Rory Sutherland - Alchemy: The Surprising Power of Ideas That Don't Make Sense

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SUMMARY

The speaker emphasizes the importance of creativity and psychological insight in advertising and hospitality, arguing that while rationality is often prioritized in business, true success comes from embracing the "magic" of emotional engagement. By sharing various anecdotes and examples, he illustrates how innovative thinking and understanding human behavior can lead to significant improvements in customer experience and business outcomes.

- *Rationality is the bronze standard in advertising and hospitality; magic, rooted in psychology, is the gold standard.*
- *A story about Winston Churchill demonstrates how presenting oneself as a fellow offender can change emotional responses and outcomes.*
- *The speaker criticizes the focus on quantitative solutions in business, advocating for qualitative improvements that enhance customer experience.*
- *Examples include improving train journeys with better Wi-Fi instead of just reducing travel time and addressing range anxiety in electric cars through psychological solutions.*
- *Reverse benchmarking is highlighted as a strategy to identify and improve upon competitors' weaknesses rather than merely copying their strengths.*
- *The importance of surprise and emotional engagement in customer experiences is emphasized, with anecdotes from successful businesses illustrating these concepts.*
- *The speaker argues for a balance between exploiting known resources and exploring new opportunities to foster innovation and growth.*
- *Personal interactions and relationships in service industries are becoming increasingly valuable in a world dominated by technology and AI.*

Absolute [applause] honor. Thank you. Fantastic. Thank you. Now, I've worked in advertising for 36 years, and to be honest, I've got a lot more that I can learn from you than you can learn from me. But there's one thing we have in common I think which is in the advertising industry and the hospitality industry there's something very very different from say accounting or law or most of the other tedious things we have to occasionally deal with and that's because in most businesses rationality is the gold standard of human thinking. If you win an argument if you sound rational that's the best you can hope to be. I would argue in our businesses, rationality is like the bronze standard. It's okay. Rational solution will be fine. You won't go badly wrong. You won't get fired. You won't get blamed. But it's still only the bronze standard. The the the silver standard is ingenuity. And the gold standard is magic. Complete magic.

And all magic relies on psychology. You can argue that technology can be magical, but it's only magical for psychological reasons because of the effect it has on how we feel about something. And my only complaint, I'm not a hostile to rationality. My only complaint is that if you don't believe in magic, you won't look for it. And also, you won't believe it when it falls in your lap. And so I'll start with a story which I've kind of brought across the Atlantic with me which is just a remarkable example of magical thinking by a great man. Uh it's something like 1952.

Winston Churchill is newly back as prime minister. Uh Queen Elizabeth II is newly on the throne in her 20s and they're hosting an extraordinary banquet at Buckingham Palace for a whole host of invited dignitaries. And halfway through the meal, someone comes up to the top table and says, "We've got a minor problem here." Um, one of the very distinguished guests, we don't know who, has stolen one of the salt shakers. Now, sounds fairly trivial. Bear in mind, um, the salt shakers are solid gold. They're worth a few thousand pounds each. They date back to George III, a man, I think, who's cruy undervalued on this side of the Atlantic, in my opinion.

actually an inspired thinker and agricultural reformer but never mind. Um uh and anyway that is a typical kind of dilemma. How do you solve that problem? Do you take the hit and just let them steal the salt shaker or do you just create a diplomatic incident by accusing someone very distinguished of theft of theft? And Churchill just goes, "Leave this to me." and he takes the matching pepper pot from the table and he just puts it in his breast pocket and he waits.

And after the meal, the miscreant is standing on his or her own by a window and Churchill just sidles up to her, pulls out the little pepper pot from his own pocket and says, "I think we've both been spotted. We probably better put these back." Now the genius of though that is he or she probably didn't believe that he [snorts] was in the business of heisting the table wear didn't matter because by presenting himself as a fellow offender rather than as an accuser the emotional response is totally different and this is the marvelous thing in the hospitality industry actually your only product is really an emotional response and how you achieve that well there are lots of ways you can achieve it If you've heard of me before, I became famous in 2009 for a TED talk I gave where I simply argued that the world is dominated by engineers and finance people and accountants and people looking at effectively quantities, things for which there's a measurable kind of amount. It's either money or speed or time or price or capacity.

And we spend vastly more time looking to solve problems through objective means than through subjective means. I wasn't saying that engineering was a complete waste of time. I was merely saying that the ratio of effort we put into one is ridiculous compared to the other. And so we just spent6 billion pounds uh basically building a new railway between London and the coast of Kent uh to reduce the journey time to Paris on the train from about 3 hours 10 to about 2 hours 40 something like that.

And I said, "That's fine, but you could have achieved the same desiraability for the train journey by spending 50 million pounds putting really good Wi-Fi on the train. You wouldn't have changed the quantity of time spent on the train. What you would have done is change the quality of the time spent on the train because it would be either entertaining if you're watching a film or it could be useful if you're working on a spreadsheet. But of course, there's a number for quantity. There isn't a number for quality. And then I added a little joke. I said, "If you really want to spend more of your six billion budget, uh you could employ all of the world's top male and female supermodels, get them to walk up and down the train handing out free shadow patruse to all the passengers.

You'd have saved yourself 5 billion pounds and people would ask for the trains to be slowed down." And I often ask the question, if you've got an engineering project, asking said, "What would Disney do?" And Disney, I hope, would say, look, the question you're asking is completely wrong. It's all about time and speed and cost and everything else. The real question you should be asking is a behavioral question, which is, how do you make the train journey so enjoyable people feel stupid going by plane?

And the reason people don't like asking those questions is those creative questions are open-ended. There are multiple answers. You know, maybe you have a family carriage with a bull pit. Okay? Maybe you have really fine wines and Belgian chocolates. And what people love doing in business is they narrow the solution space until they can come up with a single right answer so they can then claim they're right. And so they don't like creative open-ended questions like what makes a train journey enjoyable. They like narrow engineering questions like how can we make this a bit faster? And I've made the same point particularly in the UK about electric cars. If you think about the problem with the adoption of electric cars, how many people have gone electric? I'm just intrigued. Yeah.

Would you ever go back? Is there anybody who'd go? No. Nobody. Interesting. That's always the finding I get as well. People find it it's a bit like air fryers. People find it really painful making the jump. But once you've done it, you know, you might as well have joined a cult. Okay. And I make the point about electric cars. Look, there's a problem. Range anxiety. Range anxiety contains two words. range which is actually a feature of engineering and physics and anxiety which is a product of psychology. Now lots and lots of very clever people quite rightly are trying to increase the range of cars by increasing the energy density of batteries that kind of thing.

But my argument is if you're going to spend billions doing this or actually trillions doing this shouldn't we spend a few million pounds trying to reduce anxiety instead? So, just as a small point, those of you with electric cars, it's not necessary to say that my battery has now gone from 90 from 87% to 83% when I go to the nearby town. It just frightens me. Just say 80% plus. Okay, you don't need Now, when I get down to 11%, yeah, I need that level of granularity, right? Your your petrol gauge never did that. Your gasoline gauge never did that. It just went full, 3/4 full, half full, quarter full, an eighth full, and oh the lights come on. Okay, you didn't need that level of specificity. It just frightens people. Similarly, there's a big problem with electric car charging because gas stations are massively visible and electric car chargers are hidden around the back of an industrial estate in a remote exclave of some truck stop somewhere. So, although there are lots of them, people don't know that. So I said, you maybe the solution isn't lithium. It's not more lithium. It's more neon. Make these things really visible. You know, in the Victorian age, they would have put a barrel organ next to them. [laughter] Right? So range anxiety. It's fine. You can either increase range or you can reduce anxiety. If it's cheaper to reduce anxiety than to increase range, that's what we should do. Simple as that. But the world is dominated by people who don't believe in magic. And therefore they freeze psychology out of the solution space because it's just too messy for them and too unpredictable.

And the point is the one thing I love in the United States by the way is the feels like temperature AND IT'S A NO NO SERIOUSLY WE DON'T HAVE IT in and actually yeah I'm I'm a fat man of Celtic heritage. Okay. And so I can't really miss the fact that weirdly in London if it hits about 85° I don't go into work. Whatever you do if it hits 85 degrees, don't go to France cuz they can't do air conditioning for Uh for some weird reason because they're brought up to be frightened of drafts. I'm not making this up, by the way. Okay.

Um true, isn't it? Okay. Um, but actually I can wander around Phoenix, Arizona in 100 degree temperatures and I'm pretty happy because as all Arizonans say, it's a dry heat. But actually, how you feel is more important than what the ambient temperature is. I'm not going outside in order to perform chemical experiments. I I don't need to know the the temperature. What I need to know is what to wear. And human evolution makes us feel hot in proportion to the extent to which our health might be actually affected by the heat. And therefore, heat plus humidity is much much more dangerous to the human than heat minus humidity. If you add a breeze, wind chill, that also takes away the risk because you're evaporating sweat. So, we've evolved an internal thermometer which is sensitive to survival effectively, you know, health and survival and so forth. And yet we insist on using these chemical thermometers which only tell part of the story. And I think there's a metaphor there for an awful lot of what happens in business.

We'll just take the things that are numerically available and it doesn't matter how people feel about them. All that matters is the objective reality. But when you stop trying to be objective, you can achieve magic. This is James Watt. And he was trying to sell steam engines when they'd newly been invented. and his target audience was mine owners. And at the time, mine owners use horses to drain the mines. And of course, being engineers, they'd all turn up and talk about things like the boiler size and the calorific capacity and the bore length of the, you know, of the piston, the cylinder, and so forth. And nobody wanted to buy a steam engine.

And James Watt said, "What do these people really want to know before they can buy a steam engine?" And someone said, very simple calculation. They want to know how many horses they can get rid of if they replace them with a steam engine. So James Watt goes off and in invents a unit of power which we still use today, the horsepower. Now if you ever wondered why horsepower, unlike most scientific units, isn't named after a famous scientist like Newton or Kulom or Volt or whatever, it's because it's a marketing contrivance. And so they'd simply go in and go, if you buy a 25 horsepower engine, you can get that does the work of 25 horses. So you can actually get rid of 75 horses because I think the horses worked in shifts.

And I hope so. Anyway, otherwise it really would have been a bit cruel. And um immediately once you present the information in a way that's compelling and easily understood, behavior changes completely. This is an extraordinary case where all of these railway lines existed 20, 30, 40 years ago and nobody used them because it's a bit like New York. You can only look at one map at a time. Do you know what I mean? If you try and make a journey by looking at both a rail map and a tube map and a road map, it does your head in. If you put everything on the same map, it becomes readily comprehensible.

This carries as many people as a new line built in London that cost20 billion pounds. Carries as many people every day. It only cost200 million pounds. That's what if I'm getting right 1% of the cost. It carries the same number of people. That was achieved not with rails and rolling stock and physical equipment. It was achieved with pixels and ink. They simply pretended the rail network was an underground line, a metro line. They added it to the metro map and suddenly everybody could understand the value it might have in their lives.

Literally, now I'm being slightly unfair. They did add a few miles of rail. They improved the rolling stock a bit. They improved the lighting. They improved the disabled access. But on the first day when these things were added to the map, usage went up by a factor of four. We can't buy something if we don't understand it. Same goes for steam engines. Same goes for this. What you can also do, and this is one of the best ideas I' I've seen in the last year, and nobody's mentioned it. Nobody ever mentions that um that previous idea, the tube idea, as a billion dollar idea.

It's a billion dollar branding idea effectively. No one ever gives the marketing people credit for that. In this case, I was booking entry, the Intercontinental Hotel in Houston. It was as it happens. Someone has thought most times you book a hotel and it's like standard room, deluxe room, da da da, junior suite, honeymoon suite. All the rooms are effectively priced and gradated by the size of the room. And someone has spotted that some people want to be close to the gym and other people want to be close to the pool. And anybody who likes the pool will pay a premium for a room that says pool access, which is what I did. paid $20 a nobody had to build a wall, build a corridor, install an elevator. They didn't have to install anything. They just had to describe the room in a different context. Okay? And I loved that because I don't like being a long way from, as you can guess, I probably prefer the pool to the gym. And um I I I don't like having to walk down long corridors in a towing robe looking a bit like Jeffrey Epstein. I'll be absolutely honest with you. Okay? You know, I'd rather not do that. It's not a good look. In fact, I think Jeffrey Epstein might have killed the towing robe um as an item of fashion. To be absolutely honest, that is a genius idea. What you've done is you've literally made a billion dollars for the world's hotel industry just with pixels, just with defining something differently. And I don't know who came up with that idea. I don't know whose insight it was. They deserve to be really, really rich. But we don't know who they are because it's a marketing idea, not a technological idea.

This is an idea we had, we suddenly realized that a lot of airlines asked you on the first page, what class of travel do you want? Now, the argument we had and then if you said economy, which most people do by default, it just gave you the economy price. And we said, well, you're making it incredibly difficult for people to buy premium tickets even when those premium tickets aren't much more expensive. We we put the prices side by our perception of value, by the way, isn't objective. It's it's relative.

Okay. Now in in logical economics you'd either pay 200 you pay £200 more to pay fly premium economy and if it was more than 2000 you wouldn't do it. In reality the way our brains work are kind of relative. Okay. If it's like um you know 1,300 quid versus 1,500 quid we go ah sod it. Okay. If it's 200 quid versus 500 quid we probably won't. Okay. It's a relative measure not an absolute measure. That's where economists I think get it well among other things get badly wrong. When we did that, they made 10 million pounds of incremental premium revenue every single year. They've done that for 15 years. Uh high margin incremental revenue over 10 million pounds a year brought in simply by a UX change that cost £25,000 to do. And the point I'm making is actually we won't always find magic. No, not all these experiments we do work. But my god, we got to keep looking for them because to an extent business is dominated by people who think it's a game of chess, whereas in reality business is a game of poker. I don't know how many of you play poker, but what you'll find is that four or five hands determine basically whether you do well or badly in the whole evening. You pick your moment and every now and then you hit real pay dirt. It's a point that Jeff Bezos made.

He said in baseball you can only hit four. In business you can hit 500. and that we aren't spending enough time looking for outsiz effects. I think because the kind of chess playing people don't think they're there, but they are there. You can find these utterly m I worked on American Express, fantastic brand for 15 years. When I look back on it, four things we did made all the difference in those 15 years. There was a guy at Oglev back in the 60s who said, "Why don't you put memberins on the card?" That's probably been worth a billion dollars to American Express because nobody wants to cancel because, you know, if you went back to members since 25, you'd feel a bit wouldn't you? Let's be honest. Okay. Um, you those ideas have absolutely massive effects, but poor old marketers aren't allowed to claim the credit for long-term effects.

Marketing has turned into such a short-termist game that you're held accountable for every penny of expenditure, but you can only claim credit for revenue generated in the last 3 months. It's a bit like saying to JK Rowling, "Yep, you can only have royalties on the first edition of the book." It's not really a proportionate um evaluation of the cost and benefit of marketing activity. Anyway, this is something I always show because it's an example of magic that how you present something affects how people behave on the on the inside. You're familiar with that. Uh it's called a speedometer and it shows speed in the way we always show speed in miles per hour. Completely arbitrary by the way the fact that we do this in the US. In the UK we do miles per gallon for fuel economy. In continental Europe they do it the other way round. It's liters per 100 kilometers.

But we do it that way around. Two behavioral economists, one called um Pieral I think um at the university I think of Jerusalem um came up with a thing which is the other way around. It's called a pesometer. And the blue digits show you minutes per 10 miles. In other words, rather than effectively distance per time, meters/s, miles per hour, kilometers/h etc. It shows it the other way around. How long does it take you to go a given distance at that same speed?

Now, the reason I show everybody this is because I think it might save somebody's life if I show enough people. Because what you'll notice is the amount for every additional 10 miles an hour you go on the interstate, the time you save gets less and less to a point where it's completely irrelevant. You may have noticed this if you've got a GPS that you're welling down some interstate at about 65 miles an hour. you see that you're going to be three minutes late, so you accelerate to 75. And after about five minutes, your ETA has dropped either by nothing or by one minute. And that's because the faster you're going already, the less time you'll save by going faster still. It's I I Nim Talb and I were talking about this. You may know the Black Swan author. He said it's fascinating because it's mathematically trivial, but it's completely counterintuitive.

And so it's really really important to know this because we all when we're running late may feel tempted to go faster. If you're going really really slowly, going an extra 10 miles an hour makes a huge difference. If you're already going quite fast, don't bother. Uh risk of accident, risk of fatality, breaking distance, all those things. By the way, energy consumption, they're going up exponentially. The amount of time you're saving is actually flatlining. So what I'm saying is this is a brilliant thing. It's only when you've seen the information presented the other way round do you realize something which is otherwise completely non-obvious which is if you're already going quite fast just leave it at 70 mph or whatever. Don't try and go faster because it's a mug's game. But that's what I mean by how you show information completely affects how people respond to it. And the other point I'll make is um seriously I think do you have a thing called little or Aldi here?

>> You do. Do you have the middle aisle at little >> which is full of random Like you you go in to buy a pound of milk and you come out with a wet suit or something and a paddle board, right? You have that, right? I think they've discovered a fundamental truth about life and I mean this philosophically which is a successful life, a successful business, a successful approach to life requires that you do two things. There's what you might call Walmart shopping where you know what you want in advance and you pursue it and try and accomplish it as efficiently and effectively and as cost-ffectively as you possibly can. And then there's TJ Maxx life, which is you swan around just hoping you'll get lucky. Right now, I've got friends who can't understand TJ Maxx and they go, "I went in there looking for a yellow cardigan AND I COULDN'T FIND ANYTHING."

You idiot. Sorry. You don't go into TJ Maxx looking for something specific, right? You go in like a shark, okay? and you basically swim around the aisles largely pointlessly until you go OH, LOOK WHAT I CAN BUY HERE. That's how it works. Okay. Now, my point is this is actually a philosophical point, which is the ratio of the effort you spend in your life towards pursuing the exploitation of what you already know relative to the effort and resources you devote to exploring what you don't know.

effectively you know the things you don't yet know attempts to get lucky. Nim Talib calls this increasing your surface area exposure to positive upside optionality. By the way, that's why it pays to get famous. By the way, we forget this in advertising, but when you're famous, people you've never heard of bring business to you. If you're not famous, you have to find all your customers. It's a fundamental kind of, you know, phase transition. And it's not to do with that being being famous is efficient. It's that being famous increases your chances of getting lucky.

Now, bees um follow a very sensible approach where part of their time is spent at Walmart and part of their time is spent at TJ Maxx. And I I mean that figuratively obviously. Um but what happens here is that they have a thing called the waggle dance and they do a little dance and the bees can explain to the other bees where there's a reliable source of pollen and nectar. And most of the bees take that information on board and they head off four miles to the northwest where they've been told reliably that there's some pretty good nectar or pollen to be had. But then they discover that 20% of bees ignore this and just go off at random. They're not looking for a yellow cardigan.

They're just window shopping basically. And they thought this is pretty strange because bees have been around for 20 million years. That's sort of 20 times longer than humans. And they thought evolution doesn't like inefficiency. Why on earth would evolution tolerate this appallingly low level of compliance with the waggle dance? Why haven't we evolved be compliance officers who come in and say we must all obey the waggle dance so that we uh meet our pollen collection target for quarter three or whatever.

And then they modeled as a complex system. They realized that if you didn't have the random bees, the hive gets trapped in a local maximum and it starves to death. Three things happen. It can't grow because it's entirely reliant on its existing sources of pollen and nectar. Can't grow. Can only just be more efficient at what it already is. Secondly, it gets overoptimized on the past. So when the environment changes, if some cows eat their favorite flowers, they don't know where to go next. So they lose the capacity for adaptation. And finally, they can't get lucky because there's no upside. there's simply efficient exploitation of the current thing. And this same thing, by the way, occurs in algorithm design.

It's known as the explore exploit tradeoff. It's not really a trade-off. I think it's two beneficial benign parts of the same process. I think if you had an eastern mindset, not a western mindset, you'd be more likely to see it as a yin and yang thing and as two complimentary parts of the same system. we tend to go well if it's not one thing you know I've got a Hindu friend who criticizes me for monotheorism he says that all westerners just as you've got to have one god you've got to have one theory to explain everything whereas in reality life often consists of the pursuit of two apparently contradictory things and so the explore exploite trade-off this is it demonstrated in a wonderful squiggle uh explore is high uncertainty but high payoff because most of Those bee journeys are a waste of time, but every now and then a bee comes back with something much more valuable than pollen, it's information about a new discovery of pollen. And provided the bee shares that information, that's like one of Jeff Bezos's thousand run payoffs. It's disproportionately valuable. So the explore bit is much closer to pharmaceutical research, you know, that's like west coast capital.

The exploit bit is kind of east coast capital you know it's we want really predictable returns over a long period of time with no downside risk and similarly if you look at the maths the whole approach to those two activities is completely different. Uh so you know search and breakthrough many small bets a few outsized winners that's kind of poker iterative experimentation um explorers who excel in uncertainty fundamentally the people you need the mindset you need are very very different when you're doing explorer when you're doing exploit the problem is I think that every organization needs to be a balance of both and generally at the moment I would argue the exploit side in business is too dominant I I mean, how many people here, by the way, can make any decision about anything at all without getting someone in finance to approve it? Okay, I don't think there's anybody in the room, unless you own your own business. Okay, now here's one of my complaints about asymmetry.

Okay, creative people always have to present their ideas to rational people for approval. That never happens the other way around, does it? You don't get accountants coming to your office going, "I think the answer's 4.7, but maybe you've got a wacky idea that might be better." So, there's a complete asymmetry in corporate decision-m because the rational people have the power of veto whereas the creative people only have the power of suggestion. It's not fair genuinely. Anyway, basically, you know, you can look at it. Um, explore is a facttale distribution. In other words, the the exceptional events, the freak events disproportionately affect your overall payoff. It's high varian stuff. It's poker. It's back gammon. It's got a doubling cube. It's not kind of chess where you think about it. Chess is a bit stupid really, isn't it? Because you can play the best play game of chess in your whole life and you get one point for a win. Okay. That's why you tend to find entrepreneurs at casinos, not at chess clubs. I think anyway marketing I would argue marketing is and R&D are explore. They're very fat tailed. You shouldn't expect everything to succeed. In fact, if all your marketing works, you're probably not doing it right. And the reason for this, by the way, is partly because real life is fat tailed. Most of the things that have happened to you in your life that are really important, you who you're married to, where you live, are actually the product of freak circumstances. If you delve back into it, it wasn't really planned. it was someone you met a party you nearly didn't go to. You know, it's sliding doors. The other reason is, and this is of huge relevance, I think, to the hospitality industry, human perception is hugely non-proportionate.

So, what we notice is a very very small subset of what we see. And if you want to get interested in the neuroscience of this, there's a guy called Andy Clark, uh, British guy, keen surfer. So I think he's at the University of Brighton in the summer and the University of Queensland in the winter or something. Um but he wrote this fantastic book called The Experience Machine where he builds on an idea that William James, your guy had in the 19th century, which is most of what we have in our brains is actually a prediction and we reserve the limited bandwidth in our eyes and ears for the things that surprise us, the things we weren't expecting.

So that if you think about it, that's how an MPEG works. I don't know if there are any camera nerds here, but you some people shoot on RAW. That's where every single pixel is described with its own color value. JPEG works because basically every pixel has an expectation value based on the pixel next door and you only use data to describe the pixel to the extent that it differs from the expectation. So you can paint the same basic picture with vastly less data.

Now, we don't have that much bandwidth. Uh, you know, if we actually wanted to watch TV in raw mode, our satellite dishes would have to be eight feet across and you'd need, you know, some gigabit connection. We compress data by getting rid of the things we expect and only transmitting data to the extent that a value is unexpected. And so, it looks like the human brain has evolved exactly the same data architecture as your Samsung TV, albeit rather more slowly. It's effectively a form of data compression. And the point there is that actually effectively things you don't expect carry a lot more freight than things you do. Now, funny enough, I was going to use as an example of this the example that Cole used earlier, which is the popsicle hotline. It carries an insane amount of freight in terms of people being impressed by it precisely because it's not expected. The double tree cookie. Now you could say, well, as apparently the Double Tree finance director says all the time, you know, providing cookies is not within our service level agreement. No one in market research says they want a hot cookie when they check in. Okay, that's precisely why I last stayed at a Double Tree 15 years ago. I can remember two things. It was in Chicago and I got a cookie. I cannot [clears throat] remember anything else.

I've been coming to the Americas long enough not to go, it's called a biscuit, by the way. you know I I have assimilated quite well. Um so one of my points is um also optimize for surprise. Don't just look at what people are expecting. And this is where I learned this huge lesson reading Will's book because he did something I call reverse benchmarking. He wanted to get 11 Madison Park from number 50 in the world in 2011 I think it was and he got it to number one in the world in the San Pelgro restaurant awards.

He's a bigger man than me. I would have got to number 50 and thought, "Yeah, good enough." You know, frankly, you know, you know, you know, if anything, you know, let's rest on our laurels for a few years. But Will isn't like that. And he takes his team to the number one restaurant in the world. And his team all start doing what we all instinctively do as human beings, which is looking for things to copy. And at the end of the meal, Will says, "I'm not interested in any of that stuff. I don't want to copy something they're doing well already. I want to find something they're not doing well. And then what we're going to do is take that thing that they're doing disappointingly and we're going to hit it out of the park.

And the two things were coffee and beer. So the coffee was merely okay. So he goes back and takes I think it's a a waiter who's a coffee fanatic. They're quite weird people in my opinion. Uh you know was worrying about you know quite a high level of extraction you know. Anyway, but he gets one of these coffee weirdos and appoints him the coffee smellier and then he gets a guy from the kitchen and makes him the beer smellier.

Now, I'm one of those perverse people who will often drink beer in a highass restaurant in high art weather. Suddenly, you're expecting them to go, "Yeah, we got Sam Adams on draft." And instead, someone comes along with a list of craft beers, tasting notes, pairing suggestions. That's what I'm not expecting. I will remember that for year after year after year after year because as exactly um Andy Clark says it's the things the bandwidth in our in our senses we reserve for the things that surprise us by the way that's why water doesn't taste of anything you know fascinating fact um the reason it's very important for human survival that we detect anything that's polluting the water so therefore water has a zero taste to make us much better at noticing anything that shouldn't be there cuz if water tasted like cherry Dr. Pepper, you see, we wouldn't have the same level of heightened. So our our taste buds are calibrated not to notice the taste of water. Anyway, reverse benchmarking is a really interesting idea. Find out what the other people are doing badly and do it really, really well. If you have an advertising budget, find out what other people are doing badly, do it really, really well and point out how good you are at it. In other words, change the frame of reference. We're number two, so we try harder. Okay, brilliant line for Avis because it takes a disadvantage. We lack quite the scale of Hertz, but it reframes small size as better customer care.

It's a fundamental reframing of the thing. And this natural tendency of humans to benchmark against their competition doesn't do the market any favors because it makes categories less valuable because there's less diversity in the category. It makes businesses less valuable because they're in direct competition with the people they're competing with. And it also doesn't help consumers because they actually lose out on differentiation and choice. So when businesses in an area become less differentiated, everybody suffers, but they all think they're doing the right thing. And this is a Disney quote. The more you are like yourself, the less you are like anyone else. Uh which makes you unique. The problem with most people is they spend their lives trying to emulate others. And so we have lots of copies but few originals. That's Walt. Uh here's John Maynard Kanes from the general theory of employment, interest, and money. What he says is that worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.

We feel nervous being different. Warren Buffett said a wonderful thing. He said, "Although lemmings exhibit a very foolish form of behavior, there is not a case of an individual lemming being singled out for blame. If you do the same dumb things as your competitors, you never really get held up and blamed for it. So that's why I was such a fan of what Will did. And it suddenly occurred to me that's what Steve Jobs did. A load of nerds in the computing industry were optimizing for processing power, RAM, clock speed, all that nerdy stuff they got excited about. In the process, they had completely neglected usability and aesthetics. I mean, I made the point that, you know, what they hadn't spotted was that I remember this because I'm I'm old. In the early 80s, if you put a computer into any room in your house and the computer was beige or gray, that room looked like an office.

Okay? You might as well put a bloody filing cabinet and a photocopier in the place, right? Okay. Suddenly, they realized you didn't have to do that. You know, things could be lovely to use, they could be beautiful to look at. It's a classic case of reverse benchmarking. waiting for it. Okay, this right I deliberately didn't say a thing because that's the texometer at work. You [cheering] okay? Sorry. Okay, you can always tell how many Texans there are in a room because any slight reference to Bies drives people practically insane. Um, deservedly so. I I am counting the minutes until it arrives in the UK. I think it's magnificent. But the guy there uh familyowned by the way most of the most interesting companies are familyowned because they don't have to justify themselves to boring finance people. They can actually focus on their customers instead. The go and watch the YouTube video with this guy. His entire focus was what's bad about restroom?

What's bad about gas stations? The restrooms. Who's the decider? The passenger probably female. What do we need to do in order to be a successful gas station? We have to get people willing to hold on for an extra 20 m to go to our gas station rather than someone else's. The entire thing was reverse benchmarking. Restroom gas stations are terrible. Uh Bies, come on. >> Thank you. By the way, for those of you near um in near DC or Virginia, there's now one uh somewhere over there. It's just opened.

Uh one of the first ones outside the Southwest. Um and it's it's reverse benchmarking. Take the thing that that everybody else is terrible at, make it brilliant. Uh, this is one of my favorites. The Angel Hotel in Abigeni. Had not many Welsh people in, I can tell. Um, oh, a few. Okay. Uh, they did one thing. They're very good in all kinds of respects. It's Sunday Times food hotel of the year, but they did something I've never had before, which is I checked in and you do the same thing. You check into the hotel. It's the weekend. You're a bit knackered.

What's the latest I can have breakfast? You Here we go. Well, since it's Saturday, we'll let you lie in till 8:00. No. Latest you can have breakfast 11 o'clock. Okay, from that moment on, I go, "Okay, these are my people." basically right now. By the way, there's a great Soviet the other way you can reverse benchmark is either being creative by spotting something that's bad that no one else has noticed or there's a brilliant Soviet era problem solving toolkit called Tris uh pioneered I know it sounds weird but he precisely because he was in the Soviet Union and saw the obstacles to innovation created in the Soviet Union he went and studied American innovation and asked what were the recurring patterns that you could find and one of the kind mantras of tris is your problem has already been solved it's just been solved by someone else in a different field now here's a question right car rental let's do a bit of reverse benchmarking on car rental and there's something I don't understand when I book a taxi to take me home from he actually I'm driving home but when I book a taxi to take me home from my local airport that cost me about £60 the taxi driver comes to arrivals he meets me if I want him to he'll push my the trolley he takes me all the way to the car puts the luggage in the car and then drives me home and that costs £60. If I rent a car for a week and I'm paying £600, I have to find the terminal, then they give me the keys. I then have to find a car in some completely unnavigable car park on the third floor in 100 degree heat. And then when I get into the car, there isn't even a sheet of A4 paper saying how you open the fuel filler cap. There is no explanation of the car interface or what its foibless may be. So I'm usually then at a gas station a day later resorting to YouTube to find out how to operate the car. Now all I'm saying is that I think a lot of people would pay money for car rental if the person took them to the car. But no one's looked at that because car rental companies are benchmarking against other car rental companies. I'll end very quickly because I have run out of time. You can do both.

One of the problems of business thinking is because it's driven by a mentality of scarcity and efficiency. It tends to assume you can only do one thing. I would argue you've got to do two things. You've got to do exploit. You've got to make efficient use of the resources you have to make use of the sources of value you already know about. But you've also got to continue to explore. And so I'll end with this very quick story. So I've only got a minute left. Um, in one of the famously worst decisions in business history, a man called Mike Smith working for Deca Records turned down the Beatles and instead he signed this band called Brian Pool and the Tremolos. And by the way, who aren't a bad band, they had two number one hits. They went on for about 15 or 20 years. In some ways, Brian P was probably a better singer than anybody in the Beatles. It wasn't, by the way, a crazy decision. I'm going to defend this guy. One of the reasons they chose them was also because Brian Pool and the Tremolos live close to London whereas the Beatles came from Liverpool so their travel expenses would be higher. Probably not procurement's finest hour that one I have to say.

Okay. But I looked at this decision and I said there was nothing irrational about signing this band. They had several number one hits. They're very talented band. He also liked the Beatles. The person who made the mistake was someone else. He gets the blame. who said you can only sign one band. Why? Okay, just because two bands app happen to audition on the same day doesn't mean you can only sign one of them. What he wanted to do was the safe bet, Brian Pool and the Tremolo's wildcard Beatles, but he was only allowed to do one. When we're only allowed to do one, we'll always do the safe bet. We won't do the risky thing because you get much more blame for being eccentric than you do for being boring broadly speaking in business. End on one final point.

We're going to have AI is going to be an assault on human employment in service industries. I fundamentally believe that as they become scarcer and scarcer, the importance of person-toperson interaction between business and customer will become disproportionately higher and higher. That fundamentally a really really good face-to-face experience is like a brand quake. Uh there are businesses I think are brilliant because of a phone call I had with them eight months ago. I know nothing else about those businesses, but when they're good on the telephone, I automatically place them high in the pantheon, but also because my expectations were so low to begin with, it's really easy to impress. So, I'll end up with a little bit of data.

Fantastic manucal Alex Bachelor who used to be the marketing director of Royal Mail, they could never make sense of their customer satisfaction figures because they didn't correlate at all with service performance. There were areas where mail didn't arrive very reliably. It was late. It was hopeless. People loved Royal Mail. There were other areas where their service was absolutely spectacular and people were pretty indifferent. And they were trying to correlate the quality of the service with customer appreciation.

It didn't make any sense. Someone had a different idea. It turned out that the vast majority of people's perception of Royal Mail was driven by one thing only, whether they like their posty. Simple as that. Regardless of how reliably the mail arrived, all the things they were spending billions on were making no difference. Meanwhile, the guy who'd actually leave something round the back cuz I knew you were away on holiday was a total hero. Never forget that an individual person with the discretion to take intelligent contextual action is worth a thousand algorithms. And we're in danger of forgetting that. So that's my final call to action. rather than trying to change the world, change how people see the world because when people see the world differently, they behave differently and that then changes the world. This is a course I do if you're interested and that's been me. Thank you very much indeed. Thank you. [applause]