps and what they learned clearly with all stakeholders.

Benjamin Midberry, assistant vice president of Deutsche Bank’s Global Social Finance group, shared an example of what can go wrong when an organization neglects to share unanticipated challenges with key partners, like their investors. Deutsche Bank had financed construction to expand a hospital in an emerging market. The hospital was ready to scale and the market conditions for its expansion were right. However, shortly after the financing went through, long-standing government policies changed, promising free services to the hospital’s target market while also raising operating costs. This changed the economic outlook for the hospital but, worried about the ramifications, hospital leadership did not communicate these challenges with Deutsche Bank. Instead, they waited to address the issue with their investor until these changes had impacted their financial performance.

Benjamin Midberry notes, “Uncertainty and challenges are a given when working with innovative business models serving low-income populations. We invest in management teams that have demonstrated their ability to adapt – not a static business model. Don’t wait until the end of a quarter to let your investors know about material issues. Being upfront with information maintains trust and helps your partners support solutions.”

Communicating a failure to investors does not mean all is lost. Communicating openly about the failure can increase trust and, potentially, lead to future projects with the investor. The time invested in communication will lead to more sustainable and supportive relationships over the long term and increase the partners’ ability to help identify solutions in the short term.

Luke Disney of North Star recalls a situation when the organization had made plans with a new funder to set up a network of clinics in a new location. “We took a risk because we were thrilled to get investment on the ground floor with such an important new partner,” he said. But when they received the funding, it was not as much as expected. “We knew that this would be a stretch for us, and in the end we over-extended ourselves and ended up with a loss-making venture not delivering according to our performance standards.”

Neither party was happy with the outcome and they discontinued the project. However, and this is key, though the project was shut down, communication was not. “In the end, we repaired the relationship and are now in the process of talking to them about a more comprehensive approach to collaboration,” Luke says.

Sharing failure with peers can also position you as a leader and help to save others from learning the same lessons the hard way. Use your experience to prevent wasted resources and frustration. Deborah Bae from Robert Wood Johnson Foundation, a financial supporter of IPIHD, noted that health-focused funding agencies often fund similar projects and can learn from each other about successes and failures of their grant programs. “A substantial number of grants fail and many of these failures could be avoided if funding agencies shared their experiences with each other,” Deborah said.
How can an organization practically implement these insights and become better at failure? While each organization and sector will have unique approaches, here are two tips to get started:

1 **Incorporate failure into long-term strategy.** Jean Luc of Baxter says, “We write failure into our strategies to identify failure as a step: this is what failure will look like.” At the beginning of each project, define what failure will look like and how and when it will be measured. When possible, use past experiences to help inform how future failure might appear.

   Organizations can define, for example, the number that qualifies as sufficiently low customer uptake to trigger a revision or a complete change of direction. Set out the next steps if the current iteration fails, so that the team sees failure leading to revision rather than an abrupt end or incontrovertible mistake.

2 **Include failure in team discussions.** Creating openness to failure needs to start with the leadership. Employees need what Jean-Luc terms “air cover” or protection and support from their managers in the event that things do not go as planned. “If you do not give air cover to your employees,” he says, “they will always be afraid to fail and you will never hear the truth.”

   Encourage discussions of failure in team meetings, project reviews, and performance reviews. In addition to celebrating successes, ask questions about failure after every milestone: What failed? What did we learn as an organization/team? What will we change? Make the link between these discussions and improved future performance so that the team is comfortable sharing and learning from failure.

   “In light of changing markets, yesterday’s success may be today’s failure,” says Alden, from Sproxil. Failure will happen to all of us and, far from signaling stasis, it can be the guidepost for success. Organizations that use smart failure management strategies are, in the end, more likely to succeed.
Andrea Taylor is the Research Program Manager at IPIHD, where she leads the research and knowledge development agenda, designed to capture knowledge and best practices in healthcare innovation in order to improve care delivery and facilitate system change. Andrea also directs IPIHD’s multi-disciplinary student programs, including internships and fellowships.

Before joining the IPIHD team, Andrea was on the faculty at the University of North Carolina at Chapel Hill, where she managed research on health and economic policy innovation. Prior to this, she worked for the US Department of Health and Human Services on a program to rebuild mental health policy and care delivery in countries coming out of violent conflict. She has published in the fields of health policy, economic stability for low-income populations, and healthcare innovation. Her background is in health and social policy, program evaluation, and mental health services. Andrea holds a bachelor’s degree in Cultural Anthropology and English from Wheaton College and a master’s in Social Service Administration from the University of Chicago.

Eleni Vlachos has diverse range of professional experience including, most recently, Engagement Manager for IPIHD, which included oversight of traditional and social media communications, innovator sourcing and onboarding, network engagement including event management, and annual reporting.

Prior to IPIHD, Eleni worked on a contract basis for several Duke departments and initiatives. In her hometown of Seattle, she was a legal advocate on behalf of individuals with disabling conditions and a Human Resources Manager for private, non-profit, and public institutions, including the Seattle Community College District. Ms. Vlachos holds a Bachelor of Arts degree in English with a writing emphasis from the University of Washington, and PHR (Professional Human Resources) certification. She currently resides in Durham, North Carolina, where she volunteers in her Cleveland Holloway neighborhood and co-organizes the Triangle Meatless Monday campaign.

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