Business Model Innovation and Value Propositions
University of Utah – Tech Tuesday
January 2016
The objectives for today’s discussion

• What is innovation and where does it come from?
• What types of innovation are there?
• How do you innovate business models?
• How do innovative business models enable compelling value propositions?
Where innovation comes from

Innovation Cycle and Lifecycle
Executive Director at the Sorenson Center for Discovery & Innovation and Professor of Innovation & Entrepreneurship

THOUGHT LEADER
- 60+ articles, reports, studies and book chapters on innovation
- 20+ speaking events per year
- New book in 2015

INVENTOR
- Named inventor on 11 issued patents
- Evaluated hundreds of technologies
- Licensed technologies

ENTREPRENEUR
- 11 startups, retail, tech, medtech, energy, finance,
  Created and ran an innovation incubator

CONSULTANT
- Enterprise innovation
- Business model innovation
- Product & services technology innovation

• 60+ articles, reports, studies and book chapters on innovation
• 20+ speaking events per year
• New book in 2015
• Named inventor on 11 issued patents
• Evaluated hundreds of technologies
• Licensed technologies
• 11 startups, retail, tech, medtech, energy, finance,
  Created and ran an innovation incubator
• Enterprise innovation
• Business model innovation
• Product & services technology innovation
Reconciling my own **tensions** across big and small
Innovation is not a linear process but a Cycle
It operates in recursive and iterative loops of trial and error

Value-creating novelty
Born of failure that creates pain
Powered by tension
Leads to growth
New York Times demonized tensions
All tensions are not created equal .. Maladaptive, adaptive or creative?
RIM failed to see tension transformation
Apple created a new paradigm by transforming maladaptive tension

New Paradigm
1. Bandwidth constraints
2. Keyboard
3. Carriers as customers
4. Design fashion
The Innovation Cycle is a fractal
It must operate in synchrony all three levels
The organization creates and takes advantage of system level failures
The individual's failures, pain, tension and growth needs must also synchronize.
The most powerful tension is between
Running the business of today and creating the business of tomorrow
Investor’s imposed innovation discipline
Google must now demonstrate how it manages the Innovation Lifecycle

Google[X]
Alphabet
Innovations advance along a Life Cycle
That must have different structures and practices for each phase

“It isn’t enough to pick a path – you must go down it. By doing so, you see things you couldn’t possibly see when you started out; you may not like what you see, some of it may be confusing, but at least you will have, as we like to say, ‘explored the neighborhood.’ The key point here is that even if you’re in the wrong place, there is still time to head towards the right place. And all the thinking you’ve done that led you down that alley was not wasted.”

Ed Catmull, CEO Pixar, UofU alum
The most powerful tension in all organizations is between the ...

- **Ugly Baby**: Mindfully creating the business of today
  - 90% FAILURES

- **Beast**: Mindlessly running the business of today
  - 3 in 1 M FAILURES

- **PIXAR**: Riding the Wrong Cycle
  - Maladaptive Tension for Failure
Two primary types of innovation
Technology and Business Models
Two fundamental types of innovation

Technology Innovation

Business Model Innovation

Available on the App Store

Available on iTunes
Business model innovation failure
Trying to force technology innovation to support the old business model
Technology and business model failures
Nokia failed to ride the Innovation Cycle along the Lifecycle
Business Model Innovation
BMIT and 10 Ps & Qs
The 10 Ps & Qs of Business Model Innovation & Transformation

Stakeholders
Where to play

Problem
Innovation Cycle
Problem Statement

Benefits
Why you win
Point of View
Value Chains
Proposition
Five Cs & NVCM
Position
Five Forces
Product
6 Principles
People & Partners
Three Rings
Process & Plan
Innovation Lifecycle
Possibilities
Total Addressable Market
Promotion
Five Pillars
Profits
Forecast & Cap Table

Capabilities
How you win

Economics
What you win
### Business Model Innovation & Transformation Framework

#### Stakeholders

<table>
<thead>
<tr>
<th>Physical</th>
<th>Social</th>
<th>Emotional</th>
<th>Intellectual</th>
<th>Environmental</th>
<th>Financial</th>
<th>Spiritual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyers</td>
<td>Customers</td>
<td>Users</td>
<td>Beneficiaries</td>
<td>Channels</td>
<td>Partners</td>
<td></td>
</tr>
</tbody>
</table>

#### Benefits

- Remove
- Reduce
- Retain
- Reform
- Replace

- Cost
- Convenience
- Confidence
- Compensation
- Connection

#### Revenues

- Roles
- Responsibilities
- Resources
- Relationships
- Results

- Engage
- Enable
- Motivate
- Educate
- Support

#### Capabilities

- Positive Emotions
- Engagement
- Relationships
- Meaning
- Accomplishment

- Revenues
- Costs

#### Economics

- Net Margin

---

*Defining why you win*
Compelling value propositions

5 Cs of a Value Proposition
What is value?

• Absolute measure?
• Relative measure?
How do you create value?

• Remove things that destroy value
• Reduce things that destroy value
• Retain things that provide value
• Reform things that create value
• Replace things to create value
We create value in primarily five dimensions, I call these the 5Cs of a value propositions

• Cost
• Convenience
• Confidence
• Compensation
• Connection
Quantifying COSTS

How will costs change?
What type of costs will change?
What process will change costs?
What trade offs will there be between those costs that go down and those that go up?
What is the net cost impact?
Quantifying CONVENIENCE

How much time can you remove?
How will you reduce the time?
What friction and pain points can you eliminate?
How will you remove friction and pain points?
**What is the net time, pain and friction impact?**
Quantifying CONFIDENCE

How effective is the current alternative?
How effective is the new alternative?
How are you impacting quality and efficacy?
What tradeoffs are you making?
What is the net confidence of your alternative?
Quantifying COMPENSATION

Who is going to make more money by promoting your alternative?
Who is going to make more money by adopting your alternative?
Whose ox is getting gored if your alternative is adopted?
What is the net monetary impact of your alternative?
Quantifying CONNECTION

How do you improve or change the social connection between/among people?
How do you change the experience connection?
How do you deliver improved technical connections?
What is the net connection impact?
# New Value Creation Matrix

<table>
<thead>
<tr>
<th>Cost</th>
<th>Remove</th>
<th>Reduce</th>
<th>Retain</th>
<th>Reform</th>
<th>Replace</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100K in Audiologist</td>
<td>$35K existing device</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Convenience</td>
<td>30 min time</td>
<td>NA</td>
<td>Patient time</td>
<td>Double time</td>
<td>Hearing aids</td>
</tr>
<tr>
<td></td>
<td>Audiologist</td>
<td>NA</td>
<td>Same</td>
<td>Hearing aids</td>
<td></td>
</tr>
<tr>
<td>Confidence</td>
<td>Human GEN</td>
<td>50% Human</td>
<td>Artificial</td>
<td>Automated</td>
<td>Report</td>
</tr>
<tr>
<td></td>
<td>Report</td>
<td>Error</td>
<td>Intelligent</td>
<td>Report</td>
<td></td>
</tr>
<tr>
<td>Compensation</td>
<td>NA</td>
<td>Existing code</td>
<td>NA</td>
<td>$30k increase</td>
<td>Revenues</td>
</tr>
<tr>
<td>Connection</td>
<td>Auto Interaction</td>
<td>NA</td>
<td>NA</td>
<td>Cloud data</td>
<td>Aggregation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Simple, intuitive, modern</td>
<td></td>
</tr>
</tbody>
</table>

---

Tympany
Sound Hearing Solutions

Otogram
## 5 Cs of a Value Proposition

<table>
<thead>
<tr>
<th><strong>Value Proposition</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
</tr>
<tr>
<td><strong>Convenience</strong></td>
</tr>
<tr>
<td><strong>Confidence</strong></td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
</tr>
<tr>
<td><strong>Connection</strong></td>
</tr>
</tbody>
</table>
For Tympany I had the following simple value proposition

- **Cost** – we decreased diagnostic hearing testing costs by over 50% versus manual testing by an audiologist ($100K per year reduction)
- **Convenience** – we enabled diagnostic hearing testing by any one for anyone in 11 languages 24/7/365
- **Confidence** – we eliminated 50% of human error in testing and delivered test results as accurate as the best audiologists
- **Compensation** – we enabled the physician’s office to increase revenues by $35K per year
- **Connection** – we provided the most advanced testing technology that patients preferred because they felt less “judged by a computer” than by an audiologist
3 Classes of innovation are based upon new value created over alternatives.
Concluding Thoughts

Riding the Innovation Cycle Along the Entire Lifecycle
Successful innovation requires harnessing tension
You must ride the Innovation Cycle along the Lifecycle