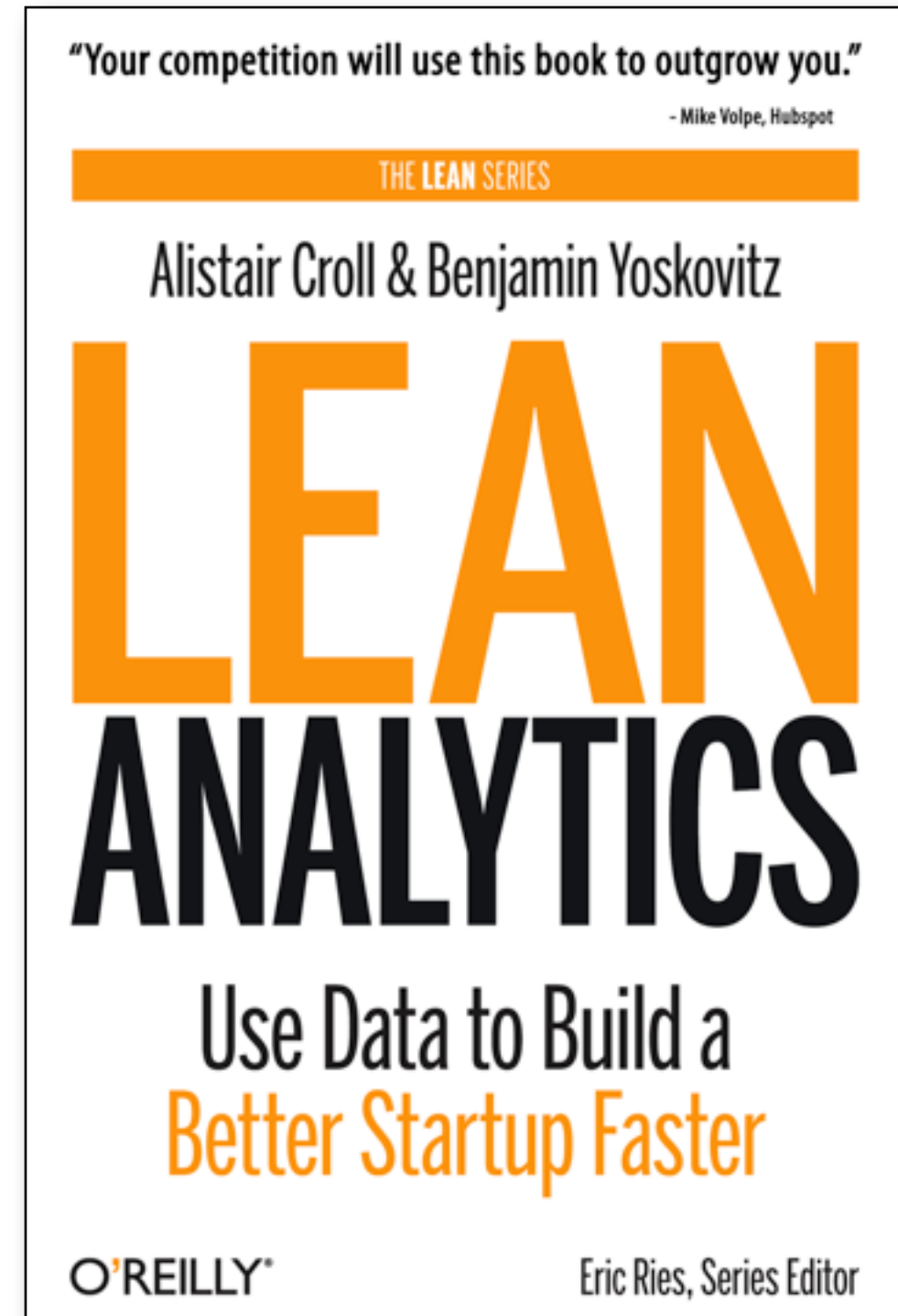


Old dogs, new tricks

Strata Barcelona
November 2014

@acroll



STORE CLOSING

BLOCKBUSTER

**STORE
CLOSING**

**MUST
GO!**

**DVD's
\$7.99
OR LESS!**

**HELD
BACK!**



Blockbuster had a lot going for it.



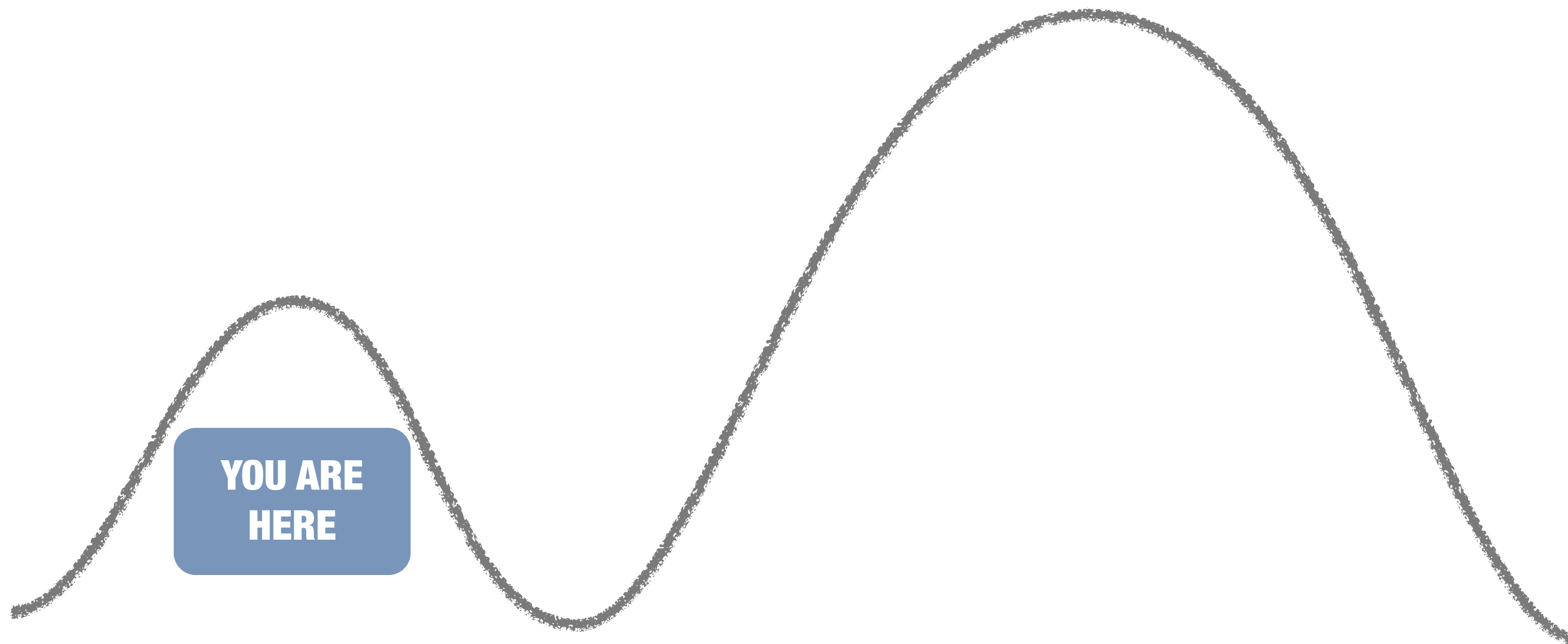
Plenty of inventory, of course.
But that matters less than...

...market intelligence,
customers, existing
payment approval,
and customer
history.

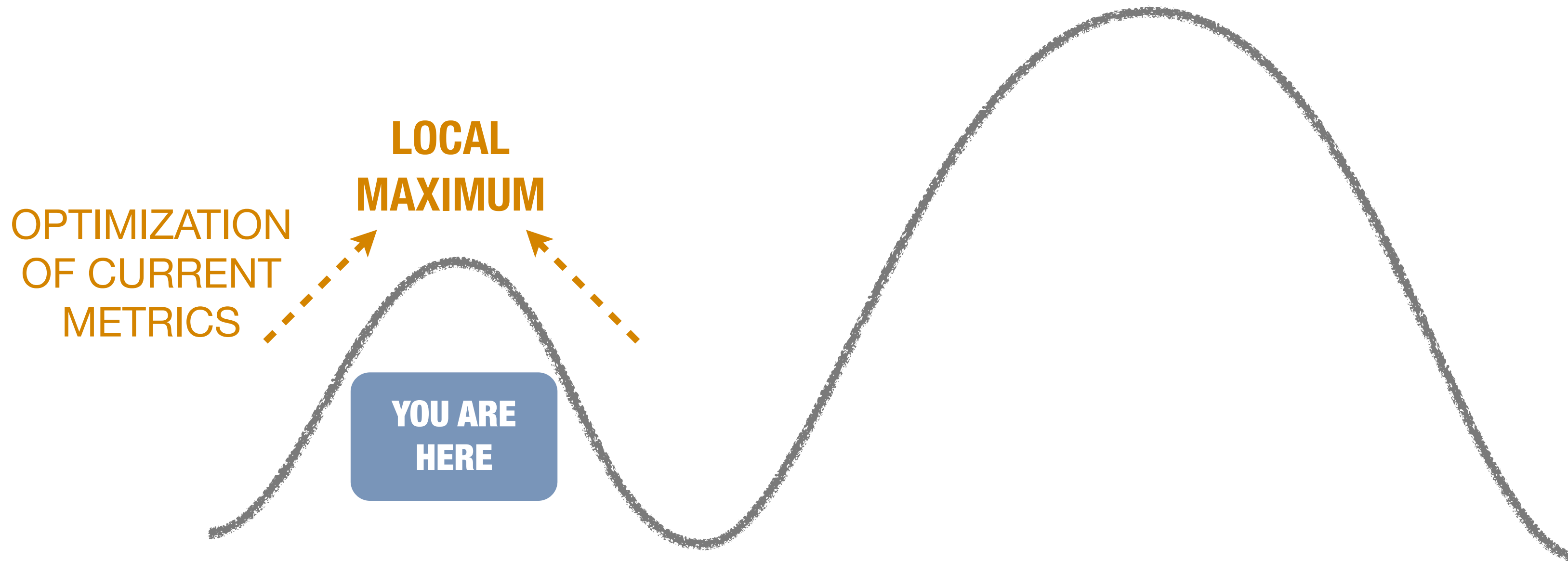


The problem was framing:

Blockbuster thought it was in the video store management business. Netflix realized it was in the entertainment delivery business.



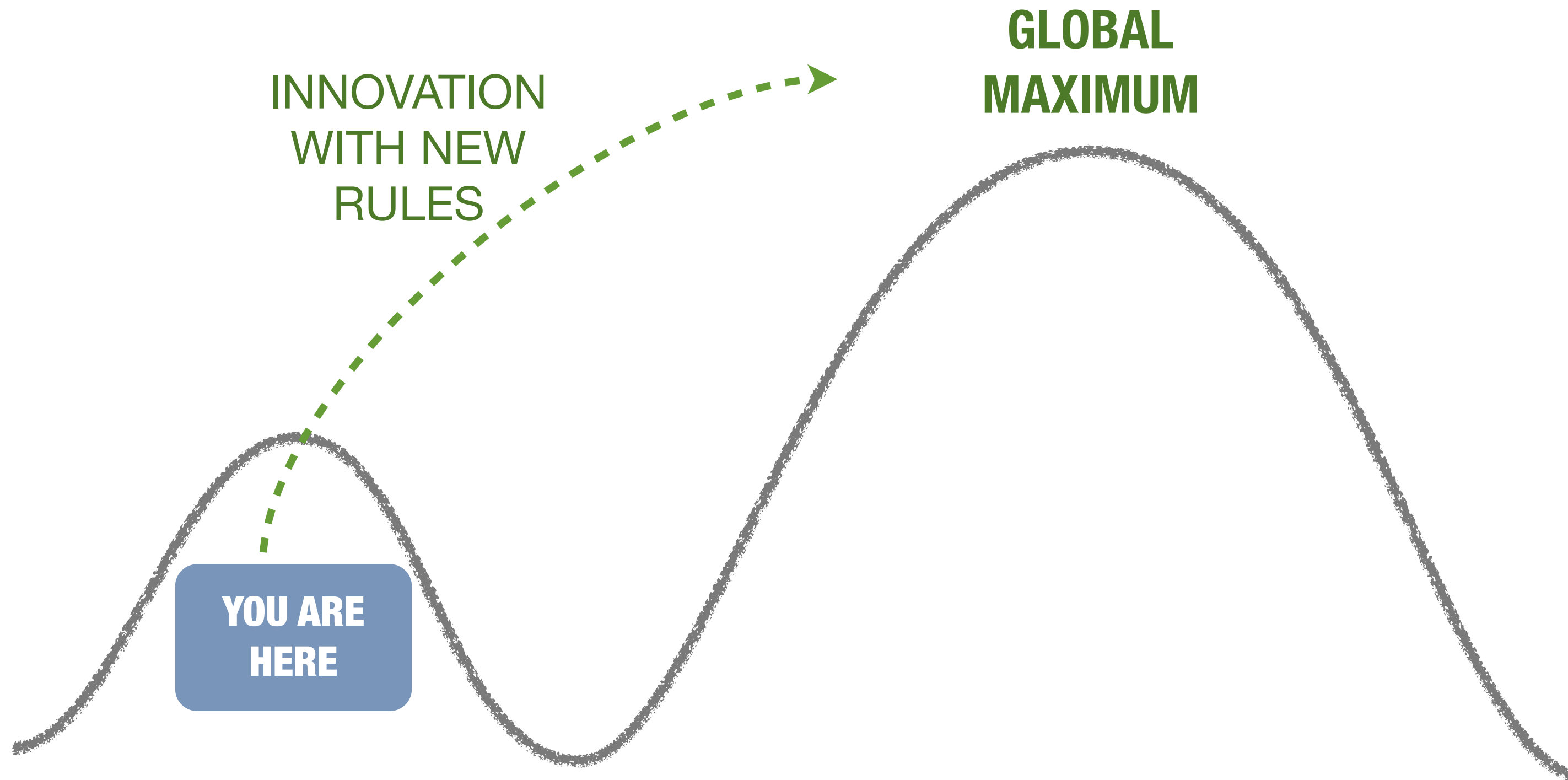
**YOU ARE
HERE**

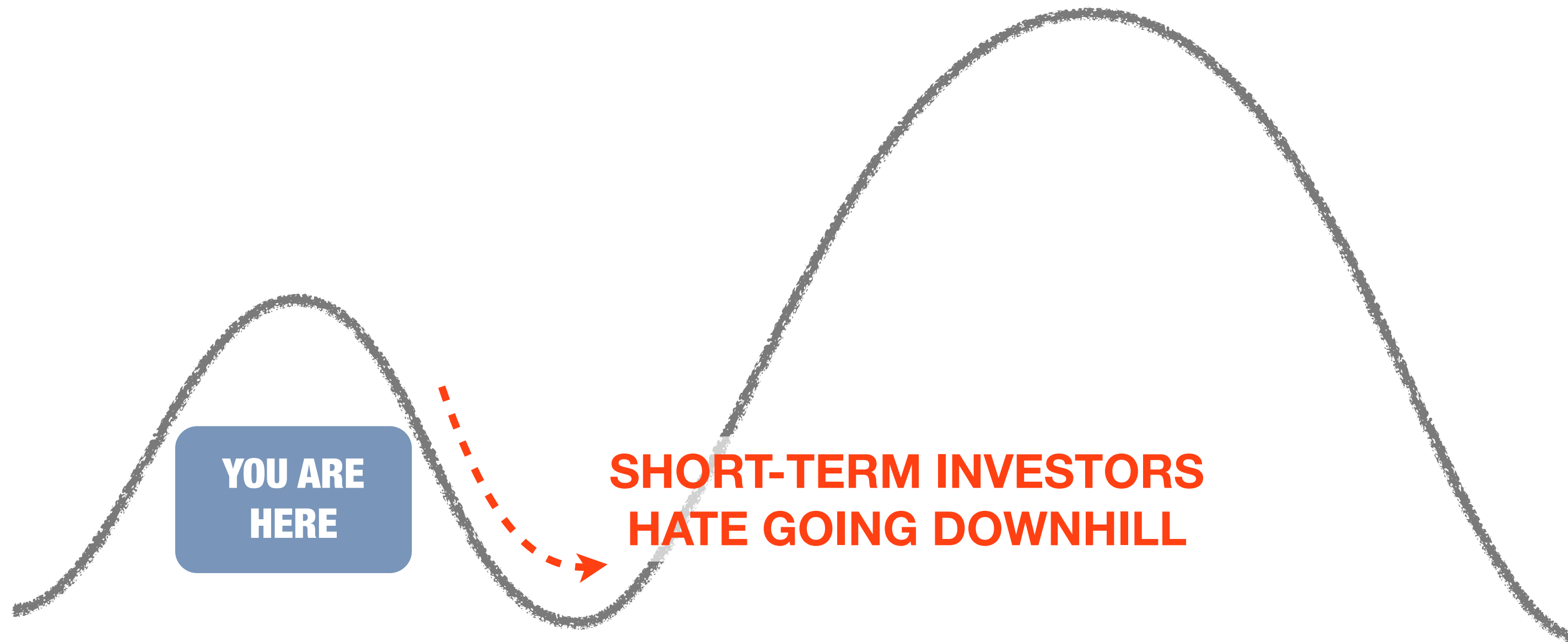


**LOCAL
MAXIMUM**

OPTIMIZATION
OF CURRENT
METRICS

**YOU ARE
HERE**

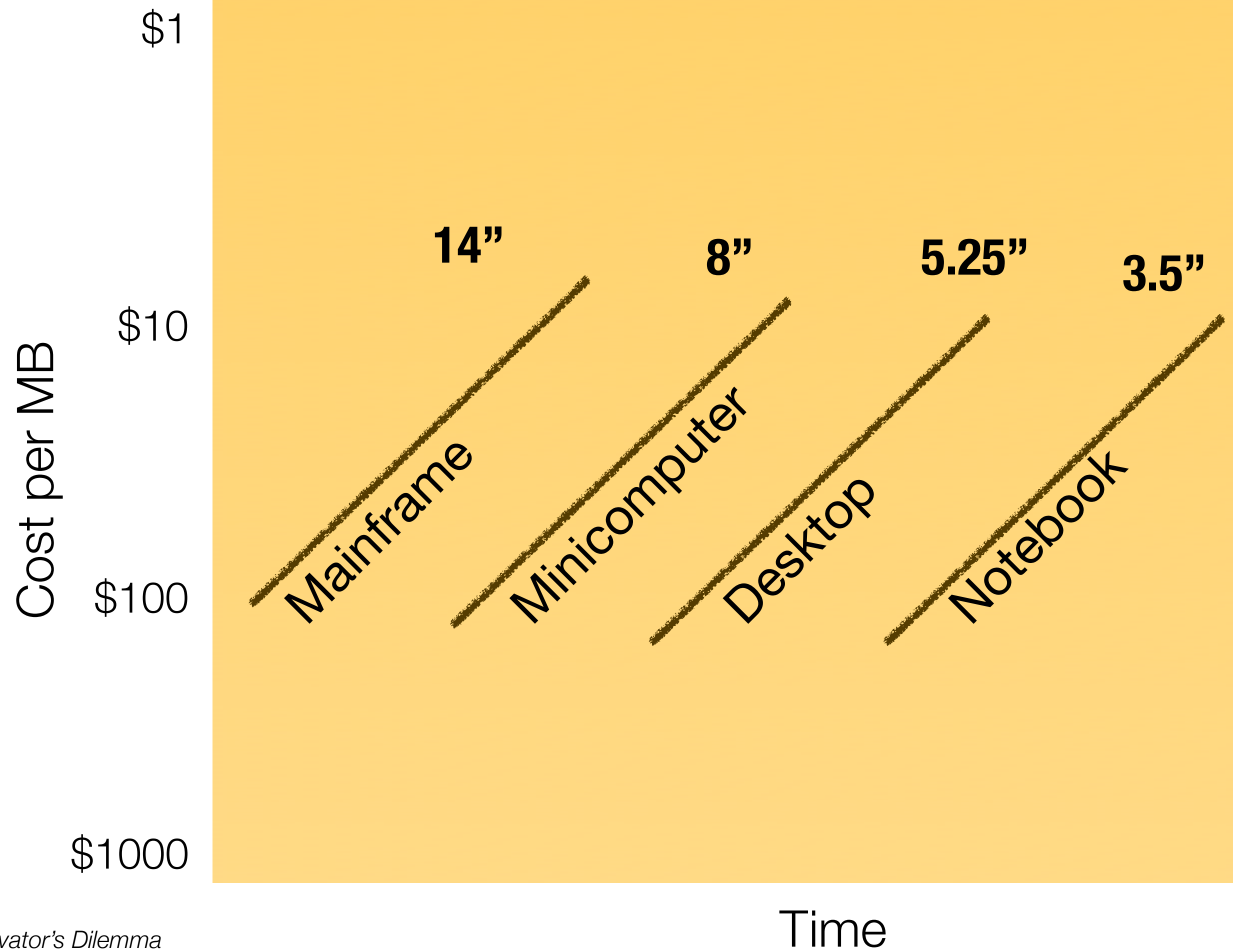




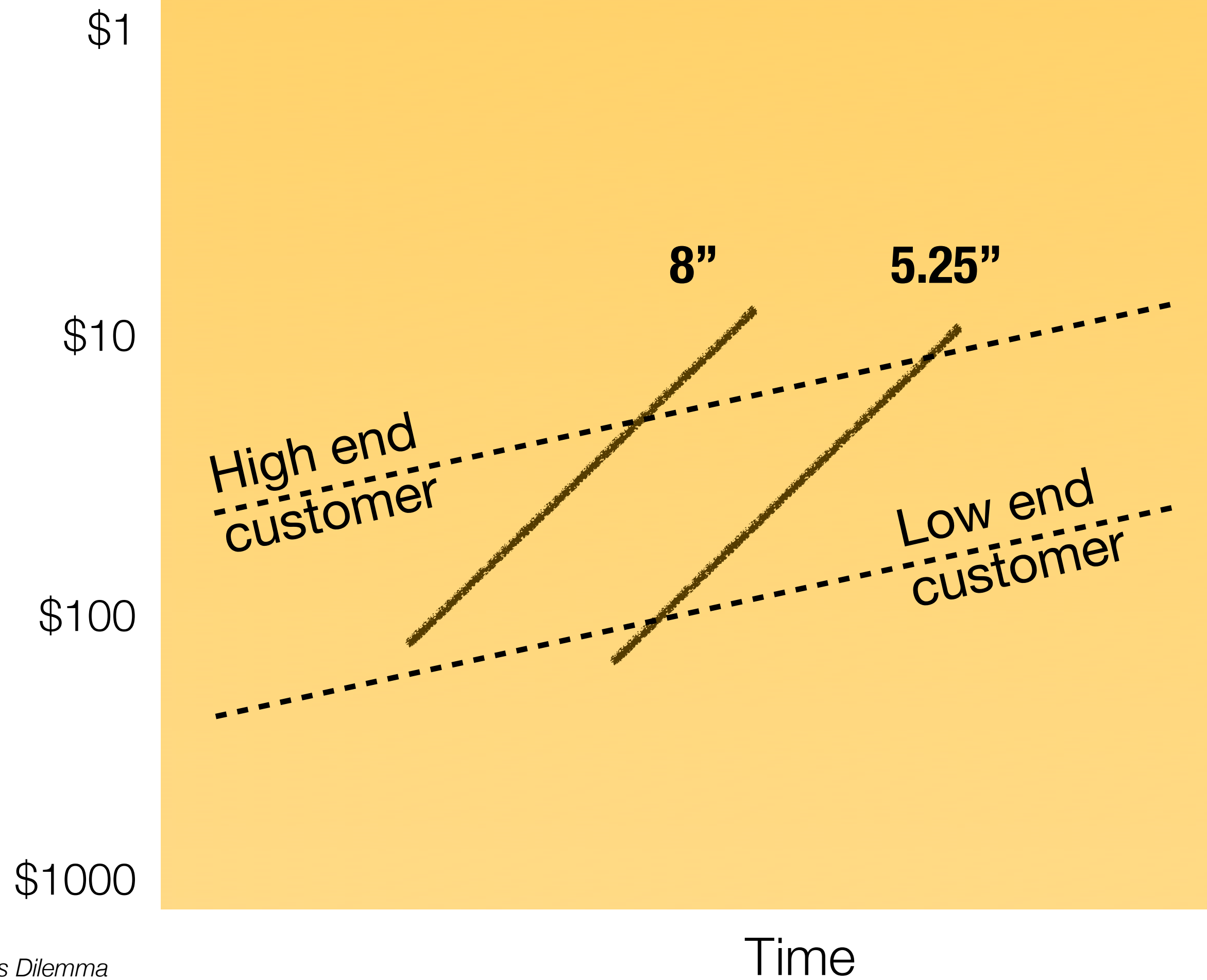
**YOU ARE
HERE**

**SHORT-TERM INVESTORS
HATE GOING DOWNHILL**

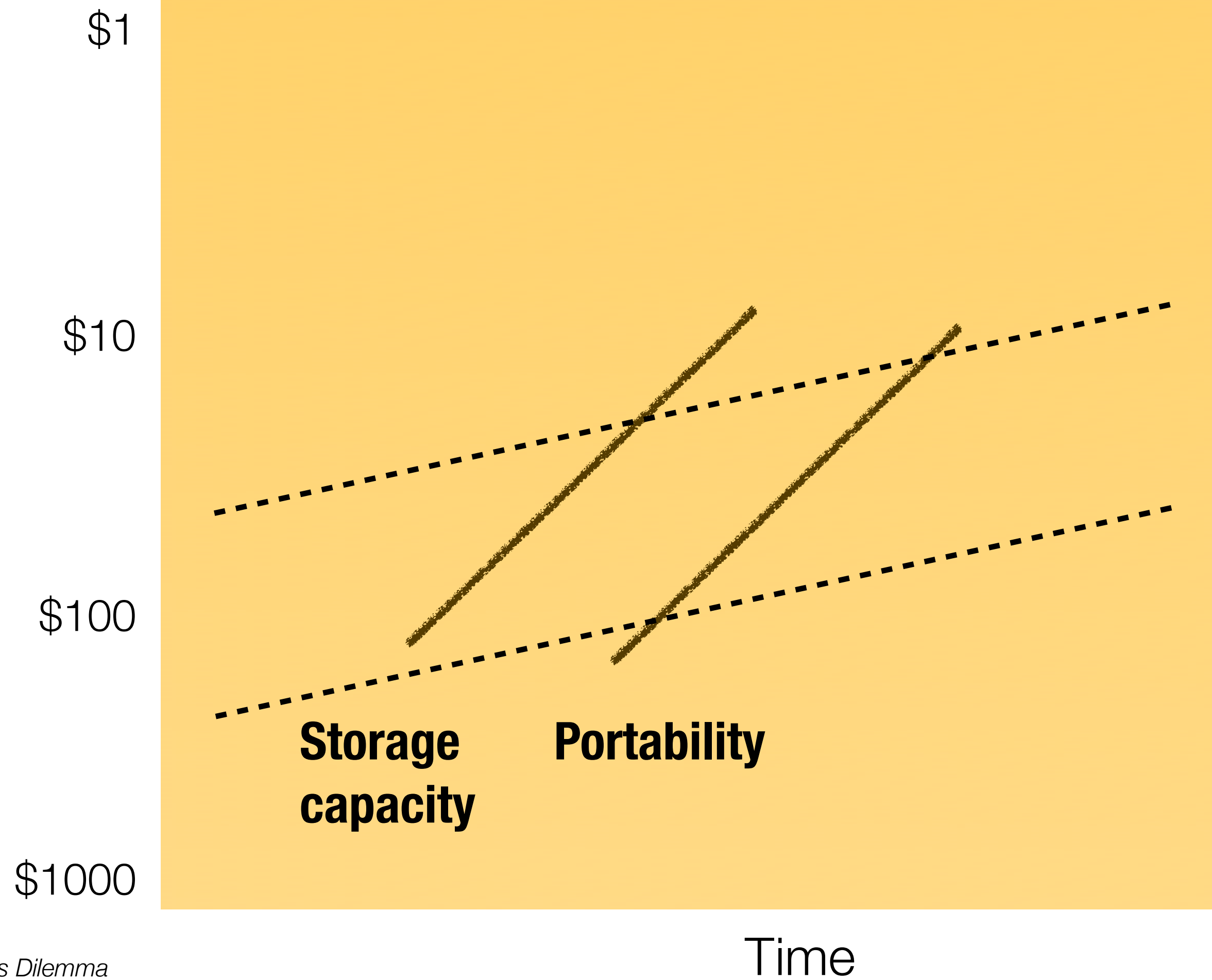
Companies die because they fail to
move to new business models.



Technologies
outstrip what
the market
needs, driven
by feedback
from the
“best”
current
customer.



The new market has different criteria for success, which are uninteresting to incumbents.



Amazon Web Services and the server value network

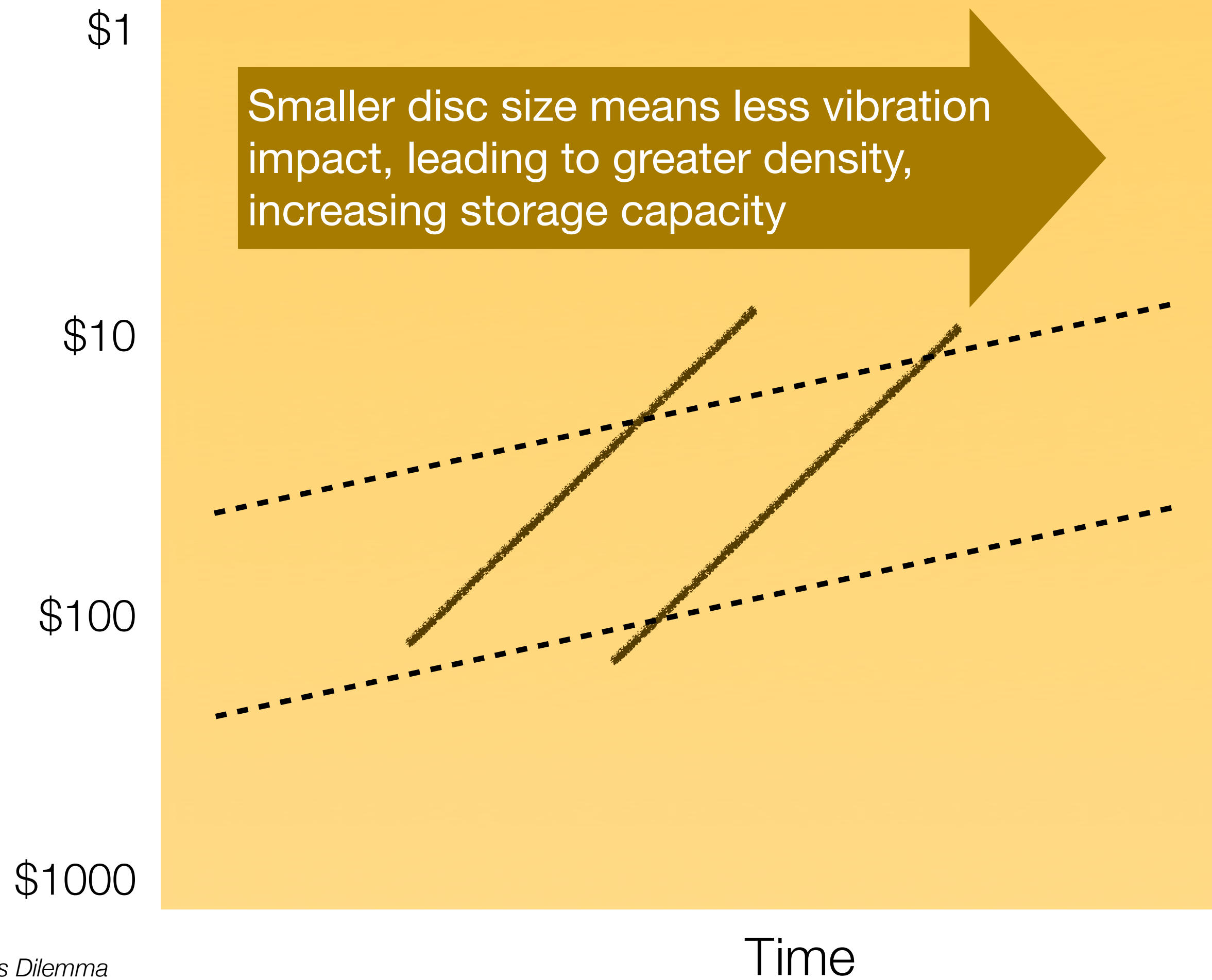


Server computing

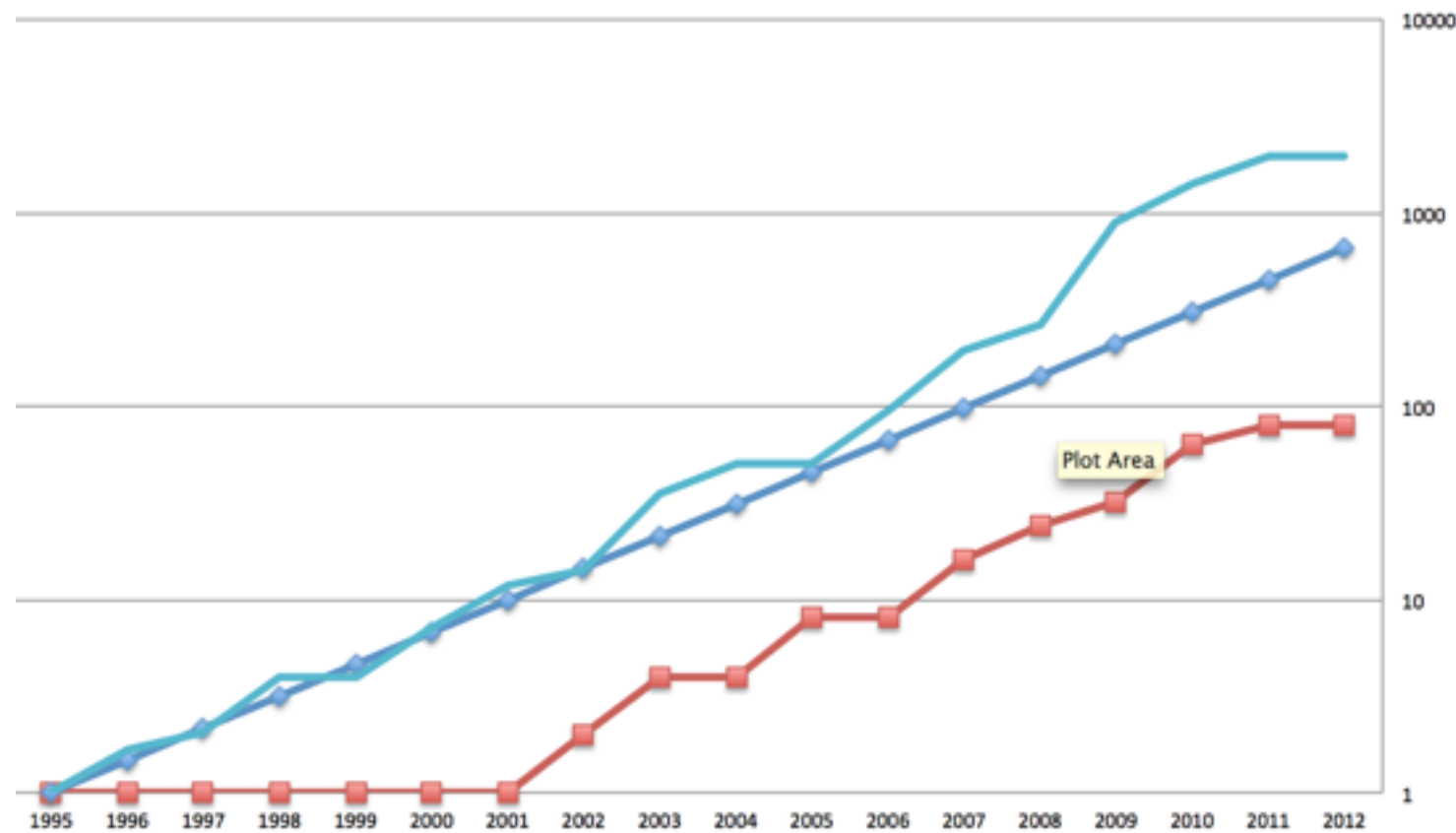
Cloud computing

Value criteria	<ul style="list-style-type: none">• Density• Heat	<ul style="list-style-type: none">• GHz• MIPS	<ul style="list-style-type: none">• Instances• Objects	<ul style="list-style-type: none">• Spinup time• Scaleout
Money	Capex, financing, TCO, ROI		Opex, demand, time to result	
Buyer	CIO, enterprise IT		CTO, coder, app owner, line of business, startup	

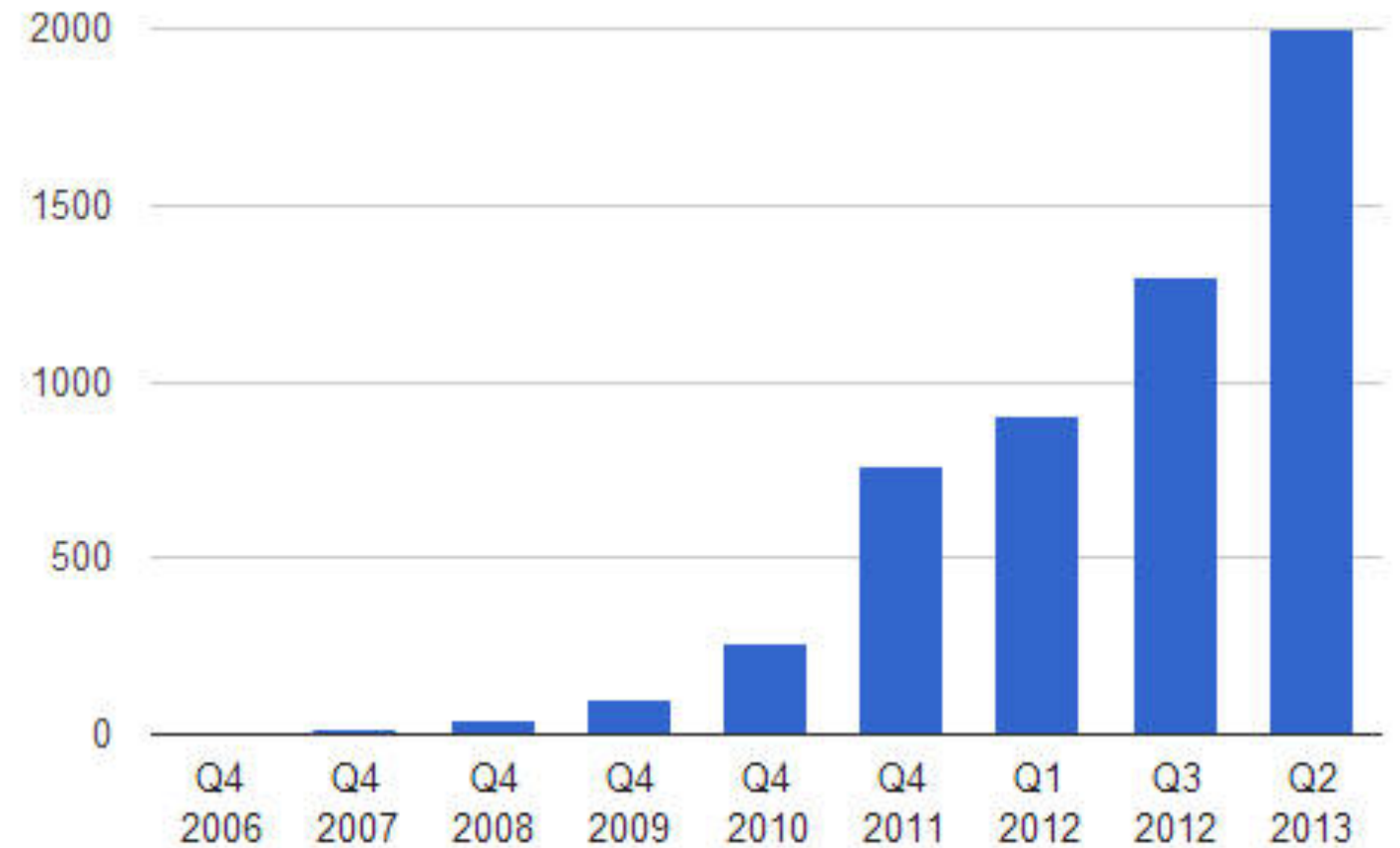
Sometimes
this has
unintended
consequences



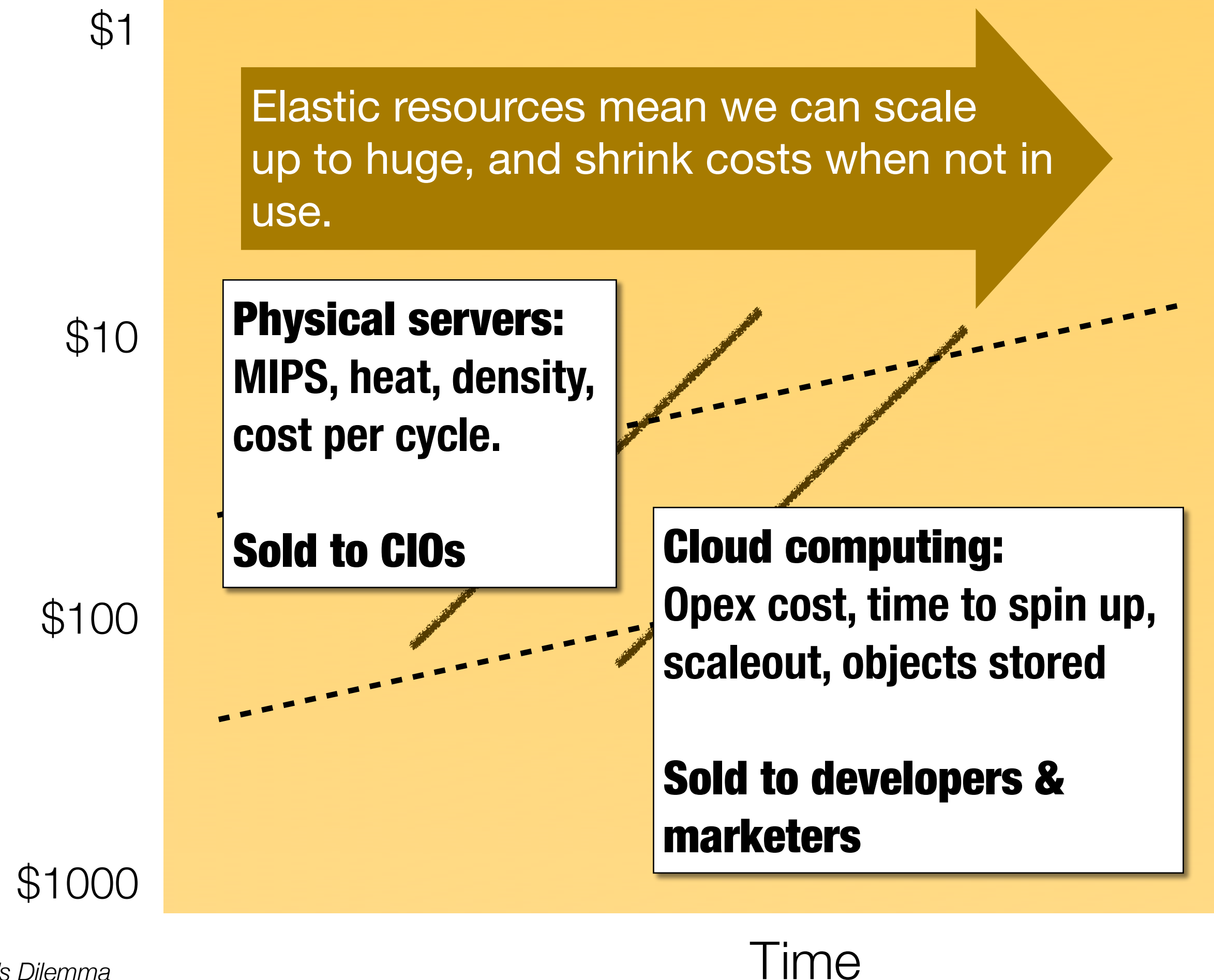
Amazon Web Services and the server value network



Objects stored in Amazon S3 (billions)

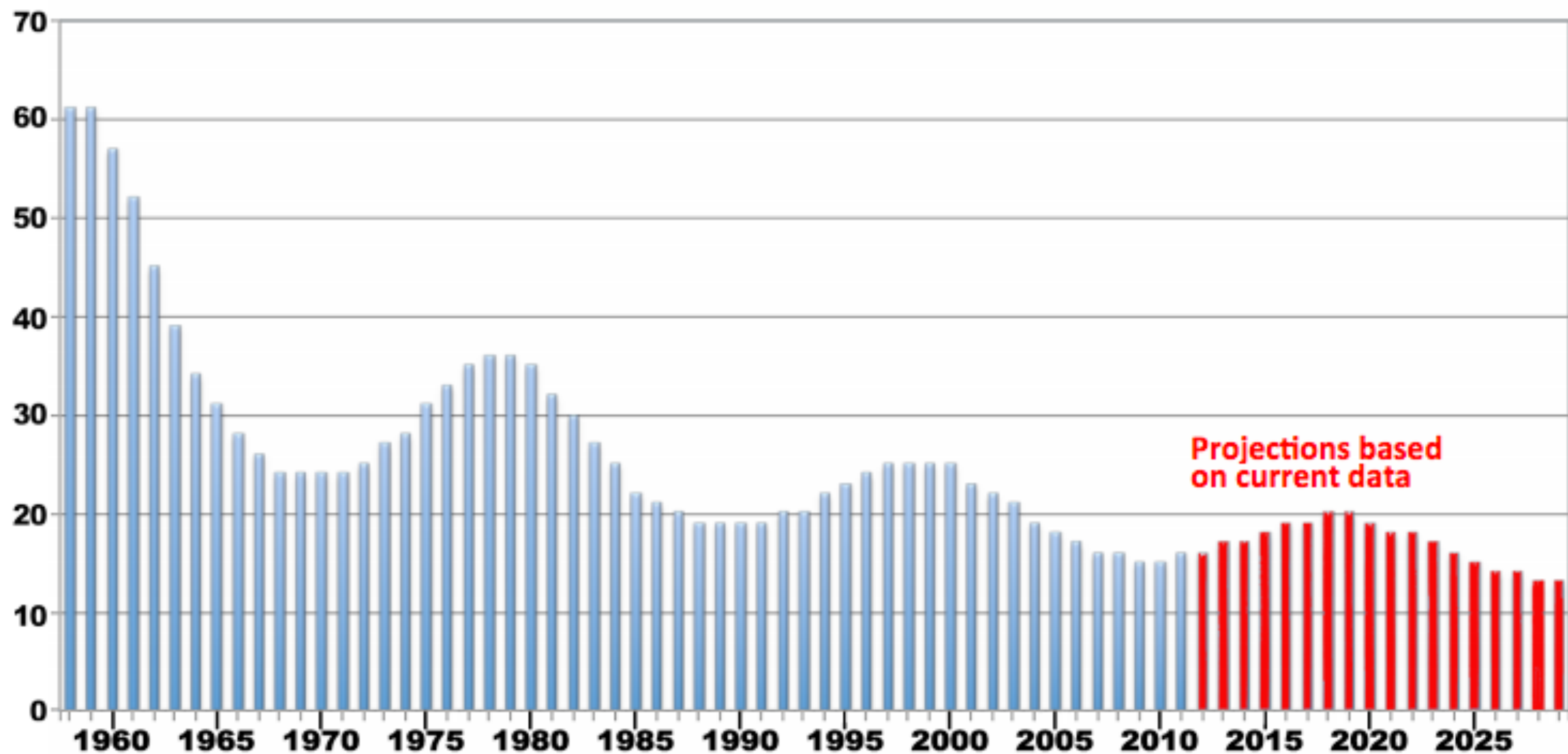


HP and Dell missed the disruption and the change in the value network.



Optimizing the probable means
discounting the possible.

Average company lifespan on S&P 500 Index (in years)



Year (each data point represents a rolling 7-year average of average lifespan)

DATA: INNOSIGHT/Richard N. Foster/Standard & Poor's

F500 Life Expectancy

[\(http://csinvesting.org/2012/01/06/fortune-500-extinction/\)](http://csinvesting.org/2012/01/06/fortune-500-extinction/)

75
years

1950

...

15
years

2010

Growth by entering a new business

95
% fail

Corporate
Strategy Board

99
% fail

Clay
Christensen

Everything to lose:

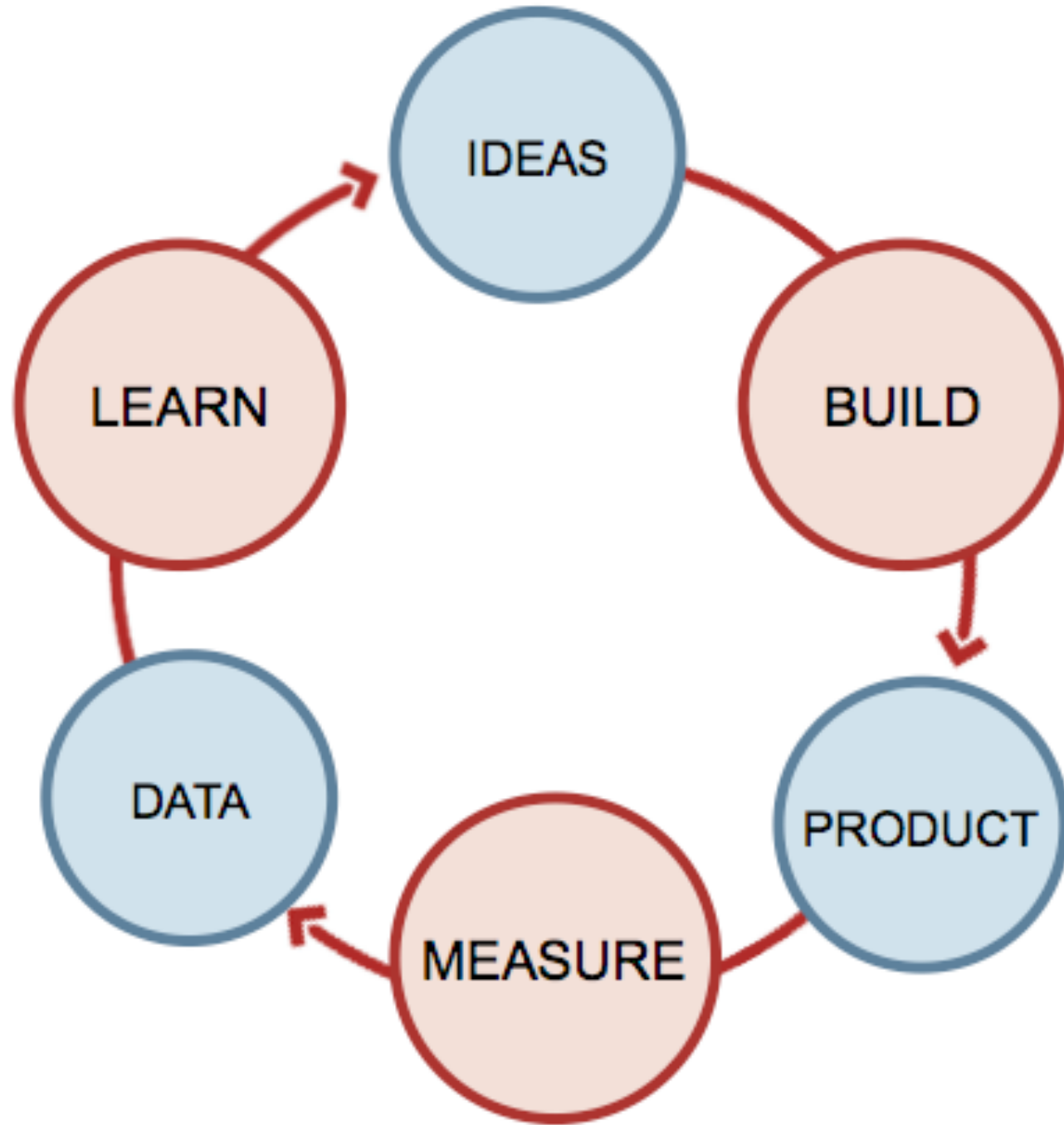
Why big companies need innovation.

Kevin Costner is a lousy entrepreneur.



Don't sell what you can make. Make what you can sell.

The core of Lean
is iteration.



Constraints slow things down



vs.



Some good news

Analytics and data can help.

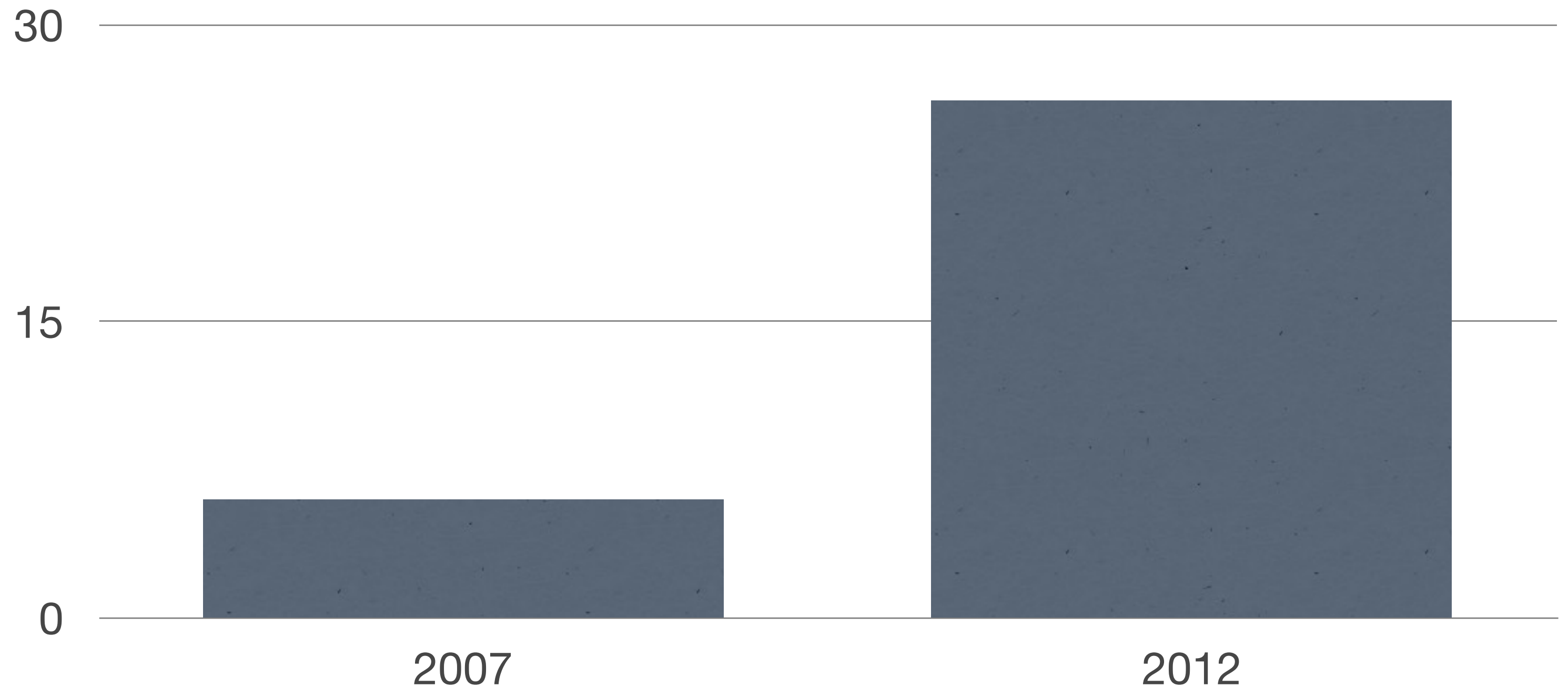
2011 MIT study of 179 large publicly traded firms

Companies that use data-driven analytics instead of intuition have 5%-6% higher productivity and profits than competitors.

Arbitron and radio data



Times a song in “heavy rotation” is played daily



“Efficiency is tied to analytics. We’ll still look for new materials, or for the physics of devices, but the analytics ... is what’s really untapped.”



**A data-driven, three-maxima
approach.**

Many models for enterprise innovation

Core

Do the same thing better.

Regional optimizations.

- Get there faster
- Smaller batches
- Solution, then testing
- Increased accountability

Adjacent

Nearby product, market, or method.

Innovation, go-to-market strategies.

- Customer development
- Test similar cases
- Parallel deployment
- Analytics & cycle time

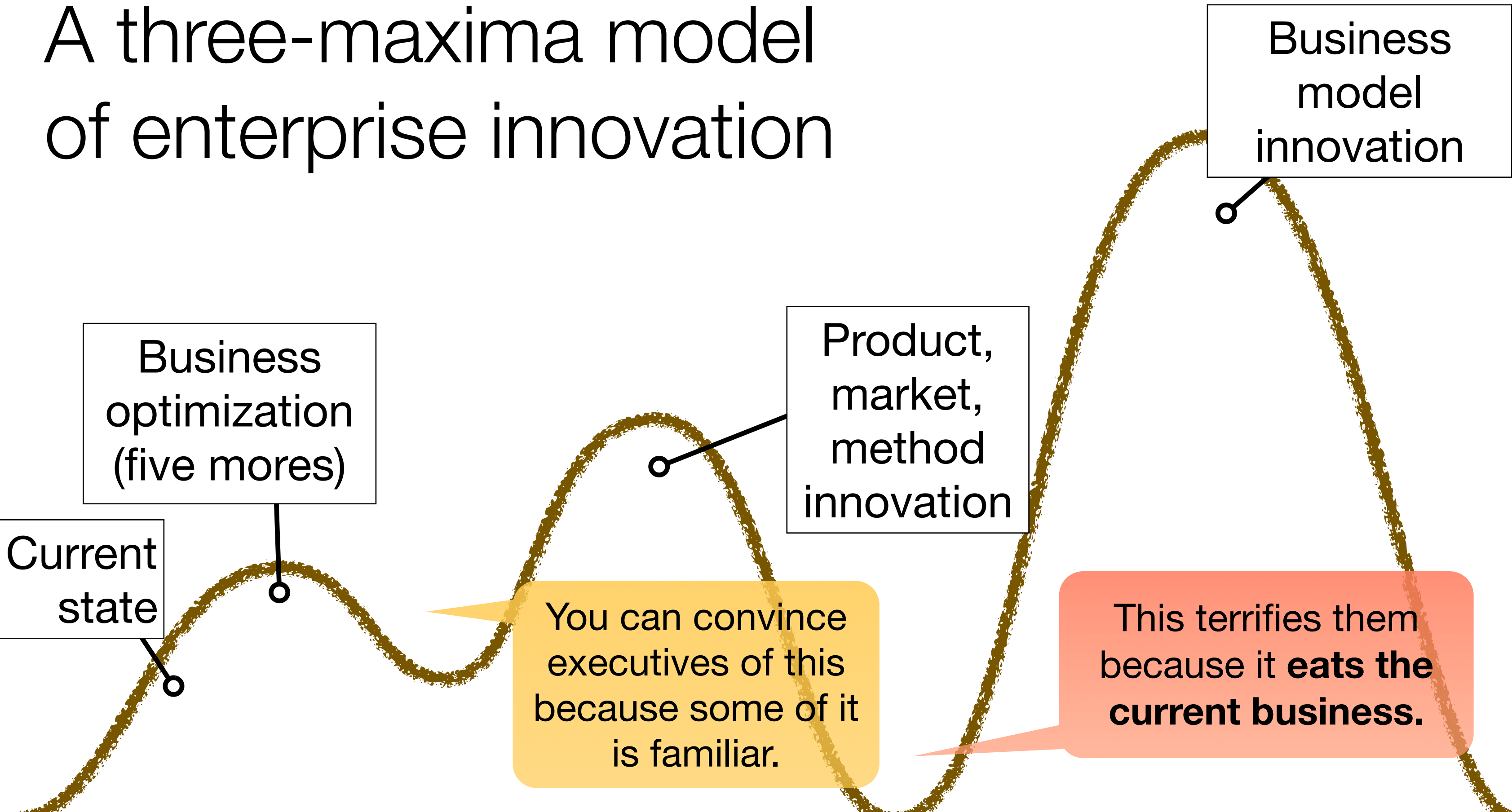
Transformative

Start something entirely new.

Reinvent the business model.

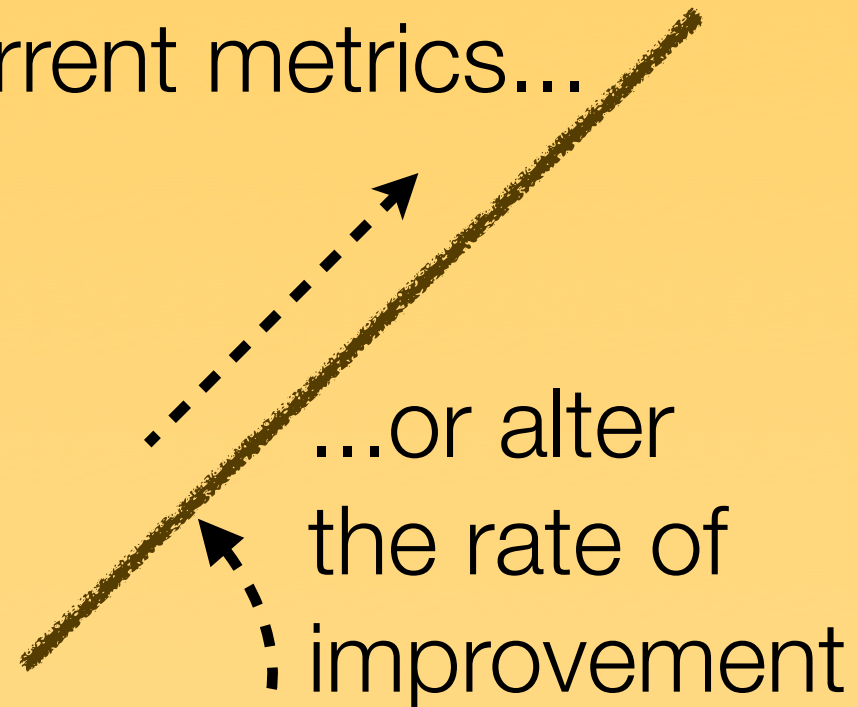
- Fail fast
- Skunkworks/R&D
- Focus on the search
- Ignore the current model & margins

A three-maxima model of enterprise innovation



Three kinds of innovation

Improve along
current metrics...

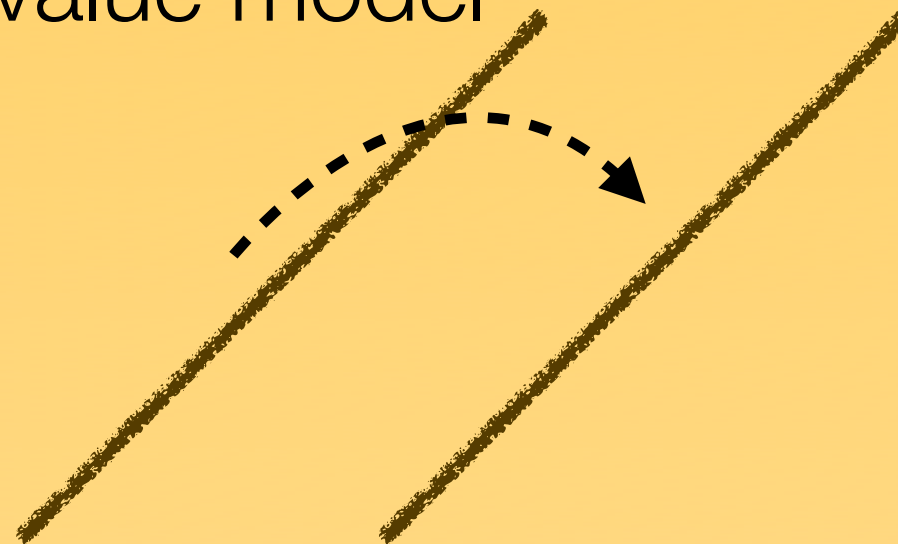


...or alter
the rate of
improvement

Sustain/core

(optimizing for more of the same)

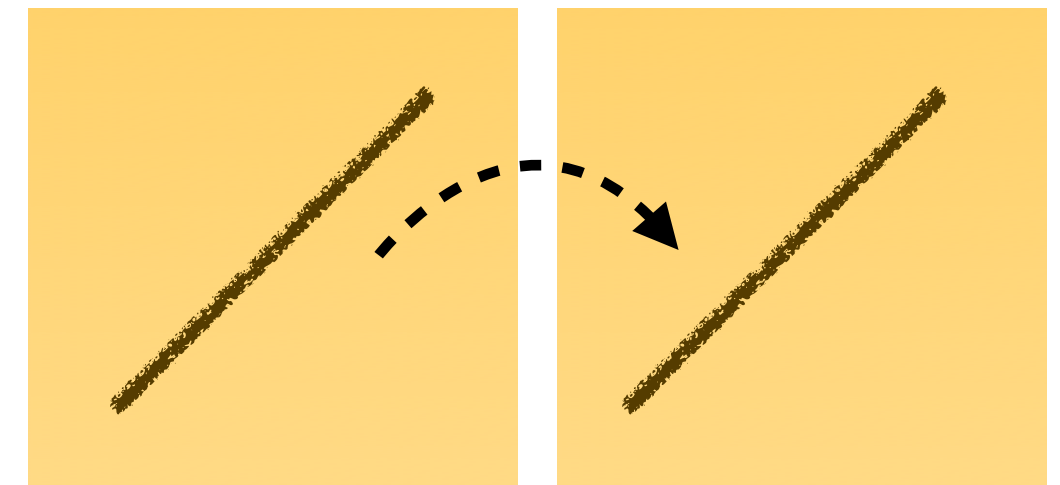
Switch to a new
value model



Innovate/adjacent

(introduce nearby product,
market, or method)

Change the business
model entirely



Disrupt/transformational

(Fundamentally changing
the business model)

Improvement

Do the same,
only better.

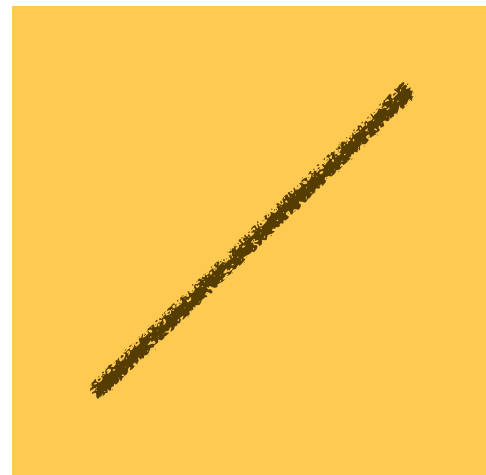
Adjacency

Explore what's
nearby quickly

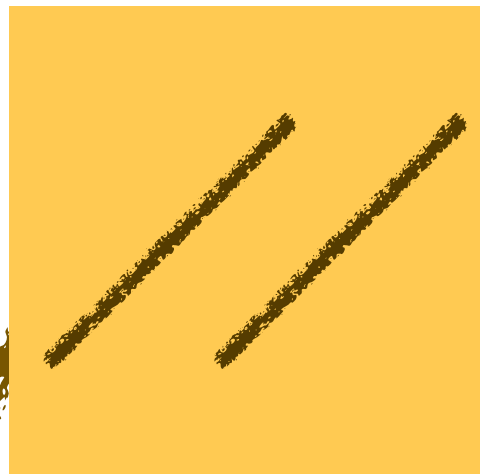
Remodeling

Try out new
business models

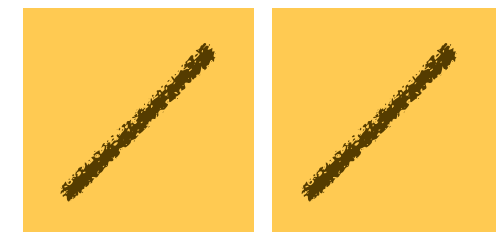
Lean approaches apply, but the metrics vary widely.



**Sustain/
core**



**Innovate/
adjacent**



**Disrupt/
transformational**

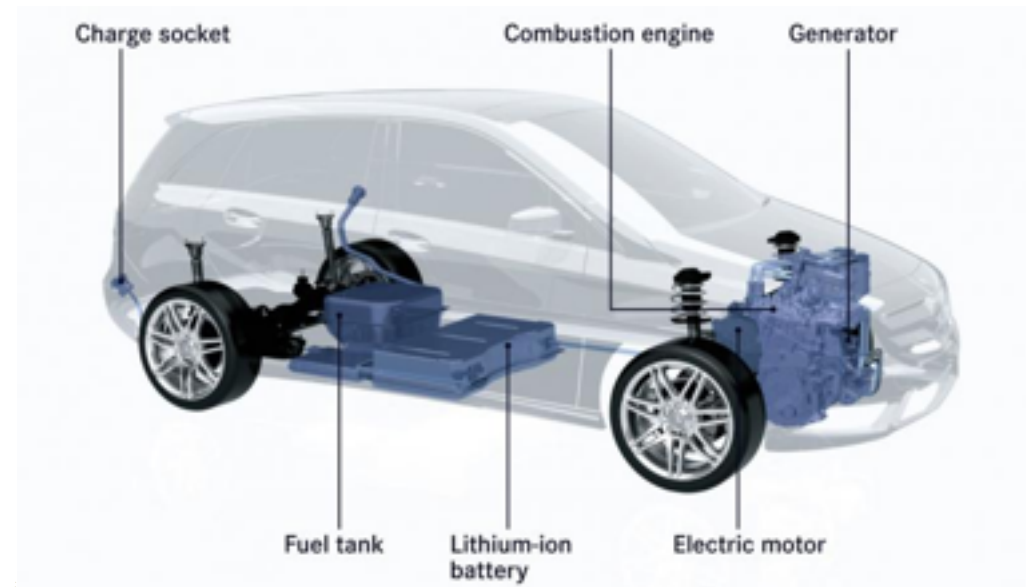
Sustaining

Next year's car



Adjacent

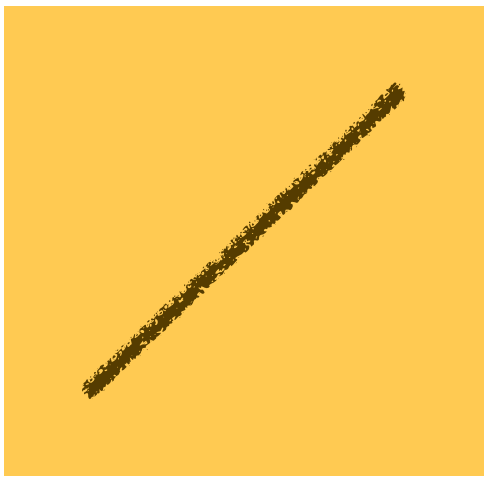
Electric car,
same dealer



Disruptive

On-demand, app-based
car service





Sustaining
innovation
is about
**more of
the same.**

(says Sergio Zyman)

More things

- ✦ Inventory increase
- ✦ Gifting, wish lists

To more people

- ✦ Highly viral offering
- ✦ Low incremental order costs

For more money

- ✦ Maximum shopping cart
- ✦ Price skimming/tiering

More often

- ✦ Loyal customer base that returns
- ✦ Demand prediction, notification

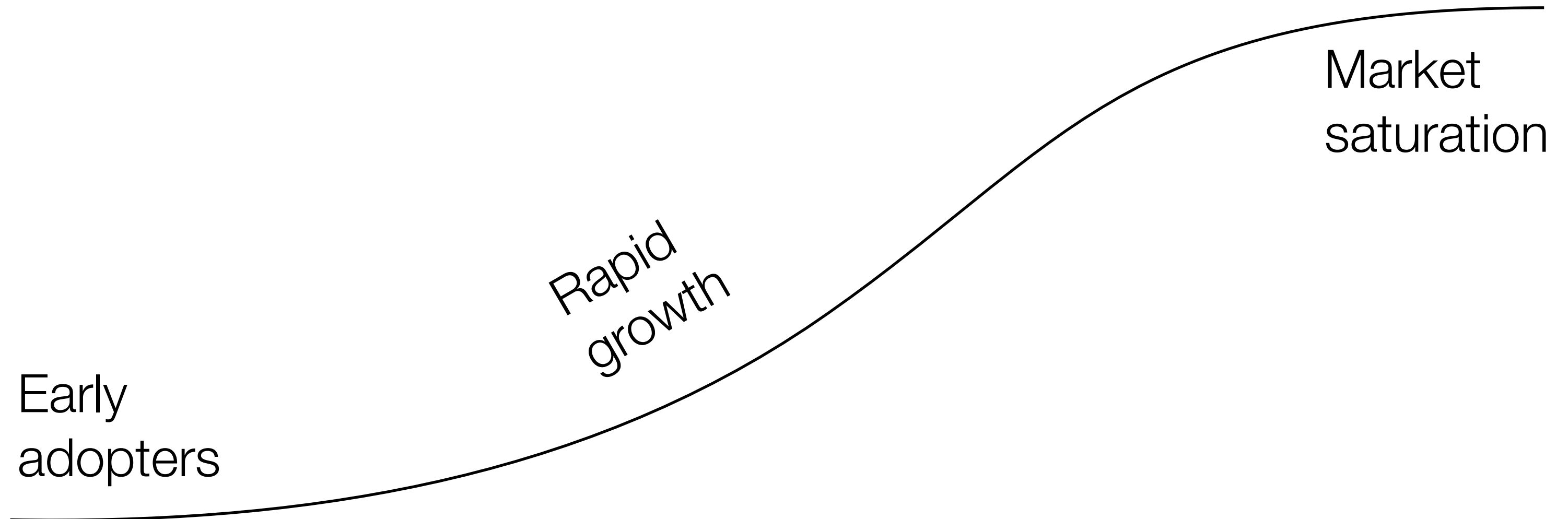
More efficiently

- ✦ Supply chain optimization
- ✦ Per-transaction cost reduction

Blizzard extends the lifespan of WOW

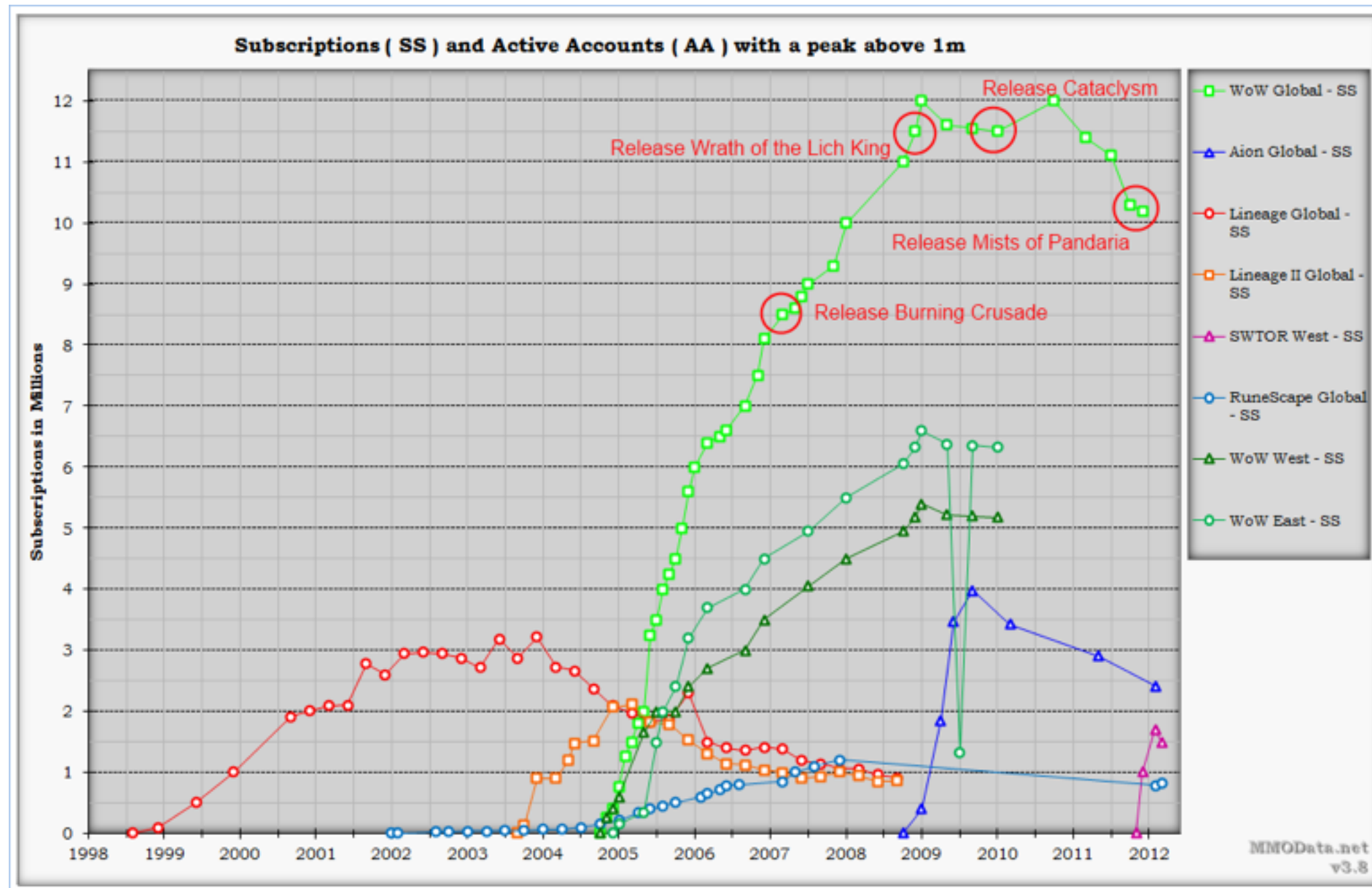


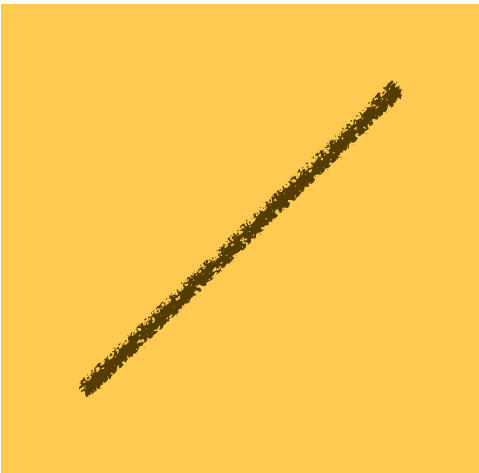
The infamous S-curve



(Product lifecycle, Bass diffusion curve, etc.)

Blizzard extends the lifespan of WoW

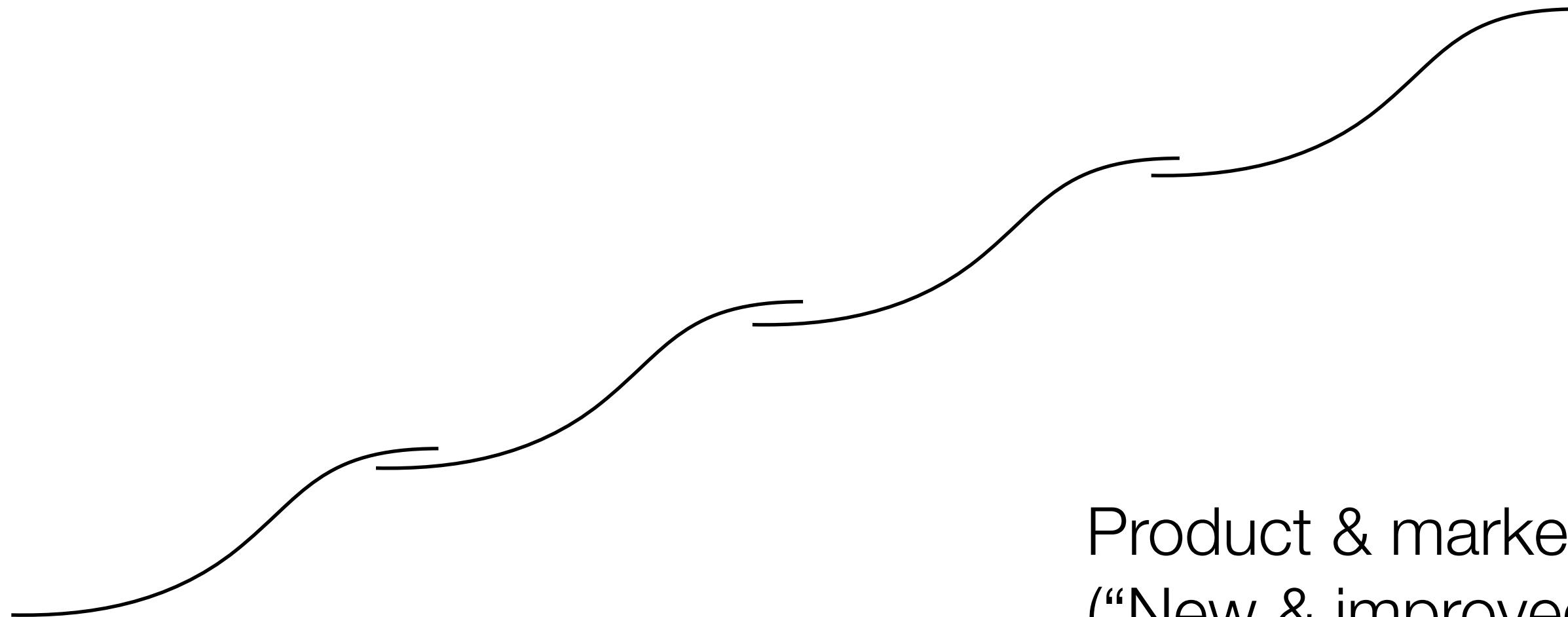




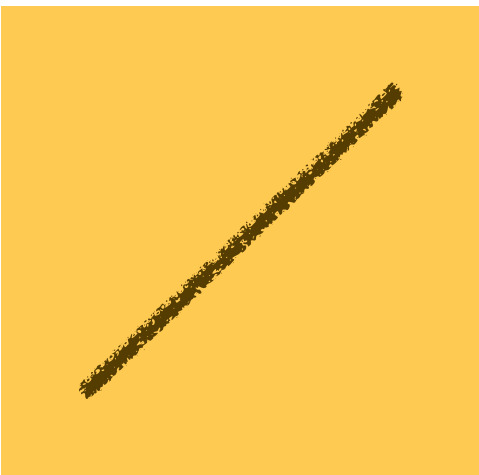
Blizzard extends the lifespan of WOW



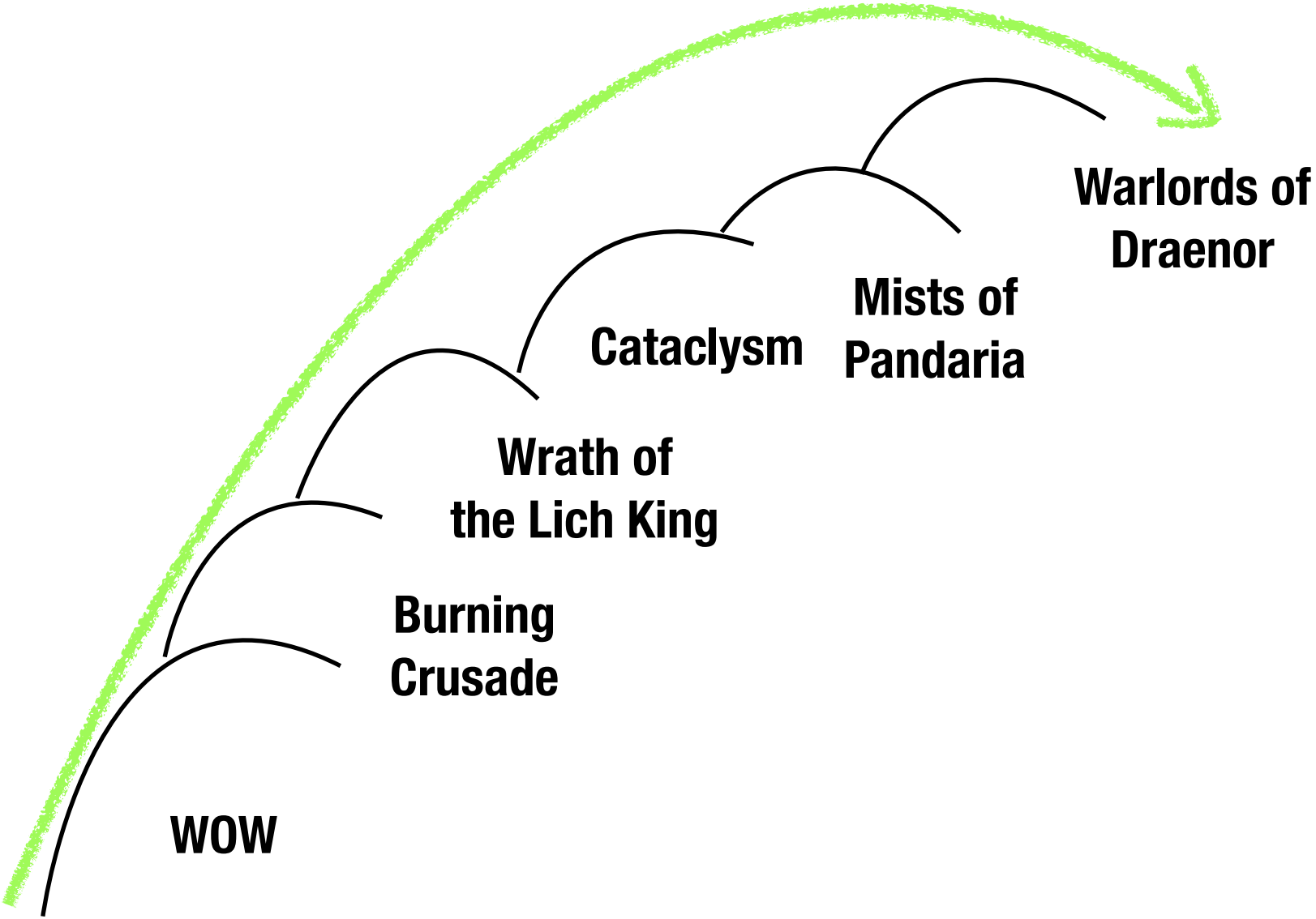
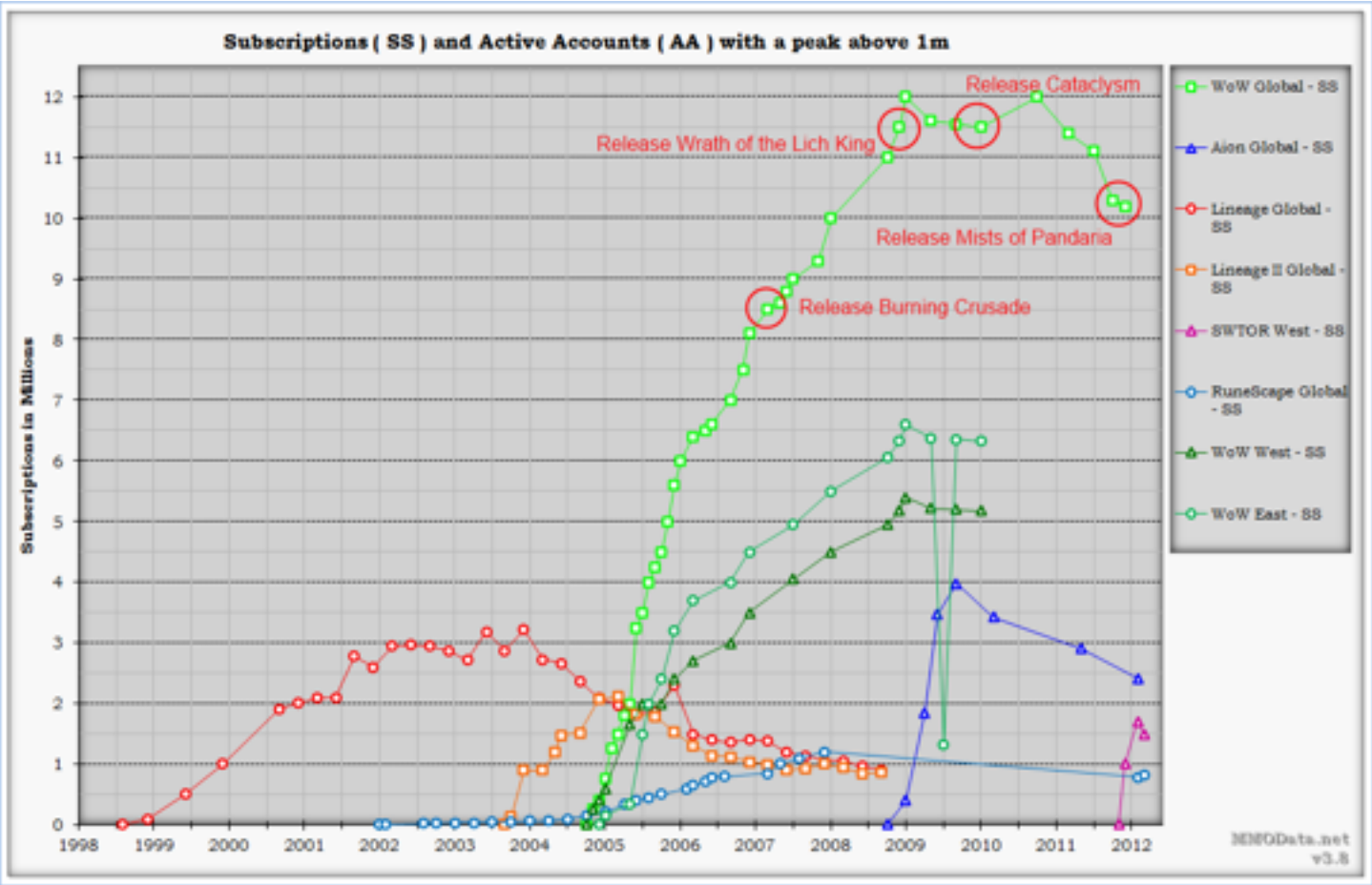
Fixing this: sustaining growth with novelty

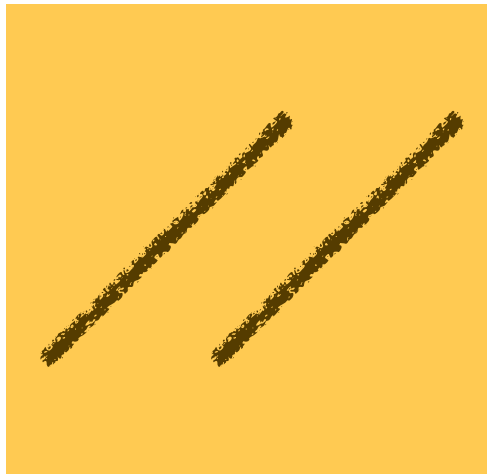


Product & market innovation
("New & improved!")



Blizzard extends the lifespan of WOW





Adjacent innovation is about **changing one part of the model** in a way that **alters the value network.**

3 kinds of innovation

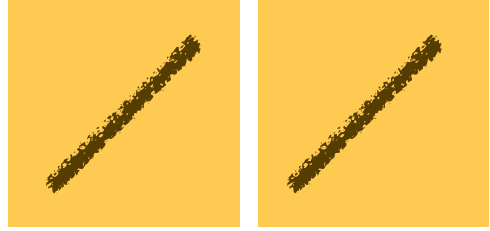


Market
(new “who”)

Method
(new “how”)

Product
(new “what”)





Transformative innovation is about
taking a leap.

**By definition it is destructive and
exploits a discontinuity.**

Transformative isolation: Skunkworks



Transformative incubation: Metlife Infinity

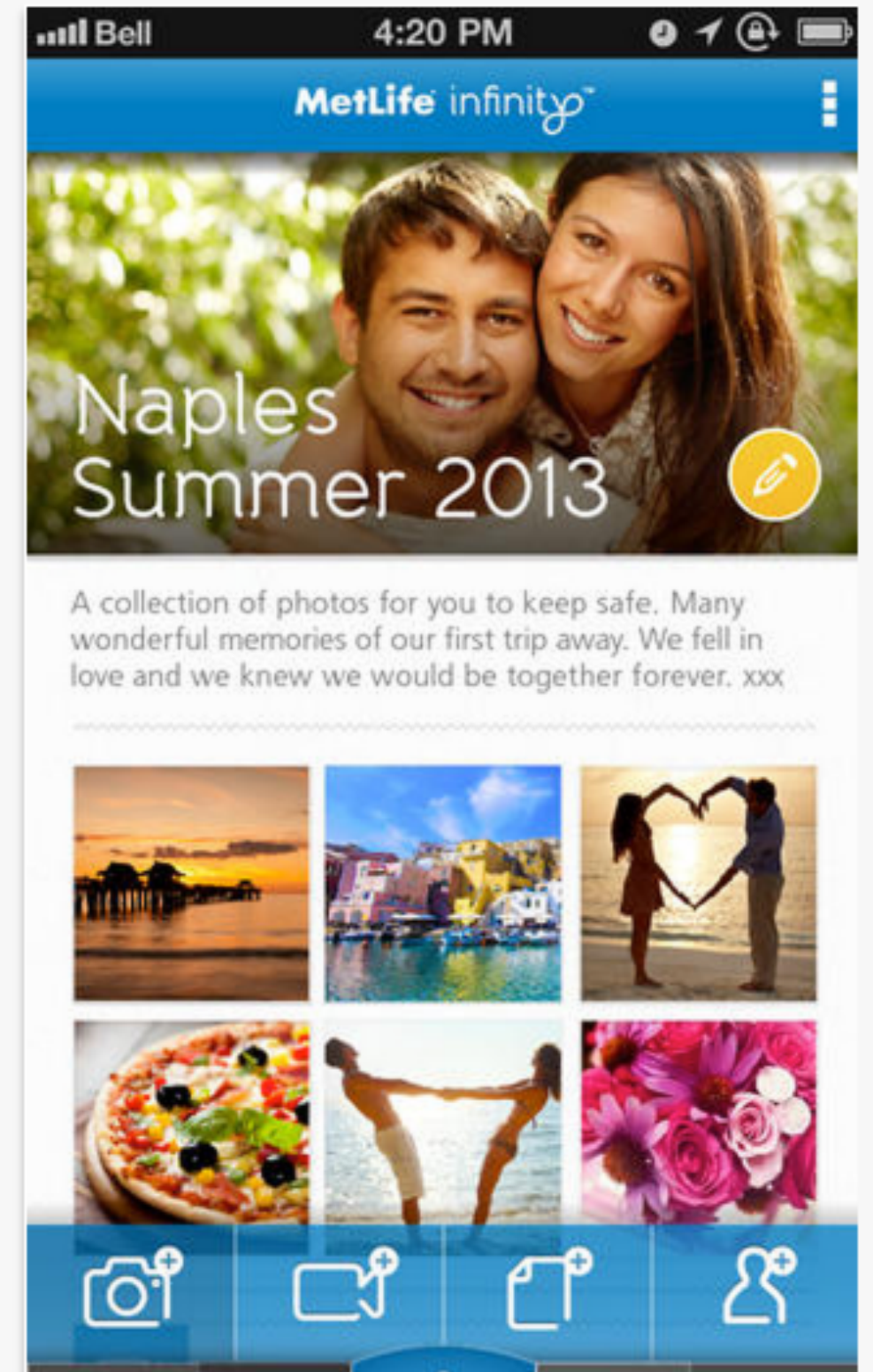
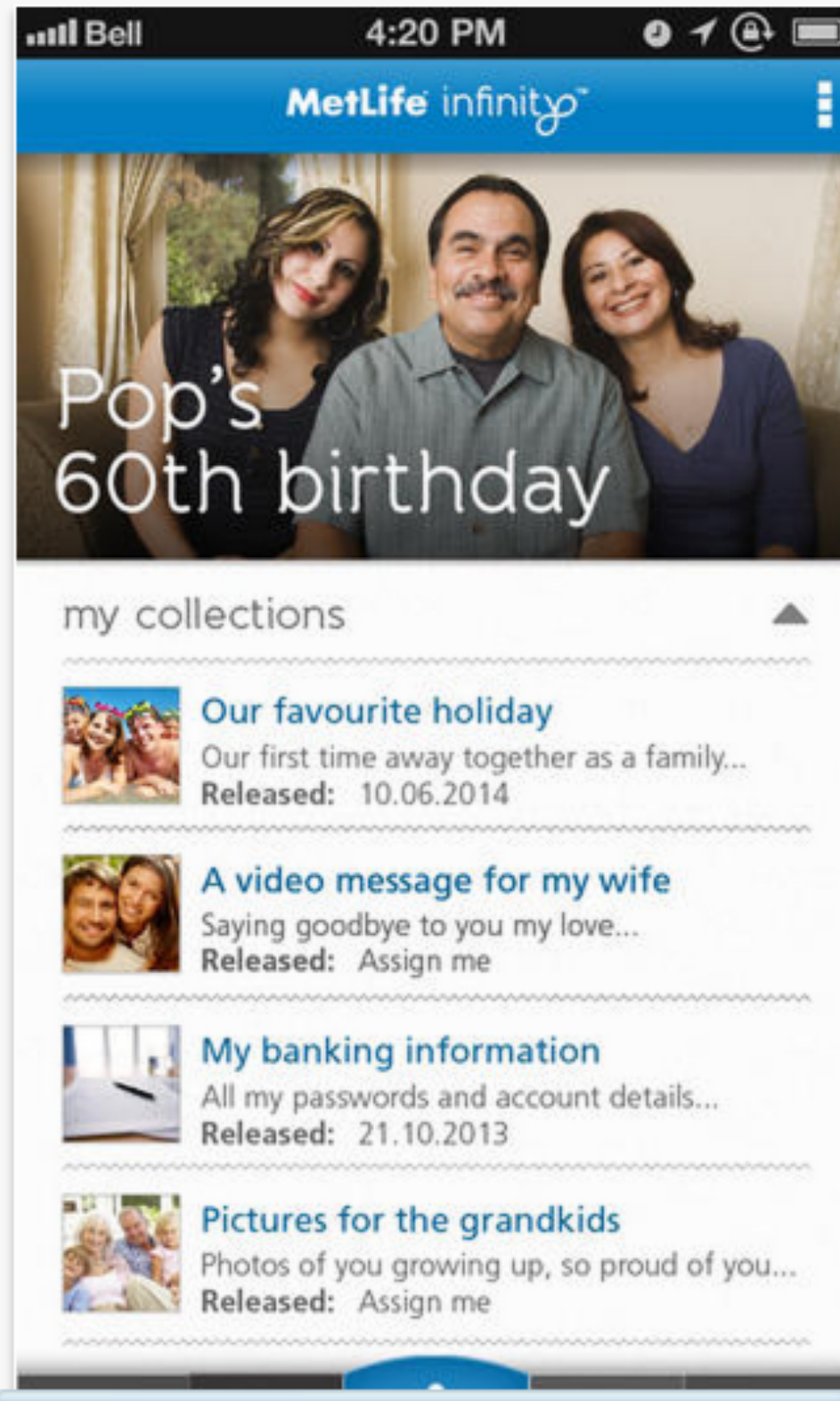
MetLife Infinity

By MetLife



View In iTunes

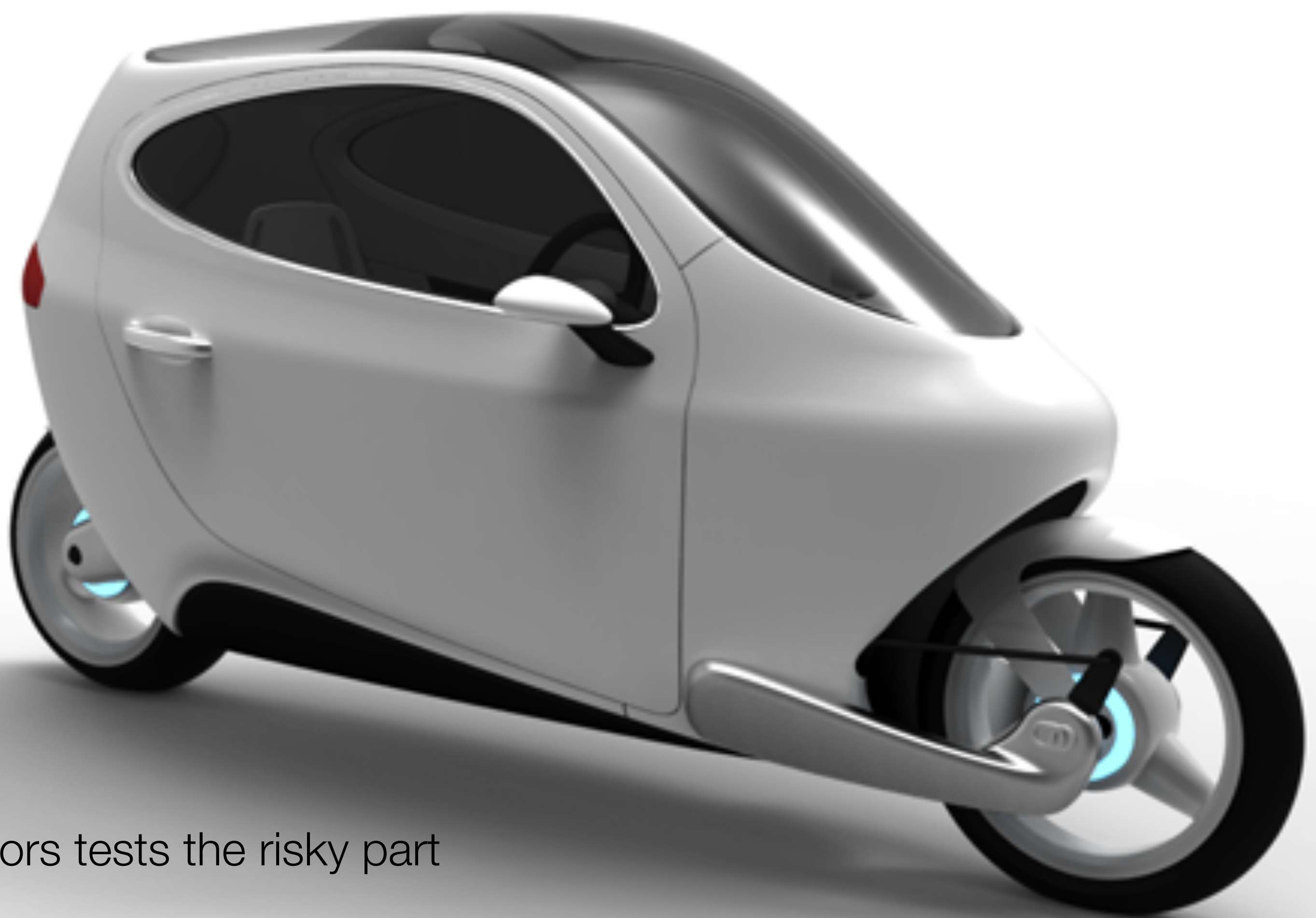
iPhone Screenshots



Embracing data-driven change

(A bagful of tricks from agitators in companies of all sizes.)

Focus on the risky stuff
(which is usually attention.)



Lit motors tests the risky part

Use different timeframes.

Capital cycles don't fit the short, iterative nature of startup uncertainty

12 month budgeting cycle; annual plan. Future based on past.

(Requires budget insulation)

Agile, scrum, lean iterations. Today's model. No evidence about the future.

Project

Project

Project

Project

Project

Project

Project

Project

Project

Project

Project

Project

Is this company
growing or stagnating?

	January	February	March	April	May
Rev/customer	\$5.00	\$4.50	\$4.33	\$4.25	\$4.50

How about
this one?

Cohort	1	2	3	4	5
January	\$5	\$3	\$2	\$1	\$0.5
February		\$6	\$4	\$2	\$1
March			\$7	\$6	\$5
April				\$8	\$7
May					\$9

Look at the
same data
in cohorts

Cohort	1	2	3	4	5
January	\$5	\$3	\$2	\$1	\$0.5
February	\$6	\$4	\$2	\$1	
March	\$7	\$6	\$5		
April	\$8	\$7			
May	\$9				
Averages	\$7	\$5	\$3	\$1	\$0.5

Use outliers and missed searches to
hunt for good ideas & adjacencies.

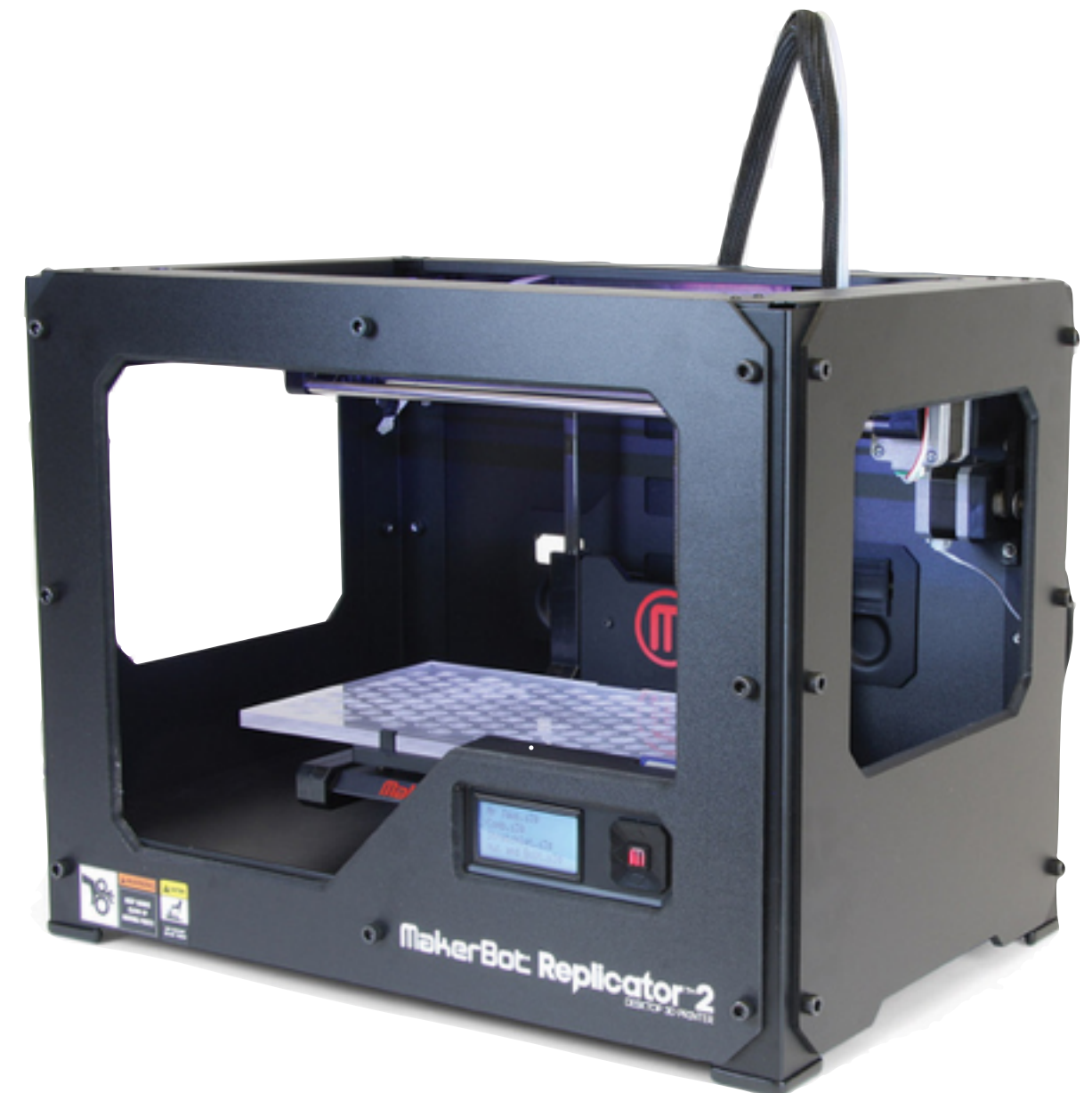
- ✦ 1/8 men have an incontinence issue. 1/3 women do.
- ✦ When search results show a significant number of men searching, this suggests the adjacent (male) market is underserved.

(Multi-billion-dollar hygiene product company)

Frame it like a study



- ✦ Product creation is almost accidental.
- ✦ Unlike a VC or startup, when the initiative fails the organization still learns.



When in doubt, collect data



- ✦ From tackling the FTA rate to visualizing the criminal justice supply chain.



Use data to create a taste for data



- ✦ Sitting on Billions of rows of transactional data
- ✦ David Boyle ran 1M online surveys
- ✦ Once the value was obvious to management, got license to dig.



Don't just collect data, chase it.



Think subversively.



Everything's an excuse to experiment

How it Works



Step 1 of 5

Enter by July 31, 2013. Hear in August if your product progresses to the next round.



Step 2 of 5

In the Audition Round, online votes show our merchants products' public support.



Step 3 of 5

Finalists will have their stories featured in an original web series.





VS



BEAVIS

BUTTHEAD

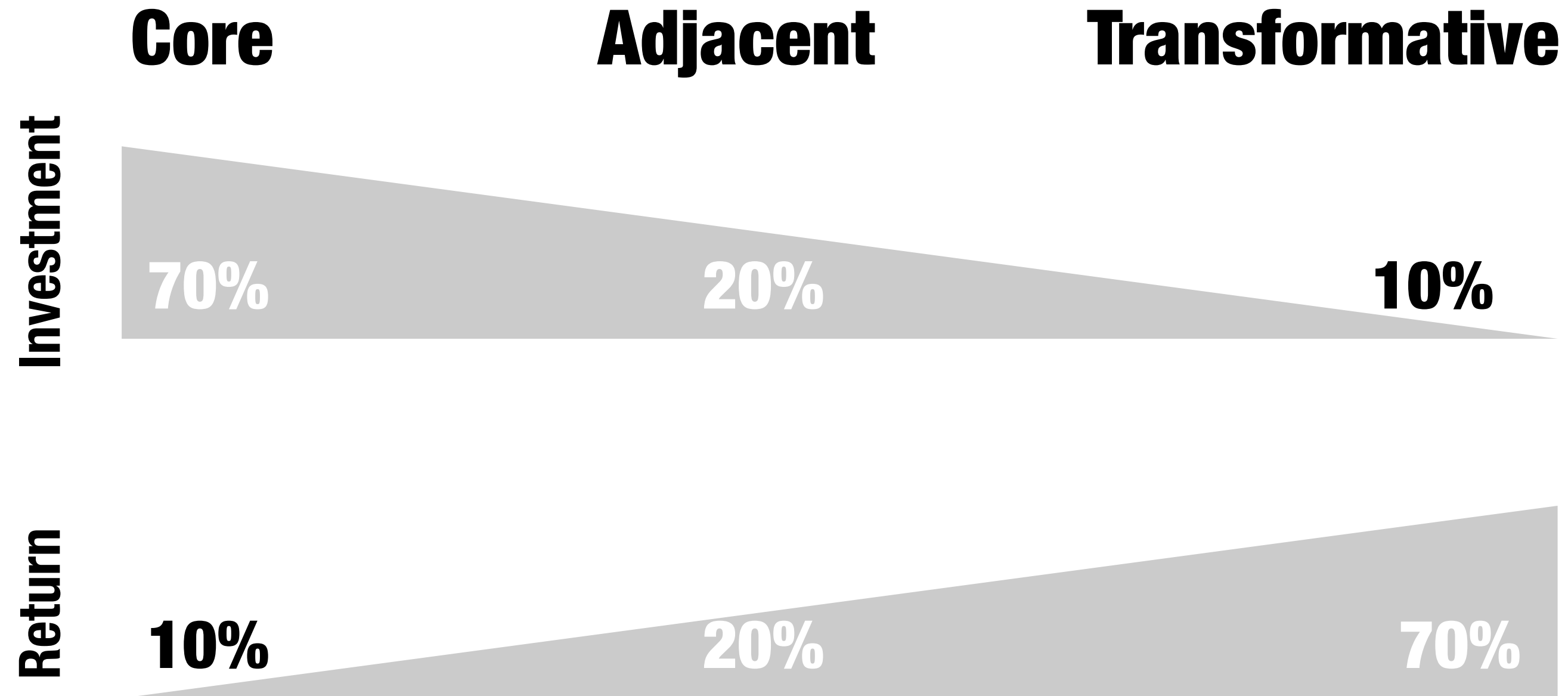
Focus on the desired behavior, not just the information.

26% increase in towel re-use with an appeal to social norms; 33% increase when tied to the specific room.

The effectiveness of energy conservation “nudges” depends on an individual’s political ideology ... Conservatives who learn that their consumption is less than their neighbors’ “boomerang” whereas liberals reduce their consumption.

What metrics work when?

Innovation portfolios at big companies



Intrapreneurs often have to use proxies

Stage	Startup metrics	Intrapreneur metrics
Empathy	Customers interviewed (needs & solutions), assumptions quantified, TAM, monetization possibility	Non-customers interviewed; assumptions quantified, constraints identified, TAM, disruption potential
Stickiness	Churn, engagement	Support tickets, integration time, call center data, delays
Virality	Viral coefficient, viral cycle time	Net Promoter Score, referrals, case study willingness
Revenue	Attention, engagement	Billable activity; signed LOIs; pilot programs; after-development profitability
Scale	Automation	Contribution, training costs, licensing

The 3 stages of the Emerging Business Office

"A startup could take a year to talk to as many customers as we do in a week."



- **Generation** makes increasing investments in companies
- Market sizing
- 3 horizons & timeframes
 - Science: 3-5y
 - Development: 1-2y
 - Preparation: <12m

- **Exploration** proves out both the tech and business model
- Challenge assumptions.
"Am I hitting milestones?"
"Are assumptions valid?"
- Rapid prototyping. Risk & uncertainty: what don't we know how to do?

- **Adoption** means customer buying in
- Validate across many external partners to be sure the model scales.
- Use customer base as an advantage—access to C-level.

6-8 Generate projects

What's the value proposition?
Why are we going to make money?
Why Motorola?

4 Explore projects

Number of dangling assumptions
Rate at which it's growing/sinking
Very deep with small sample size

6-8 Adopt projects

Casting a wider net
Go-to-market metrics
Funnel size and market segments

Core metrics

Business **plan**.

Assume it will work.

But the market will change by the time you've built it.

Example: Next year's car model

Metrics that matter

- Return on investment
- Total cost of ownership
- Trouble tickets/issues
- Training time
- Comparing to others

Adjacent metrics

Business **model**.

Assume it will fail.

Your ultimate use case won't be what you think it is today.

Example: Mr. Clean
Magic Eraser

Metrics that matter

- Questions answered
- Virality & word of mouth
- Early adopter stickiness
- Regulation
- Total addressable market

Transformative metrics

Business **idea**.

Assume it is possible.

You hope it will have the consequences you want but aren't sure how.

Example: Netflix, Uber

Metrics that matter

- People I've talked to
- Prototype creation speed
- Assumptions validated
- Problems uncovered
- Technical feasibility
- Hidden constraints

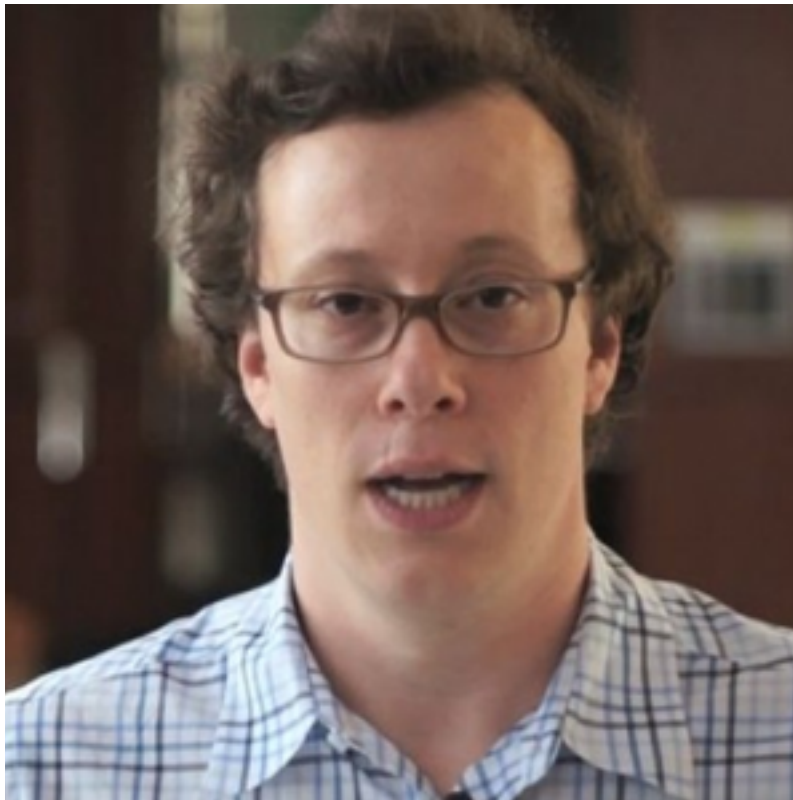
"Do we need to
meet more often?"
is a metric."



Cognizant

Portfolio metrics

Ideas	Number in the pipeline; is it growing?
Quality	How many are crazy vs. real business ideas?
Funding	Ideas funded; ideas that were a waste; ideas needing iteration
Exploration	# of meetings, qualitative feedback, pivots
Solution fit	Have we convinced someone to sign on for something?
Demand	Number of proposals issued; pipeline
Product fit	Satisfied delivery, on budget; trouble tickets; delays; escalation; referenceability
Profitability	Profitable independent of costs like development?
Cashflow B/E	0% overall profitability, beginning to repay initial investment
Graduation	Making money overall



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