

The
Alchemie Ventures
Toolkit





Foreword

Hello,

From 2008 to 2012, the Alchemie Ventures team carried out new technology incubation projects at the Microsoft Corporation. One of the over-arching goals behind our work was to look at incubation in the corporate environment with fresh eyes and to develop repeatable, predictable and measurable approaches to building new businesses to fuel future growth.

We memorialized our work in an internal Microsoft publication we called the Alchemie Ventures Toolkit. It provided examples and information necessary to solve the formula:

$$\text{Successful Product} = B + X + T$$

where

B = a clear Business opportunity

X = a compelling customer eXperience

T = a sustainable Technological advantage

We receive a lot of requests from our customers and partners to share the Alchemie Toolkit. We are therefore pleased to make available this 2015 edition where all examples, tools, and templates are re-cast using publicly available information and data. This way we can share our work with the widest possible audience. We hope that you find it useful.

Best regards,

Dr. Ken Urquhart

and the Alchemie Ventures Team



Microsoft Corporation, 2015

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WELCOME!

Have an idea for a new business?
We may be able to help.

Alchemie Ventures (AV) was created to incubate viable new businesses for Microsoft. This “Toolkit” is a set of documents, templates, tools and best practices that describe the AV incubation approach. This Toolkit can be used to help you run incubation projects from end-to-end regardless of size and complexity.



INTRODUCTION

THE AV TOOLKIT? WHAT'S IN IT FOR ME?

Welcome! The AV Toolkit is a set of approaches, tools and best practices that describe the Alchemie Ventures incubation approach. It can be used to help you run incubation projects from end-to-end regardless of size and complexity.

WHAT DOES IT TAKE TO RUN A SUCCESSFUL INCUBATION THESE DAYS, ANYWAY?

Passion, tenacity, and rigor. There you go. That's it—in a nutshell, anyway.

Passion, tenacity, and rigor. Turns out, that last word—rigor—is especially important. Consider: Microsoft has had incubation efforts underway in all divisions, in all research teams, for years. What we did not have was a common taxonomy or metrics to compare projects against or to each other.

We haven't had a shared maturity model or guidelines for "green lighting" a given incubation to become a fully funded product or service offering. We haven't had consistency or a common language for discussing the relative strategic and business merits of incubations and incubation projects.

Addressing these shortcomings —this lack of rigor—is something Alchemie Ventures (and the AV Toolkit) was intended to do.

WHO ARE THESE GUYS, AND WHAT DO THEY KNOW ABOUT INNOVATION?

Alchemie Ventures was created in 2008 to address innovation challenges in the corporate environment. A team of cross-functional experts was assembled and put to work. Assignment? Design a repeatable, predictable and measurable approach for building new business and to then carry out a series of new incubations following the new approach.

The team sought out best practices from inside and outside Microsoft. Team members evaluated models used by industry leaders and read top-selling business texts to inform their approach. They studied past Microsoft incubation efforts to understand what worked and what did not within corporate culture.

Instead of designing "yet another innovation factory" with a large associated people ask, AV leadership challenged the basic premise of focused innovation teams and concluded that we didn't need an innovation team: the company already had the broad pool of entrepreneurial and creative minds it required.

"If Microsoft wants to truly implement effective and sustainable incubation, we have to embrace rigorous, repeatable, and measurable processes - and make those processes available to everyone."

~The Alchemie Ventures Team

SO WHAT ABOUT YOUR IDEA?

Here are a few things to consider as you get your incubation brain in gear:

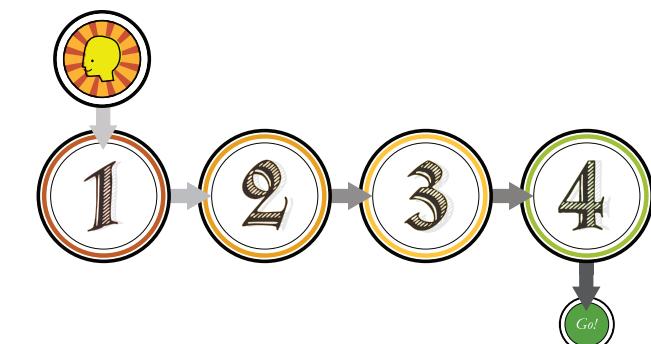
THE AV APPROACH: A SNAPSHOT

At AV, our goal is to drive new business ideas from concept to business plan in about 6 months. We do this by answering critical business questions right out of the gate; for example:

- Who is the target audience and will customers be attracted to it?
- Is there a large enough market?
- Can we build it?

DREAM YOUR TEAM:

Ideas accepted into the AV process are initially staffed with a part-time Project Leader, a team from AV, and often a set of volunteers who have a particular focus or passion around the incubation. Projects that move forward eventually receive a full-time PM and 3-5 full-time members. These small teams are able to move through the process in about 6 months and emerge ready to pitch the business plan they built and rapidly execute on it if funding is obtained. Who would you want on your team? We recommend keeping teams small and agile for best results.



CONSIDER COMMUNICATIONS:

You know your idea is fabulous. Now you just have to sell everyone else. Where to start? A killer communications plan is a good first step.

We believe such a plan should meet the following goals in support of an incubation:

- Build advocacy and support among stakeholders.
- Encourage involvement and guidance from people outside of the core team.

Help turn opponents into advocates. We find our greatest progress on projects is often with the converted. Something to keep in mind!

GET SMART ADVISORS:

We love our mentors. We've found it super helpful to have access to trusted advisors throughout the incubation process, and we tend to think of these advisors as a kind of "board of directors" helping us shape our ideas and asking tough questions.

What kind of advisor group might you build? We suggest you find individuals who:

- Round out the experience and background of the Project Leader.
- Can act as informed reviewers of content.
- Can help decide if a project is a go or no-go.
- Can help prevent bone-headed mistakes.

Start making your list. If you're lucky, your hand-picked, fully-engaged Project Advisory Board will become an advocate for your project organization-wide and offer a "pulse" and perspective from outside the incubation team.

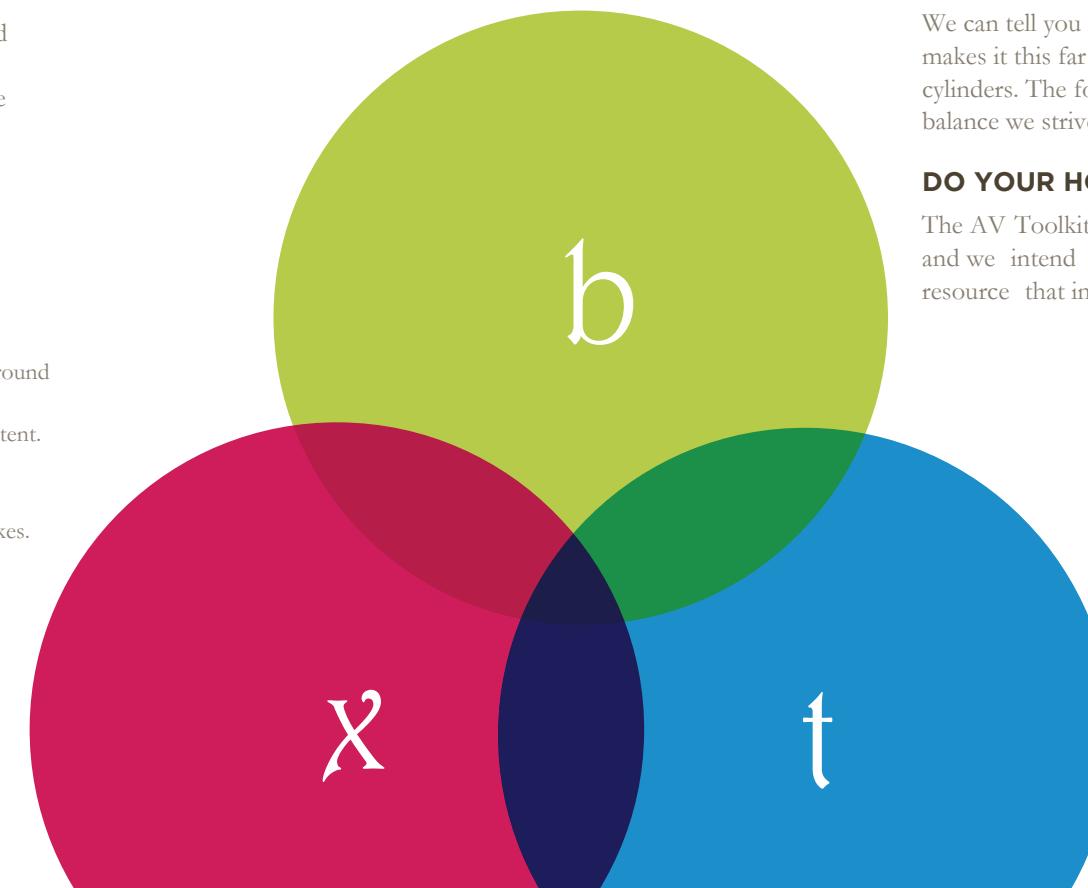
CONSIDER HOW BUSINESS, EXPERIENCE AND TECHNOLOGY WORK TOGETHER:

The AV process depends on the disciplines of Business, eXperience, and Technology working together.

When looking at a given problem through the "Business Lens," we want to know:

- How large is the market and what share can we capture?
- What does the competitive landscape look like?
- How does this idea fit into our strategy?

Experience is the vector that represents the essence of great design and usability; that makes the ordinary appealing and the unique indispensable.



Additionally, we strive to harness the power of technology, from the "might-be-able-to" ideas to the "I-don't-know-if-that's-possible" concepts. We commit to bind technology to us—not the other way around—in a way that enhances experiences.

Bottom line: Ideas that successfully exit the incubation process emerge with a complete Strategic Business Plan that clearly articulates:

- The engaging and sustaining consumer experience.
- The size of the market opportunities.
- How much can be charged for the product/service (by customer segment and feature list).
- What resources are needed to build the solution.
- How long it will take to bring the product/service to market.

We can tell you from experience that the only way a plan makes it this far is if B, X & T are all firing on all cylinders. The following chart may help illustrate the balance we strive for.

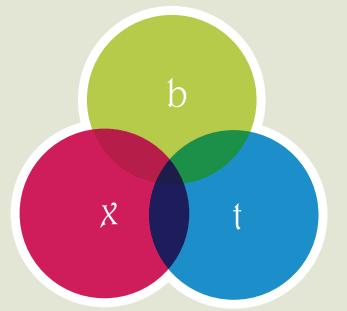
DO YOUR HOMEWORK:

The AV Toolkit contains a treasure trove of information and we intend it to be a "go-to" workbook; a resource that innovators will refer to again and again.

ABOUT AV

INNOVATION IS EVERYONE'S JOB

AV leadership realized that to be truly embraced at a divisional level, innovation had to be an integral part of everyone's role and collectively funded by all functions in the division.



Three key considerations ultimately shaped AV's explorations into what is now known as the Alchemie Ventures (AV) incubation formula:

- The gap between the typical 1-2 year business group focus and the 5-plus year focus of emerging technologies.
- The lack of an environment, method and supporting staff to help mature entrepreneurial plans.
- The power of harmonized Business, Experience and Technology (BXT) thinking.

STIMULATE, ACTIVATE, AND CELEBRATE "NO"

The AV team's recommendation was to stimulate and activate an innovation culture across the entire company, to create a rigorous review process for new businesses and to fund a small host organization that would be the protective and nurturing home for new ideas that didn't belong to any one business group. The ideas, the leadership, the experience and critical analysis would come from the senior leadership community with a scalable participation model—and, we would learn to celebrate "no," meaning that identifying weak ideas early is a good thing.

FROM CONCEPT TO BUSINESS PLAN IN SIX MONTHS

Alchemie Ventures was designed from the ground up to incubate viable new businesses built around solid business plans with minimal cost and people investment.

The AV incubation approach strives to drive new product/service ideas from concept to business plan in about 6 months. A key feature is the early identification of ideas that can't add to the bottom-line or align with company strategic goals (remember what we said about "celebrating "no"?). Answers to critical business questions are delivered early in the process. Questions like: "Will customers be attracted to it?"; "Is there a large enough market?"; "Can we price it to make a profit?" and "Can we build it?"

A NOVEL INCUBATION FORMULA

The AV process does all of this by combining and streamlining industry best practices for market, customer, competitor and technology research in well-defined workflows that deliver answers to the key questions that matter to executives.

Each incubation idea is paired with an Advisory Board drawn from senior leaders who can contribute materially to the review and refinement of the idea as the business plan is built. If they believe the idea has merit, they also become internal evangelists for the idea across the Extended Leadership Team.

OUR SOURCE OF INCUBATION IDEAS

Innovative new ideas can come from anyone, anywhere. AV allows anyone to submit an idea for development - provided the proposer can find an executive who will sponsor the idea. The sponsor is expected to vet the idea with the proposer and be willing to defend the idea as holding promise for becoming a profitable new business for the company. We find such sponsorship to be extremely helpful. Sponsors can offer proposers useful perspective and strategy suggestions and help confirm that a potential innovation is aligned with company goals and objectives.

INCUBATION DELIVERABLES

Ideas that successfully exit the AV process emerge with a complete Strategic Business Plan.

Highlights of the Strategic Business Plan include:

- The engaging and sustaining consumer experience.
- The size of the market opportunities for v1, v2, etc.
- How much can we charge for the product/service by target segment and feature list.
- What resources are needed to build the solution (i.e., budget).
- How long it will take to bring the product/service to market.
- A P&L financial analysis that includes ROI and break-even estimates.

The AV process ensures these business plans are well socialized across the senior leadership team and ready for presentation to top management for decisions.

ABOUT THE CORE TEAM

The AV Core Team was drawn from across the company. Members were explicitly chosen for their internal and external networks and for their reinforcing and complementary skills.

THE EXTENDED TEAM

The AV Extended Team rounds out the skills of the Core Team by adding dedicated experts from strategy and finance, legal and human resources. Taken together, this AV Team is able to guide large and small incubation teams (with varying skill levels in business plan development, technology development and customer experience) on their 6-month journey from promising new business idea to the formal Strategic Business Plan pitch.

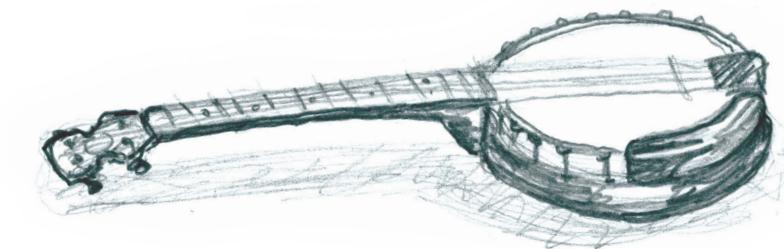
INCUBATION TEAMS

Ideas accepted into the AV process are given dedicated funding for each round/gate they pass for a potential total of \$650k and are staffed by a full-time GM along with 3-5 full or part-time members. These small teams are able to move through the process in about 6 months and emerge with the cohesive nucleus for a new team that is ready to pitch the business plan they built and rapidly execute on it if funding is obtained.

ALCHEMIE VENTURES TODAY

Alchemie Ventures examined a wide range of new ideas sourced from all across the company and engaged successfully with talent and leadership across the company. AV gained new insight every day and was always a work in progress.

While it is hard to claim that AV struck gold in terms of discovering profitable and sustainable new businesses, the method and approach worked and bonded to company culture. Five years on, we still see AV frameworks, BXT vocabulary, and innovation mindset carried forward in product teams across the company.

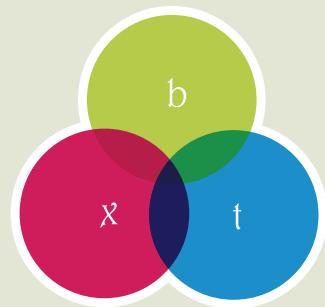


"I've got to keep breathing. It'll be my worst business mistake if I don't." ~ Steve Martin

BUILDING YOUR INCUBATION TEAM

Ideas accepted into the AV process are given dedicated funding for each round/gate they pass. Staffing starts with a part-time Project Lead, along with members of the AV Extended team and oftentimes volunteers who have specific skills or passion around the incubation. Additional staff is added as the project progresses.

We find that these small teams are best able to move through the AV process in about 6 months and emerge ready to pitch the business plan they built and rapidly execute on it if funding is obtained.



LEADERSHIP COMPETENCIES

AT AV, WE LOOK FOR START-UP LEADERS WHO:

Create Business Value

Start-up leaders excel at adapting strategy and business models for the business opportunity at hand. They react appropriately as market conditions change, gaining share and/or building revenue.

Embrace Customer Insight and Commitment

Effective start-up leaders are intimately and directly engaged with customers. They don't just rely on market analyses to explore potential opportunities; they're masters at understanding market dynamics and iteratively test ideas in real-time with customers.

Possess Organizational Agility

Top start-up leaders are able to effectively combine available resources – both inside and outside their control – to create and exploit business opportunities.

Exert Impact and Influence

Successful start-up leaders are tenacious; they're willing to sell (and resell... and resell!) their idea to key partners and customers, especially during the early stages of development.

At AV, we believe this is one of the critical determinants of success. Top start-up leaders believe in their ideas and are willing and able to sell internally, again and again—while resisting the inevitable pressure to over-promise outcomes.

Possess a Tolerance for Risk

Risk Tolerance is the ability to identify, understand and plan for the risks inherent in new ventures. People who exhibit this competency act in the face of market, financial and technological uncertainty. They're able to plan—and progress—when risks are high and outcomes uncertain.

Seize and Maximize Opportunities

Effective start-up leaders are individuals who make non-obvious connections, see emerging trends and recognize unmet needs. They're able to effectively make tradeoffs between related business opportunities and quickly test, adapt and refine plans based on market feedback. They also have a knack for knowing which areas of uncertainty to test and which to ignore.

Exhibit a Bias Toward Action

Just like it sounds—this is the propensity to take action when full information is not available. People who exhibit this characteristic are willing to take on difficult tasks and use decisive action as a platform for learning about uncertain environments.

Show Persistence

You heard it in first grade and it's still important: persistence is the quality that helps you carry on in the face of setbacks, critiques and challenges. Persistent individuals (highly prized at AV) have the passion and conviction to move forward and motivate others.

Communicate and Sell a Vision

Successful start-up leaders are able to create simple, compelling messages that motivate and excite people about a particular business opportunity.

People who exhibit this competency are able to frame complex or difficult issues to drive clarity of vision. They anticipate others' reactions and recognize the interests of different stakeholders. They're also prepared with convincing responses that align interests with the vision.

Demonstrate Professional Flexibility

Can you operate outside your primary discipline or area of expertise when necessary? At AV, we look for start-up leaders who are able to take a broad, cross-discipline approach to understand and incorporate the high-level needs of other functions into their work. Such individuals have the ability and willingness to quickly learn tasks of other disciplines to meet pressing business needs.

Build and Leverage a Network

Effective start-up leaders use their networks to deepen their understanding of marketplace dynamics, surface potential partners or customers and find additional resources and/or support for the business. We expect our leaders to utilize industry, technical and partner contacts.

THE POTENTIAL BENEFITS OF START-UP PARTICIPATION

A corporation is a big place, and there aren't a lot of opportunities for "start-up" experience. Our expectation is that team members participating in the AV incubation process will gain useful insights and unique skills.

MEASURES OF EXPOSURE

LIMITED

Responsible for some but not all the startup or emerging phases—for example, inception through commercially viable product/service, and building a viable ecosystem for the product/service in a new market; OR held position for less than one year.

MODERATE

Responsible for some but not all the startup or emerging phases—for example, inception through commercially viable product/service, and building a viable ecosystem for the product/service in a new market; AND held position for one to two years.

DEEP

Responsible for all the startup or emerging phases, including inception through commercially viable product/service, and building a viable ecosystem for the product/service in a new market; fully responsible for the success or failure of the startup or emerging market growth.

LEARNING OBJECTIVES

START-UP LEADERSHIP COMPETENCIES	EXPERIENCE LEVEL: ENTERING PROJECT (LOW/MID/HIGH)	EXPERIENCE LEVEL: EXITING PROJECT (LOW/MID/HIGH)	COMMENTS
Think strategically			
Develop a business model and value proposition			
Define a competitive advantage			
Communicate vision			
Engage with customers and partners			
Manage expectations (of senior Mgmt and customers)			
Balance short-term and long-term strategy			
Manage to what is urgent and important			
Make decisions on when to productize			
Build a customer – oriented organization			

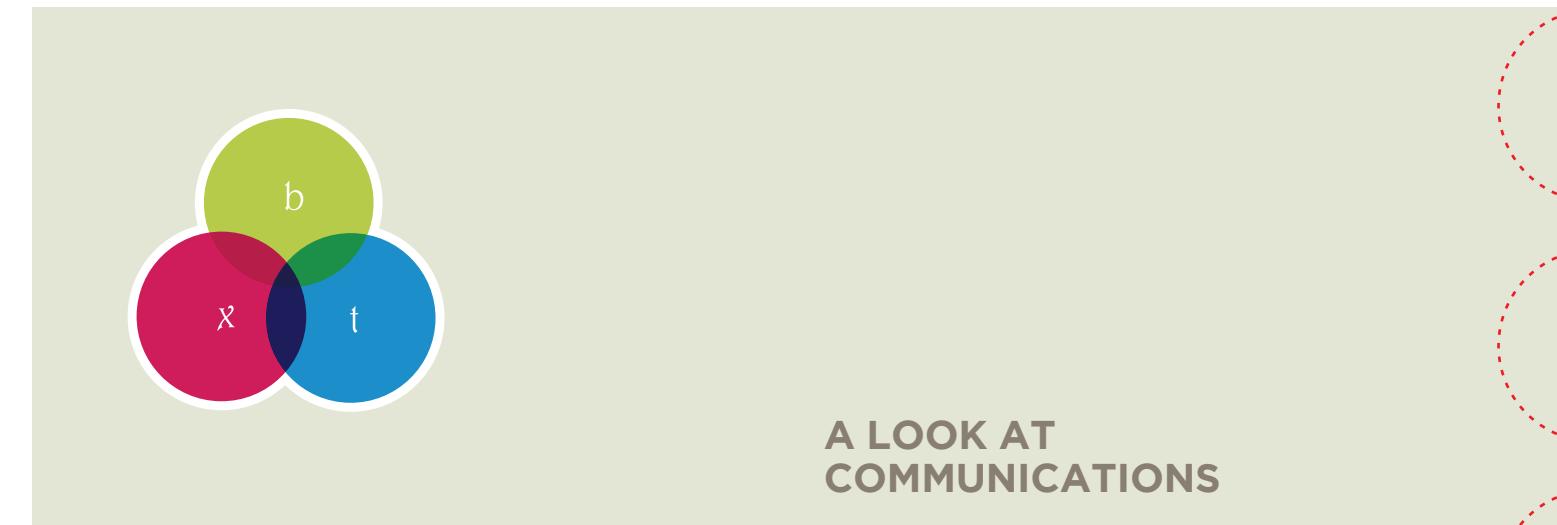
START-UP LEADERSHIP COMPETENCIES ASSESSMENT

START-UP LEADERSHIP COMPETENCIES	EXPERIENCE LEVEL: ENTERING PROJECT (LOW/MID/HIGH)	EXPERIENCE LEVEL: EXITING PROJECT (LOW/MID/HIGH)	COMMENTS
Critical to Leadership Competencies			
Create Business Value			
Customer Insight & Commitment			
Org Agility			
Impact & Influence			
Start-Up Leadership Characteristics/competencies (for leader & leadership team)			
Risk Tolerance			
Seize and Max Opportunities			
Bias Toward Action			
Persistence			
Communication and Sell a Vision			
Professional Flexibility			
Build and Leverage a Network			

PROJECTS RUN IN AV

AV participants typically are employees who temporarily leave their “day job” to work on an incubation. We want to reward these folks and ensure that their reviews reflect their contributions to the incubation. We use the following framework for this purpose and hope you might find it useful as well.

	WHILE ON AV PROJECT	EXITING AV PROJECT
Commitments	Need to post update business commitments post Gate #3	No need to update until move to new team/ project
EXIT PRINCIPLES	EMPLOYEE	
Midyear Career Discussion	Post Gate #3: Employee participate at new team. New manager consult with previous manager on assessment	Assessment & decision conducted by AV manager until transforming into new team
Employee Poll	According to reporting manager	According to reporting manager
Review	Gate #2: Original team/ manager are final decision makers, new manager manage the process. Post gate #3: New team/ manager own. New manager consult with previous manager on assessment.	While in transition according to exit principles if transitioned to a new team: new manager own the process, with previous manager providing feedback
Bonus / Promotions	Decisions made at the “report to” team	According to exit principles
	EMPLOYEE	
“report to”	Stay with current reporting relationships (incubation/ new project)	
Recruiting support	Staffing consultant support in: <ul style="list-style-type: none"> Coach on job search Follow up on recruiting feedback Resume visibility Visibility at senior staff 	
Coaching	Coaching provided according to recruiting process feedback	
Midyear Career Discussion treatment for “in process” employees	Assessment and discussion conducted by current manager	
Business commitments for “in process” employees	No need to update approved commitments	
Time to search next opportunity	4+ months from decision	



A LOOK AT COMMUNICATIONS

Good communication doesn’t just happen; it requires careful planning and thoughtful execution. Sounds kinda obvious, we know, but it’s not always super clear what a “good” communication plan—a plan that supports the goals of your project—looks like. ...or sounds like. This section addresses communication outside of the core project team, but inside your company.



BUILDING A COMMUNICATIONS PLAN

First things first: What are your goals? What do you want your communication to accomplish? Should it...

- Create buy-in and advocacy for your project?
- Increase stakeholder awareness?
- Help enlist volunteers to give feedback?
- All of the above?

Ask yourself: what does success look like if my communications plan is well-executed?

A good communications plan will likely meet the following goals in support of your incubation:

- It will build advocacy and support among stakeholders.
- It will encourage involvement and guidance from people outside of your core team.
- It will preempt the “not invented here” syndrome by giving your stakeholders visibility into your plans and progress.
- It may help turn opponents into advocates. At AV, our greatest progress on projects is often with the converted. In fact, the most effective counter to “not invented here” syndrome is to make people feel like they helped build the solution.

KNOW THY AUDIENCE (OR AUDIENCES)

Who will you be talking to? At AV, we find that teams typically face one or more of the following key audiences:

- The Project Sponsor
- The Advisory Board
- Members of the Extended Core Team (finance, HR, legal, BXT v-team members)
- Related project teams
- Related business groups or leaders

Clearly, not all of these folks need to hear all of your communication all the time (riveting though it may be). A good communication plan will help you determine who on this list needs what information and when in order for you to be successful.

CADENCE & CONTENT

A good communications plan will help you define the cadence at which you'll be communicating. How often will you be sharing news with your supporters and fans? What will it take to stay on their radar—without getting in their hair?

It's worth thinking about. Our advice is to try to find a cadence that's appropriate for your stakeholders and stick to it.

WHO NEEDS TO KNOW?

Is some of your incubation information confidential? Are there elements you should keep under wraps by limiting communication?

Ask yourself: What information does my audience need in order for me to meet my objectives? Do different stakeholders have different needs? If so, you'll need to define how you will be communicating with each stakeholder group. (Hey, no one said incubation was easy.)

TALK WHEN YOU HAVE SOMETHING TO SAY

We often see communications plans built with a frequency that is not supported by the information available. Such superfluous chatter arises from a team's perception that it needs to communicate “something” all the time. Resist this impulse and adjust your communication schedule to match your information flow.

Use established forums and channels. Example: If there's a Quarterly Business Review that most of your stakeholders attend, get on the agenda to share information, updates and breaking news. It's an easy way to get your message to your audience in a forum they're already familiar with.

CHANNELS

Once you've defined the objectives, content, and cadence of your communication, you need to decide what channels or medium you will use to communicate.

Common channels:

- One-on-one meetings
- Group meetings
- Email
- Newsletter
- Website/SharePoint
- Social Events
- Video presentation

Think carefully about which channel(s) will be most effective, remembering that your message should match your medium. For example, if your project has a heavy eXperience focus, the communication vehicle should incorporate the essence of that experience.

MIX IT UP

At AV, we find it easier to keep an audience engaged when we use a variety of media. We employ everything from social events to email to video presentations to keep our stakeholders in the loop.

A FINAL THOUGHT...

Strive to represent BXT in your communications, in the information you share and in how you represent that information. And use the resources at hand to help with the visual design of messages to help bring your communication to life.



“Informed decision-making comes from a long tradition of guessing and then blaming others for inadequate results.” ~ Scott Adams.

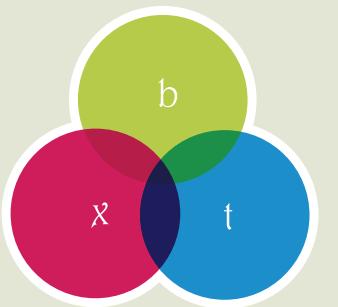
ADVISORY BOARDS

Mentors. Coaches. Guides. Gurus. At Alchemie Ventures, we find it extremely beneficial to have access to the help and wisdom of trusted advisors during the incubation process.

Ideally, an Advisory Board (AB) will:

- Round out the experience and background of the Project Leader.
- Act as an informed reviewer of content.
- Help decide if a project is a go or no-go.
- Help prevent bone-headed mistakes.

If you're lucky, your carefully-selected, fully-functioning Advisory Board will become an advocate for your project organization-wide and offer a "pulse" and perspective from outside the incubation team.



BUILDING A BETTER BOARD

We've found that Advisory Boards with six or fewer individuals work best. We look for folks with skills and experience relevant to the project and make sure we're covered in the key areas of Business, eXperience and Technology. Of course we also want people who are easy to work with and passionate about the company.

You may want to work with your human resources representative or manager as you look for great Advisory Board members.

ROLES AND RESPONSIBILITIES

It's our belief that the Project Leader (or someone on the team) should be directly responsible for managing Advisory Board engagement. This individual is responsible for ensuring that the Advisory Board is functioning the way it should: actively engaged and providing feedback.

Also, we expect our Project Leaders to spend the time required to keep AB members up to date.

ADVISORY BOARD GUIDELINES

We've come up with a few principles to help us get the most out of our Advisory Board relationships:

Each individual is important and relevant.

Each board member is selected specifically because of their background, experience and passion. We're grateful for our board members' time and wisdom.

The group has real influence.

We want members to work together as a real board, believing that the whole is greater than the sum of its parts. A great board (in our opinion) will leverage its collective knowledge and diverse points of view. Also, we want our Advisory Boards to serve as decision making entities that inform our project sponsors.

We're all in this together.

We want our ABs to feel as involved and passionate about a given incubation as the project team (well, close, anyway).

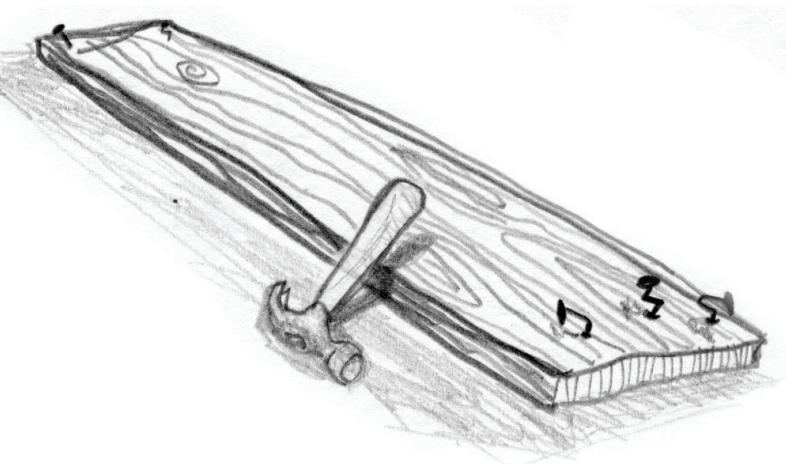
We expect board members to dedicate enough time and resources to help the project flourish (or to help kill it early, whichever the case may be).

We ask that feedback be open, honest and delivered "in the room."

Advisory Board members are accountable to the Project Leader.

Being a Advisory Board member is an important job. We expect participants to provide cogent guidance throughout the process and field questions about the project in the gate review.

And, we ask our Advisory Board members to review Gate 3 information with the Project Leader prior to the formal gate review to give feedback and input.



ESTABLISHING A RHYTHM OF ENGAGEMENT

We've found that a successful Advisory Board is an actively engaged Advisory Board. Boards that flutter between periods of hyperactivity and non-involvement limit their potential impact on the project.

At AV, once a schedule has been established for an incubation, the Project Lead sets the cadence for the project by establishing the following mileposts:

The Project Leader issues an invitation to Advisory Board prospects.

- The Project Leader invites members of the Advisory Board at the same time, in the same email, so everyone can see who's participating.
- The Project Leader explains the purpose of the Advisory Board, gives a brief description of the project and outlines time requirements and project duration.

The Project Leader calls an Advisory Board kickoff meeting.

- We've got a few of these meetings under our belt, and have settled on the following format: we spend approximately 1/3 of the kickoff meeting explaining how the AB is supposed to work, and 2/3 outlining the project.
- We do a "meet and greet": Often, new AB members don't know one another, so we include an icebreaker tied to introductions. We've found this to be a quick and easy way for AB members to get to know each other (kinda important as they come together to form a board).

Points we make sure to cover at the kickoff include:

- Who's who on the project team.
- AB principles.
- How the board will be engaged and on what topics.
- AB success and what that looks like.

ADVISORY BOARD MEETINGS

How often should an Advisory Board meet during a round of incubation? How often should you meet with board members one-on-one? These are questions we try to answer as early in the process as possible.

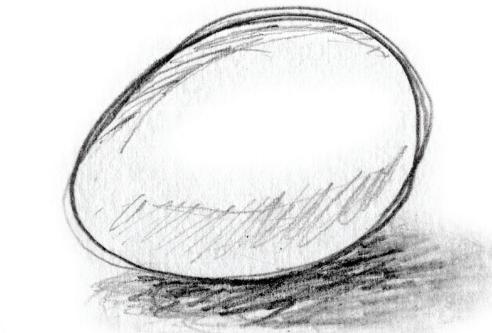
It's our opinion that full AB meetings should cover the project broadly (you don't want to waste your business advisor's time by spending three-fourths of the meeting drilling down on technology). On the other hand, one-on-one meetings are a great time to get direction or feedback on specific areas of the project.

HOW TO MAXIMIZE ADVISORY BOARD INVOLVEMENT

We find the following checklist helpful as we work with our Advisory Boards:

- Set clear expectations.
- Actively manage the cadence of engagement and communication.
- Re-engage or replace non-participative members. If you have an AB member that misses meetings or is generally unavailable, meet with them to find out why. If they indicate that they're still interested, but continue to not participate, replace them. Seriously, you need Advisory Board members who have the time and passion to participate. If it's not working, let 'em go. Of course, it's probably a good idea to outline this policy in the kickoff meeting to avoid surprises down the road.
- Bring the Advisory Board in before the work is "done." We've heard from numerous Advisory Board members that they hate it when project teams wait until work is complete to get them involved. AB members are generally very happy to roll up their sleeves and help the team figure out tough problems or think through different paths the project can take. You can foster this kind of healthy engagement by mapping out roles and expectations early on, and resisting the urge to create big presentations each time the AB convenes.

THE INCUBATION PROCESS



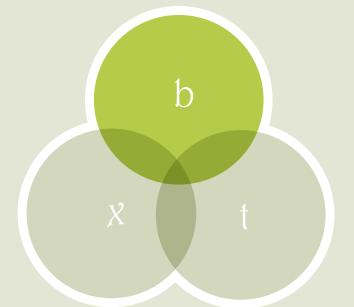
Opening the Toolkit: A PEEK INSIDE THE BUSINESS DRAWER

HOW DOES THIS IDEA FIT INTO OUR STRATEGY?

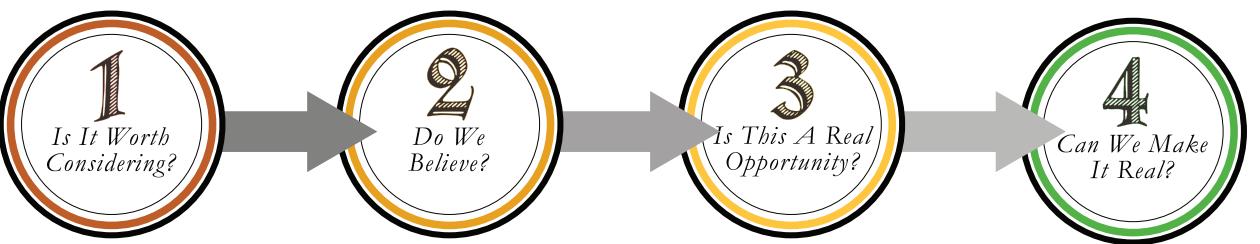
While user experience and technology immediately come to mind when thinking about innovation, the business side is equally important to evaluate. At AV, we like to ask (and answer) a number of questions before deciding if an idea should move forward in the incubation process. These questions include:

- How large is the market and what share can you capture?
- What does the competitive landscape look like?

The business frameworks and approaches provided in the AV Toolkit are meant to provide a selection of tools that you may use when conducting your business analysis. The requirements described at each gate vary and are intended as a structure from which to start. At the beginning of an incubation, you should work with the executive review team and other liaisons to determine which requirements apply to your project and understand those on which you will be judged. Similarly, after each gate review it is possible that scope and focus will change. Work with your review team and advisors to understand these nuances.



AN OVERVIEW OF “B” (BUSINESS) GATE REQUIREMENTS



COMPLETE A ONE-PAGER

MARKET ASSESSMENT

- Market structure.
- Market/ industry trends.
- Customer needs, purchase behaviors, trends.
- Future scenario planning.

COMPETITIVE ASSESSMENT

- Competitive landscape scan.
- Competitive analysis.
- Positioning vs. Key competitors.

STRATEGIC ASSESSMENT

- Alignment with company goals.
- Synergies with or cannibalization of existing business.

OPERATIONAL ASSESSMENT

- Initial business and operating model options.

MARKET SIZE & FINANCIAL ASSESSMENT

- Total addressable market.
- Target geographies and customer segments.
- Potential for growth into mass-market offering.
- Monetization model.
- Detailed revenue estimates.
- Initial top-down cost estimates.
- Contribution margin.

MARKET ASSESSMENT

- Initial assessment of market structure and industry trends.
- Initial assessment of customer needs and behaviors.

COMPETITIVE ASSESSMENT

- Initial competitive advantage and your positioning.
- Competitor offerings.

STRATEGIC ASSESSMENT

- Alignment with company goals.
- Synergies with or cannibalization of existing business.

OPERATIONAL ASSESSMENT

- High level value proposition.

- Initial monetization options.

MARKET SIZE & FINANCIAL ASSESSMENT

- Initial target geographies and customer segments.
- High level estimate of market size.
- Potential for growth into mass-market offering.
- Monetization model.
- Detailed revenue estimates.
- Initial top-down cost estimates.
- Contribution margin.

“B” GATE 1 REQUIREMENTS

COMPLETE A ONE-PAGER

MARKET ASSESSMENT

- Market structure
- Market / industry trends
- Customer needs and behaviors

COMPETITIVE ASSESSMENT

- Competitive landscape: key players
- Competitive advantage and your positioning
- Similar competitor offerings in market or in development

STRATEGIC ASSESSMENT

- Initial strategic rationale for your company
- Risks of not pursuing opportunity
- Risks and challenges of pursuing opportunity

OPERATIONAL ASSESSMENT

- High level value proposition
- Initial business model
- Monetization options

MARKET SIZE & FINANCIAL ASSESSMENT

- Target markets and geographies
- Potential regions for expansion
- High-level estimate of market size



“B” GATE 2 REQUIREMENTS

MARKET ASSESSMENT

- Market structure
- Market / industry trends
- Customer needs, purchase behaviors, trends
- Scenario planning

COMPETITIVE ASSESSMENT

- Competitive landscape: key players
- Competitive advantage and company positioning
- Similar competitor offerings in market or in development

STRATEGIC ASSESSMENT

- Risks and challenges of pursuing or not pursuing opportunity
- Alignment with your company goals
- Synergies or cannibalization of existing company business

OPERATIONAL ASSESSMENT

- Initial business model options

MARKET SIZE & FINANCIAL ASSESSMENT

- Total addressable market (TAM)
- Target geographies & customer segments (initial & longer-term expansion)
- Potential for growth into mass-market offering
- Monetization model
- Detailed revenue estimates
 - Type of device or service
 - Price of device or service
 - Advertising revenue
 - Other additional revenue
- Initial top-down cost estimates
- Estimated margin, headcount, retail margin
- Contribution margin
- Financial scenarios



"B" GATE 3 REQUIREMENTS

MARKET ASSESSMENT

- Market structure
- Market / industry trends
- Customer needs, purchase behaviors, trends
- Quantitative consumer research: preferences, behaviors, likelihood to buy, price points
- Political, economic and social factors or risks in target geographies

COMPETITIVE ASSESSMENT

- Competitive landscape: key players
- Competitive analysis: key offerings, market shares, strengths, weaknesses, barriers to entry, key strategies and developments
- Positioning of company vs. key competitors
- Success of competitors in target markets and target customer segments: financials, network effects, switching costs
- Projected competitive response to your market entry

STRATEGIC ASSESSMENT

- Initial strategic rationale
- Alignment with company goals
- Synergies or cannibalization of existing company business
- Non-financial rationale for pursuing opportunity
- Rank in comparison to existing offerings in importance and fit
- Fit and gaps with current company sales, process or technology strengths
- Opportunity for company to grow new audience or expand in existing segments

OPERATIONAL ASSESSMENT

- Business model
- Initial operating model

MARKET SIZE & FINANCIAL ASSESSMENT

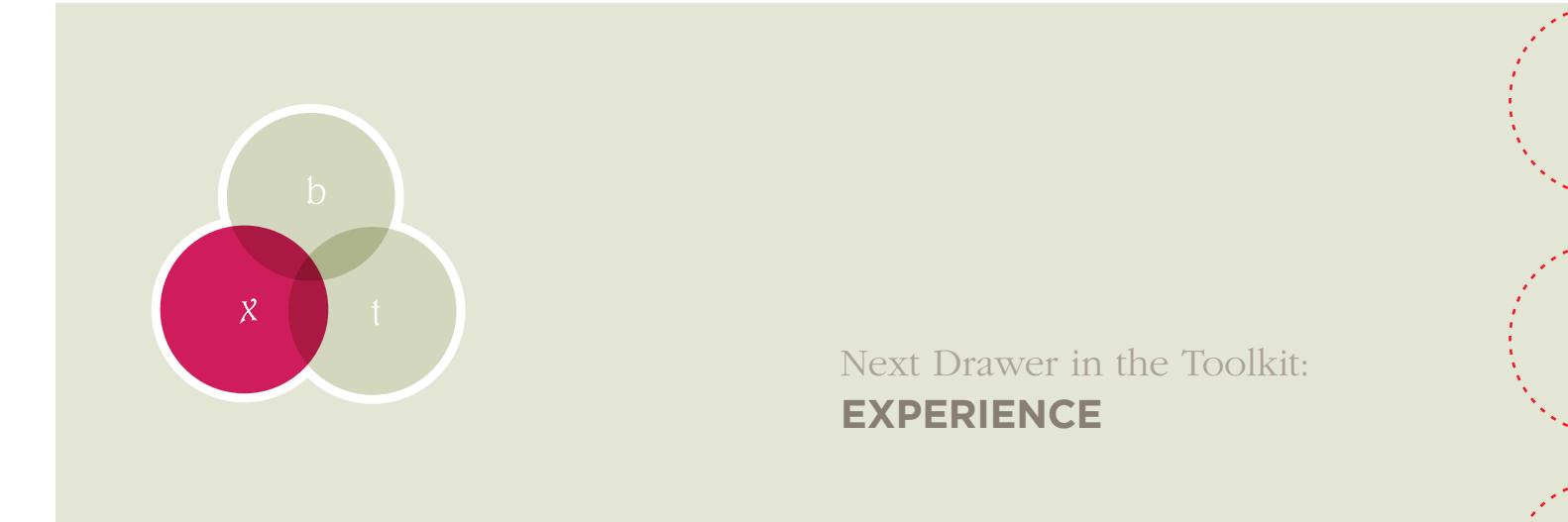
- Total addressable market (TAM)
- Target geographies & customer segments (initial & longer-term expansion)
- Potential for growth into mass-market offering
- Monetization model
- Detailed revenue estimates
 - Type of device or service
 - Price of device or service
 - Advertising revenue
 - Other additional revenue

MARKET SIZE & FINANCIAL ASSESSMENT

- Detailed cost estimates
 - Bill Of Materials (BOM)
 - Service infrastructure
 - Initial investment
 - Advertising platforms
 - All other additional costs (cost of revenues, non-product, and operational)
- Contribution Margin
- Initial 5-year business case (Cash flow and operational break-even, IRR, DCF, etc.)
- Financial scenarios

Gray type = Analysis completed at a previous gate.

At each subsequent gate, the analysis should be revisited and updated as necessary.



Next Drawer in the Toolkit:
EXPERIENCE

A QUICK OVERVIEW

At AV, Experience (make that “eXperience,” since we refer to it as “X” for short) plays a key role in every incubation. An idea may be technologically engaging; the business plan may be sound—but without eXperience, development will flounder. In this context, eXperience includes:

- Primary and Secondary Research
- Design Inspiration
- Insight Analysis
- Target Audience Analysis
- Brainstorming
- Scenario Building
- Visualization
- Evaluation
- An Experience Framework and Concept Roadmap
- Brand Experience Creation

EXPERIENCE TOOLKIT/ METHODS



GATE 2: DO WE BELIEVE?

PROJECT FRAMING

- Establish Alignment
- Mine Existing Knowledge
- Plan the Round
- Write the Experience brief

GATHERING INSIGHTS

- Conduct Secondary Research
- Conduct Primary Research
- Find Design Inspiration

ANALYZING DATA

- Analyze the Insights
- Run a BXT Workshop
- Establish the Target Audience
- Develop the Experience Themes & Design Principles

EXPLORING IDEAS

- Brainstorm Ideas
- Build Scenarios
- Visualize Ideas

DEFINING THE OPPORTUNITY

- Define Concepts
- Evaluate Concepts
- Craft the Brand Experience
- Define the Experience Framework & Concept Roadmap
- Create the Gate Pitch



GATE 3: CAN IT BE REAL?

PROJECT FRAMING

- Establish Alignment
- Mine Existing Knowledge
- Plan the Round

GATHERING INSIGHTS

- Conduct Secondary Research
- Conduct Primary Research
- Find Design Inspiration

ANALYZING DATA

- Analyze the Insights
- Run a BXT Workshop
- Establish the Target Audience

EXPLORING IDEAS

- Brainstorm Ideas
- Build Scenarios
- Visualize Ideas

DEFINING THE OPPORTUNITY

- Define Concepts
- Evaluate Concepts
- Craft the Brand Experience
- Create the Gate Pitch



GATE 4: MAKE IT REAL?

PROJECT FRAMING

- Establish Alignment
- Mine Existing Knowledge
- Plan the Round

GATHERING INSIGHTS

- Conduct Secondary Research
- Conduct Primary Research
- Find Design Inspiration

ANALYZING DATA

- Analyze the Insights
- Run a BXT Workshop
- Establish the Target Audience

EXPLORING IDEAS

- Brainstorm Ideas
- Build Scenarios
- Visualize Ideas

DEFINING THE OPPORTUNITY

- Define Concepts
- Evaluate Concepts
- Craft the Brand Experience
- Create the Gate Pitch

THE EXPERIENCE APPROACH

PROJECT FRAMING

Define what you want to achieve, what you need to know, and how to get there.

GATHERING INSIGHTS

Spend time developing a real understanding of consumers gathering external opinions.

ANALYZING DATA

Review the data collected thus far and refine themes and principles.

EXPLORING IDEAS

Use themes and principles as guides for generating a range of ideas.

DEFINING THE OPPORTUNITY

Define the key insight framework concepts, and roadmap.

AN APPROACH, NOT A PROCESS

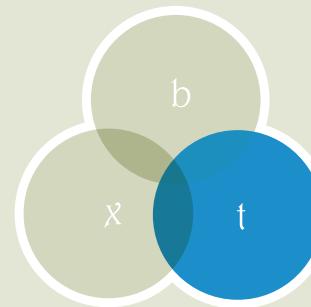
For eXperience work it's most important to understand what you want to achieve first, and select the tools and processes to suit the goals.

While there is an overall approach to Experience work, the process changes to suit the problem at hand. Think problem at hand. Think problem first, then process.

ITERATIVE

The eXperience approach involves taking multiple passes at the same problem – gathering information, creating ideas, reviewing, and doing it all over again. And sometimes the project needs reframing based on what you're learning.

The Gates themselves represent the iterative approach in that similar methods are used in Gate 2 and Gate 3, with Gate 3 representing a deeper or more specific version.

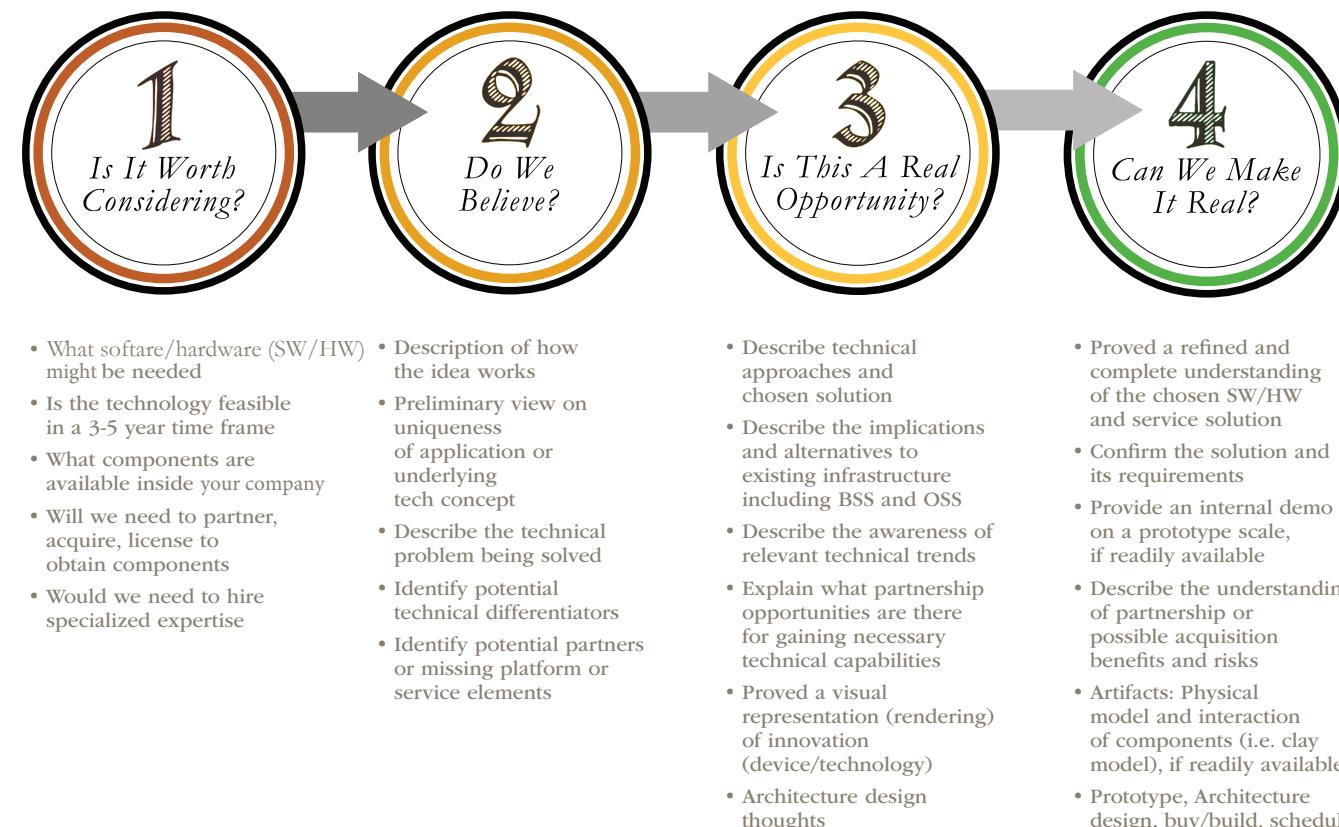


Last but not least:
TECHNOLOGY

A QUICK OVERVIEW

As an industry, we tend to be very adept at technology and often our innovation and incubation efforts are led by technology. This can work great, but sometimes it means we come up with “solutions looking for problems” rather than the other way around.

We should strive to blend our technological expertise with our business and experience acumen. The goal is to harness the power of company technology from the “might-be-able-to” ideas to the “I-don’t-know-if-that’s-possible” concepts. We commit to bind technology to us—not the other way around—to serve our company in a way that enhances experiences and creates viable businesses.





DRILLING DOWN: Gate 1 Tools

WHAT IS GATE 1?

Ideas that come to AV are evaluated during Gate 1 to determine if there is something worth investigating further. Each idea is presented in the form of a complete One-Pager and is often accompanied by a pitch video from the idea-submitter. Ideas that pass Gate 1 enter the AV process and receive funding and sponsorship to prepare a Gate 2 presentation.

GATE 1 CHECKLIST

- The One-Pager

THE ONE-PAGER

WHAT IS IT?

Thumbs up, or thumbs down? The One-Pager is used to decide if an idea is even worth considering.

In order to pass through the first gate, an idea must show potential in terms of: market opportunity, competitive opportunity / threat, strategic fit and market size. The One-Pager contains questions relating to these areas that can help determine potential for incubation.

WHY IS THE ONE-PAGER TEMPLATE VALUABLE?

The One-Pager Template format allows for quick review and determination of whether an idea has the potential to move forward in the incubation process. True, it's high-level, but it still requires proposers (and their sponsors) to think through a broad range of strategic factors.

HELPFUL HINTS

A completed One-Pager should tell a compelling story of the opportunity area in the context of customer needs and business landscape.

When evaluating the competitive landscape, be sure to consider players in adjacent spaces and those that may not be direct competitors today, but may have the potential to become competitors in the future.

P.S. Yep, we know it's not actually one page, but the name just stuck. We'll get it down to one page someday.



DRILLING DOWN: Gate 2 Tools

WHAT IS GATE 2?

After teams pass Gate 1, they start a series of work streams designed to help them and their project approver answer the question: "Do we believe the idea can be a successful and profitable business?" The work leading up to Gate 2 focuses on scoping the idea and problem space,

determining what the team believes is the opportunity and explaining why that opportunity is compelling. Teams that pass Gate 2 receive additional funding, team members and sponsorship to move forward to Gate 3.

GATE 2 CHECKLIST

- Plan the Round
- Establish Alignment
- Mine Existing Knowledge
- The Project Brief
- Competitive Assessment
- Market Assessment
- Strategic Assessment
- Brainstorming
- Define Concepts
- Brand Experience Creation

- Secondary Research
- Primary Research
- Design Inspiration
- Insight Analysis
- Target Audience Analysis
- Evaluation
- Operational Assessment
- Market Size and Financial Assessment
- Run a Project Workshop

PLAN THE ROUND

WHAT IS IT?

Identifying the goals, activities and outcomes of the phase and determining required resources.

WHY IS IT VALUABLE?

While project planning is always important, it's critical to have solid project planning at the beginning of each round because:

- Every innovation project is different. It helps to have the team align on process and methods as they change from project to project.
- Specific outcomes are unknown at the outset. The team defines hypothetical outcomes, but defining timing and resources provides additional guard rails and helps set expectations and scope the project.
- Innovation projects typically involve a broad core team that spans internal groups and external partners. The project plan helps align the entire team around goals, activities and timing.
- The Business, Experience and Technology experts on the project team play different roles at different times. Project planning helps define roles and responsibilities throughout the rounds.

A QUICK "HOW TO"

INPUTS

The previous Gate document, project kickoff, stakeholder meetings and existing knowledge mining all feed into the project plan.

ACTIVITIES

- Define goals: Be clear about why the project is being done and the goals because the outcomes are likely less defined.
- Establish tentative outcomes: Specific outcomes are likely to be unclear in innovation projects, but start with some and expect them to change.
- Set the timing and resources, and plan for iteration, change, and collaboration: Since innovation projects can be very broad, it's especially important to set deadlines throughout as they help scope the project and keep it on track. Timing is a bit different with innovation projects as the plan has to accommodate iteration, frequent changes in direction, and more collaborative work sessions.

OUTPUTS

The project plan may be a document on its own or feed into the Project Brief

Project planning for incubation projects is different than traditional project planning in that the process is iterative and the outcomes only loosely defined at the outset. While it's important to write a project plan, it's equally important to plan for it to change. The project plan should include the opportunity to revisit past activities to iterate.

ESTABLISH ALIGNMENT

A QUICK “HOW TO”

WHAT IS IT?

Key steps to engage in when starting an innovation project, including the project kickoff and stakeholder meetings.

WHY IS IT VALUABLE?

With innovation programs there are typically multiple teams involved, including outside stakeholders and partners. Also, while goals and hypothetical outcomes are defined, the specific outcomes are often less known. Establishing alignment up front sets expectations and helps ensure good working relationships throughout an ambiguous and complex process.

INPUTS

The previous Gate's final documentation.

ACTIVITIES

While there are many ways to establish alignment, the following two activities are consistently useful and should be done right at the beginning of the round:

Do a formal project kickoff: Meet as a project team to discuss goals, deliverables and approaches to the project.

Tip: Prepare content for the kickoff including key questions and potential sources of disagreement.

Set up stakeholder meetings: Meet with external stakeholders and opinion leaders to align on vision and expectations.

Tip 1: Meet with stakeholders one-on-one to get their personal opinions, knowledge and buy-in.

Tip 2: If the project is particularly contentious, you may want to do stakeholder meetings before the kickoff.

OUTPUTS

The content from these activities feed into the project plan and Project Brief.

MINE EXISTING KNOWLEDGE

A QUICK “HOW TO”

INPUTS

To mine for existing knowledge you need to gather documents from past and current project reports, internal databases and internal publications.

ACTIVITIES

- Talk to key people: Talk to people who can point you to internal resources about the topic at hand. Research & Strategy teams tend to have access to, and keep, this type of information.

- Tip: Sometimes these people are key stakeholders so you can simultaneously conduct stakeholder interviews while gathering information.

- Get on your internal network: Most big organizations have an intranet filled with useful information.

OUTPUTS

Existing knowledge feeds into defining the project plans in terms of what additional data needs to be collected. The data itself is organized and combined with the other data collected in the project to form the insights and opportunities.

THE PROJECT BRIEF

A QUICK “HOW TO”

WHAT IS IT?

A one page document that summarizes the project scope and that result from after team alignment and planning activities.

WHY IS IT VALUABLE?

To pass Gate 1, the project team will have identified a need, business opportunity, technology, pain point or problem to solve and will have a point of view about how to solve it.

To turn this into a project the team needs to:

- Refine the question(s) to be answered
- Determine project parameters such as the goals, activities, outcomes, timing, etc.

HOW TO USE IT FOR THIS GATE

A Project Brief is written in Round 1 (for Gate 2), prior to any eXperience work commencing.

INPUTS

All previous documents and activities feed into the Project Brief, including the Gate 1 document, project kickoff, stakeholder meetings, existing knowledge mining and project plan.

ACTIVITIES

Collect content from the Gate 1 document, existing knowledge mining and project planning activities.

Organize the content into the following categories and answer these questions in a concise summary:

- **Situation:** Describe the background behind an idea, context, landscape
- **Core Insights:** Insights about the consumer, business and technology, including thought starters with inspirational images
- **Goals:** What do you want to achieve in this project?
- **Scope:** What is the depth and breadth of your study?
- **Target Customer:** Who would benefit from this idea?
- **Engagement Plan:** How will you run the project? What activities will be involved?
- **Deliverables:** What documents or artifacts will come out of this process?
- **Timeframe & Milestones:** How long will it take and what are the key dates?
- **Draft Questions:** What are some questions you aim to uncover during this project?

Summarize the answers to the following questions in a 2-3 page document organized as follows:

- Situation, Opportunity, Insights, Customer Target, Draft Questions
- Project Goals, Scope, Engagement Plan, Deliverables
- Engagement Plan, Timeframe, Milestones

OUTPUTS

The Project Brief is the outcome of the first phase of work in Round 1 (for Gate 2).

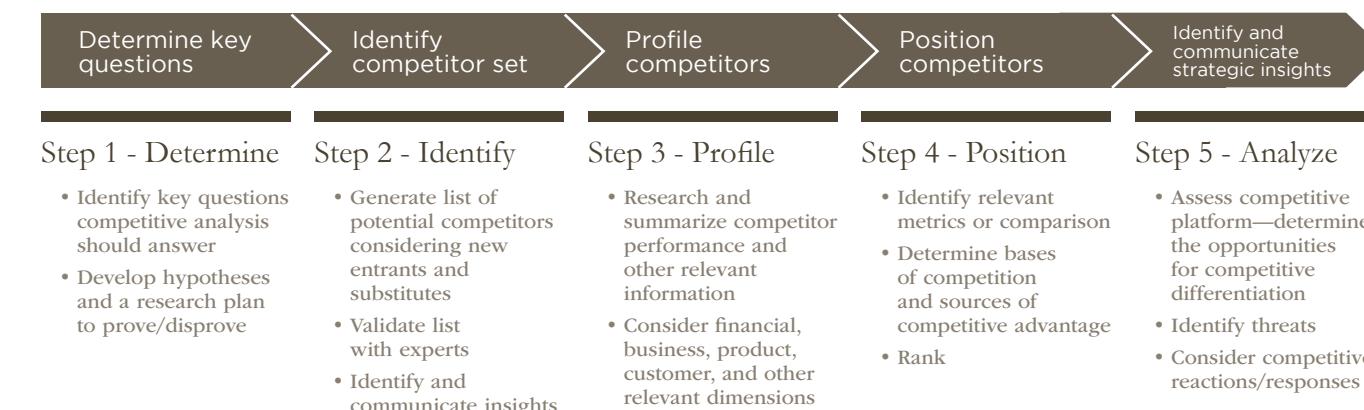
COMPETITIVE ASSESSMENT

GENERAL APPROACH TO COMPETITIVE ASSESSMENT

A Competitive Assessment should generally be done in the earlier phases of strategy formulation as its findings will inform further analyses. The main objectives of a competitive assessment are to identify the basis of competition, understand competitor strategies and to develop your positioning based on these factors.

THE GENERAL APPROACH

Understanding and responding to competitors follows five key steps:



COMPETITIVE ASSESSMENT

SUGGESTED SOURCES OF RESEARCH

A robust research plan and set of research sources will help you identify, profile, position, and analyze your competitors so that you can determine opportunities for competitive differentiation. This research can help to support the competitive frameworks you develop.

The following sources are a good starting point for understanding industry dynamics, your competitors' latest moves, and opportunities and threats on the horizon:

SUGGESTED SOURCES OF RESEARCH

Competitor Websites	Library	Company Profiles	SEC Filings	Analyst Reports/ Industry Commentators
	Various analyst and research reports	Hoover's OneSource ZoomInfo Etc.	EDGAR Online (10-Ks and other filings) Investor Relations pages of company websites	IDC Gartner Forrester Online trade websites Industry analysts and commentators News and current affairs websites
				

COMPETITIVE ASSESSMENT

SWOT ANALYSIS

WHAT IS IT?

Woo-hoo! Another acronym. SWOT stands for Strengths, Weaknesses, Opportunities and Threats, and a SWOT Analysis is a tool AV uses for management and strategy formulation.

Strengths and Weaknesses, in this context, are internal factors that create or destroy value. These can include assets, skills, or resources that you have at your disposal—compared to your competitors. Strengths and Weaknesses can be measured using internal assessments or external benchmarking.

Opportunities and Threats, on the other hand, are external factors (stuff beyond your control) that create or destroy value. Opportunities and Threats emerge from either the competitive dynamics of the industry/market, or from demographic, economic, political, technical, social, legal or cultural factors.

WHY IS IT VALUABLE?

Your product or service idea and company must try to create a fit with its external environment. The SWOT analysis is a very good tool for analyzing the (internal) strengths and weaknesses of a product/service and the (external) opportunities and threats.

HELPFUL HINTS

Where feasible, build an initial SWOT analysis during a group brainstorming session to generate sufficiently diverse and comprehensive views, which can then be further refined.

Remember that strengths and weaknesses are internal factors that focus only on the company itself, while opportunities and threats are external factors that focus on the market dynamics that affect the company.

Stick to the facts and avoid listing solutions to weaknesses and opportunities. For example, rather than listing as an opportunity “we can improve churn,” you should cite something along the lines of: “high churn is impacting our revenue growth” as a weakness.

COMPETITIVE ASSESSMENT SWOT ANALYSIS

STRATEGIC IMPLICATIONS OF EACH COMPONENT

INTERNAL FACTORS		EXTERNAL FACTORS	
STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Maintain Build Leverage 	<ul style="list-style-type: none"> Remedy Exit 	<ul style="list-style-type: none"> Prioritize Optimize 	<ul style="list-style-type: none"> Counter
EXAMPLES & KEY QUESTIONS			
EXAMPLES			
Specialist marketing expertise	Lack of marketing expertise	Developing market (China, the Internet)	A new competitor in your home market
Exclusive access to natural resources	Undifferentiated products and service (i.e. in relation to your competitors)	Mergers, joint ventures or strategic alliances	Price war
Patents	Location of your company	Moving into new attractive market segments	Competitor has a new, innovative substitute product or service
New, innovative product or service	Competitors have superior access to distribution channels	A new international market	New regulations
Location of your business	Poor quality of goods or services	Loosening of regulations	Increased trade barriers
Cost advantage through proprietary know-how	Damaged reputation	Removal of international trade barriers	A potential new taxation on your product or service
Quality processes and procedures			A market that is led by a weak competitor
Strong brand or reputation			
KEY QUESTIONS TO ASK			
What are the key advantages?	Where are the opportunities for improvement?	What is changing the market with technology, or with customers?	What is the competition doing? Are there key obstacles for this organization? Are there financial considerations?
What do customers see as strengths?			
What are the unique resources?			

COMPETITIVE ASSESSMENT SWOT ANALYSIS

EXAMPLE: COMCAST

Comcast is the largest cable operator and home internet service provider in the United States, providing cable television, broadband internet, and telephone services to 50 million residential and commercial customers.

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<p>“The combination of assets creates a leading media and entertainment company [that will] provide some of the world’s most popular content” –Comcast/GE statement</p> <p>Largest cable and internet subscriber base</p> <p>Diversified revenue streams</p> <p>Efficient platform for triple play services</p> <p>NBC merger makes Comcast the provider of some of the most popular video content</p>	<p>In 2004 and 2007, Comcast’s customer service satisfaction rating was the lowest of any organization or company” –ACSI</p> <p>Reputation for poor customer satisfaction</p> <p>Regional customer footprint (compared to national providers e.g. AT&T)</p> <p>Declining video subscribers—Comcast’s core business</p>	<p>Three-screen video delivery means opportunities for greater engagement with consumers” – CED Magazine</p> <p>Increasing consumer tendency to watch video on their computer adds another platform for content delivery</p> <p>Cable providers shifting to become content providers could bring revenue from non-subscribers</p>	<p>[...] 35% of respondents would consider cutting a cable subscription in favor of online video in the next five years” – Bernstein Research, March 2009</p> <p>Over-the-Top Video could replace traditional video subscriptions</p> <p>Fiber offerings from Telco companies could support rich video services</p> <p>Trend toward mobile phones could eliminate need for landline and triple play services</p>

Source: Accenture

COMPETITIVE ASSESSMENT PORTER'S FIVE FORCES

WHAT IS IT?

Porter's Five Forces is a framework to help analyze the attractiveness of an industry in which your product/service operates. Industry attractiveness and profitability depend on how intense or benign each force is.

WHY IS IT VALUABLE?

The Five Forces model considers all the competitive forces acting on an industry, not just your product/service's direct rivals. As a result, it can help assess potential opportunities and points of differentiation within an industry in order to develop a strategic advantage over competitors.

HELPFUL HINTS

When creating a Five Forces model, be sure to include all those forces that act on the whole industry, not just the industry sector in which your product/service operates.

It is easy to create an overly generic model that drives little value. A quick way to gauge if the level of your Forces is too high is to see if they could easily apply to another industry. If so, the forces are too generic and should be made more industry-specific.



COMPETITIVE ASSESSMENT PORTER'S FIVE FORCES

DETERMINANTS OF EACH FORCE

NEW ENTRANTS

Economies of scale, proprietary product differences, brand identity, switching costs, capital requirements, access to distribution, absolute cost advantages, learning curve, access to necessary inputs, government policy, expected retaliation

SUPPLIERS

Differentiation of inputs, switching costs of suppliers and firms in the industry, presence of substitute inputs, supplier concentration, importance of volume to supplier, cost relative to total purchases in the industry, impact of inputs on costs or differentiation

RIVALRY

Industry growth, fixed costs/value added, product differences, brand identity, switching costs, diversity of competitors, exit barriers

BUYERS

Bargaining power, buyer purchase volume, buyer switching costs, buyer information, substitute products, price sensitivity, product differences, brand identity, impact on quality/performance, decision makers' incentives

SUBSTITUTES

Relative price performance of substitutes, switching costs, buyer tendency to substitute

COMPETITIVE ASSESSMENT PORTER'S FIVE FORCES

EXAMPLE: AMAZON

In 2005, Amazon was facing increased competition from discounters and traditional retailers moving to sell merchandise online. With low switching costs and attractive prices offered by competitors, Amazon had to act swiftly to regain its foothold as the leader of e-commerce.



COMPETITIVE ASSESSMENT VALUE CHAIN ANALYSIS

WHAT IS IT?

A Value Chain is an end-to-end overview of a product or service's 'value' activities and can be used to compare industries and firms or to determine and analyze costs. From concept to distribution, products pass through all activities of the chain, and at each activity the product gains some value.

Value Chains can also be used for Cost Analysis—analyzing the location and magnitude of cost drivers within an organization.

A product's margin depends on the efficiency of its value chain activities. You may be able to create cost advantages by reducing the cost of individual activities in its value chain or by reconfiguring the value chain.

WHY IS IT VALUABLE?

Value chain analysis is valuable for defining your product/service's core competencies and can help identify activities that will help gain a competitive advantage. It can also help you identify points in the value chain that require you to work with organizations outside the company.

HELPFUL HINTS

When conducting a value chain analysis of an industry, remember that it is unusual that a single company performs all the activities in the value chain. Most often, organizations are elements of a value system or supply chain.

Value chain analysis should cover the entire value system in which your product/service operates. Challenge yourself to think about the upstream and downstream activities that are involved.

Once you have constructed the value chain you can use it to identify places where there is opportunity and where it does not make sense to operate.

COMPETITIVE ASSESSMENT VALUE CHAIN ANALYSIS

MAIN STEPS IN PERFORMING VALUE CHAIN ANALYSIS

STEP 1 - IDENTIFY

Construct value chain for customers and competitors

STEP 2 - ANALYZE

Identify sources of differentiation

Analyze cost drivers

Breakdown activity into % and \$

STEP 3 - DETERMINE

Compare these to competitors and identify source of differentiation

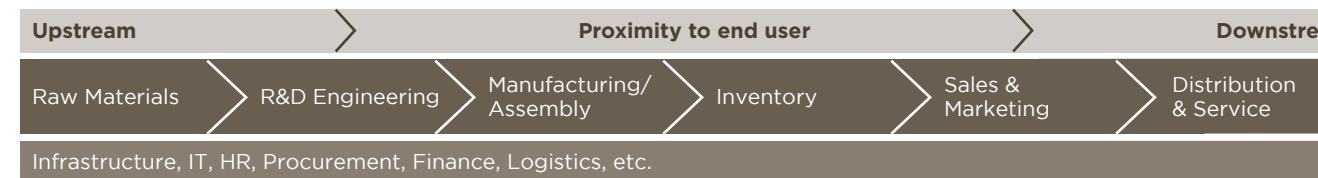
Identify outsourcing or integration opportunities

Identify areas of overlooked opportunity

STEP 4 - CONSIDER

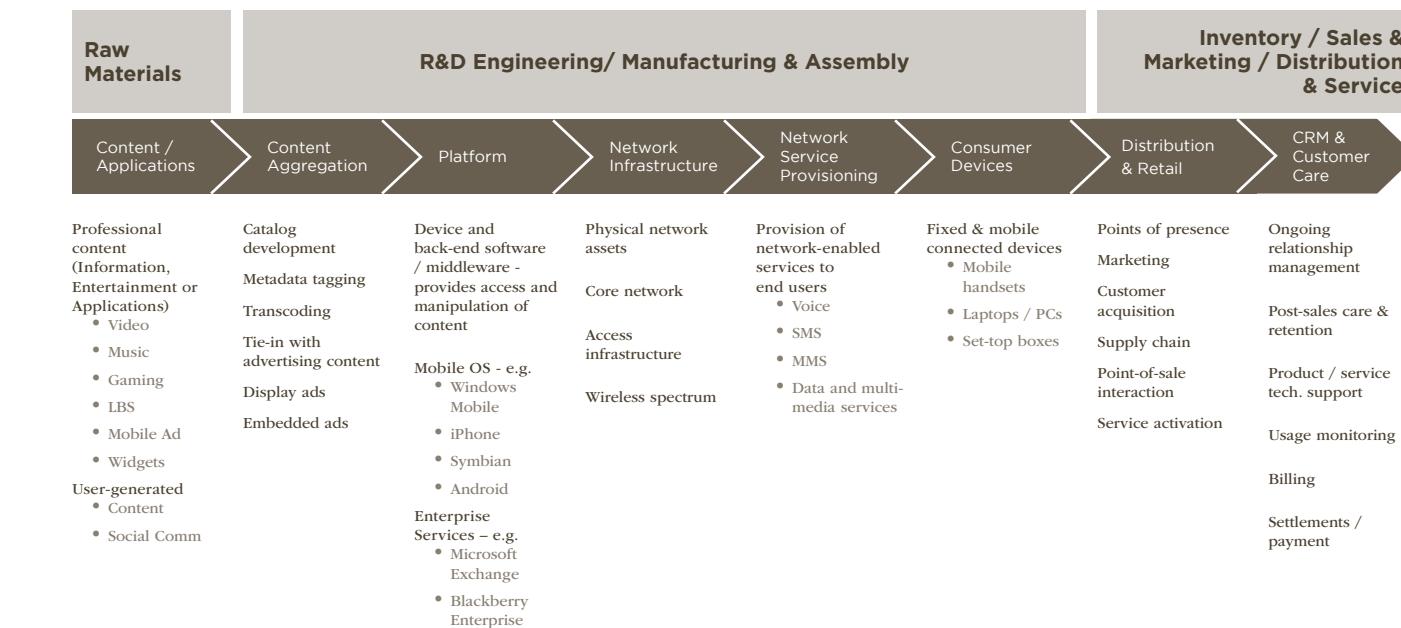
Which stages are key for differentiated competitive advantage

SAMPLE GENERIC VALUE CHAIN



COMPETITIVE ASSESSMENT VALUE CHAIN ANALYSIS

EXAMPLE: CONNECTIVITY SERVICE VALUE CHAIN



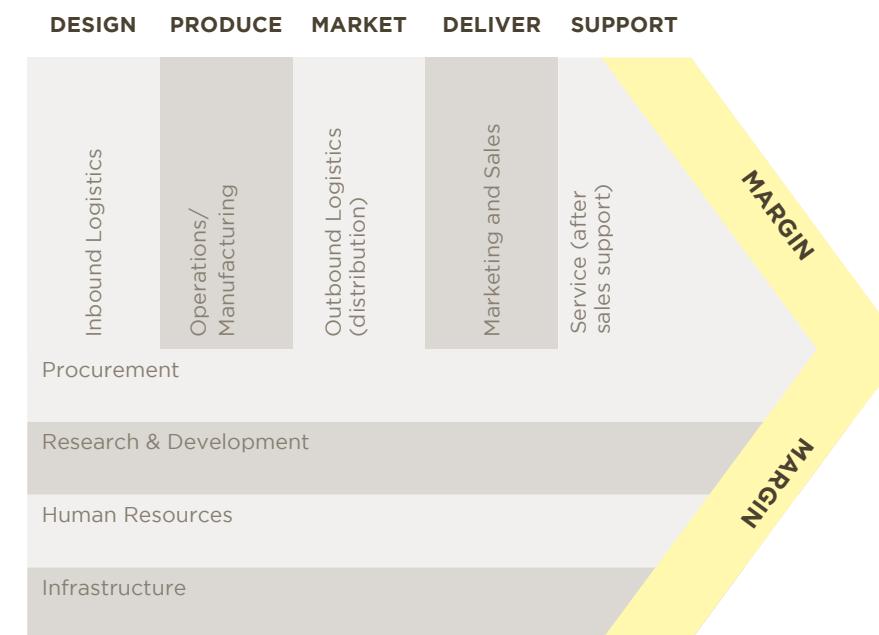
COMPETITIVE ASSESSMENT VALUE CHAIN ANALYSIS

COST ANALYSIS

Since Value Chain analysis disaggregates value activities within an industry or firm, it can also be used effectively to identify and measure costs of the internal organization.

Creating a Cost Map helps to quantify the location and magnitude of costs in order to identify potential cost advantages that lead to higher margins. Margin is equal to the value of the product or service less the cost of production.

EXAMPLE: GENERIC COST MAP



COMPETITIVE ASSESSMENT VALUE CHAIN ANALYSIS

MAIN STEPS IN PERFORMING COST ANALYSIS

STEP 1 - IDENTIFY

Identify major activities from the value chain

STEP 2 - DISAGGREGATE

Disaggregate activities that represent a significant or rapidly growing percentage of cost

STEP 3 - AGGREGATE

Aggregate activities that represent a small or stagnant percentage of cost

STEP 4 - ASSIGN

Assign raw materials and labor costs to appropriate activities

STEP 5 - CALCULATE

Calculate percentage of total cost associated with each activity

QUESTIONS TO ASK FOLLOWING COST ANALYSIS

How do the costs associated with your value activities compare with competitors? Do your competitors have certain lower cost activities that give them cost advantages?

What are the underlying causes of significant or rapidly growing cost activities?

How will these actions impact your margin?
Will these actions impact other parts of your operation or your product offering?

Are there actions you can take to reduce those costs? (e.g. outsource manufacturing, use cheaper distribution channels)

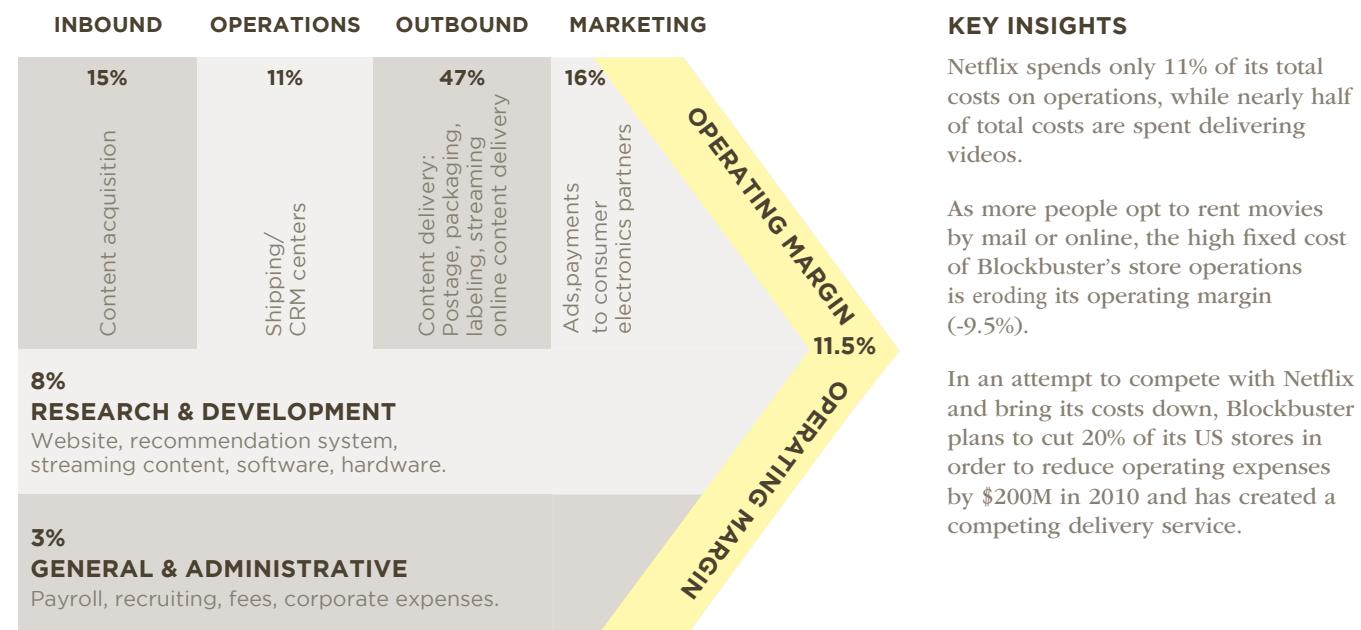
COMPETITIVE ASSESSMENT

VALUE CHAIN ANALYSIS

EXAMPLE: NETFLIX AND BLOCKBUSTER

Netflix, a subscription-based video rental delivery service, has used its cost-effective value chain to gain competitive advantage in the video rental market. While longtime rental king Blockbuster faces bankruptcy due to the high cost of their retail store operations, Netflix enjoys a 12% operating margin, in large part due to the absence of brick-and-mortar stores. Netflix's delivery model allows them to significantly reduce operations costs and redirect the majority of costs to a more cost-effective value activity: outbound logistics.

NETFLIX VALUE CHAIN



KEY INSIGHTS

Netflix spends only 11% of its total costs on operations, while nearly half of total costs are spent delivering videos.

As more people opt to rent movies by mail or online, the high fixed cost of Blockbuster's store operations is eroding its operating margin (-9.5%).

In an attempt to compete with Netflix and bring its costs down, Blockbuster plans to cut 20% of its US stores in order to reduce operating expenses by \$200M in 2010 and has created a competing delivery service.

COMPETITIVE ASSESSMENT

INNOVATION FRAMEWORKS

WHAT IS IT?

There are many ways of defining innovation. One of these definitions is "market-differentiating change that creates sustained competitive advantage."

While there is widespread agreement that innovation is critical to driving profitable growth for a company, few companies seem to get it right. As such, innovation has consistently been a popular business topic over the past few decades.

This section first introduces some of the key challenges that organizations face in the innovation process. It then introduces several innovation frameworks that may introduce different ways to approach innovation. These frameworks have each been popular business tools in their own right, and each has pros and cons.

WHY IS IT VALUABLE?

For new ideas to succeed, a business must concentrate on achieving a successful innovation process as well as a successful product. These innovation frameworks provide a methodology to approach these different factors of innovation.

HELPFUL HINTS

Use the frameworks referred to in this section as guides to approach innovation.

Reading the suggested books is not the key to a successful innovation, but may help you frame your thinking or teach you a new way of thinking about the incubation process.

COMPETITIVE ASSESSMENT

INNOVATION FRAMEWORKS - INNOVATOR'S DILEMMA

EXECUTIVE SUMMARY

The Innovator's Dilemma is about the failure of companies to stay atop their industries when they confront certain types of market and technological change. This book is about well-managed companies that have their competitive antennae up, listen astutely to their customers, invest aggressively in new technologies, and yet still lose market dominance.

In Part One of the book, Christensen paints the innovator's dilemma: the logical, competent decisions of management that are critical to the

success of their companies are also the reasons why they lose their positions of leadership.

In Part Two, the book prescribes managerial solutions to the dilemma—how executives can simultaneously do what is right for the near-term health of their established businesses, while focusing adequate resources on the disruptive technologies that ultimately could lead to their downfall.

FURTHER READING

Christensen, Clayton M. *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*. Boston: Harvard Business School, 1997.

SUPPORT & CRITICISM

Support
"This book ought to chill any executive who feels bulletproof ... and inspire entrepreneurs aiming their guns." – Forbes

Criticism
 Lack of solutions to the innovator's dilemma

Disruption has little predictive value: Not clear why incumbents sometimes win and why disruptive innovation sometimes fails..

Key Message

By placing too much emphasis on satisfying customers' current needs, companies fail to develop new technology to satisfy customers' future needs and fall victim to disruptive technology.

COMPETITIVE ASSESSMENT

INNOVATION FRAMEWORKS - INNOVATOR'S SOLUTION

EXECUTIVE SUMMARY

In his previous book, *The Innovator's Dilemma*, Christensen showed how companies that focus on high-end products for profitable customers can be blindsided by "disruptive" innovations from new competitors — innovations that target low-end customers seeking cheaper products.

In *The Innovator's Solution*, Christensen and co-author Michael Raynor show established companies how to create disruptions rather than being destroyed by them — how to turn innovative ideas into new

disruptive products that will lead to long-term profitable growth.

Much of the book it is devoted to identifying criteria by which disruptive technologies and their markets can be identified, and making sure that organizations and processes are fine-tuned to turn the tables on upstart competitors who might be doing the same.

FURTHER READING

Christensen, Clayton M., and Michael E. Raynor. *The Innovator's Solution: Creating and Sustaining Successful Growth*. Boston: Harvard Business School, 2003.

COMPETITIVE ASSESSMENT

INNOVATION FRAMEWORKS - DISCOVERY-DRIVEN GROWTH

EXECUTIVE SUMMARY

In Discovery-Driven Growth, authors Rita McGrath and Ian MacMillan challenge what you thought you knew about managing growth. They explain that capitalizing on uncertain opportunities requires starkly different mind-set than pursuing strategy in your core business. In fact, the very same practices that work for “business as usual” can be lethal when your challenge is growth. For instance, intelligent failures can add more value than predictable successes, and low-cost experimentation trumps analysis.

FURTHER READING

McGrath, Rita Gunther., and Ian C. MacMillan. *Discovery-driven Growth: a Breakthrough Process to Reduce Risk and Seize Opportunity*. Boston: Harvard Business, 2009.

SUPPORT & CRITICISM

Support
“When dealing with innovation, a prototyping mind-set is crucial. Discovery-Driven Growth pragmatically applies a prototyping philosophy to the design of businesses.”
 – IDEO

Criticism
 Includes some “selling” on their suggested tools and the use of consultants.

Key Message
 By carefully framing strategic growth opportunities, testing each project assumption against a series of checkpoints, and creating a culture that acts on evidence and learning instead of blind stumbling, companies can better control their costs, minimize surprises, and know when to disengage from questionable projects.

Source: Discovery-Driven Growth: McGrath, Rita Gunther., and Ian C. MacMillan. *Discovery-driven Growth: a Breakthrough Process to Reduce Risk and Seize Opportunity*. Boston: Harvard Business, 2009.

COMPETITIVE ASSESSMENT

INNOVATION FRAMEWORKS - BLUE OCEAN STRATEGY

EXECUTIVE SUMMARY

In their best-selling book *Blue Ocean Strategy*, business experts W. Chan Kim and Renée Mauborgne help companies navigate toward blue oceans with a clearly rendered map. With dozens of success stories, this straightforward guide to modern business strategy succinctly describes how companies can chart a course for unexplored regions in the market.

Blue Ocean Strategy is aimed at developing uncontested market space that makes the competition irrelevant,

rather than competing within the confines of the existing industry (Red Ocean Strategy).

Value Innovation is the cornerstone of Blue Ocean Strategy. Value innovation is the simultaneous pursuit of differentiation and low cost. It focuses on making the competition irrelevant by creating a leap of value for buyers and for the company, thereby opening up new and uncontested market space.

SUPPORT & CRITICISM

Support
 Offers managers a new framework of how to think about innovation.

Emphasizes that innovation is something that needs to be nurtured rather than something that happens serendipitously.

Criticism
 Blue Ocean Strategy’s frameworks may give a false sense of security that it will be easy to create the world depicted in your analysis.

Using retrospective analysis to fit examples into the frameworks that Blue Ocean Strategy proposes is relatively simple, but not the other way around.

FURTHER READING

Kim, W. Chan., and Renée Mauborgne. *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*. Boston: Harvard Business School, 2005.

Key Message
 The point of Blue Ocean Strategy is not to out-perform the competition in the existing industry, but to create new market space or a blue ocean, thereby making the competition irrelevant.

Source: Blue Ocean Strategy: Kim, W. Chan., and Renée Mauborgne. *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*. Boston: Harvard Business School, 2005.

COMPETITIVE ASSESSMENT BLUE OCEAN STRATEGY

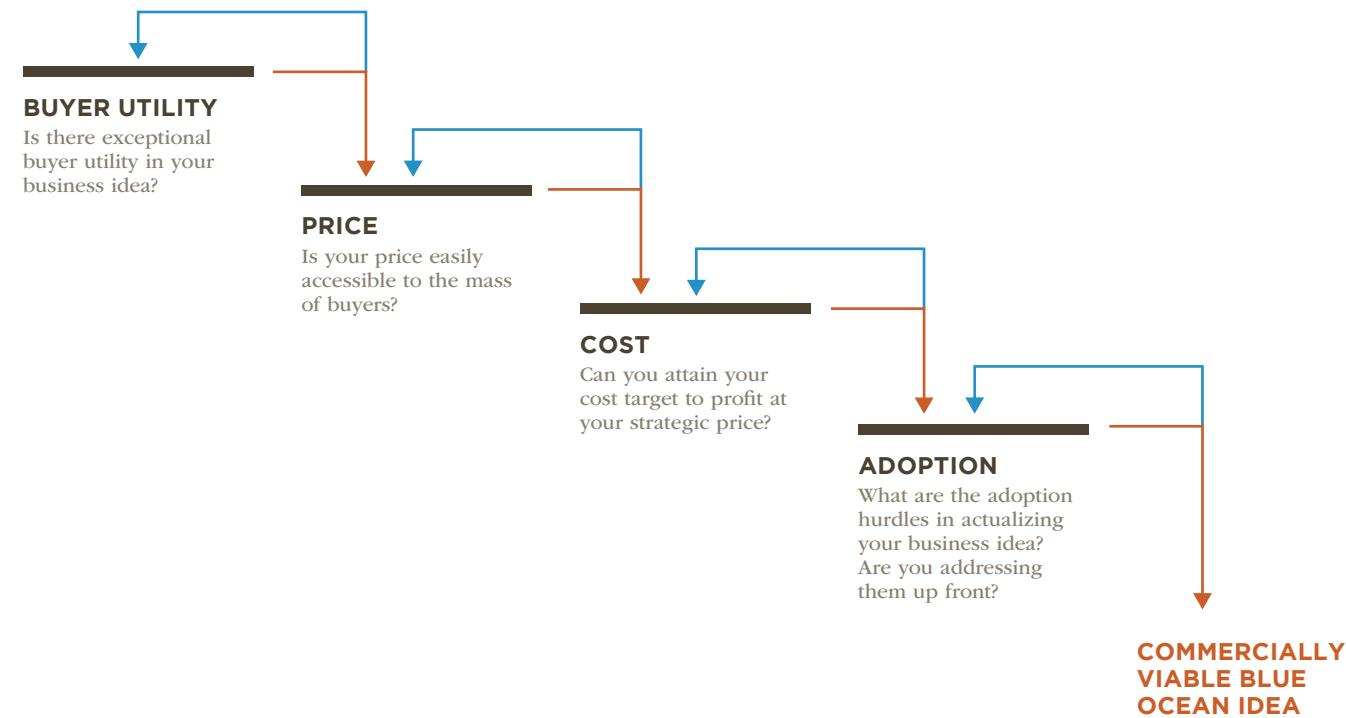
The following Blue Ocean Strategy details are provided as an example of a deeper dive into the frameworks and examples of one of the books suggested previously.

**VS.**

HELPFUL HINTS

Make sure that your concept is well-suited for a Blue Ocean Strategy. Do not try to force your product or service into uncontested market space if it does not reconstruct the buyer value curve. If your product or service is inherently designed to compete with current competitors, it may be more suited for a Red Ocean Strategy.

COMPETITIVE ASSESSMENT BLUE OCEAN STRATEGY



COMPETITIVE ASSESSMENT BLUE OCEAN STRATEGY

WHAT IS IT?

The Four Actions Framework is used to reconstruct buyer value elements in crafting a new value curve. This framework applies to creating a blue ocean from within a red ocean.

To break the trade-off between differentiation and low cost and to create a new value curve, there are four key questions to challenge an industry's strategic logic and business model:

1. Which of the factors that the industry takes for granted should be eliminated?
2. Which factors should be reduced well below the industry's standard?
3. Which factors should be raised well above the industry's standard?
4. Which factors should be created that the industry has never offered?

WHY IS IT VALUABLE?

The Four Actions Framework helps build your value proposition by reconstructing an existing industry offering.

HELPFUL HINTS

Validate that you have the resources and capabilities required to carry out the operations of the new value curve.

Once you have completed your framework, map your reconstructed value curve on a Strategy Canvas (see Strategy Canvas section).

COMPETITIVE ASSESSMENT BLUE OCEAN STRATEGY

EXAMPLE: DELL

In the mid 1990s, Dell Computer revolutionized the computer supplier industry by reconstructing the buyer value curve. While competitors sold one-size-fits-all computers through retailers, Dell built customized computers that delivered directly to the consumer in four days. Dell grew to become the largest PC supplier in the U.S., selling \$50 million worth of computers a day.

REDUCE

Which factors should be reduced well below the industry's standards?

- Price
- Features
- Software
- CustomerService

ELIMINATE

Which of the factors that the industry take for granted should be eliminated?

- Retail Presence
- Ability to Test-drive

A NEW VALUE CURVE **DELL**

RAISE

Which factors should be raised well above the industry's standard?

- Availability
- Delivery Speed

CREATE

Which factors should be created that the industry has never offered?

- Customization

Sources: Blue Ocean Strategy, Accenture

COMPETITIVE ASSESSMENT BLUE OCEAN STRATEGY

WHAT IS IT?

The Strategy Canvas captures the current state of play in the (known) market place and helps to reorient the focus to uncontested market space using the Four Actions Framework.

The horizontal axis captures the range of factors that the industry competes on and invests in, and the vertical axis captures the offering level that buyers receive across all these key competing factors.

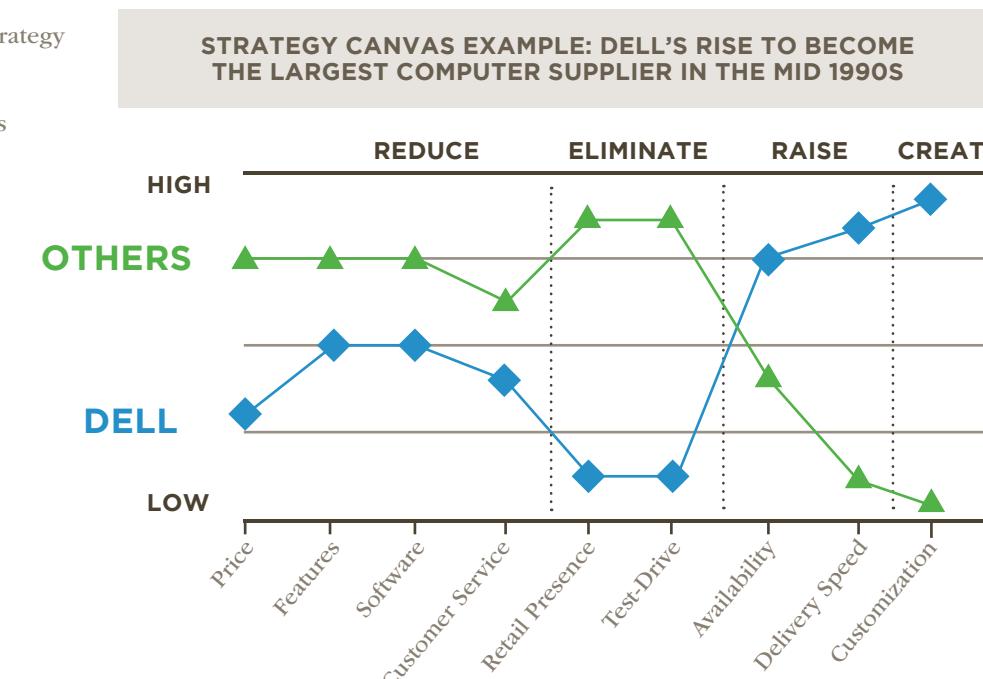
The value curve is the basic component of the strategy canvas. It is a graphic depiction of a product or service's relative performance across its industry's factors of competition.

WHY IS IT VALUABLE?

Firstly, the Strategy Canvas allows you to understand where the competition is currently investing and the factors that the industry competes on. Secondly, it helps propel you to action by reorienting your focus from competitors to alternatives and from customers to noncustomers of the industry.

HELPFUL HINTS

Before creating a strategy canvas, complete the Four Actions Framework to produce the list of buyer value elements (horizontal axis) that you aim to reconstruct with your product/service (vertical axis).



Sources: Blue Ocean Strategy, Accenture

COMPETITIVE ASSESSMENT FURTHER READING

Porter, Michael E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press, 1998.

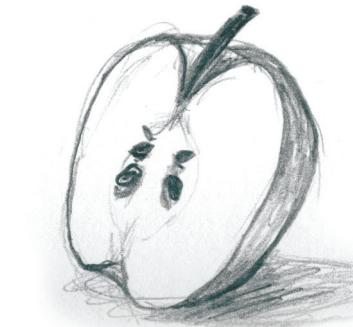
Includes Topics: Industry Analysis, Competitive Analysis, Porter's Five Forces

Harvard Business Essentials: *Strategy : Create and Implement the Best Strategy for Your Business*. Boston, Mass: Harvard Business School, 2005.

Includes Topics: SWOT Analysis, Strategy

Porter, Michael E. *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Free Press, 1998.

Includes Topics: Value Chain Analysis, Cost Analysis



"Sometimes when you innovate, you make mistakes. It is best to admit them quickly, and get on with improving your other innovations"

~ Steve Jobs

MARKET ASSESSMENT INDUSTRY ANALYSIS

WHAT IS IT?

Industry Analysis involves mapping competitors or segments in an industry into clustered groups on a two-axis framework. This framework, or industry landscape, provides a clear overview of market dynamics, competitors and trends.

There are a number of characteristics that can represent the vertical and horizontal axes. A few commonly used terms include: industry value chain, customer segments served, profitability/ financial performance and growth expectations.

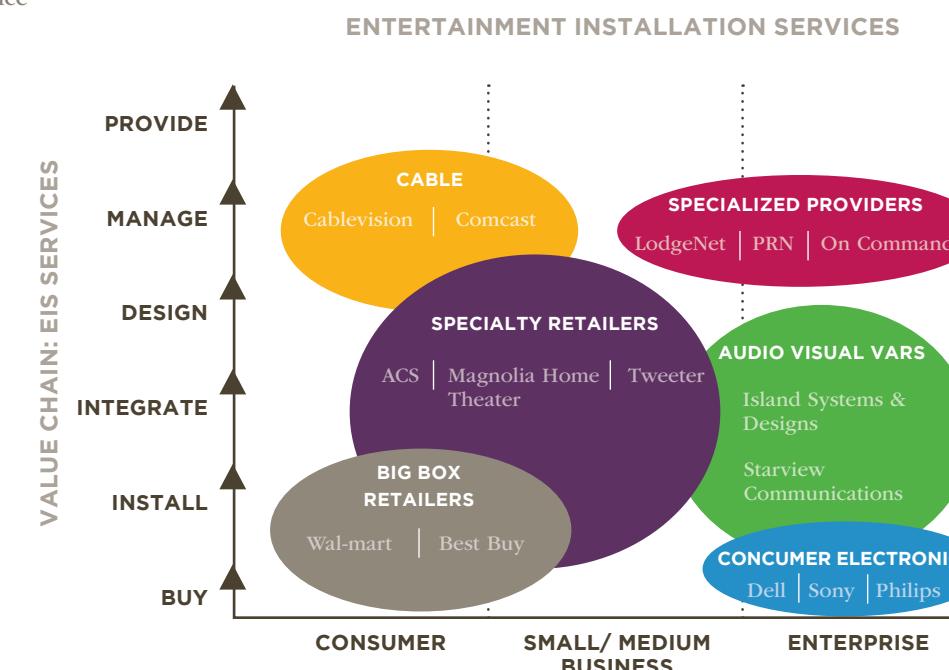
WHY IS IT VALUABLE?

Mapping the industry in which your product or service operates can provide visual cues for potential areas of competitive advantage. For example, scanning the picture for “white spaces” can show areas of potential market opportunity with little or no competition.

HELPFUL HINTS

Clustering competitors into distinct groups makes the analysis easier to digest.

- The clustered groups of your industry landscape do not have to be confined to your direct competitors. Representing substitute products and emerging players as clusters may be helpful in better understanding a changing industry and expanding your scope of potential competitors and partners.

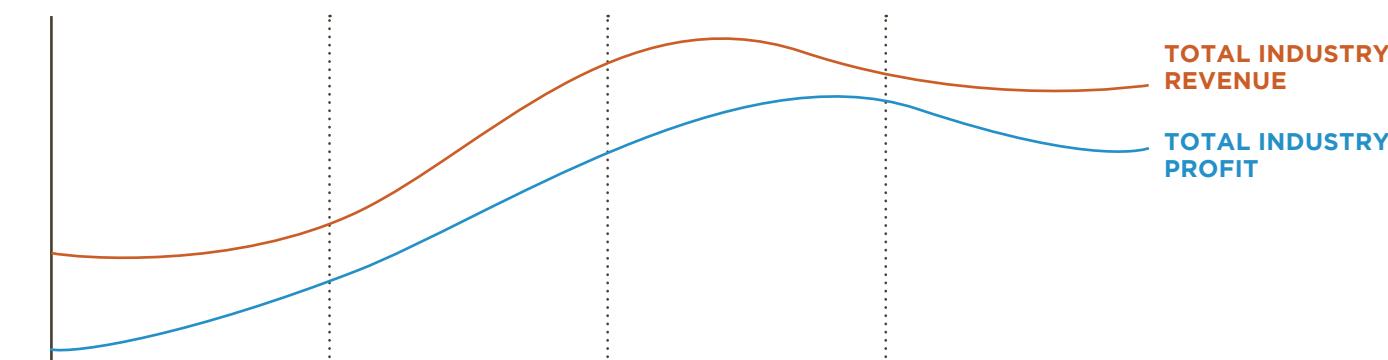


MARKET ASSESSMENT INDUSTRY ANALYSIS

WHAT IS IT?

The Industry Lifecycle is a behavioral model of the various stages of maturity for a typical industry. The lifecycle of most industries can be broken down into the following stages: introduction, growth, maturity and decline.

Sales typically begin slowly at the introduction phase, then take off rapidly during the growth phase. After leveling out at maturity, sales then begin a gradual decline. Profits tend to decline slower than sales, as companies take advantage of expertise and economies of scale to reduce unit costs over time.



INTRO

- Explosive growth
- Pursuing new customers
- Low barriers to entry
- Changing market shares

GROWTH

- Rapid growth
- Fewer new customers
- Higher barrier to entry
- Stabilizing market shares

MATURITY

- Customers aligned with producers
- High entry costs
- Broad product lines
- Little market growth

DECLINE

- Falling demand
- Fewer competitors
- Narrowing product lines
- Substitute products

HELPFUL HINTS

Be aware that the duration of each stage depends on the particular industry. Fad products, for example, may experience a very short growth stage and move immediately into maturity and decline.

Consider the initiatives you can take to prolong lifecycle stages or improve profitability. Product upgrades and enhancements can forestall movement into maturity, while production improvements, supply chain efficiency and new technology can result in extra profits.

MARKET ASSESSMENT

MARKET MODELS

WHAT IS IT?

There are different kinds of market models that describe the state of the market with respect to competition, varying from monopoly (one seller) to perfect competition (many sellers). Market models give a sense of who holds power in a given industry—sellers or buyers—and if that power is concentrated in the hands of a few key players or spread out among many others.

Markets in which a few sellers control most of the market have high barriers to entry, preventing new competitors from easily entering the market. These barriers could be due to a number of factors, such as government regulation, technological patents, or high customer switching costs. Markets with many sellers have low barriers to entry—new competitors can easily join the market. However, players in these markets tend to have a very small proportion of market share since they do not have a unique value proposition.

WHY IS IT VALUABLE?

Understanding the market model for a type of product/service can help you gauge industry attractiveness with respect to competition. For example, entering a market dominated by a few sellers (oligopoly) will be difficult to succeed in without a highly unique value proposition.

MARKET STRUCTURE TYPES

Market Structure	Description	Seller Entry Barriers	Number of Sellers	Buyer Entry Barriers	Number of Buyers
Perfect Competition	Many firms producing a homogenous product/ service	No	Many	No	Many
Monopolistic Competition	Many firms have a very small proportion of market share	No	Many	No	Many
Oligopoly	Few firms own more than 40% of market	Yes	Few	No	Many
Oligopsony	Many sellers and few buyers	No	Many	Yes	Few
Monopoly	Only one provider of a product/ service	Yes	One	No	Many

HELPFUL HINTS

Keep in mind that the market structure for your product or service may be a gradient of one of these market models.

Market models are meant to help you think about how to act given the competitive and buyer landscape of your market.

MARKET ASSESSMENT

FUTURE SCENARIO PLANNING

WHAT IS IT?

Future Scenario Planning is a strategic planning method that facilitates thinking about how the future might unfold.

- Scenarios are stories that describe a possible future. They are neither predictions of the future nor are they intended to provide a consensus view of the future. Scenarios explore what the future may look like if the most important, high-impact, uncertain and uncontrollable drivers develop in different ways.
- Scenarios may describe a context and how it may change, but they do not describe the implications of the scenarios for potential users nor dictate how they must respond.
- Instead of locking you in to one prediction, scenarios lay out a range of alternate futures, and then help you explore how to best navigate and prepare – in terms of new products, services, and other actions – if any one of those futures were to come true.

There are three key components to future scenario planning: Identifying the uncertainties that will shape a particular market in the future, building the scenarios of what those futures might look like, and developing responding strategies for each potential scenario.



Step 1: Create the framing question for all scenarios

Step 2: Collect a list of issues that relate to the framing question and cluster into related sub-questions

Step 3: Identify the items of uncertainty

Step 4: Identify the two most critical uncertainties

Step 4: Use the two critical uncertainties to lay out a 2-dimensional chart. One uncertainty should act as the X-axis and the other as the Y-axis, with each extreme on opposite ends of the axis

Step 5: Describe each future's key characteristics

Step 6: Assign a memorable name to each future

HELPFUL HINTS

Some missteps to avoid when performing future scenario planning:

Creating Unfocused Scenarios

- Constructing scenarios based on too simplistic a difference, such as optimistic and pessimistic
- Failing to focus scenarios in areas of potential impact on the business
- Treating scenarios as forecasts rather than as a tool to explore how the future may look and how your company may respond

Developing Overly Narrow Scenarios

- Failing to make scenarios global enough in scope
- Overlooking futures that do not seem plausible at the current moment
- Creating a framing question in terms of your particular place in the market
- Basing scenarios on variables that are within your company's control rather than external factors

Under-Investing in Exercise

- Treating scenarios as an informational or instructional tool rather than for participative learning / strategy formation
- Not having an adequate process for engaging executive teams in the scenario planning process
- Not using an experienced facilitator
- Failing to put enough imaginative stimulus into the scenario design

MARKET ASSESSMENT

FUTURE SCENARIO PLANNING EXAMPLE

EXAMPLE:

Future of Movie-Going:

Framing Question:

What set of developments will shape movie-going over the next decade?

1. The first step is to create the **framing question** that will guide all your possible scenarios. The question should ask what the future will look like for a particular market, rather than what your place will be in that market.

2. With your framing question in mind, the next step is to collect a **list of unknowns** that will affect the range of possible futures. Cluster these issues into suitable sub-questions.

LIST OF ISSUES:

Who will be producing content for theater consumption?

- Growth of user-generated content as a form of entertainment

What kind of content will be shown in theaters?

- Movie studios taking fewer risks in order to guarantee revenue (e.g. more sequels, fewer releases from first-time directors)

Where will we be consuming entertainment?

- Advanced technology making home theaters a viable substitute
- Rising ticket prices
- Shrinking windows for movie releases
- Faster release of DVDs post-theatrical release
- Decreasing DVD / Blu-ray prices
- Availability of movies on electronic sell-through mediums, e.g., iTunes or Pay Per View
- Online piracy

What will be the impact of new technology?

- Move toward HD and 3-D technology

MARKET ASSESSMENT

FUTURE SCENARIO PLANNING EXAMPLE

3. From your list of issues, identify the uncertainties—important factors which are difficult to predict today—and develop a range of possible futures for each item. Label both ends of the spectrum.

4. From that list of uncertainties, identify the two most critical uncertainties. These will become the critical axes of your chart.

UNCERTAINTIES



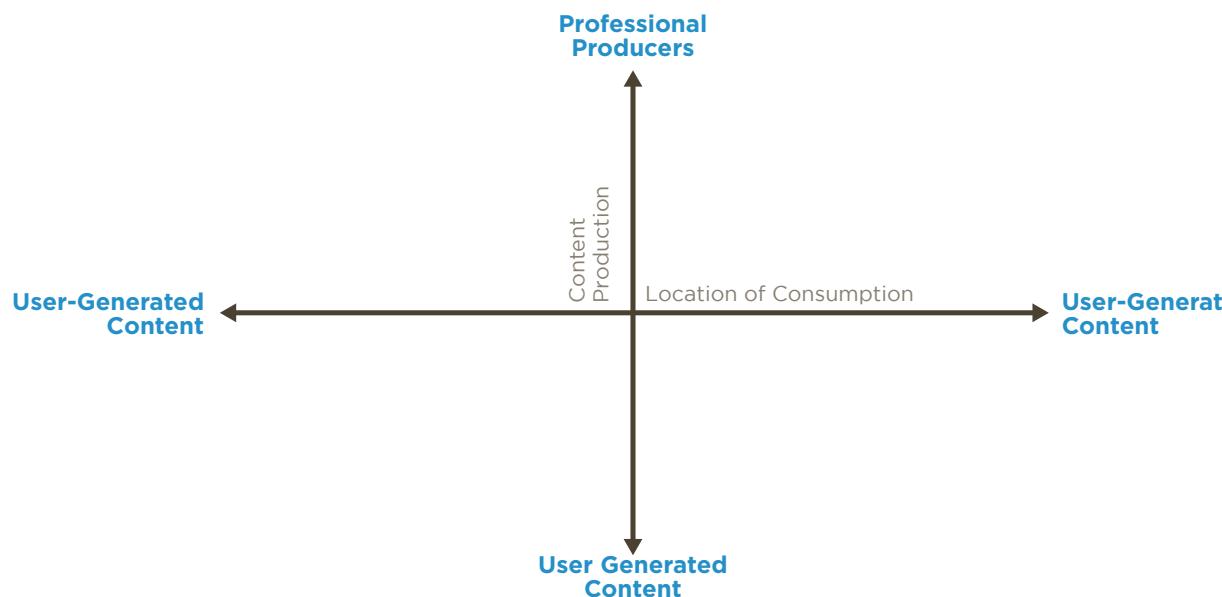
FRAMING QUESTION:

What set of developments will shape movie-going over the next decade?

MARKET ASSESSMENT FUTURE SCENARIO PLANNING EXAMPLE

5. At this stage we're ready for the second part of scenario construction, which is to take the two most critical uncertainties from step 3 and use them to lay out the critical axes for the 2-dimensional chart of future worlds. Label the axes extremes.

FUTURE WORLDS



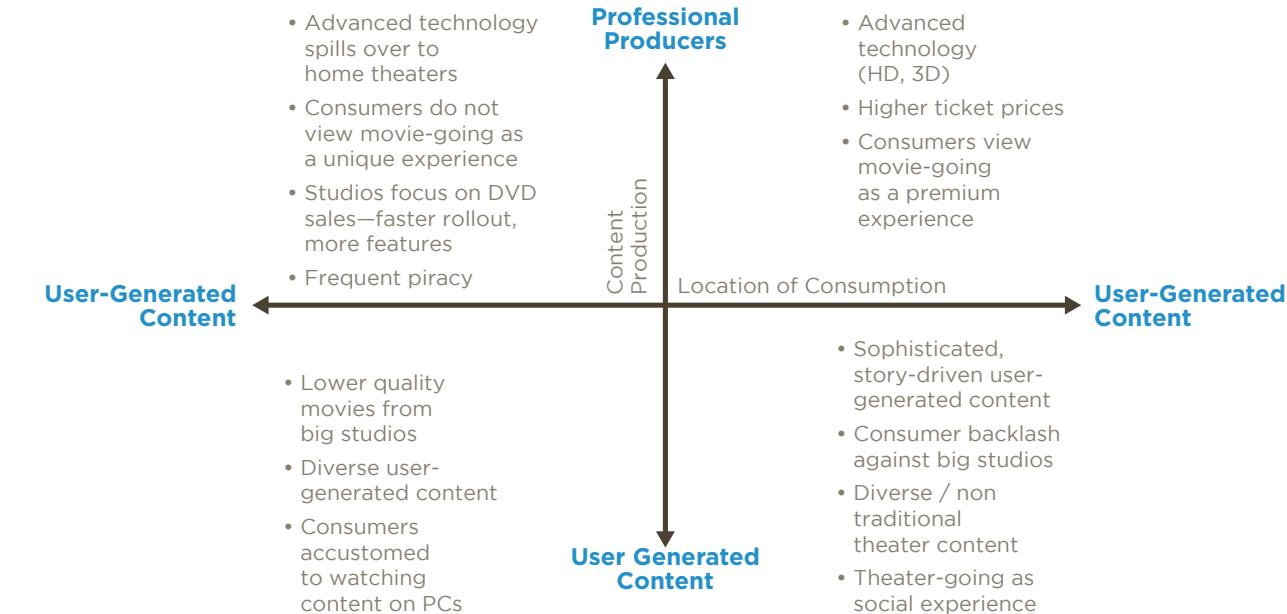
FRAMING QUESTION:

What set of developments will shape movie-going over the next decade?

MARKET ASSESSMENT FUTURE SCENARIO PLANNING EXAMPLE

6. The next step is to describe the futures' key characteristics, with each quadrant as a possible future. Think about all the aspects of market dynamics: consumer preferences, impact of technology, changing price models, competition, etc.

FUTURE WORLDS



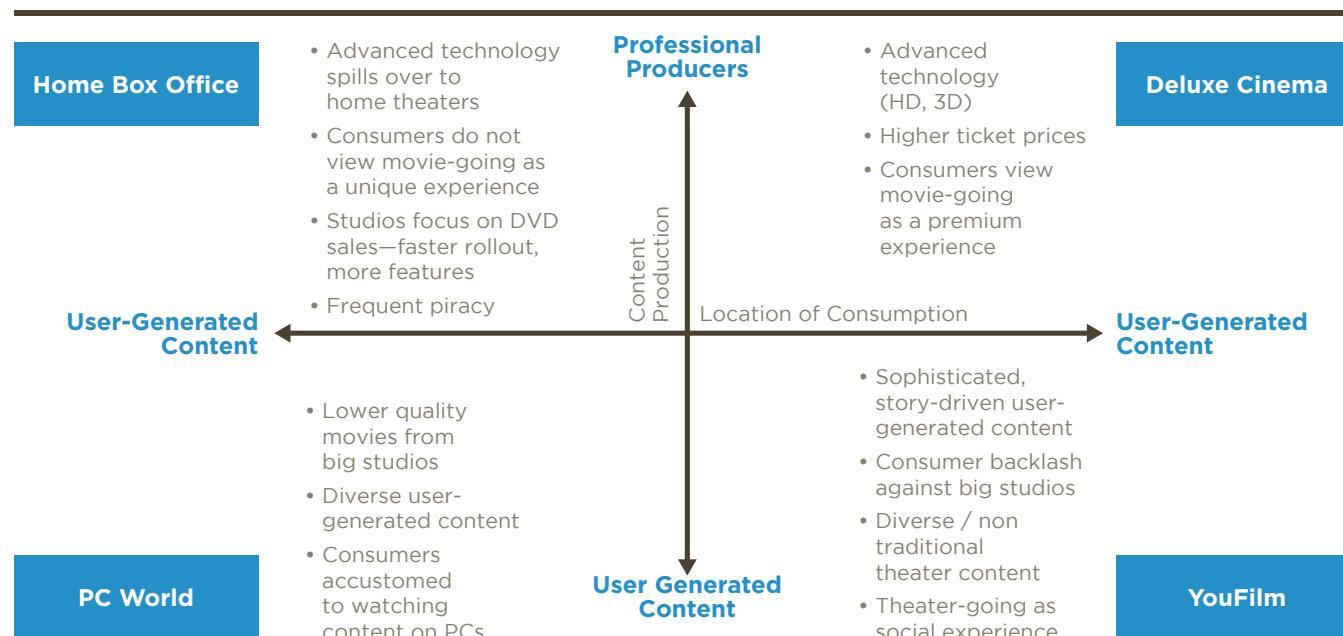
FRAMING QUESTION:

What set of developments will shape movie-going over the next decade?

MARKET ASSESSMENT FUTURE SCENARIO PLANNING EXAMPLE

7. Now that you have described the characteristics of possible futures, assign a name to each future to make them memorable and easy to discuss internally.

FUTURE WORLDS



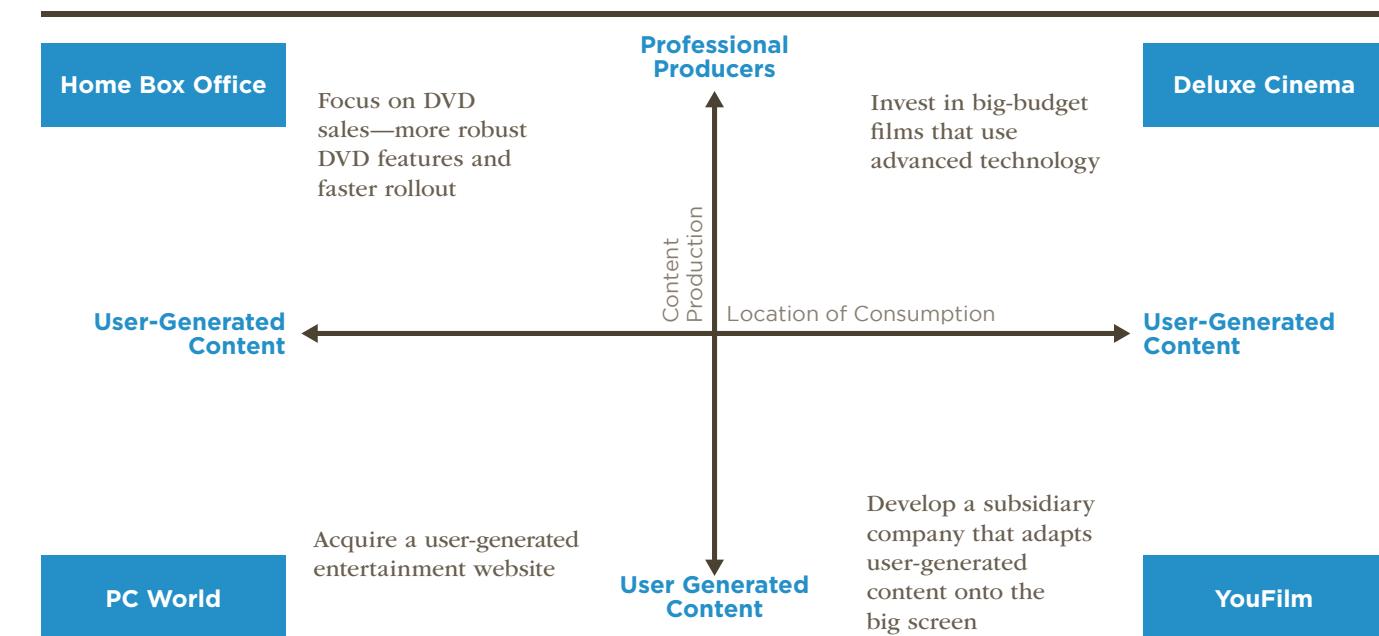
FRAMING QUESTION:

What set of developments will shape movie-going over the next decade?

MARKET ASSESSMENT FUTURE SCENARIO PLANNING EXAMPLE

8. Finally, determine your responding strategies for each possible future. In this example, consider the potential responding strategies of a major movie studio facing these scenarios.

FUTURE WORLDS



FRAMING QUESTION:

What set of developments will shape movie-going over the next decade?

MARKET ASSESSMENT FOCUS GROUPS

WHAT IS IT?

A focus group is a moderated meeting of a limited number of people designed to provide insight on customer attitudes and opinions of a product, service or concept.

The focus group method is an in-depth technique that provides rich qualitative data about a participant's experience with a product or service. Given the time and resources needed to conduct an effective focus group, focus groups should be used only when your business objective requires the depth and detail of customer feedback.

Focus Group Roles:
Facilitator – Experienced moderator (Internal or research agency) who manages the discussion

Recorder – Writes down ideas on flip charts, and takes notes

Participants – Customers or interested groups who share their opinions/experience

WHY IS IT VALUABLE?

Focus groups give you the rare ability to directly probe customers (or interest groups) about their experience with a product or service. The insights gained from these sessions can often stimulate new ideas for further testing.

HELPFUL HINTS

Constructing scenarios based on Keep in mind, results provide a picture of "what" is going on in a market but not "how much." The sample size of a focus group is too small to be an accurate representation of the marketplace.

Because a focus group is a group discussion, it has the potential to be influenced by a persuasive moderator or a few vocal participants. Pay close attention to the group dynamic when running a focus group to ensure that all participants can voice their opinions.

MARKET ASSESSMENT FOCUS GROUPS

SUGGESTED GUIDELINES FOR CONDUCTING A FOCUS GROUP

6-10 members

Semicircular layout form - all facing flip chart, presentation, moderator, etc.

Plan for a minimum of 2 groups and a maximum of 3-4 groups per category

Consider using incentives to increase attendance

Minimize the heterogeneity of the participants within the same group to maximize discussion

Plan for taping/recording facilities (video/audio)

Neutral facilitator who manages the discussion and the participants

Ensure participant comfort to encourage full disclosure

BASIC FOCUS GROUP APPROACH



MARKET ASSESSMENT CUSTOMER ETHNOGRAPHY

WHAT IS IT?

Customer Ethnography is the direct observation of selected customers or interested groups in order to get an in-depth understanding of their needs and how they use a product or service in real life.

Unlike surveys, which use specific, highly practical questions to gain customer insights, customer ethnography involves visiting consumers in their homes or offices to observe and listen in a non-directed way. The goal is to see people's behavior on their terms, not yours.

The results can provide rich qualitative data about the context in which customers would use a new product and the meaning that product might hold in their lives. However, like focus groups, ethnographic studies are considerable investments and should be used when field observation is a key component to producing accurate customer insights.

WHY IS IT VALUABLE?

People are often unable to articulate what they're looking for in certain products or services. By observing how they interact with such products in a non-directed way, you may discover insights that may elude more traditional market research such as surveys or focus groups.

HELPFUL HINTS

Keep in mind, results provide a picture of "what" is going on in a market but not "how much"—the sample size of a customer ethnography is too small to be an accurate representation of the marketplace.

MARKET ASSESSMENT CUSTOMER ETHNOGRAPHY

CASE STUDY: IDENTIFYING CUSTOMER NEEDS IN WESTERN EUROPE

Background: In 1999, Intel researchers determined Europe to be a critical geographic market. As a supplement to available market research, Intel performed an ethnographic study to gain a sense of the household rhythms and cultural patterns of Europe.

Objective: Determine the characteristics of home life in Western Europe relevant to the design of consumer computing products and services.

Sample Size: 45 households across small towns, larger cities, and major metropolitan centers in 5 Western European nations.

Methodology: Local consultants spent at least a week in 3 different kinds of sites within each country, taking photo inventories of their households, following them through their activities, and spending time in public places.

Key Finding: Western European households place significant value on their families and communities, seen across four domains of cultural significance.

Togetherness

Notions of family, kinship and community are extremely important.

Media Experiences

Media consumption is a ritual shared with friends and family.

Consumption Patterns

Shopping is about an extended set of social relations.

Life Outside the Home

People spend more time in public places, which function as social nodes.

Business Opportunity: Products/services relevant to computing in public spaces may be an emerging opportunity for the Western European market.

Source: Intel Technology Journal: "Looking Across the Atlantic: Using Ethnographic Methods to Make Sense of Europe"

MARKET ASSESSMENT CUSTOMER ETHNOGRAPHY

McQuarrie, Edward F. *The Market Research Toolbox: a Concise Guide for Beginners*. Thousand Oaks, Calif: Sage Publications, 2006.

Includes Topics: Market Research Tools, Secondary Research, Focus Groups, Quantitative Research (Surveys), Segmentation

Cornelius, Peters, Alexander Van De Putte, and Mattia Romani. "Three Decades of Scenario Planning in Shell." *Harvard Business Review*, November 1, 2005. Prod. #: CMR326-PDF-ENG.

Includes Topics: Future Scenario Planning

Lindgren, Mats, and Hans Bandhold. *Scenario Planning: the Link between Future and Strategy*. Basingstoke, Hampshire: Palgrave Macmillan, 2009.

Includes Topics: Future Scenario Planning



"In some cases, inventions prohibit innovation because we're so caught up in playing with the technology, we forget about the fact that it was supposed to be important"

~ Dean Kamen

STRATEGIC ASSESSMENT STRATEGIC FIT

WHAT IS IT?

Strategic Fit is an evaluation of how well a product, service or company (in the case of an acquisition or partnership) aligns with the company's strategies, resources, capabilities, organization and culture.

Ideas with a high degree of strategic fit will generally have a strong combination of the following: alignment to the company or division's vision, potential for growth and new businesses or markets, and synergy with existing operations.

Several of the frameworks in this toolkit can be used to analyze the resources and capabilities, such as SWOT analysis and value chain analysis.

WHY IS IT VALUABLE?

Strategic Fit is important because in order for an idea to become operational and successful the company needs to have the resources and capabilities to execute and support its strategy.

HELPFUL HINTS

When thinking about a company's resources, keep in mind that resources can range from the tangible to the intangible. Some examples are:

Tangible:

- Financial (Cash, securities)
- Physical (Plant, property, equipment)

Intangible:

- Technology (Patents, copyrights)
- Human resources
- Reputation (Brands)
- Culture

STRATEGIC ASSESSMENT

STRATEGIC FIT

SAMPLE STRATEGIC FIT SCORING FRAMEWORK

When evaluating strategic fit, consider using a scoring framework to guide your analysis. A scoring framework will provide structure and quantitative weight to the analysis. You should determine a list of relevant key factors and develop descriptions for the spectrum of weak fit to strong fit.

KEY FACTOR	KEY FACTOR			
	1	4	7	10
Business Vision	Weak fit with business strategy and vision	Modest fit, but not with a key element of our vision	Good fit with a key element of vision	Strong fit with several key elements of our vision
Platform for growth	Dead end / one-of-a-kind	Other opportunities for business extensions	Potential for diversification	Opens up new technical and commercial field
Durability of technology or market	No distinctive advantage	May get a few good years	Moderate life cycle, but little opportunity for incremental improvements	Long life cycle with opportunity for incremental improvements
Synergy with other operations	Limited to this product	Could be applied to other products with work	Could be adopted to several products	Could be applied widely
Committed business partner - champion	Low business support	Low business support but champion site identified	Champion identified, committed and involved	Champion identified, committed and actively involved

STRATEGIC ASSESSMENT

HYPOTHESIS TESTING

WHAT IS IT?

Hypothesis Testing is a key problem-solving tool that provides a structured way to test strategic options. The general framework for testing hypotheses is something called a hypothesis tree, which starts with a potential solution and develops a rationale to validate or disprove it.

Rather than decomposing a key issue into smaller subsets (issue tree), a hypothesis tree assumes a solution and links each level with the questions “why?” or “how?” This type of solution-based framework is used when there is sufficient information to form a hypothesis and test assertions.

WHY IS IT VALUABLE?

You can use hypothesis testing as a framework to analyze and test the attractiveness of an opportunity, including different business model options. Forming hypotheses early on can save time, since it forces you to focus only on those issues that can prove or disprove the hypotheses. Using this framework also ensures that you are using an objective, data-driven approach to prove or disprove your hypothesis.

HELPFUL HINTS

You should be able to work through components of the tree and use data from market and competitive research to help prove or disprove your hypothesis.

If you are struggling to complete the tree, you may have the wrong hypothesis.

Make sure that the reasons supporting your hypothesis are mutually exclusive and collectively exhaustive (MECE).

STRATEGIC ASSESSMENT HYPOTHESIS TESTING

VERIFY TREE STRUCTURE

Are A, B, C and D all statements? (rather than questions).

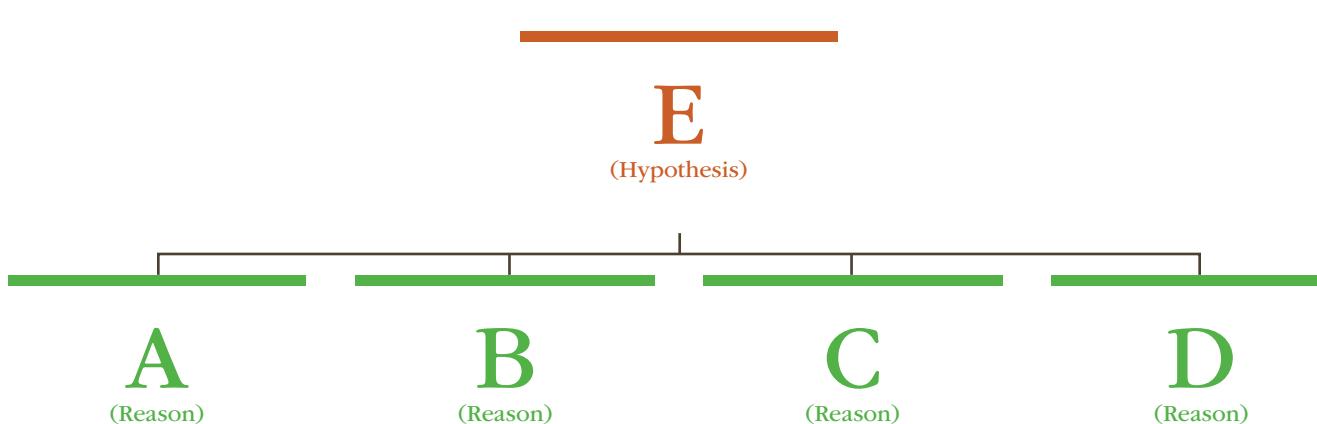
Are statements A, B, C and D all mutually exclusive? (no overlap between statements).

Are statements A, B, C and D collectively exhaustive? (statements cover all relevant drivers as to whether E is true or false).

VERIFY HYPOTHESIS

If A, B, C and D are all true, then statement E is true and the hypothesis is correct.

If any of A, B, C or D is false, then statement E is false and the hypothesis is not correct.



STRATEGIC ASSESSMENT HYPOTHESIS TESTING

EXAMPLE:

LOCATION-BASED SERVICES

Location-based services for mobile phones are emerging as the next big revenue opportunity for several interested parties, including marketers, local businesses, app developers, and the companies that support these services. A combination of consumer trends, cross-industry revenue potential, and sophisticated technology are priming LBS to become a core enabler of mobile activities.

FURTHER READING

Terwiesch, Christian and Ulrich, Karl T. "Strategic Fit: Pulling Opportunities from Strategy – Aligning Innovation Opportunities with Corporate Strategy". Harvard Business Review, June 09, 2009. Prod. #: 3441BC-PDF-ENG.

Includes Topics: Strategic Fit

LOCATION-BASED SERVICES (LBS) WILL BECOME A CORE ENABLER OF MOBILE ACTIVITIES.

Technology exists to support LBS functionality

GPS is increasingly reliable and accurate

All major smartphones come enabled with GPS

Apps can seamlessly integrate with GPS

Several parties have incentive to employ LBS

Targeted advertising reaches consumers at point of purchase

Location can be integrated into social networking services

Changing consumer habits will generate demand for LBS

People increasingly rely on their phones to assist them in all areas of their lives

People want to be able to make informed decisions on-the-go

BRAINSTORMING

A QUICK “HOW TO”

WHAT IS IT?

Generating a wide variety of ideas or idea fragments to solve the problem at hand.

WHY IS IT VALUABLE?

Brainstorming helps generate the widest range of ideas to solve a problem and creates a cache of ideas for future refinement. Narrowing in too early can limit fodder for inspiration and ultimately what's possible.

HOW TO USE IT FOR THIS GATE

Brainstorming is a significant activity in the Project Workshop where the bulk of brainstorming occurs. Brainstorming is particularly helpful when still defining the concept. For work in Gate 2, you're looking to generate the broadest volume of ideas.

Brainstorms are common within organizations to come up with different ideas to solve a problem. While focusing on the Experience aspect of the project, the brainstorms are very wide-ranging and

encourage “wild” ideas. Wild ideas are intended to generate provocative thinking and solutions, but are often shot down in other brainstorm situations as not realistic.

INPUTS

The Project Workshop generates the volume of ideas to consider. Additional ideas may have emerged earlier during the research process and been collected in a “parking lot” for review later. The Experience Themes and Design Principles are critical prompts for brainstorms, but you can also use research stories or design inspiration.

ACTIVITIES

Prepare for brainstorming: Brainstorming can be exhausting, and is very difficult if ill-defined.

- Set up a good space for brainstorming including raw materials, supplies, light and snacks.
- Define prompts for brainstorming – Experience Themes, Design Principles, potential customers, emerging insights, existing ideas, etc.
- Start with a warm-up as it helps get people into a creative mindset.

Review the rules of brainstorming: Many people are bad at brainstorming and will shut down ideas because they're not real. It can help to start brainstorms with reviewing how to do them – IDEO's rules of brainstorming are helpful (<http://www.fastcompany.com/articles/2001/03/kelley.html>).

Switch up activities during brainstorming: Since the goal of brainstorming is to generate quantity, it helps to go faster through many activities than deeply through a few. Changing activities also helps combat brainstorm exhaustion.

Assess ideas: Review all the ideas generated to pull out insights, good ideas and components of ideas. Clustering ideas can identify preliminary Experience Themes and Design Principles.

OUTPUTS

The key for brainstorming is to come out with a wide range and high volume of ideas.

DEFINE CONCEPTS

WHAT IS IT?

A concept is an idea that is more fully fleshed out into a full experience including a customer, user scenario and details.

WHY IS IT VALUABLE?

Concepts are more fully defined ideas that include specific details and the broader use context so that the concepts can be evaluated more realistically for future development. Concepts connect the core idea to the consumer insights, technological innovation, and business values.

HOW TO USE IT FOR THIS GATE

Concepts are defined at each gate with increasing depth and specificity. For Gate 2, sketch out and lightly prototype a range of sample concepts, focusing on the Engage pillar, with the goal of choosing one for the gate review.

A QUICK “HOW TO”

INPUTS

To create a concept you need to have chosen an idea to further define, the customer, and possible use case scenarios.

ACTIVITIES

Assemble the concept: Take possible ideas and scenarios, relate them back to the Experience Themes and Design Principles, and gel them around one concept.

Define the concept: Further explore and detail out that specific direction using the Experience Themes and Design Principles as guidelines for development and evaluation. Brainstorm more ideas, reconsider the concept, and gather additional data if needed to fully understand the concept.

Fully communicate the concept: Add comments and details to the concept to bring it fully to life including detail callouts, captions, and additional imagery. Include context for the idea in the form of a use case scenario, journey map, brand experience, etc.

OUTPUTS

A fully detailed and contextualized idea expressed with visuals and narrative.

BRAND EXPERIENCE CREATION

A QUICK “HOW TO”

WHAT IS IT?

A way to communicate the Experience Framework beyond the idea including the emotional and rational benefits.

WHY IS IT VALUABLE?

A Brand Experience paints a more complete picture of the concept by moving beyond the functional purpose and features to include the emotional benefit. The Brand Experience is a culmination of the features, functions, Experience Themes and Design Principles, blended with the emotional promise in order to express a more complete experience.

HOW TO USE IT FOR THIS GATE

The Brand Experience is developed in more detail through each gate. For Gate 2, focus on building the consumer promise based on the Experience Themes.

Brand is a loaded term and is often seen as just a name and logo art. For the project team, however, the “Brand Experience” is a broader concept about defining the entire concept. The Brand Experience includes emotional benefits to the concept description. The product concept is a manifestation of the brand.

INPUTS

To establish the Brand Experience you need to have a defined concept including the product functionality, the use case scenario and the target audience. It's helpful to have other content from the project at hand to provide additional data and details.

ACTIVITIES

Define the brand values based on what the project team believes in and stands for—it is important to be authentic. This should be influenced by the parent brand (Microsoft, Xbox, Windows Phone, etc.) values, the target market values and the product or service idea itself.

Define the positioning: Start with the consumer promise and brand values and consider the competition to develop a differentiated positioning.

Develop draft imagery, language and style for the brand. Draft the feel, look, attitude and voice for the brand using imagery, language and style guides.

Draft the brand architecture: With a clearer definition of the brand and its competitive positioning, consider how the concept fits into the company portfolio and what role it will play.

OUTPUTS

Defined brand language and architecture are the outputs.

SECONDARY RESEARCH

A QUICK “HOW TO”

INPUTS

The project plan and/or Project Brief will have defined a set of questions to answer or topics to explore, which helps scope the secondary research activity.

ACTIVITIES

Draw from a wide range of resources:

- Clearly the web is a good place to start, but make sure to draw from a variety of resources to get coverage and accuracy. Triangulate and corroborate your findings.
- Use the web wisely. There are many ways to make web searches efficient.

Make notes as you go and cite your sources:

- Take notes while you're reading and jot down quotes with the sources cited. These notes may provide critical content when building the case for your idea.

Go broad. Consider research in the following areas:

- Your category
- Your competitors' (direct and indirect)
 - competitive analyses/audits
- Analogous categories (for inspiration)

OUTPUTS

A set of data including facts, quotes, examples and images. The secondary research also yields a set of questions to have answered in additional research activities.

WHAT IS IT?

Gathering information and inspiration from publications such as articles, books and websites.

WHY IS IT VALUABLE?

Secondary Research allows you to cover a broad amount of territory quickly. It can help you explore the history within a category, a range of categories and trends.

HOW TO USE IT FOR THIS GATE

Secondary research is especially helpful when initially exploring a topic area. It's also helpful in global studies to quickly scope and define areas for exploration. Secondary research is critically useful in Gate 2 where there's a broad amount of territory to cover. You'll also see it again in Gates 3 and 4 to understand a chosen area.

EXAMPLES

Secondary research is used to explore a topic broadly and understand the key issues involved as well as find content that will inform and inspire design development.

RESOURCES FOR SECONDARY RESEARCH:

Analyst Reports:
Data Monitor, Gartner

Trend Reports:
Springwise,
Trendwatching, WGSN,
Viewpoint Magazine

**Inspirational Sites
and Publications:**
PSFK, Cool Hunting

References Sites:
Wikipedia:
www.wikipedia.com

**Newspapers &
Magazines:**
New York Times, Wall St
Journal, Business Week

PRIMARY RESEARCH

A QUICK “HOW TO”

WHAT IS IT?

Gathering data first-hand by talking to real people.

WHY IS IT VALUABLE?

Primary research provides a deeper understanding of a particular group of people and their behaviors and needs around a specific topic area.

HOW TO USE IT FOR THIS GATE

Conduct primary research to explore the target audience and their needs and behaviors.

EXAMPLES

Primary research includes qualitative and quantitative research methods.

QUALITATIVE RESEARCH

Qualitative Research gives you a rich, deep and contextualized understanding of people by engaging with a small sample size.

Methods include:

- Consumer Ethnographies
- Expert Interviews
- Focus Groups or Friendships Groups
- Co-Creation
- Intercepts
- Self-Documentation such as Diaries
- Observations, Retail Audits

QUANTITATIVE RESEARCH

Quantitative Research covers a large statistical sample and allows you to ask specific people specific questions, but with limited context.

Methods include:

- Surveys, Questionnaires
- Conjoint Analysis
- Pricing Evaluation

INPUTS

Primary research is defined and scoped by the project plan as well as what's been explored in secondary research.

ACTIVITIES

Write a research plan:

Before talking to people you'll need to create a research plan which defines the research parameters.

WHY: Mining existing knowledge and conducting secondary research can identify the knowledge gaps you're planning to fill with primary research.

WHO & WHERE: You'll need to choose what types of people you'll be talking to and where. Qualitative research samples are always small, so spend time deciding who you're going to talk to and why.

WHAT: There are many different primary research methods. You should choose the activity that will best answer your key questions. Don't fall back on research method due to popularity or past experience.

WHEN: You'll refine the timing to fit into the project plan and accommodate participant schedules and holidays.

Recruit for the study.

Once you've done a research plan, you'll need to find the participants, which is done in one of two ways: 1) Recruiting Agency: A company that has databases of people for different studies. 2) Friends & Family: When looking for very specific people it can be easier to find them through your network.

Conduct the research.

Now you'll go out and do the research activities. A few things to consider include: 1) Identify who is the lead researcher and who else will be with them – typically 2-3 people go out. 2) Determine how you want to record the visit – notes, pictures, video, audio.

Analyze your findings.

Primary research requires time to review afterwards as you're collecting raw data, as opposed to secondary research where the analysis and synthesis has been done prior to publication.

OUTPUTS

Primary research yields raw data in the form of videos, photos and research notes. This data will need to be mined and organized to share more broadly and inform design development.

DESIGN INSPIRATION

A QUICK “HOW TO”

INPUTS

The project planning and secondary research identify topics and categories to explore by finding design inspiration.

ACTIVITIES

Go out and find stuff from a variety of places: Based on the topics and key questions you've established, list possible places to find inspirational materials and go there. Places include retail stores, museum exhibits, parks and specific areas related to the topic you're exploring.

Troll the web and magazines: A lot of great material is virtual, so make sure you tap into the web for inspiration as well as secondary research. Print materials are also great as they can be cut up and reconfigured in collages.

Remember to go wide and unorthodox: As with secondary research, explore within your category and beyond into adjacent or purely inspirational categories.

Define what you've seen in a trend report or mood board: Collect all your material into a share-able format, like a mood board or trend report.

- Mood boards are a collection of artifacts and images that express the feeling of the ideas.
- Trend reports are a synthesis of what you're finding in words and images.

OUTPUTS

Design inspiration ends with a set of objects and images that can either loosely inspire design ideas or be mined to identify what specifically about them is interesting that may suggest a core design principle. They can also suggest topics and questions for secondary and primary research.

INSIGHT ANALYSIS

A QUICK “HOW TO”

WHAT IS IT?

Identifying the core consumer needs and motivations by deconstructing stories and behaviors observed in the field.

WHY IS IT VALUABLE?

Data is only as good as the analysis done on it. Analysis gives meaning, prioritizes what's important, and generates frameworks and guidelines that help guide future choices about the target market and concepts.

HOW TO USE IT FOR THIS GATE

Analysis should be done whenever data is collected, so it will likely be done throughout the incubation process. In Gate 2, you'll use it to define the possible opportunity areas.

Analysis is one of the most ambiguous and distinctive parts of the Experience process.

There's often a lot of data on post-it notes, and images from research and design inspiration. The art of analysis is reviewing all this

content and organizing it into meaningful categories. You won't know what the categories are when you start – it's not about fitting data into existing categories, but rather about creating new categories from the data.

INPUTS

Analysis is fueled by the previous research activities including mining existing knowledge, secondary research, primary research and design inspiration.

ACTIVITIES

Use a variety of analysis methods:

- Write your content on post-its or cards and cluster and sort into different categories.
- Draw your content in a variety of diagrams and frameworks such as charts, 2x2 diagrams and graphs.
- Make lists and mindmaps of your content. What's a mindmap? Check it out here: <http://en.wikipedia.org/wiki/Mindmap>
- Watch video from primary research fieldwork and write down important issues that come up.
- Read transcripts from primary research fieldwork – highlight quotes, do keyword searches.
- Do some light brainstorming and ideation around the consumer stories and products you've gathered.

Make the time and space for mess, ambiguity and iteration:

- Analysis is a messy process of sorting through the data and ideas to define the key insights and possible concept directions. Give yourself space (ideally a project room with wall space) and time to sort through the content.

Beware analysis paralysis:

- People sometimes drown in data. Break up the activities and intersperse design to keep it real and active.

OUTPUTS

Insight analysis typically yields a list of top insights, insights in categories, and/or a visual diagram explaining the top insights.

TARGET AUDIENCE ANALYSIS

A QUICK “HOW TO”

INPUTS

In the One-Pager, a target customer was likely defined. That content is reviewed alongside new data about potential targets from the secondary and primary research.

ACTIVITIES

Identify the target: Review the data you've collected to determine the group that will benefit most from this product or service.

Define the target: Create a rich description of the target via a consumer profile or persona.

- Tip 1: Include a “day in the life” to provide more contextual detail and color.
- Tip 2: Avoid stereotyping by providing as many tangible details from your research.

OUTPUTS

Customer profiles or personas describing the target audience.

EVALUATION

A QUICK “HOW TO”

WHAT IS IT?

Sharing ideas with stakeholders, experts and consumers to get feedback on the core idea and specific elements.

WHY IS IT VALUABLE?

Any team can get myopic and attached to their ideas. Evaluating ideas with others helps you:

- Gain further insight about the needs
- Determine if your idea addresses the needs
- Build on the ideas or think about them in a new way

HOW TO USE IT FOR THIS GATE

An evaluation of some sort is helpful in at every gate, and becomes more rigorous as the idea gets closer to real implementation. For Gate 2, focus on Informal concept evaluations using criteria such as the Design Principles or other success metrics, and/or co-creation with lead users, experts or stakeholders (internal and external).

INPUTS

The ideas need to be in a refined enough format to be able to be evaluated by consumers.

ACTIVITIES

Choose who will test your idea.

Who should test your idea depends on what gate you're at. For Gate 2, evaluate and co-create with lead users, experts and stakeholders who can help build the idea.

Select the testing method.

Typically a qualitative, co-creation method of testing is more valuable at this gate when the idea is still being created.

Quantitative testing is more valuable later on (Gate 4) when you'll want statistically valid results in real scenarios to finalize the concept.

Write a protocol for testing.

Write out the tasks you'd like the participant to walk through in a logical flow.

Conduct the test.

Conduct the test in a location appropriate to the tester, method and goals. The test may be conducted in a meeting room, at a person's home, where a product would be used on-site, or in a usability lab.

Write a test report.

What happened? Describe generally the setup, what you wanted to achieve, what happened, what it means, and implications and recommendations for design, prioritized ideas and next steps.

Refine the Ideas.

Revise existing ideas and/or add new ideas based on the feedback received.

OUTPUTS

The outcome of testing is a report with the findings and ideas that are revised based on the feedback.

OPERATIONAL ASSESSMENT BUSINESS MODEL – MONETIZATION OPTIONS

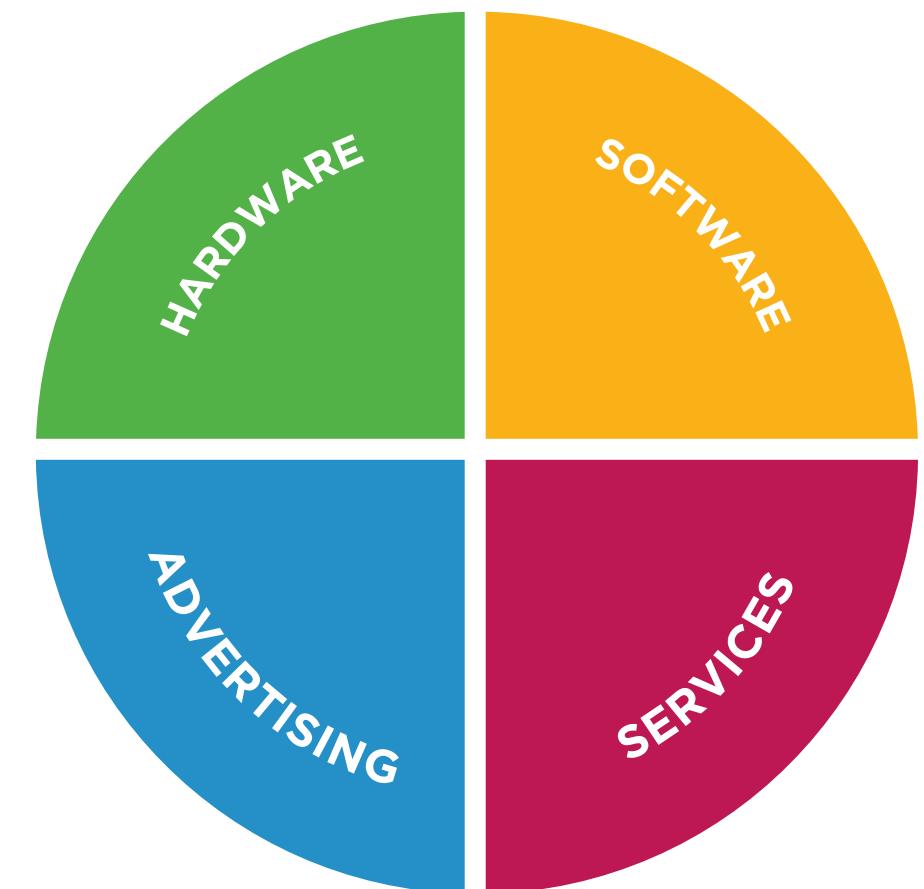
WHAT IS IT?

A business model describes a company's plan for generating revenue and profit from their operations. There are many aspects to a business model including:

- Infrastructure (activities, resources, network)
- Offering (value proposition – see Gate 3)
- Customers (target segments, channels)
- Financials (revenue and cost structure)

At this stage of the incubation process, it is expected that you present options for the business model, but it is not expected that you have a definitive one.

Most offerings will generate revenue through some combination of the following: hardware, software, services and advertising. Thinking about monetization through these different paths may help generate additional ideas for generating revenue.



FURTHER READING

Harvard Business Review on Business Model Innovation. Boston, MA: Harvard Business School Pub., 2010.

Includes Topics: Business Model

Johnson, Mark W., Christensen, Clayton M. and Kagermann, Henning. "Reinventing Your Business Model". Harvard Business Review, December 01, 2008. Prod. #: R0812C-PDF-ENG

Includes Topics: Business Model

Chesbrough, Henry W. **Open Business Models: How to Thrive in the New Innovation Landscape.** Boston, Mass: Harvard Business School, 2006.

Includes Topics: Business Model

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

WHAT IS IT?

The Total Addressable Market (TAM) is the market opportunity, in terms of revenue or units, for a particular product or service. It includes the market that is willing and able to purchase the product or service, filtered for adoption and market share.

This is not to be confused with Total Available Market, which accounts only for the market that is willing and able to purchase the product or service. The Total Addressable Market should be smaller than the Total Available Market because it goes through additional filters to account for market capture.

WHY IS IT VALUABLE?

It is necessary to understand the Total Addressable Market of a product or service to determine whether there is a significant enough opportunity to move forward in the incubation process. The TAM will feed into the development of the business case.

HELPFUL HINTS

It is important to do “sense checks” throughout the market sizing process. Continually ask yourself whether an assumption you made makes sense in the context of existing products and markets.

The TAM template provided should be used as a guide, not a fill-in-the-blanks template.

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

	TOTAL AVAILABLE MARKET				TOTAL ADDRESSABLE MARKET	
DEFINE THE OFFERING	IDENTIFY TARGET LOCATION	DETERMINE ABILITY	DETERMINE INTENT	EVALUATE MARKET SHARE	ESTIMATE MARKET ADOPTION	
Define the Offering	Relevant Countries GDP GDP per Capita Technology Penetration Infrastructure Feasibility	Consumer Applicability Income Level and Affordability Technology Requirements Historical Purchases	Target Segmentation Demographics Psycho-graphics Spending Patterns Historical Purchases	Historical Patterns Number of Market Competitors Key Competitive Advantages Market Presence and Positioning Strategy Over-subscription	Project Sales Historical Adoption Patterns Market Growth General Market Presence	

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

Calculating the market size for a new product or service can be accomplished by following the steps outlined below. The only prerequisite is to have a clear definition of the product or service we will be offering. What exactly are we selling? What specific offerings will exist? How are they differentiated from each other? What market segment are we targeting with each offering?

Step
1

Identify Target Location: Where are we selling? What countries will represent 90% of total sales?

Step
2

Determine Consumers with Ability: Who can buy? Who has the infrastructure and/or income to purchase the offering?

Step
3

Determine Consumers with Intent: Who will buy? Who has the desire and intent to purchase the offering?

Step
4

Evaluate Market Share: Who will buy from us? What do historical patterns and market trends indicate with regard to our competitive advantage?

Step
5

Estimate Market Adoption: How quickly will consumers buy? What historical adoption patterns are similar to the key offering?

Step
6

(Optional)
Scale Offering Globally: Where else will the offering be relevant and how similar are these markets? When will global expansion occur?

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

Step
1

Identifying the target location is a matter of reach strategy and future presence feasibility.

WILL A SINGLE COUNTRY REPRESENT 70-90% OF FIRST YEAR SALES?

Depending on the geographic scope of a new market concept, there are different ways to scale globally:

- If broad global market adoption is important to the success of an offering, target countries should be selected upfront so that each country's particular dynamics can be evaluated (population, GDP, growth, infrastructure, etc.).
- If a single country will represent more than 70% of first year sales, it may be more relevant to first estimate the size of a market for that single country then scale globally (see Step 7).

There is a tradeoff in either of these approaches. By concentrating on a single country such as the U.S., greater data is available. However, upfront country selection can give better structure to a global market estimate.

WHICH COUNTRIES HAVE THE INFRASTRUCTURE AND INCOME TO FEASIBLY ADOPT THE OFFERING?

Consider two factors when evaluating the feasibility of a target country: infrastructure and income.

The infrastructure assessment should determine if the market has a viable set of consumers who have the tools and capabilities to utilize the proposed offering.

- For instance, if a market offering requires a consistent mobile connection to the internet it is important to select countries where wireless broadband is widely available.

Depending on the potential price of the offering, income may also be a factor when selecting viable countries.

- Not all countries will have thorough household income level data (e.g., China). Proxies such as GDP per Capita or even high-end technology penetration such as laptops or smartphones can be used.

Similar countries can be grouped to simplify overall modeling (e.g., developed countries with similar infrastructure and income levels can be grouped together as one set).

Notes for Model Template:

- Criteria such as GDP, GDP per Capita, tech penetration, etc. can be used to suggest target country groupings
- Other data can easily be added and used to evaluate target countries

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

Step
2

Determining consumers with ability is based on the portion of consumers that have the relevant infrastructure and income.

WHAT INFRASTRUCTURE IS REQUIRED TO SUPPORT A FUNCTIONAL OFFERING?

Infrastructure can also help determine the portion of the population that can feasibly (has the ability to) purchase the offering.

To utilize infrastructure as a baseline, each market offering must be associated with a base data set.

- For instance, a game console might require the consumer to own a TV, so TV households could be used as the base data set (i.e., assumes consumers without a TV would never purchase a game console).

Be sure to keep track of what the data set references as its base (i.e., households, population, business professionals, etc.).

WHAT LEVEL OF INCOME IS REQUIRED TO AFFORD THE OFFERING?

Income level is a valuable screen when an offering's price is an important factor.

By utilizing spending patterns we can determine the average income level for a given offering.

- For instance, if a new consumer electronic (CE) device will be priced at \$500 and 3% of household income is spent on CE, 20% of which can be addressed by the offering, then the average HH income required to purchase the device would be $\sim \$83K (\$500 / (3\% \times 20\%))$.
- A normal distribution curve can then be applied to the average HH income to find the number of able purchasers.

Keep in mind that there is limited data for income levels in some countries.

DO THESE REQUIREMENTS OVERLAP? WHAT ELSE?

When using both infrastructure and income factors, it is important to think critically about how the two might overlap.

In some situations it may be fair to make income assumptions for the infrastructure screened population (e.g., homeowners with broadband typically are at a higher income).

If businesses are a potential target market, consider employees per profession and vertical specific spending patterns as opposed to consumer household income and spend.

Notes for Model Template:

- Remember to account for potential overlap between market offerings (i.e. % of consumers who will purchase only one market offering to be counted once)

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

Step
3

Determining consumers with intent can be understood through targeted segmentation and historical purchasing patterns.

WHAT SEGMENTS OF THE TARGET POPULATION HAVE INDICATED A DEMAND FOR THE OFFERING?

If a market segmentation exists that matches closely with the market offering proposed, it can be used to define the % of potential consumers.

Segmentation profiles should contain survey (quantitative) or secondary research data that indicates the likelihood of a particular segment demand for the market offering.

Each segment profile should also contain information on over-subscription (potential for a single consumer or household to purchase many of the same offering).

Each market offering may deserve its own market segmentation depending on the degree of perceived difference between the offerings.

The market demand in each target country set may vary, thus requiring different values for each market offering's segmentation.

WHAT ARE THE HISTORICAL PURCHASING PATTERNS FOR OTHER SIMILAR MARKET OFFERINGS?

Projected purchase demand must also be rationalized against historical purchasing facts.

If an offering exists in the market that is similar to what is proposed, historical purchasing patterns can be used to derive and sense check projected demand.

It is also important to keep in mind potential legal restrictions, such as import and export laws into certain countries (e.g., China restricts sale of certain foreign products).

If segmentation data is not available, historical purchasing patterns of similar offerings can be used across a generic technology adoption segmentation (i.e., early adopters, laggards, etc.).

Once validated against historical data, purchase intent can be estimated and applied to "able" buyers (population, household, etc. depending on able basis).

Notes for Model Template:

- Be sure that segmentation intent takes into account the intent of only the "able" population so that non-buyers are not screened out twice

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

Step
4

Evaluating market share relies on quantifying key competitive characteristics such as presence and externalities.

WHAT DO HISTORICAL AND TRENDING FACTORS INDICATE FOR COMPETITIVE ADVANTAGE STRENGTH?

If historical and brand preference are available in the segmentation profiles utilized for purchase intent, the data can be used to help evaluate potential market share.

Also validate segmentation data against your company's current business, capabilities, and position in the marketplace:

- What market share have you achieved in the past?
- Are there patents or restrictions that benefit your company?
- Can economies of scale be achieved where others can not?
- Are there positive network externalities in your company's favor?
- Are switching costs naturally high?

Market share is applied against the able and intended population of buyers, not the entire population.

WHO WILL BE THE KEY COMPETITORS IN THE MARKETPLACE?

The first question that usually pops into the mind when evaluating market share is, "who will we be competing with?"

After evaluating your company's competitive strengths and segmentation data, the potential competitors should be evaluated in a similar fashion:

- How many competitors will exist in the marketplace?
- What competitive advantages do they have over you?

It is also important to determine if there is room to not only steal market share, but also to grow the overall market.

Notes for Model Template:

- Final segmentation data (such as gender, age range, etc.) should be evaluated against planned business targets after market share has been estimated
- Once market share is applied to the population that has ability and intent, this defines the size of the market at a specific point in time; general market growth and adoption must be factored in next

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

Step
5

Estimating market adoption is based on historical adoption patterns for similar market offerings.

HOW SIMILAR IS THE OFFERING TO OTHER MARKET OFFERINGS RELEASED PREVIOUSLY?

Although tempting to think that the full market can be captured quickly, history shows that 100% adoption is rare and takes significant time.

Bass Diffusion adoption has tracked many historical product adoption patterns and can easily be utilized if the market offering is similar in nature to a previously released bass-diffusion tracked offering (e.g., broadband).

Bass Diffusion can also be used with set targets such as reaching 95% penetration within 10 years (keep in mind that market growth may introduce slight inaccuracies with these set targets).

Combined with the total share of the market, the two other parameters used to predict adoption with Bass Diffusion are:

1. Imitation: likelihood that someone who is not yet using the product will do so due to influence from those who already use the product.
2. Innovation: likelihood that someone who is not using the product will start due to media or other external factors.

HOW ESTABLISHED IS THE MARKET FOR THE OFFERING AND HOW FAST IS IT GROWING?

Two deficiencies with the Bass Diffusion model are:

1. Assumes flat overall market growth
2. Assumes a new market with no prior release history

Since overall market growth is likely, this deficiency is a factor that should be introduced and estimated based on existing forecasts after factoring out adoption.

Notes for Model Template:

- Adoption patterns for each market offering in each target region can be selected that define Bass Diffusion imitation and innovation factors along with "head-start" years
- "Start-Year" can also be defined if the specific market offering will not be released until after another offering has grown in the marketplace

The "head-start" factor essentially sums the first few adoption years into a later year that acts as the first launch year.

Note: Various adoption pattern methods can be used in place of the Bass Diffusion model.

MARKET SIZE AND FINANCIAL ASSESSMENT

TOTAL ADDRESSABLE MARKET (TAM)

Step
6

(Optional): Scaling the market globally is based on an index of relevant and discrete regional metrics.

WHERE ELSE WILL THE OFFERING BE RELEVANT OUTSIDE OF THE BASE REGION, AND WHEN SHOULD GLOBAL EXPANSION BEGIN?

If the offering is specific to a given region then global scaling may not be a relevant step in defining the TAM.

However, if a bottom-up TAM has been developed for an initial launch region with potential to expand, global scaling is an important step in the process.

When considering future markets for expansion, it is a good idea to start with market comparables – where are competitors expanding with something similar?

Other key questions to consider:

- Are there any infrastructure requirements for the offering and, if so, what markets will be feasible?
- Does the offering price point limit the market to developed regions with higher income?
- Are there particular cultural differences that would negate the demand for the offering in specific regions?
- Are there any legal restrictions in specific regions for providing the offering?
- Will expansion be immediate or should the initial offering first be successful in the base region?

HOW SIMILAR ARE POTENTIAL FUTURE MARKETS TO THE ORIGINAL MARKET?

To scale globally, each potential region must be compared to the original base region that the TAM addresses.

To compare regions, 4 – 6 variables can be selected to generate a regional index. Variables must be discrete and could include the following:

- Population (overall size)
- GDP per Capita (affordability)
- Broadband penetration (infrastructure)
- Mobile penetration (technology adoption)
- Activity participation (if relevant to offering)

Each region's variable is divided by the base region's value to come to an index (e.g., UK Population / US Population = 0.20).

The discrete variables are then multiplied across for each region to arrive at a total regional index.

Each region's total index is then summed and multiplied by the TAM to estimate the offering scaled into the selected regions.

Notes for Model Template:

- Levies and tariffs must be applied to international transactions. Although it is best to include specific values for expansion regions, a global average can be applied
- The expansion year and market inclusion variables can be defined separately so that both can be easily and dynamically updated

MARKET SIZE & FINANCIAL ASSESSMENT

BUSINESS CASE & FINANCIAL APPROACH

BUILD THE BUSINESS CASE

After assessing the total addressable market, the next step is to build the business case with the TAM model as a base. For Gate 2, a high level P&L is expected. In a typical P&L, or Income Statement, the bottom-line is Net Income. However, for the purposes of the review process, the bottom-line results in Contribution Margin. The first two steps to develop the business case are to determine unit sales and revenue.

(1) Unit Sales

For each market offering's revenue stream, there must be a defined attach rate

- For instance, a game console might sell an average of 4 accessories and 3 games over the life of the console

Depending on the sell through pattern of the unit, the attach calculation might be immediate (e.g., pre-paid subscription), evenly over the life of the product (e.g., games), or weighted near the product's end-of-life (e.g., maintenance)

Any unit that has a significant price decline over time should be noted

Also include any other forms of monetization that may be applicable to the offering

- For instance, video games sold digitally online may have a related stream of advertising revenue

(2) Revenues

For each unit sold, a corresponding average selling price (ASP) must be defined and multiplied by the units to derive revenue

Remember that certain similar units may need to be broken-out if ASP or costs are significantly different

- For instance, video games sold in a retail store vs. digitally online may have different cost and/or price structures

Your assumptions for costs can be based on comparable solutions in the marketplace

- For instance, to estimate costs for a hardware offering, you may consider average prices of LED screens, CPUs, etc.

If a general contribution margin target is all that is required, costs can be estimated with a contribution margin %, recognizing that any economies of scale will not be realized in the model

ESTIMATE OF COSTS

The next step is to develop an estimate of costs. For Gate 2, costs can be estimated at a top-down level, using either high level estimates of comparable costs or using a contribution margin percentage.

(3) Cost

Depending on the detail required in the model, costs should typically be broken out by fixed vs. variable

Furthermore, certain variable costs such as marketing budget might be better calculated separately if marketing metric estimates are required

Your assumptions for costs can be based on comparable solutions in the marketplace

- For instance, to estimate costs for a hardware offering, you may consider average prices of LED screens, CPUs, etc.

Once costs are organized, a general P&L can be developed based off of revenues less costs

At an initial phase (without a detailed cost breakdown) profit can be derived directly from contribution margin %.

Unlike a full P&L, you can take contribution margin to be equal to operating margin

Detailed profit reports require costs to be accounted for and classified within the model:

- Marketing Budget
- Development Costs
- Direct Labor
- Indirect Labor

For Gate 2, these do not have to be defined at a deep level of detail

For instance, marketing budget can be estimated as % of revenue

Once costs are organized, a general P&L can be developed based off of revenues less costs

At an initial phase (without a detailed cost breakdown) profit can be derived directly from contribution margin %.

MARKET SIZE & FINANCIAL ASSESSMENT

BUSINESS CASE & FINANCIAL APPROACH

EXCERPTS FROM TAM AND PL TEMPLATE



GUIDING PRINCIPLES

The TAM and P&L template should be treated as an example and guide. It is not intended as a direct template with which you will build the business case for your product/service.

The structure and components required for the business case will vary based on the concept and should be built on a case by case, custom basis.

The assumptions you make will drive your business case—from assumptions regarding ability and intent to assumptions on levies and taxes. Assumptions should be as fact-based and data-driven as possible and should be vetted with key experts and stakeholders.

MARKET SIZE & FINANCIAL ASSESSMENT

BUSINESS CASE & FINANCIAL APPROACH

BUILD THE BUSINESS CASE

When presenting the financial case for each gate, you should lay out a range of scenarios that tell a story of how the financial case changes depending on the assumptions you make and the strategy you want to follow. For example,

you may choose to tell a story of three scenarios that range from conservative (base case) to aggressive (best case) to paint a picture of what the business case looks like if you made different assumptions or took different paths.

ILLUSTRATIVE SCENARIOS

CONSERVATIVE



FURTHER READING

Benninga, Simon. *Financial Modeling*. Cambridge, MA: MIT, 2008.

Includes Topics: Financial Modeling, Excel Modeling

Tjia, John S. *Building Financial Models: the Complete Guide to Designing, Building, and Applying Projection Models*. New York: McGraw Hill, 2009.

Includes Topics: Financial Modeling, Excel Modeling

RUN A PROJECT WORKSHOP

A QUICK “HOW TO”

WHAT IS IT?

Facilitating a cross-disciplinary workshop where the Business, eXperience and Technology (BXT) experts gather to share and synthesize research and design inspiration to develop Experience Themes and Design Principles and generate ideas.

WHY IS IT VALUABLE?

The Project Workshop helps:

- Establish buy-in – This workshop is another opportunity to ensure everyone is on the same page.
- Share what everyone is learning – This workshop is where the B, X, and T experts share their secondary research with the team and meld it all together.
- Create the best content – This workshop is an opportunity to leverage the expertise from all three domains. It is a key touch point for gathering multiple perspectives on the problem at hand.
- Generate a volume of ideas – This workshop is a key starting point for generating a volume of ideas which will help define the Experience Themes and Design Principles.

INPUTS

The Business, Experience, and Technology experts all bring data they've gathered from research activities. You should pick a lead facilitator to coordinate the agenda and content for the workshop.

ACTIVITIES

The Project Workshop helps:

- Determine your goals and outcomes ahead of time
- Define activities and prompts to generate more targeted discussion
- Consider the size and makeup of the group for collaborative activities and choose the best room
- Assign homework as it helps the extended team start to think through the issues at hand

Facilitate the Workshop: During the workshop, play an active role managing the discussion. Make sure you move through the following activities:

- Share emerging insights
- Look for common themes and develop an initial hypothesis of the target
- From those themes, generate lots and lots of ideas – refer to the “Brainstorming Ideas” method for specific tips
- Develop preliminary frameworks and solutions

Assemble Workshop output into deliverables:

- When people contribute to an activity they want to see results. After a workshop send out the key insights or ideas, or send the team the final outcome after it's been created

OUTPUTS

The Project Workshop yields a first pass at the Experience Themes and Design Principles, including a range of insights and ideas.

SCENARIO BUILDING

A QUICK “HOW TO”

INPUTS

WHAT IS IT?

Developing use case scenarios or user journeys that demonstrate the key experiences for the target consumer.

WHY IS IT VALUABLE?

Scenarios help you:

- Start to define the story you want to tell.
- Define the context and show how an idea fits into a lifestyle.
- Communicate ideas with a wider audience.
- Highlight each step in the process and ensure designers are thinking about every touch point throughout the user journey.

HOW TO USE IT FOR THIS GATE

Create “user journeys” with the stages of Attract, Engage and Extend. For Gate 2, focus on the Engage stage of the user journey.

USER JOURNEY

A user journey allow a holistic analysis of the user experience. Below is an example that illustrates the three main phases:

Attraction

I've got two Mariners tickets, are you interested? Laura's got two tickets for the Mariners' game at Safeco Field. She asks if Shelby wants to go. Shelby has never been to watch a Mariners' game, but knows they are famous and thinks it should

be fun. She chats about it with Laura, and has a quick look at the website to see what a game is like.

Engagement

Watching a baseball game with friends is so much fun! Laura and Shelby have fun watching the game. They buy hotdogs at the stand and talk about plans for tonight while watching the game. Shelby doesn't know much about baseball, but the people next to them in the stadium explain the game rules. Being part of this crowd is fun!

Extension

Now I'm connected to the Mariners, and a big fan of Ichiro. Shelby becomes a big fan of Ichiro's game. Shelby is planning to talk about her new Ichiro collection! Later, the Mariners send Shelby an email with info and suggestions for the rest of the season.

VISUALIZATION

A QUICK “HOW TO”

WHAT IS IT?

Bring the ideas to life through sketches or prototypes in order to share and evaluate them with others.

WHY IS IT VALUABLE?

Visualizing ideas helps make insights and ideas tangible and able to be shared for review and iteration.

HOW TO USE IT FOR THIS GATE

To visualize ideas in Gate 2, focus on concept sketches that will ultimately be incorporated into a more refined scenario and/or video. And, focus on paper prototypes for the Engage step of the user journey.

INPUTS

Ideas and idea fragments from the Project Workshop and brainstorm activities.

ACTIVITIES

Start sketching and making paper prototypes:
All visualization starts with sketching. Get comfortable drawing up your ideas and find the media that works for you. Get physical by making prototypes out of paper.

Tip: If you’re not good at drawing, consider making a collage or tracing over images to express yourself visually.

Make some prototypes: Refine your concepts and put into a higher level of detail by prototyping using methods such as:

- Wireframes, Screens
- Flash Prototype
- Animated Video
- Motion Studies
- 3D Models
- Appearance Models
- Breadboard Prototypes
- Refine one type of prototype: Choose the type of prototype you plan to build and develop it in a more detailed manner.

OUTPUTS

A set of ideas more fully described visually such that they can be shared and explained to other people.

DEVELOP THE EXPERIENCE THEMES & DESIGN PRINCIPLES

WHAT IS IT?

Final insights defined in a set of categories (themes) with guidelines for design (principles).

WHY IS IT VALUABLE?

The Experience Themes are a framework that provides the transition between insights and design because it's a diagram that encapsulates all the insights in meaningful yet simple categories. The Design Principles are a set of statements for what the design should be based on the insights.

HOW TO USE IT FOR THIS GATE

The Experience Themes and Design Principles are created for Gate 2 to provide guidelines and direction for the first round of concept development.

A QUICK “HOW TO”

INPUTS

The Experience Themes and Design Principles are first drafted during the Project Workshop and finalized after the workshop. Key data from the project up to this point is also reviewed.

ACTIVITIES

Creating the Experience Themes and Design Principles involves the following steps:

- Who should test your idea depends on what gate you're at. For Gate 2, evaluate and co-create with lead users, experts and stakeholders who can help build the idea
- Cluster the data from the primary and secondary research into core Experience Themes that reflect the insights
- Layer on key insights from Business and Technology investigations
- Develop value statements for the Experience Themes.
- Create a set of strategic imperatives and Design Principles to help guide designers, engineers and business leads

OUTPUTS

The Experience Themes and Design Principles make up a refined document concluding the insight exploration.

EXPERIENCE FRAMEWORK AND CONCEPT ROADMAP

A QUICK “HOW TO”

WHAT IS IT?

The Experience Framework is a chart or visual diagram that includes a statement about what will be delivered, and content about how it will be delivered, on one page. The Concept Roadmap shows the progression of the concept over time to aid in implementation.

WHY IS IT VALUABLE?

The Experience Framework summarizes the opportunity and the overall experience, and is used as an evaluation tool for the concepts which are manifestations of that experience.

The Concept Roadmap communicates the progressive execution and evolution of the concept towards the long-term vision. It shows the practical steps to getting there.

HOW TO USE IT FOR THIS GATE

These tools are used to crystallize the point of view and evaluate concepts.

INPUTS

The Experience Framework and Concept Roadmap are the final deliverables for Gate 2. As such, all key deliverables up to this point are referenced as input.

ACTIVITIES

Build the Experience Framework: An Experience Framework has three parts, which should be written simultaneously as they inform each other.

Write the “Vision Statement”: This is a succinct and catchy phrase or sentence that sums up the opportunity and direction, written as an action statement.

Write the “Key Themes & Features”: These are key aspects of the concept grouped into categories (often 3-8) that include a description of the theme and specific features of the concept that reflect the theme.

Write the Design Principles: Design Principles are the guidelines for developing solutions that will meet the themes and features.

Build the Concept Roadmap:

- Assemble all your concepts and consider what it would take for your company to build them.
- Draw a timeline with three phases (Near-Term/Immediate, Short-Term/Mid-Term/Soon, Long-Term/Future) and articulate what we would have to do in each phase.

OUTPUTS

The Experience Framework and Concept Roadmap are the final outcomes.

TECHNOLOGY WRITE-UP

TOPICS TO COVER FOR GATE 2

Architectural Summary
Translate the eXperience data into major SW/HW components.

Key Technologies

List key technologies, their risks and maturation trajectories for next 3-5 years.

Describe the functionality of each key technology.

Project Sizing

Use ‘T-Shirt Sizing’ (S, M, L, XL) to describe the engineering effort required for each of the key technology components.

Key Partners – Internal & External

Identify potential partners for HW, SW or Service components.

POST MORTEM

Alchemie Ventures is a work in progress and we see Post Mortems as an important learning tool.

We use Post Mortems to: Learn, Correct, and Improve; and, we try to follow these tenets when conducting them:

- Run each Post Mortem in a spirit of openness.
- Include everyone involved in the project.
- Provide a space for participants to tell the truth about the project without fear of repercussion.
- Openly outline plans for improvement.
- Complete Post Mortems within a few weeks of a milestone, or project.

WHEN TO DO POST MORTEMS

- After each gate review, run a Gate Review Post Mortem
- At the end of the project (whatever gate or round that may be) run a Project Post Mortem

GATE REVIEW POST MORTEMS

Because these happen in the middle of a project it's difficult to get teams to complete long questionnaires or sit through all day off-sites, so keep it short and sweet.

SCHEDULE THE MEETING

Schedule a team meeting within 2 weeks of finishing the gate review. The meeting should be 2-3 hours long, depending on the size of the team.

SOLICIT FEEDBACK

A few days prior to the meeting, send out the following questions to the team, asking members to provide 2-4 bullet points for each item.

1. What were our "superpowers" (i.e., what did we do well, and what should we keep doing)?
2. What was our "kryptonite" (i.e., what are our key areas for improvement)?
3. What didn't we see coming? Identify issues that weren't apparent until they arose.
4. What should we do differently for the next round/gate? Strategize how things could be done differently or improved

COMPILE FEEDBACK

Team members should send their answers back to the facilitator (likely the Project Lead or Project Manager) about 3 days before the meeting.

The facilitator should read through the responses, pulling out key themes for each question. Don't attach names to responses in the compiled list, and avoid direct quotes or other text that would make it clear who the feedback came from.

Type up those themes and print out enough copies for the meeting.

HAVE THE MEETING

Set the stage and make sure that everyone in the room understands what you are there to do: Learn, Correct and Improve.

- On the white board create 4 sections, one for each of the questions
- Hand out the compiled list of themes to the room
- For each topic, recap the themes that you compiled and take feedback from the room, recording it on the board

SEND A FOLLOW-UP

Within 5 working days of the meeting, send out a summary email to the group highlighting key takeaways and any actions that will be taken.

Save all of the notes for use at your end-of-project post mortem.



DRILLING DOWN: Gate 3 Tools

WHAT IS GATE 3?

Using the opportunity assessment developed for Gate 2, teams that go on to Gate 3 begin working on a draft business plan that seeks to answer the question: "Can this idea be a real business?" The assigned Project Leader is tasked with convincing the project approvers and the Advisory Board (AB) that the business

opportunity can not only become a real business within 3-5 years, but that it will add significantly to the contribution margin should they choose to fund it. Teams that pass Gate 3 receive additional funding, team members and sponsorship to move forward to Gate 4, the big finale.

GATE 3 CHECKLIST

- Plan the Round
- Establish Alignment
- Market Assessment
- Strategic Assessment
- Mine Existing Knowledge
- Competitive Assessment
- Brainstorming
- Define Concepts
- Brand Experience Creation
- Secondary Research
- Primary Research
- Design Inspiration
- Insight Analysis
- Target Audience Analysis
- Evaluation
- Operational Assessment
- Market Size and Financial Assessment
- Run a Project Workshop
- Scenario Building

- Visualization
- Develop the Experience Themes and Design Principles
- Experience Framework and Concept Roadmap
- Technology Tools
- Post Mortem

PLAN THE ROUND

A QUICK “HOW TO”

WHAT IS IT?

Identifying the goals, activities and outcomes of the phase and determining required resources.

WHY IS IT VALUABLE?

While project planning is always important, it's critical to have solid project planning at the beginning of each round because:

- Every innovation project is different. It helps to have the team align on process and methods as they change from project to project.
- Specific outcomes are unknown at the outset. The team defines hypothetical outcomes, but defining timing and resources provides additional guard rails and helps set expectations and scope the project.
- Innovation projects typically involve a broad core team that spans internal groups and external partners. The project plan helps align the entire team around goals, activities and timing.
- The Business, Experience and Technology experts on the project team play different roles at different times. Project planning helps define roles and responsibilities throughout the rounds.

INPUTS

The previous gate document, project kickoff, stakeholder meetings and existing knowledge mining all feed into the project plan.

ACTIVITIES

Define goals: Be clear about why the project is being done and the goals because the outcomes are likely less defined.

Establish tentative outcomes: Specific outcomes are likely to be unclear in innovation projects, but start with some and expect them to change.

Set the timing and resources, and plan for iteration, change, and collaboration: Since innovation projects can be very broad, it's especially important to set deadlines throughout as they help scope the project and keep it on track. Timing is a bit different with innovation projects as the plan has to accommodate iteration, frequent changes in direction, and more collaborative work sessions.

OUTPUTS

The project plan may be a document on its own or feed into the Experience Brief.

EXAMPLES

Project planning for incubation projects is different than traditional project planning in that the process is iterative and the outcomes only loosely defined at the outset. While it's important to write a project plan, it's equally important to plan for it to change. The project plan should include the opportunity to revisit past activities to iterate.

ESTABLISH ALIGNMENT

A QUICK “HOW TO”

INPUTS

The previous Gate's final documentation.

ACTIVITIES

While there are many ways to establish alignment, the following two activities are consistently useful and should be done right at the beginning of the round:

Do a formal project kickoff: Meet as a project team to discuss goals, deliverables and approaches to the project.

- Tip: Prepare content for the kickoff including key questions and potential sources of disagreement.

Set up stakeholder meetings: Meet with external stakeholders and opinion leaders to align on vision and expectations.

- Tip 1: Meet with stakeholders one-on-one to get their personal opinions, knowledge and buy-in.
- Tip 2: If the project is particularly contentious, you may want to do stakeholder meetings before the kickoff.

OUTPUTS

The content from these activities feed into the project plan and Project Brief.

MARKET ASSESSMENT PEST ANALYSIS

WHAT IS IT?

PEST Analysis is an analysis of the macro environment in which your product or service operates. The macro environment is comprised of factors that influence your product or service but are outside your control. These factors may exist for a single country or a region of similar countries. They can be expressed in terms of the following:

- Political factors include government regulations and legal issues that oversee the market in which your product operates.

- Economic factors affect the purchasing power of potential customers and your product/service's cost of capital.

- Social factors include the demographic and cultural aspects of your target market, which shape customer needs and size of demand.

- Technological factors can lower barriers to entry, influence production efficiency, and influence outsourcing decisions.

WHY IS IT VALUABLE?

PEST Analysis ensures that you take into consideration the political, economic, social and technological factors that affect a particular geography or market. By aligning and building your strategy around these factors, you are much more likely to be successful than if your activities clash or oppose them.

PEST ANALYSIS: SAMPLE FACTORS

POLITICAL

- Government Type
- Government Stability
- Government Censorship
- Strength of Law Enforcement
- Regulation/De-Regulation Trends
- Social/Employment Legislation
- Likely Political Change

ECONOMIC

- Business Cycle Stage
- Growth, Inflation & Interest Rates
- Unemployment Rate, Labor Costs
- Wealth Distribution
- Disposable Income
- Globalization
- Likely Economic Change

SOCIAL

- Population Growth/Age Profile
- Health, Education, Social Mobility
- Employment Patterns
- Press, Public Opinion, Attitudes and Taboos
- Lifestyle Choices
- Likely Socio-Cultural Change

TECHNOLOGICAL

- Impact of Emerging Technologies
- Internet Penetration
- Reduced Communication Costs
- R&D Activity
- Speed of Data Transfer
- Likely Technological Change

MARKET ASSESSMENT PEST ANALYSIS

PEST ANALYSIS EXAMPLE: US MOVIE STUDIO CONSIDERING ENTERING THE INDIAN MARKET

POLITICAL

- Widespread copyright infringement – pirated films lose Bollywood \$100M annually
- Finances are unregulated – funding can come from illegitimate sources such as the Mumbai underworld

ECONOMIC

- One of the world's fastest-growing economies at 6.1% GDP growth in 2009. Averaged more than 7% per year since 1997
- Growth is due to structural increase rather than cyclical upturn
- Disposable income grew 6% between 2009-2010

SOCIAL

- 29% urbanization rate – still in the initial stages
- Predominantly interested in local-language films (only 5% foreign films)
- More discerning viewers less interested in formulaic stories
- Preference for stories about relationships and family

TECHNOLOGICAL

- Satellite TV, cable and imported foreign films making inroads to domestic Indian market
- Western films and television gaining wider distribution
- Internet penetration rate of 7% in 2009

Source: Accenture

Source: Accenture

MARKET ASSESSMENT

QUANTITATIVE CUSTOMER RESEARCH (SURVEYS)

WHAT IS IT?

A survey is a quantitative investigation of opinions, behavior and intentions of a population through a representative sample and is administered in the form of a standardized questionnaire. Surveys can measure opinions such as brand perception and customer satisfaction, as well as test direct product/service related factors such as purchase intent, price points, buying patterns and customer segmentation.

Surveys are a useful tool when studying the whole population is impractical and only a sample can be studied. They are relatively inexpensive and can be distributed to a large sample, making the results statistically significant. However, because surveys produce quantitative rather than qualitative results, they may not provide the personal customer insights that can be obtained by focus groups or ethnographies.

Surveys can be conducted by mail, online, over the phone, or in person. The right method for you will depend on your research goals and your budget.

WHY IS IT VALUABLE?

Surveys can be administered quickly and easily, from afar. This makes very large samples feasible, offering results that are statistically significant.

Furthermore, surveys can shed light on a huge range of subjects—from customer needs to the acceptability of specific price points. At AV, we believe quantitative research is a necessary component of every product incubation.

HELPFUL HINTS

Conducting a survey requires rigorous methodology in order to provide valid and representative insights into your target population. Some missteps to avoid when creating and distributing your survey include:

Selection Biases:

- Sampling Bias: Some segments of the target population may be over-represented in the sample, while others are under-represented.
- Voluntary Response Bias: People who choose to respond to surveys tend to have strong opinions that may be over-represented in the sample.
- Design Bias: Survey methodology may be designed in such a way that it inadvertently favors one or more types of respondents, e.g., Online surveys are only accessible to users with regular internet access and responses will be biased toward people who are more connected and tech savvy.

Response Biases:

- Leading Questions: The wording of a question may favor one response over another.
- Social Desirability / Influence: Responses may be biased toward what people believe is socially desirable or accepted, particularly if survey results are not confidential.
- Conducting an effective survey usually (but not always) requires the use of a vendor company experienced in designing and executing market research.
- Keep in mind that surveys are only accurate if people know what they want and act accordingly. For some products and services, peoples' stated desires differ from their purchase decisions. In these cases, behavioral experiments are more effective at gauging customer desires and behavior.
- As with all surveys, keep in mind the legal obligation to protect Personally Identifiable Information (PII) that may be collected through the process. Individual information should not be shared except at an aggregate level, e.g., "80% of students from the ages of 18-24 in the U.S. belong to a social networking site."

MARKET ASSESSMENT

QUANTITATIVE CUSTOMER RESEARCH (SURVEYS)

GUIDELINES FOR SURVEY DESIGN

Consider the relationship between the medium and the types of questions you ask (e.g. certain questions are difficult to answer over the telephone).

Construct questions in such a way to avoid bias toward one answer.

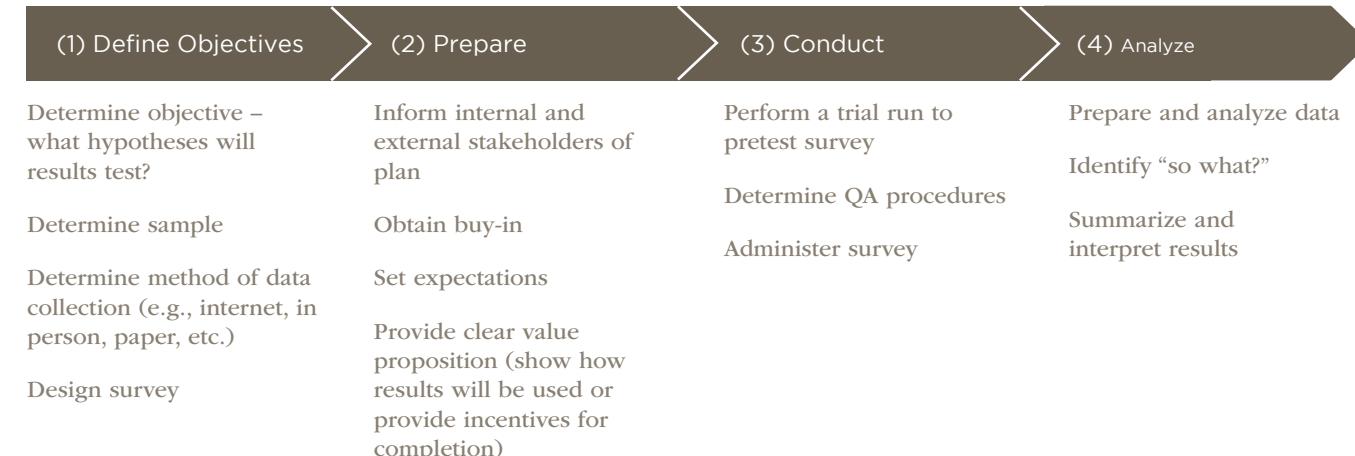
Ensure that questions are concise, to the point, and unambiguous.

Determine the most effective response option for each question (e.g., open-ended, scale (strongly agree to strongly disagree), multiple choice, yes/no, rank a list of options, etc.).

Determine the best sequence of questions.

Ensure that the survey execution method is appropriate for the target audience, e.g., If the target audience is 65+, a phone survey may elicit better response than an online survey.

BASIC SURVEY APPROACH



MARKET ASSESSMENT

CUSTOMER SEGMENTATION

WHAT IS IT?

Customer Segmentation is an analytical approach that classifies individuals into groups with similar characteristics, values and needs. These similarities cause each group to demand similar products or services based on qualities such as price or function.

A true market segment meets all of the following criteria: it is distinct from other segments, it is homogeneous within the segment (exhibits common needs), it responds similarly to a market stimulus and it can be reached by a market intervention.

WHY IS IT VALUABLE?

Breaking down the customer base in terms of needs and behaviors can help pinpoint attractive or underserved market segments so that you can determine how to best meet their needs.

HELPFUL HINTS

Segmentation is a directional art. Even with a perfectly targeted value proposition, not everyone in the defined segment will be interested, and some outside of the segment will be interested.

Avoid focusing solely on current needs of current customers. The most breakthrough segmentation for new products comes from exploring the unmet needs of prospects.

Segmentation is a tool to drive action—assess how these insights affect your product, channel, media, or messaging strategy.

MARKET ASSESSMENT

CUSTOMER SEGMENTATION

CONCEPT OF SEGMENTATION

“TREAT EACH CUSTOMER INDIVIDUALLY”

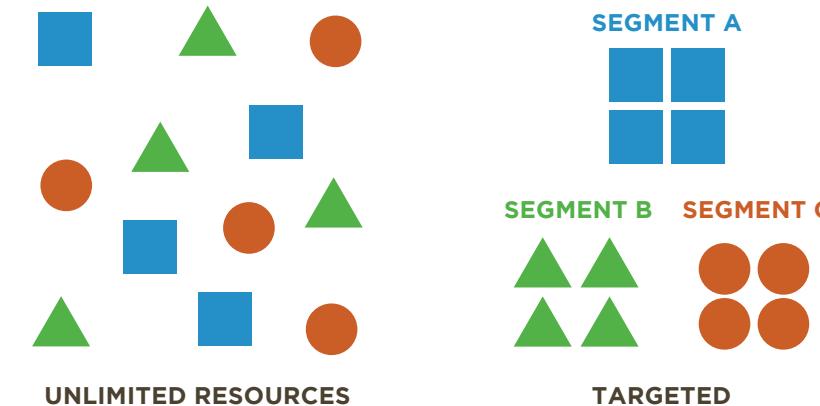
- Distinct behaviors and capabilities
- Different values and needs
- Personalized treatment, products, services, relationships
- One-to-one marketing

“TREAT ALL CUSTOMERS IN A SEGMENT THE SAME WAY”

- Similar behaviors and capabilities
- Homogenous groups with similar values and needs
- Targeted products and services at the segment level

USES OF SEGMENTATION

- Developing corporate, business unit and product level strategy
- Developing marketing plan and opportunities
- Developing channel strategy
- Restructuring product portfolio; develop new products, drop/amend existing products
- Targeting messages and promotions
- Providing different authorizations and service levels by tier



MARKET ASSESSMENT

CUSTOMER SEGMENTATION

SEGMENTATION METHODOLOGY



STEP 1 - IDENTIFY

- Identify business objectives
- Collect and assess existing information (internal transaction data, external reports, etc.)
- Hypothesize segmentation criteria
- Identify additional data sources based on hypotheses
- Collect primary data (surveys, interviews, etc.)

STEP 2 - PROFILE

- Perform qualitative and quantitative analysis (data mining and statistical analysis)
- Validate / modify segment criteria and differentiation factors
- Classify customers / partners into segments based on defined attributes
- Test that segments are mutually exclusive / collectively exhaustive and meet viability criteria through iterations and testing

STEP 3 - POSITION

- Develop detailed information to flesh out segments (e.g. demographic, usage, capabilities, etc.)
- Perform comparative analysis to identify most valuable segments (e.g. market focus, volume, profitability, growth, etc.)
- Communicate findings

STEP 4 - ANALYZE

- Develop strategies and offerings targeted to each segment
- Prioritize initiatives based on segment prioritization and cost/benefit assessments
- Communicate findings

MARKET ASSESSMENT

CUSTOMER SEGMENTATION

CUSTOMER SEGMENTATION APPROACHES

The many approaches along which customers can be segmented can be broadly grouped into traditional approaches, buyer value approaches, and approaches that use a combination of both.

TRADITIONAL APPROACHES

GEOGRAPHIC

- Local, regional, national, & international locations
- Competitor location vs. Customer services

GEOGRAPHIC

- Local, regional, national, & international locations
- Competitor location vs. Customer services

DEMOGRAPHICS

- Industry (SIC)
- Company size or age, income, etc.
- Customer age, income, family status, lifestyle, lifecycle stage, etc.
- Psychographics

CUSTOMER PROFITABILITY

- Revenues
- Cost to serve/acquire
- Lifetime value
- Growth / penetration potential

CUSTOMER HISTORY

- First time/Switcher
- Loyalty
- Tenure/life stage
- Sales

CONSTRAINTS

- Financial
- Competitive

BUYER VALUE APPROACHES

NEEDS

- Key buying factors

PERCEPTIONS

- Product/service performance beliefs
- Brand perceptions

OCCASIONS

- When
- Where
- How

ACTIVITIES/ BEHAVIORS

- Usage patterns / work activities
- Purchase Decision Processes

ATTITUDES/ INTENTIONS

- General purchasing attitudes
- Psychographics

FURTHER READING

McQuarrie, Edward F. *The Market Research Toolbox: a Concise Guide for Beginners*. Thousand Oaks, Calif: Sage Publications, 2006.

Includes Topics: Market Research Tools, Secondary Research, Focus Groups, Quantitative Research (Surveys), Segmentation

Simon, Hermann and Bilstein, Frank F., and Luby, Frank. "Uncover Preferences and Willingness to Pay: Use Customer Research to Find Profit Opportunities". Harvard Business Review, March 23, 2006. Prod. #: 6478BC-PDF-ENG.

Includes Topics: Customer Research, Quantitative Research (Surveys)

STRATEGIC ASSESSMENT

VISION

WHAT IS IT?

Vision defines the fundamental objective and/or strategic direction of a company based on the value it aims to create for customers. Vision helps companies identify what is most important and what they must do to get there.

There are four key aspects to a company's or an offering's vision: its mission, competencies, shared values and target outcomes. These ask who the company seeks to become, what goals do they want to achieve, what must they do supremely well, and what principles will guide their approach.

WHY IS IT VALUABLE?

Strategic vision sets the picture of the business in the future, providing inspiration for all planning and development. Having a strategic vision also ensures that the business does not lose focus on the "big picture" even when immersed in the details.

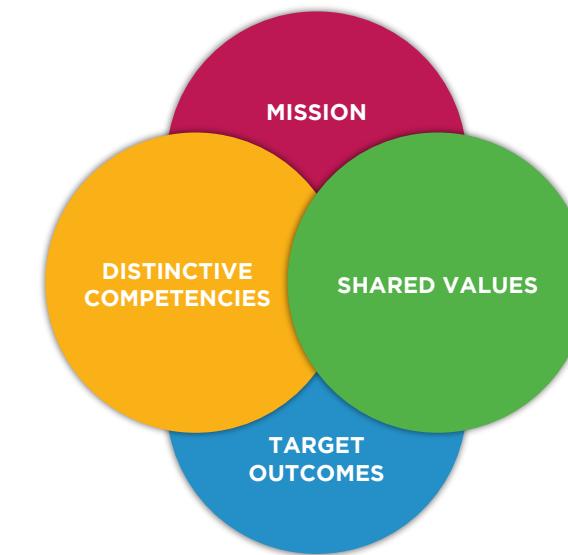
HELPFUL HINTS

Avoid making generic statements—a compelling and meaningful vision communicates the value your product/service provides based on the capabilities you have.

A vision can be a long-term view, sometimes describing how the organization would like the world in which it operates to be. For example a charity working with the poor might have a vision statement which reads, "A world without poverty."

STRATEGIC ASSESSMENT

VISION



VISION FRAMEWORK AND CRITERIA

1. Mission: Who do we seek to become?
 - Is it clear and specific?
 - Is it viable and actionable?
2. Target Outcomes: What goals do we want to achieve?
 - Are they measurable?
 - Are they prioritized?
3. Distinctive Competencies: What must we do supremely well?
 - Do they enable us to achieve our goals?
 - Do they differentiate us from competition?
4. Shared Values: What principles will guide our approach?
 - Do they embody inspiring intentions?
 - Do they set priorities?

SAMPLE COMPANY VISIONS

GOOGLE

Organize the world's information and make it universally accessible and useful

CISCO

Transform the way we live, work, play, and learn with network technology

FACEBOOK

Offer sophisticated tools for maintaining social relationships

RIM

Provide platforms and solutions for seamless access to information when you need it—now

AT&T

Connect people with their world, everywhere they live and work

NINTENDO

Bring gaming to the masses

STRATEGIC ASSESSMENT

VALUE PROPOSITION

WHAT IS IT?

Value Proposition refers to the set of values perceived by customers that makes a product or service unique. As a unified statement of a product's worth to the customer, the value proposition is the basis of competitive strategy.

A company's value proposition should convince a potential customer that their product or service will add more value or better solve a problem than other similar offerings. As such, the ideal value proposition is focused and appeals to the customer's strongest decision-making drivers.

There are four primary components from which to construct a value proposition for your targeted customer segments: product/service definition, product/service creation, price and delivery. Each component must address how to maximize value to customers and maximize profitability.

WHY IS IT VALUABLE?

A clearly defined value proposition ensures consistency of communication messages inside and outside the organization. As an internal blueprint for how value is created and how it is perceived, the value proposition can help develop a cohesive operational and marketing strategy.

Starting from First Principles

Value

1. Worth or usefulness or importance to the possessor; utility or merit.
2. A principle, standard, or quality considered worthwhile or desirable.

Proposition

A plan suggested for acceptance; a proposal

The American Heritage College Dictionary, 3rd Edition

HELPFUL HINTS

When describing the benefits of your product/service, it helps to frame your offerings in terms of the target market's needs and pains.

Make sure to substantiate your ability to deliver on your value promise with consumer research (needs, behaviors, values, trends).

Your value proposition should be known to all members of the organization—it is important to integrate your value proposition messages into all your internal communications.

Value Proposition

The total set of customer perceptible values that makes an organization/product / service unique that becomes the basis and manifestation of competitive strategy.

STRATEGIC ASSESSMENT

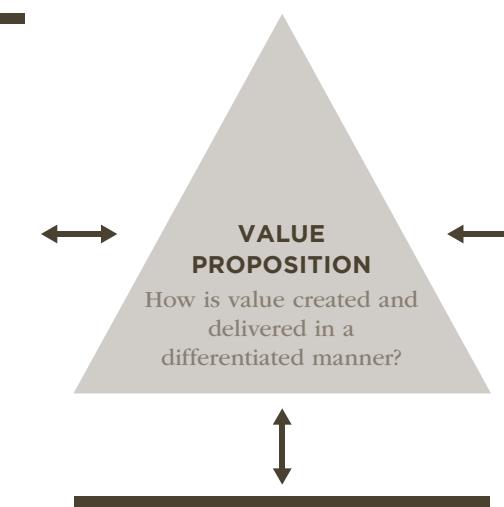
VALUE PROPOSITION

PURPOSE OF A VALUE PROPOSITION

While value propositions take many forms, they all provide a unified statement of how benefits are created and delivered to the customer.

DESCRIBES DIFFERENTIATED BENEFITS TO CUSTOMERS

- What are the perceptible benefits?
- How are they unique / differentiated from competitors?
- Why would customers purchase from us?
- Why will customers come back?



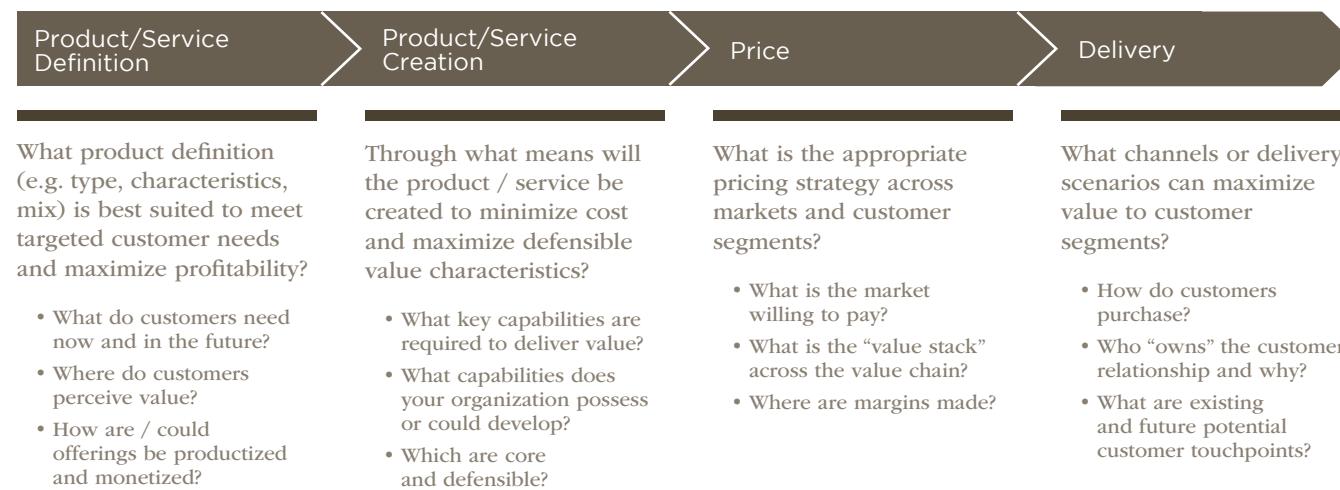
ADDRESSES HOW COMPETITIVE ADVANTAGE IS ACHIEVED

- What distinct market advantages are possessed?
- What capabilities are required?
- How are barriers to entry developed?
- How will the market evolve?

STRATEGIC ASSESSMENT VALUE PROPOSITION

VALUE PROPOSITION COMPONENTS

There are four primary components from which to construct a value proposition for your targeted customer segments. Each component must address the landscape of customer needs, market dynamics and capabilities required to maximize value to customers and maximize profitability.



STRATEGIC ASSESSMENT VALUE PROPOSITION

VALUE PROPOSITION EXAMPLE: 1ST GENERATION XBOX

VALUE AND DIFFERENTIATION	CUSTOMER PURCHASE BARRIERS
<p>PRODUCT DEFINITION (Characteristics that define the product)</p> <p>The best console gaming experience</p>	<p>PRICE (Price of the product/service)</p> <ul style="list-style-type: none"> • \$299 for console • New games purchase • \$49/yr for Live
<p>PRODUCT DIFFERENTIATION (Attributes that set the product/service apart)</p> <p>Superior graphics, HDD, Halo, Xbox Live</p>	<p>MICROSOFT PERCEPTION (Brand perception)</p> <ul style="list-style-type: none"> • New product • Limited experience • Windows legacy
<p>PRODUCT CREATION (Capabilities and resources required to create/deliver product)</p> <ul style="list-style-type: none"> • Direct X, Software excellence • Microsoft resources • 1st party game studios • 3rd party support 	<p>PURCHASE BARRIERS (Obstacles that may prevent customers from purchasing the product/service)</p> <ul style="list-style-type: none"> • New controller to master • Getting connected and signed up • New franchises to embrace

TARGET CUSTOMER DESCRIPTION (Type of customers in your target market)

Serious, Full-Time Gamers

VALUE PROPOSITION STATEMENT (Unified statement of how benefits are created and delivered to customers)

For serious gamers who are looking for the most immersive video gaming experience, the Xbox game console is the most powerful and connected game machine on the planet and, unlike Playstation and Gamecube, is the only place you can play AAA franchises like Halo, PGR, and Splinter Cell and connect to millions of other gamers over Xbox Live.

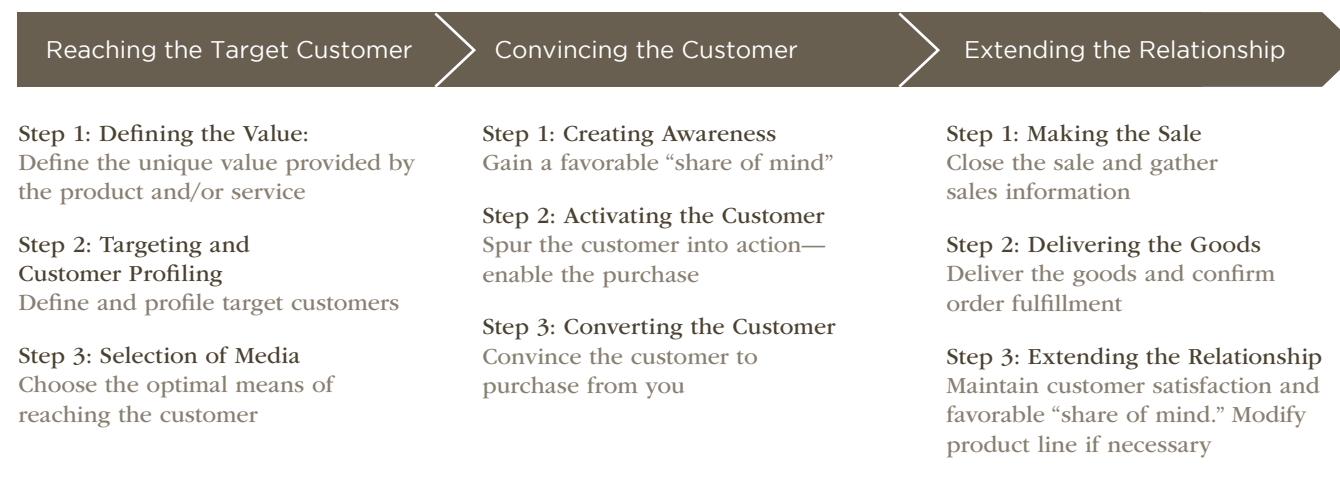
STRATEGIC ASSESSMENT

VALUE PROPOSITION

BUSINESS/CUSTOMER INTERACTION MODEL

An integrated approach at viewing and improving the ongoing series of activities through which a business reaches, convinces, and builds the relationship with the customer.

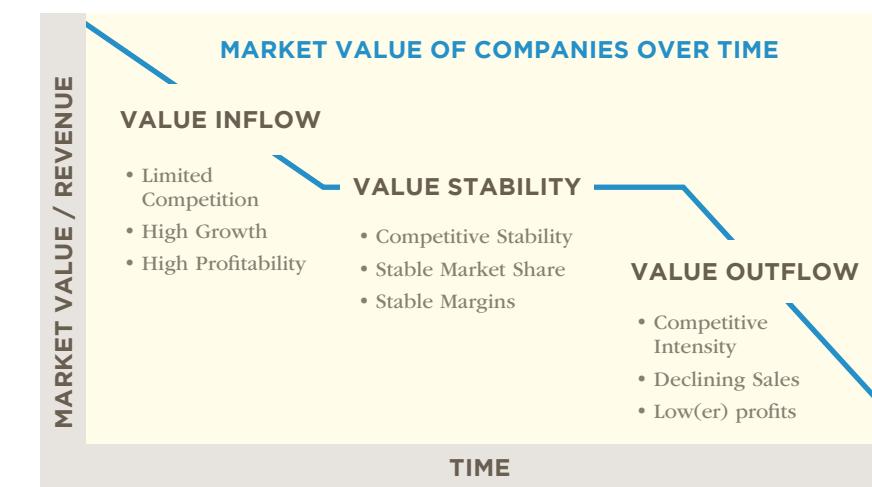
In an increasingly commoditized marketplace, customer relationships can provide differentiation between you and your competitors.



VALUE MIGRATION MODEL

The Value Migration Model focuses on the value creation intrinsic to the design of a company's business system, and how it must migrate to match changing customer values.

To anticipate the “natural” migration of value, a company must fully understand the interaction between customer priorities and the business design. Business designs that meet customers' top priorities create real value growth.



STRATEGIC ASSESSMENT

VALUE PROPOSITION

EXAMPLE: VALUE MIGRATION IN THE MOBILE INDUSTRY

5-7 YEARS AGO: VOICE/SMS



CUSTOMER PRIORITIES

- Signal Reliability
- Compact size
- Price



3-5 YEARS AGO: MOBILE/BROADBAND



- Constant web/email connectivity
- Speed
- Multimedia messaging



TODAY: APPS



- Rapid product development
- Heavily subsidized phones to lock in carrier subscriptions
- Price competition



BUSINESS DESIGNS

- Large contracts with corporations and governments
- Functionality over form



FURTHER READING

Palomino, Jose. *Value Prop – Create Powerful I3 Value Propositions to Enter and Win New Markets*. Philadelphia: Cody Rock Press, 2008.

Includes Topics: Value Proposition

Anderson, James C., Narus, James A. Van Rossum, Wouter. "Customer Value Propositions in Business Markets". Harvard Business Review, March 01, 2006. Prod. #: R0603F-PDF-ENG.

Includes Topics: Value Proposition

Gilad, Benjamin. *Business War Games: How Large, Small, and New Companies Can Vastly Improve Their Strategies and Outmaneuver the Competition*. Franklin Lakes, NJ: Career, 200.

Includes Topics: War Gaming

MINE EXISTING KNOWLEDGE

A QUICK “HOW TO”

WHAT IS IT?

Identifying and reviewing existing resources and information that are available to you (within your organization and across your company) before collecting additional information.

WHY IS IT VALUABLE?

When starting a project these days one can safely assume someone within your company has already worked on that topic in some fashion. Finding those people and their content will help you:

- Use resources for additional research wisely.
- Find out if an opinion (positive or negative) has been formed by the organization on this topic already.
- Find experts who can contribute to and evaluate your ideas.

INPUTS

To mine for existing knowledge you need to gather documents from past and current project reports, internal databases and internal publications.

ACTIVITIES

Talk to key people: Talk to people who can point you to internal resources about the topic at hand. Research & Strategy teams tend to have access to, and keep, this type of information.

Tip: Sometimes these people are key stakeholders so you can simultaneously conduct stakeholder interviews while gathering information.

Get on your internal network: Most big organizations have an intranet filled with useful information.

OUTPUTS

Existing knowledge feeds into defining the project plans in terms of what additional data needs to be collected. The data itself is organized and combined with the other data collected in the project to form the insights and opportunities.

COMPETITIVE ASSESSMENT NETWORK EFFECTS

WHAT IS IT?

A Network Effect is the positive effect that one user of a product or service has on the value of that product to other users, thereby increasing its value as more people use it. A classic example is the fax machine. While a single fax machine has little value, the value of each increases with an increasing number of fax machines in the network because each user can send and receive documents to and from a greater number of people.

Network effects become significant after a sufficient number of people have purchased the product or service, called critical mass. After this point, the value obtained from the good or service is greater than the price paid. Adoption increases rapidly as people feel compelled to purchase due to the positive utility to price ratio.

The network effect changes the nature of competition substantially, as new adopters may choose one product over another on the basis that other people have it, creating a positive feedback loop.

WHY IS IT VALUABLE?

For products or services with a strong network effect, entering the market early is critical in gaining competitive advantage. If your product or service reaches critical mass before your competitors, it becomes much more difficult for competitors to gain new buyers, since new buyers will want to purchase the product with the most existing buyers.

HELPFUL HINTS

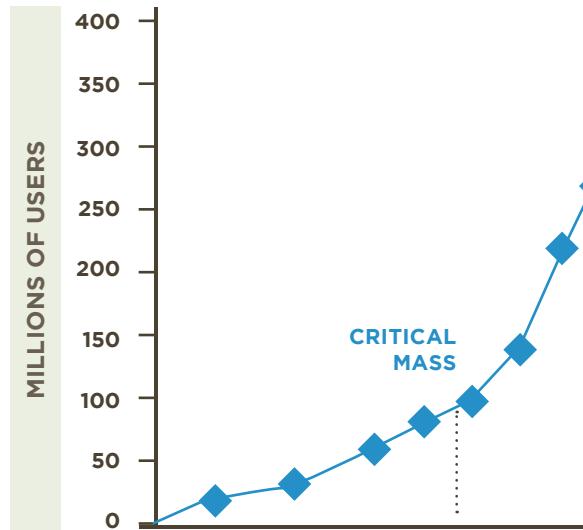
Network effects are commonly mistaken for economies of scale, which improve profitability due to increased business size rather than increased value for the customer. To help clarify the distinction, remember that economies of scale occur on the supply side, while network effects arise on the demand side.

Source: Inside Facebook

COMPETITIVE ASSESSMENT NETWORK EFFECTS

EXAMPLE: FACEBOOK

Social networking sites like Facebook exemplify network effects because their value is directly tied to the size of their user base. After steadily growing since 2006, Facebook's user adoption reached critical mass in mid 2008, growing from 85 million users to 400 million users in just 18 months. Today, Facebook is the largest social network in the world.



EXAMPLE: GOOGLE

Google's strengths lie largely in its indirect network effects. One such network effect is that the more users who search through Google, the more relevant the search results become. With over a billion searches conducted through Google each day, Google holds a vast amount of search data. Its algorithm draws upon this data to understand what people are really searching for and, subsequently, to improve user relevance. With this advantage, it logically follows that users would stay with or switch to the search engine with the most relevant results.



Source: Inside Facebook

COMPETITIVE ASSESSMENT SWITCHING COSTS

WHAT IS IT?

Switching costs are the negative costs that a customer incurs as a result of changing providers of a product or service. These costs may be monetary, convenience-based, or psychological, emotional and social.

Switching costs stifle competitors from acquiring a provider's existing customers. When the cost of switching to the lowest cost provider outweighs the price difference between two providers, the customer is said to be locked-in to the existing provider.

Providers that manage to lock in customers hold power over the competition and existing buyers. They are able to raise prices or lower product quality to a certain point without losing customers because the effects of lock-in prevent them from switching.

WHY IS IT VALUABLE?

Overcoming switching costs can be a major obstacle in gaining new customers. Understanding the magnitude and nature of switching costs for a particular product/service (monetary and non-monetary) can help guide your customer acquisition strategy.

HELPFUL HINTS

Be careful not to overlook the psychological, emotional and social switching costs of a product/service. Loss aversion, for example, shows that the pain of giving up one product can overwhelm the benefits received from the new product, even if there is no monetary switching cost.

COMPETITIVE ASSESSMENT SWITCHING COSTS

EXAMPLE: AT&T

Switching costs are particularly high for major telecommunications providers like AT&T, whose combined services reach 150 million U.S. subscribers. Since most customers purchase long-term contracts in order to receive discounted prices, they are effectively locked in to AT&T for the duration of their contract. AT&T has used their high switching costs to up sell existing customers with bundled packages, called U-verse, for combined wireless, landline, and internet services.

MONETARY COSTS

- Early termination fees
- Activation fees
- Hardware/accessories
- Installation service fees

CONVENIENCE COSTS

- Researching new provider
- Cancelling existing plan
- Purchasing new plan
- Creating new plan specifications
- Lack of service during interim period
- Adjusting to new services, products, accessories, processes

SOCIAL/ PSYCHOLOGICAL COSTS

- Brand loyalty—trusted as one of the nation's oldest and most ubiquitous providers
- Loss aversion

COMPETITIVE ASSESSMENT WAR GAMING

WHAT IS IT?

War Gaming is an adaptation of the art of simulating moves and counter-moves in a business setting. It is designed to put you in the mindset of competitors and provide a protected environment to test out strategies and tactics.

In a war game, internal teams take on the roles of your group and your competitors, developing predictions of each others' most likely moves. The teams then pressure-test various practical options against competitors' expected reactions.

War games are not meant to try to predict the future—they are to show the decisions you must make to succeed in possible or likely futures.

All war games must answer two difficult questions:

1. What will competitors do?
2. How can my plan outsmart them?

WHY IS IT VALUABLE?

War games force you to see how your partners, customers, and competitors think and act, rather than only looking inward. As a result, war games often lead to strategic decisions that leaders might overlook or even resist.

HELPFUL HINTS

Ensure that you have invested the time, research and resources to create the most accurate market simulation. The exercise should include all the key stakeholders necessary to make and execute decisions.

Make sure that you have a defined set of competitors and clear parameters for moves going into the exercise to avoid losing focus.

To maximize the value of a war game, you may seek to use an external war gaming specialist to facilitate the exercise.

COMPETITIVE ASSESSMENT WAR GAMING

CONDUCTING A WAR GAME

While there are a variety of ways to conduct a war game based on its level of complexity, all war games must develop predictions of competitors' most likely moves and execute an optimal strategy against those moves. To do this, you must define the scope, prepare your participants, and conduct the necessary simulations.

Defining Scope

Define the scope of your war game based on time, budget, and resources

- War games can range widely in scope and complexity
- A war game session may last from one to a few days, depending on the competitive/ business issue(s), gaming model, resources and urgency of the situation
- War game specialists can help reduce preparation time and maximize value, at varying costs

Preparation

Gather competitive research and prepare war game participants

- Step 1: Define competitive/ market issues, scope, and factors (controllable and uncontrollable)
- Step 2: Plan and coordinate participants, teams, timeline, budget, etc.
- Step 3: Conduct competitive research from both published and internal sources
- Step 4: Conduct preliminary analysis based on research results
- Step 5: Provide briefings, instructions, and research and analysis materials to participants

Execution

Execute your strategy considering competitors' expected moves

- Step 1: Conduct simulations of likely actions and reactions under specific scenarios and conditions
- Step 2: Draw conclusions to likely scenarios and outcomes and form recommendations
- Step 3: Devise formal strategy, plans, contingencies, and next steps
- Step 4: Debrief participants regarding the process: identify key lessons and ways to improve exercises

FURTHER READING

Shapiro, Carl and Varian, Hal R. "Recognizing Lock-In: How to Leverage Switching Costs". Harvard Business Review, October 06, 1998. Prod. #: 2576BC-PDF-ENG.

Includes Topics: Switching Costs

Shapiro, Carl and Varian, Hal R. "Networks and Positive Feedback: How to Exploit Network Effects". Harvard Business Review, October 06, 1998. Prod. #: 2578BC-PDF-ENG.

Includes Topics: Switching Costs

BRAINSTORMING

WHAT IS IT?

Generating a wide variety of ideas or idea fragments to solve the problem at hand.

WHY IS IT VALUABLE?

Brainstorming helps generate the widest range of ideas to solve a problem and creates a cache of ideas for future refinement. Narrowing in too early can limit fodder for inspiration and ultimately what's possible.

HOW TO USE IT FOR THIS GATE

Brainstorming is a significant activity in the Project Workshop, where the bulk of brainstorming occurs.

While the goal of brainstorming initially is to generate the broadest volume of ideas, use brainstorming in Gate 3 to generate ideas within the chosen direction.

A QUICK "HOW TO"

INPUTS

The Project Workshop generates the volume of ideas to consider. Additional ideas may have emerged earlier during the research process and been collected in a "parking lot" for review later. The Experience Themes and Design Principles are critical prompts for brainstorms, but you can also use research stories or design inspiration.

ACTIVITIES

Prepare for brainstorming: Brainstorming can be exhausting, and is very difficult if ill-defined.

- Set up a good space for brainstorming including raw materials, supplies, light and snacks
- Define prompts for brainstorming – Experience Themes, Design Principles, potential customers, emerging insights, existing ideas, etc
- Start with a warm-up as it helps get people into a creative mindset

Review the rules of brainstorming: Many people are bad at brainstorming and will shut down ideas because they're not real. It can help to start brainstorms with reviewing how to do them – IDEO's rules of brainstorming are helpful.

Switch up activities during brainstorming: Since the goal of brainstorming is to generate quantity, it helps to go faster through many activities than deeply through a few. Changing activities also helps combat brainstorm exhaustion.

Assess ideas: Review all the ideas generated to pull out insights, good ideas and components of ideas. Clustering ideas can identify preliminary Experience Themes and Design Principles.

OUTPUTS

The key for brainstorming is to come out with a wide range and high volume of ideas.

EXAMPLES

Brainstorms are common within organizations to come up with different ideas to solve a problem. While focusing on the Experience aspect of the project, the brainstorms are very wide-ranging and encourage "wild" ideas. Wild ideas are intended to generate provocative thinking and solutions, but are often shot down in other brainstorm situations as not realistic.

DEFINE CONCEPTS

A QUICK “HOW TO”

WHAT IS IT?

A concept is an idea that is more fully fleshed out into a full experience including a customer, user scenario and details.

WHY IS IT VALUABLE?

Concepts are more fully defined ideas that include specific details and the broader use context so that the concepts can be evaluated more realistically for future development. Concepts connect the core idea to the consumer insights, technological innovation, and business values.

HOW TO USE IT FOR THIS GATE

Concepts are defined in each gate with increasing depth and specificity. In Gate 3, focus on incorporating stakeholder feedback while enriching and re-evaluating the chosen concept(s) for the complete user journey.

INPUTS

To create a concept you need to have chosen an idea to further define, the customer, and possible use case scenarios.

ACTIVITIES

Assemble the concept: Take possible ideas and scenarios, relate them back to the Experience Themes and Design Principles, and gel them around one concept.

Define the concept: Further explore and detail out that specific direction using the Experience Themes and Design Principles as guidelines for development and evaluation. Brainstorm more ideas, reconsider the concept, and gather additional data if needed to fully understand the concept.

Fully communicate the concept: Add comments and details to the concept to bring it fully to life including detail callouts, captions, and additional imagery. Include context for the idea in the form of a use case scenario, journey map, brand experience, etc.

OUTPUTS

A fully detailed and contextualized idea expressed with visuals and narrative.

BRAND EXPERIENCE CREATION

A QUICK “HOW TO”

INPUTS

To establish the Brand Experience you need to have a defined concept including the product functionality, the use case scenario and the target audience. It's helpful to have other content from the project at hand to provide additional data and details.

ACTIVITIES

Define the brand values based on what the project team believes in and stands for—it is important to be authentic. This should be influenced by the parent brand (Microsoft, Xbox, Windows Phone, etc.) values, the target market values and the product or service idea itself.

Define the positioning: Start with the consumer promise and brand values and consider the competition to develop a differentiated positioning.

Develop draft imagery, language and style for the brand. Draft the feel, look, attitude and voice for the brand using imagery, language and style guides.

Draft the brand architecture: With a clearer definition of the brand and its competitive positioning, consider how the concept fits into your company's portfolio and what role it will play.

OUTPUTS

The specific outputs depend on the gate, but generally the output is a defined brand language and architecture.

EXAMPLES

Brand is a loaded term and is often seen as just a name and logo art. For the project team, however, the “Brand Experience” is a broader concept about defining the entire concept. The Brand Experience includes emotional benefits to the concept description. The product concept is a manifestation of the brand.

SECONDARY RESEARCH

A QUICK “HOW TO”

WHAT IS IT?

Gathering information and inspiration from publications such as articles, books and websites.

WHY IS IT VALUABLE?

Secondary Research allows you to cover a broad amount of territory quickly. It can help you explore the history within a category, a range of categories, and trends.

HOW TO USE IT FOR THIS GATE

Secondary research is especially helpful when initially exploring a topic area. It's also helpful in global studies to quickly scope and define areas for exploration. Use secondary research in Gate 3 to further understanding of the chosen area.

EXAMPLES

Secondary research is used to explore a topic broadly and understand the key issues involved, as well as find content that will inform and inspire design development.

RESOURCES FOR SECONDARY RESEARCH:

Analyst Reports:

Data Monitor, Gardner

Trend Reports:

Springwise, Trendwatching, WGSN, Viewpoint Magazine

Inspirational Sites and Publications:

PSFK, Cool Hunting

References Sites:

Wikipedia:
www.wikipedia.com

Newspapers & Magazines:

New York Times, Wall St Journal, Business Week

INPUTS

The project plan and/or Experience Brief will have defined a set of questions to answer or topics to explore, which helps scope the secondary research activity.

ACTIVITIES

Draw from a wide range of resources:

- Clearly the web is a good place to start, but make sure to draw from a variety of resources to get coverage and accuracy. Triangulate and corroborate your findings.
- Use the web wisely. There are many ways to make web searches efficient.

Make notes as you go and cite your sources:

- Take notes while you're reading and jot down quotes with the sources cited. These notes may provide critical content when building the case for your idea.

Go broad. Consider research in the following areas:

- Your category
- Your competitors' (direct and indirect)
 - competitive analyses/audits
- Analogous categories (for inspiration)

OUTPUTS

A set of data including facts, quotes, examples, and images. The secondary research also yields a set of questions to have answered in additional research activities.

PRIMARY RESEARCH

A QUICK “HOW TO”

INPUTS

Primary research is defined and scoped by the project plan as well as what's been explored in secondary research.

ACTIVITIES

Write a research plan: Before talking to people you'll need to create a research plan which defines the research parameters.

WHY: Mining existing knowledge and conducting secondary research can identify the knowledge gaps you're planning to fill with primary research.

WHO & WHERE: You'll need to choose what types of people you'll be talking to and where. Qualitative research samples are always small, so spend time deciding who you're going to talk to and why.

WHAT: There are many different primary research methods. You should choose the activity that will best answer your key questions. Don't fall back on research method due to popularity or past experience.

WHEN: You'll refine the timing to fit into the project plan and accommodate participant schedules and holidays.

Recruit for the study.

• Once you've done a research plan, you'll need to find the participants, which is done in one of two ways: 1) Recruiting Agency: A company that has databases of people for different studies. 2) Friends & Family: When looking for very specific people it can be easier to find them through your network

Conduct the research.

• Now you'll go out and do the research activities. A few things to consider include: 1) Identify who is the lead researcher and who else will be with them – typically 2-3 people go out. 2) Determine how you want to record the visit – notes, pictures, video, audio

Analyze your findings.

• Primary research requires time to review afterwards as you're collecting raw data, as opposed to secondary research where the analysis and synthesis has been done prior to publication

OUTPUTS

Primary research yields raw data in the form of videos, photos, and research notes. This data will need to be mined and organized to share more broadly and inform design development.

DESIGN INSPIRATION

A QUICK “HOW TO”

WHAT IS IT?

Going out into the world and finding product, service or business ideas that provide inspiration for the project.

WHY IS IT VALUABLE?

Finding design inspiration complements secondary research by encouraging the team to find tangible artifacts that express needs or possible solutions. This activity encourages content to become physical and visual right away and helps ideas start flowing.

HOW TO USE IT FOR THIS GATE

As with secondary research, finding design inspiration is useful in Gate 3 to help further understand the chosen area.

Design inspiration ends with a set of objects and images that can either loosely inspire design ideas or be mined to identify what specifically about them is interesting that may suggest a core design principle. They can also suggest topics and questions for secondary and primary research.

INPUTS

The project planning and secondary research identify topics and categories to explore by finding design inspiration.

ACTIVITIES

Go out and find stuff from a variety of places: Based on the topics and key questions you've established, list possible places to find inspirational materials and go there. Places include retail stores, museum exhibits, parks and specific areas related to the topic you're exploring.

Troll the web and magazines: A lot of great material is virtual, so make sure you tap into the web for inspiration as well as secondary research. Print materials are also great as they can be cut up and reconfigured in collages.

Remember to go wide and unorthodox: As with secondary research, explore within your category and beyond into adjacent or purely inspirational categories.

Define what you've seen in a trend report or mood board: Collect all your material into a share-able format, like a mood board or trend report.

- Mood boards are a collection of artifacts and images that express the feeling of the ideas.
- Trend reports are a synthesis of what you're finding in words and images

OUTPUTS

Design inspiration ends with a set of objects and images that can either loosely inspire design ideas or be mined to identify what specifically about them is interesting that may suggest a core design principle. They can also suggest topics and questions for secondary and primary research.

INSIGHT ANALYSIS

A QUICK “HOW TO”

INPUTS

Analysis is fueled by the previous research activities including mining existing knowledge, secondary research, primary research and design inspiration.

ACTIVITIES

Use a variety of analysis methods:

- Write your content on post-its or cards and cluster and sort into different categories.
- Draw your content in a variety of diagrams and frameworks such as charts, 2x2 diagrams and graphs.
- Make lists and mindmaps of your content. What's a mindmap? Check it out here: <http://en.wikipedia.org/wiki/Mindmap>
- Watch video from primary research fieldwork and write down important issues that come up.
- Read transcripts from primary research fieldwork – highlight quotes, do keyword searches.
- Do some light brainstorming and ideation around the consumer stories and products you've gathered.

Make the time and space for mess, ambiguity, and iteration:

- Analysis is a messy process of sorting through the data and ideas to define the key insights and possible concept directions. Give yourself space (ideally a project room with wall space) and time to sort through the content.

Beware analysis paralysis:

- People sometimes drown in data. Break up the activities and intersperse design to keep it real and active.

OUTPUTS

Insight analysis typically yields a list of top insights, insights in categories, and/or a visual diagram explaining the top insights.

EXAMPLES

Analysis is one of the most ambiguous and distinctive parts of the Experience process. There's often a lot of data on post-it notes, and images from research and design inspiration. The art of analysis is reviewing all this content and organizing it into meaningful categories. You won't know what the categories are when you start – it's not about fitting data into existing categories, but rather about creating new categories from the data.

TARGET AUDIENCE ANALYSIS

A QUICK “HOW TO”

WHAT IS IT?

Determining which people will benefit most from this concept and creating personas.

WHY IS IT VALUABLE?

When introducing a new concept, knowing who would use the product or service and why it's valuable to them will help you define the product attributes and messaging. The concept can be tuned to their needs and then broadened for mass appeal.

HOW TO USE IT FOR THIS GATE

For Gate 3, target the MAINSTREAM audience while doing target audience analysis. Identify other segments that may benefit from this product or service.

INPUTS

At the beginning of the gate, a target customer was likely defined. That content is reviewed alongside new data about potential targets from the secondary and primary research.

ACTIVITIES

Identify the target: Review the data you've collected to determine the group that will benefit most from this product or service.

Define the target: Create a rich description of the target via a consumer profile or persona.

Tip 1: Include a “day in the life” to provide more contextual detail and color.

Tip 2: Avoid stereotyping by providing as many tangible details from your research.

OUTPUTS

Customer profiles or personas describing the target audience.

EVALUATION

WHAT IS IT?

Sharing ideas with stakeholders, experts and consumers to get feedback on the core idea and specific elements.

WHY IS IT VALUABLE?

Any team can get myopic and attached to their ideas. Evaluating ideas with others helps you:

- Gain further insight about the needs
- See if your idea meets the needs
- Build on the ideas or think about them in a new way

HOW TO USE IT FOR THIS GATE

An evaluation of some sort is helpful in every gate, and becomes more rigorous as the idea gets closer to real implementation. In Gate 3, evaluation should focus on co-creation and/or testing with consumers, experts or stakeholders (internal and external).

A QUICK “HOW TO”

INPUTS

The ideas need to be in a refined enough format to be able to be evaluated by consumers.

ACTIVITIES

Choose who to test your idea.

Who should test your idea depends on what gate you're in. In Gate 3, further development with core users and expand to a mainstream audience.

Select the testing method.

Typically a qualitative, co-creation method of testing is more valuable early on, including in Gate 3, when the idea is still being created.

Quantitative testing is more valuable later on (Gate 4) when you'll want statistically valid results in real scenarios to finalize the concept.

Write a protocol for testing.

Write out the tasks you'd like the participant to walk through in a logical flow.

Conduct the test.

Conduct the test in a location appropriate to the tester, method and goals. The test may be conducted in a meeting room, at a person's home, where a product would be used on-site, or in a usability lab.

Write a test report.

What happened? Describe generally the setup, what you wanted to achieve, what happened, what it means, and implications and recommendations for design, prioritized ideas and next steps.

Refine the Ideas.

Revise existing ideas and/or add new ideas based on the feedback received..

OUTPUTS

The outcome of testing is a report with the findings and ideas that are revised based on the feedback.

OPERATIONAL ASSESSMENT

OPERATING MODEL

WHAT IS IT?

An operating model is the way that a business constructs its capabilities to execute its business strategies. It is very likely that a company employs multiple operating models to satisfy a company's different businesses.

An operating model shows what capabilities are needed to form an end-to-end strategic value chain, who and where the capabilities are to be performed, and how each capability is designed to drive maximum efficiency and effectiveness.

The construction of an operating model begins with a business model that incorporates deliberate decisions about customers, products, routes-to-market, and how the company creates value. These decisions should be informed by marketplace trends. Operating model strategy is then defined in terms the business's value chain and the execution elements (people, process, technology, structure) that support it.

WHY IS IT VALUABLE?

An operating model that is tightly linked to a company's business strategy is critical to its successful execution. A strategic vision is only as good as the people, processes, technology, and structure that execute it. Organizations that align their operating models to their strategies generally outperform those that don't.

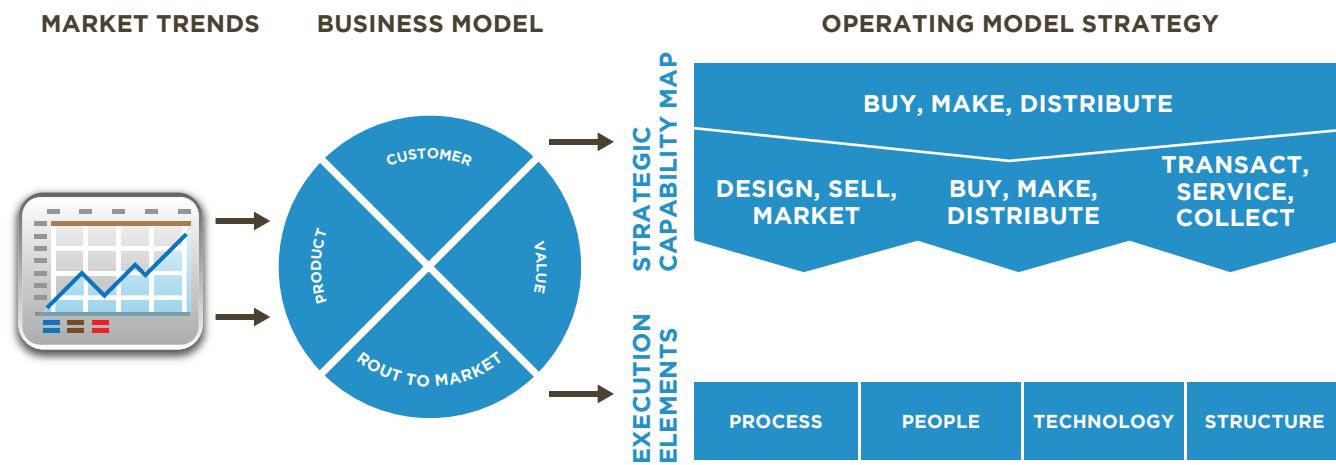
HELPFUL HINTS

Be careful not to jump ahead to the later stages when constructing an operating model, since each step is affected by the last one. For example, you cannot build the execution elements without first defining the strategic capability map.

OPERATIONAL ASSESSMENT

OPERATING MODEL

A company's operating model is shaped by trends in the marketplace and the business choices that respond to them. Macro and industry trends force companies to make business choices along four dimensions: customer, product, route-to-market, and value (price). The business model that is formed from these choices determine the type of operating model that the company needs to execute its strategy.



OPERATIONAL ASSESSMENT

OPERATING MODEL

12-POINT APPROACH TO CONSTRUCTING AN OPERATING MODEL



Business Model

Business Model Diagnostic
Capture current business model in terms of customer, product, route-to-market, and value.

Market Trends & Scenarios
Define & analyze market trends that could change your strategy.

Business Model Options
Develop the market landscape, value proposition, and articulate future business model options.

Future Business Model
Articulate future business model in terms of customer, product, route-to-market, and value.

Strategic Capability Map

As-Is Strategic Capability Map
Define the value chain for each business segment (what activity, where performed, who performs).

As-Is Op Model Assessment
Analyze current operating models for future segment value propositions.

To-Be Strategic Capability Map
Define the to-be future value chain for each future business segment.

Operating Model Solution, Roadmap & Business Case
Quantify the benefits and support with further analysis into those capability map steps that will undergo considerable change. Create roadmap to define change approach.

Execution Elements

Business Processes
Translate strategic capability maps into detailed process requirements including metrics, inputs, and outputs.

People
Determine the impact of new skills, roles & responsibilities, culture and leadership on the business.

Technology
Determine technological needs for successful change and to shape how technology will be used to execute the operating model.

Organization Structure
Create recommended organization structure.

OPERATIONAL ASSESSMENT

OPERATING MODEL

BUSINESS MODEL - INFRASTRUCTURE OPTIONS

There are several ways a company can bring a new product to market or develop new capabilities: build it yourself, buy it from someone else, or partner with an organization whose solutions complement your own. All three strategies have advantages and disadvantages in terms of time to market, cost, and ease of management.

PROS	CONS
------	------

BUILD

- Most control
- Own the IP
- Most profit opportunity
- Integrated with existing business
- Fast to market
- Own the IP
- Some control
- Larger installed base

BUY

- Slowest to market
- Competitive risks
- Highest development and switching costs
- Acquisition cost
- Difficult integration process
- High risk

PARTNER

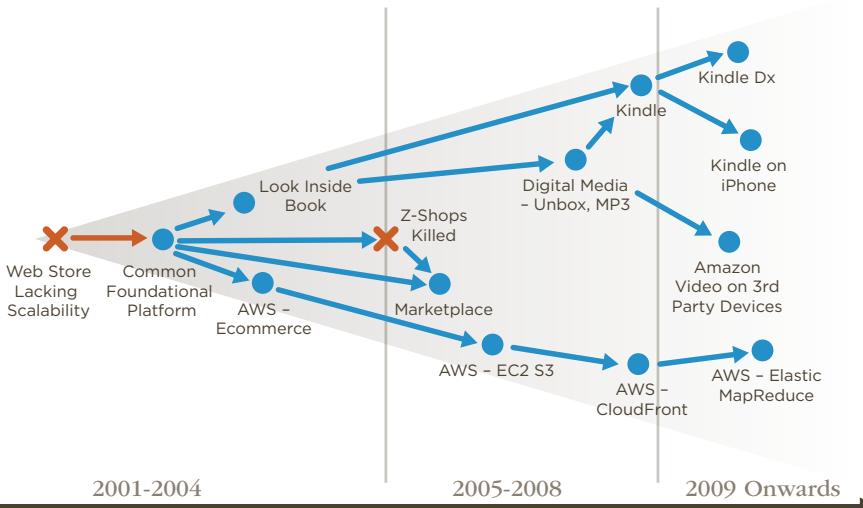
- Least control
- Lowest profit opportunity due to shared margins
- Fastest to market
- Low development and switching costs
- Conserves resources
- Credibility and access

OPERATIONAL ASSESSMENT

OPERATING MODEL

EXAMPLE: AMAZON

Amazon's operating model is built on customer centricity, a common platform, long term big bets and controlled experimentation.



KEY DEVELOPMENTS

"You want to maximize the number of experiments you can do per given unit of time. If something's really big – like the big bet we made with AWS – then you can only do a limited number. But since the outcomes of all these things are uncertain, if you can figure out how to conduct experiments (economically), you can make more bets." – Jeff Bezos, Amazon CEO

BUSINESS & OPERATING MODEL PRINCIPLES

Core focus on the customer and driving operations efficiency

Moved to common services platform in 2002 to allow teams to focus 70% time on value add and only 30% on undifferentiated development

Amazon Web Services and Digital Media Business grew from common platform foundation

Prepared to kill businesses that do not succeed e.g. Z-Shops, auction based competitor to eBay

Prepared to make long term bets where the need is non 'transient' (e.g. customers will always look for the best price for a given product)

Serve multiple end points—Kindle is not the strategy—digital book delivery is

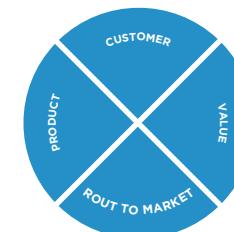
OPERATIONAL ASSESSMENT

OPERATING MODEL

EXAMPLE: AMAZON

Business Principles

Operating Model Principles



Clearly articulated business strategy:

- Customer centricity and process efficiency
- Make long-term investments and give them time to grow
- Maintain a large-scale business with vast selection

Only commit to strategies that:

- Are important to customers
- Address a non-transient need
- Meet a big enough market

Align business to what is known:

- Things that won't change (e.g. customers will want low cost products)
- Process efficiency helps to keep costs low

Clearly articulated business strategy:

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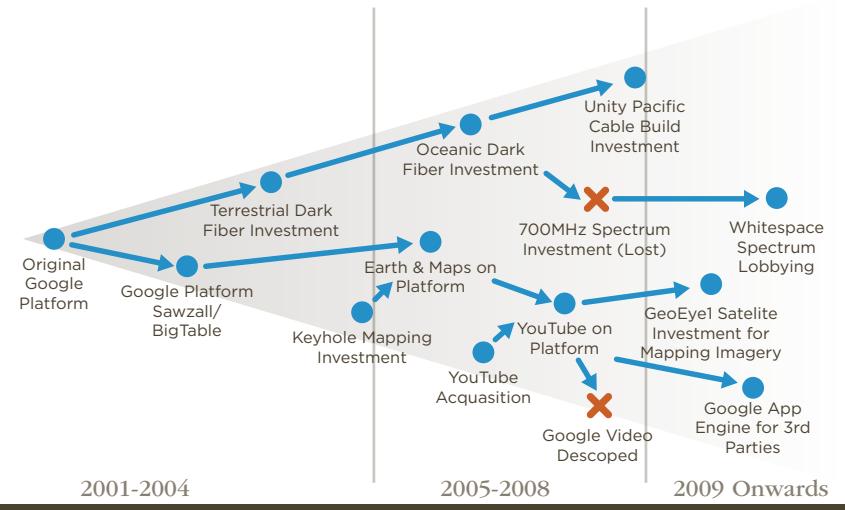
- Things that won't change (e.g. customers will want low cost products)
- Process efficiency helps to keep costs low



OPERATIONAL ASSESSMENT OPERATING MODEL

EXAMPLE: GOOGLE

Google's operating model is built on long term platform investments and rapid innovation and experimentation.



KEY DEVELOPMENTS

"All of the product groups are now told, 'Build on top of this common set of services'."

"We get tremendous competitive advantage by building our own infrastructure. Speed is critical... People assume we have some master plan when, in fact, we just want the thing to be faster." – Eric Schmidt, Google CEO

BUSINESS & OPERATING MODEL PRINCIPLES

Core focus is on scaled web services supported by advertising.

Agnostic on end points, want the broadest reach possible (e.g. WinMo, Symbian, iPhone).

Competitive differentiation from a massively scaled super efficient proprietary cloud platform.

Invest in core foundations of their cloud with staged investment over time - 2004 in terrestrial dark fiber; 2008 in laying new fiber across Pacific as part of Unity Cable.

Common services platform for all products allows a rapid product development lifecycle and a large number of concurrent experiments.

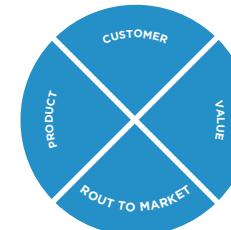
Chaotic ideation process matched with highly structured and analytical evaluation process.

OPERATIONAL ASSESSMENT OPERATING MODEL

EXAMPLE: GOOGLE

Business Principles

Operating Model Principles



Clearly articulated business strategy:

- Reach supported by advertising
- Infrastructure scale provides competitive advantage
- Relentless company focus on efficiency and speed

Learning / academic culture

Commitment to plans: they say what they're going to do and follow through with it, even when it requires long-term investment



Large number of senior leaders concentrated on operations engineering

Operations/ platform engineers viewed as highest order engineers

Standardized infrastructure and components

Infrastructure designed for "Graceful Degradation"

Platform allows developer productivity

Like to solve problems in-house, resulting in 3rd party aversion

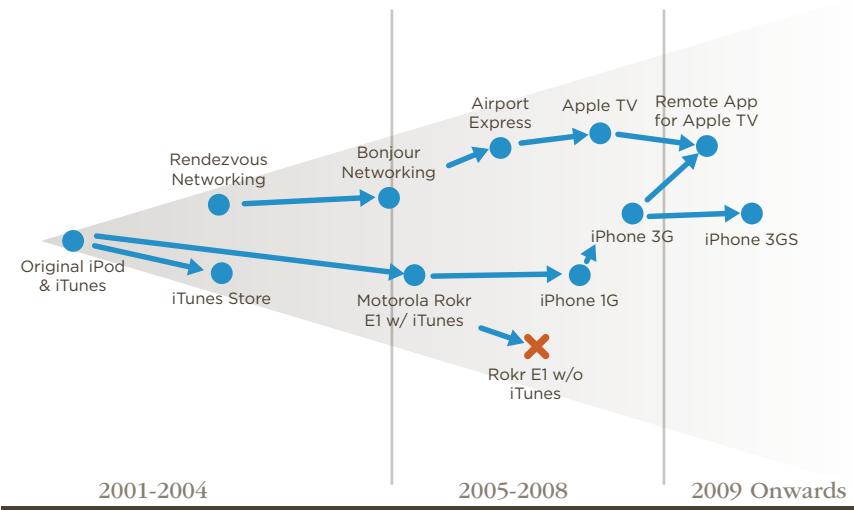
Tiered support service for customers (e.g. large advertisers get more support, small advertisers only get some)

Willing to invest in capabilities with long-term ROI (e.g. dark fiber, undersea cable, satellite)

OPERATIONAL ASSESSMENT OPERATING MODEL

EXAMPLE: APPLE

Apple's operating model is built on a limited number of bets driving to a common set of product platforms and services.



KEY DEVELOPMENTS

"We believe we need to own and control the primary technologies behind the products that we make... We believe in saying no to thousands of projects so that we can focus on the few that are meaningful to us." – Tim Cook, Apple COO

BUSINESS & OPERATING MODEL PRINCIPLES

Limited number of strategic bets and a Darwinian approach to success

Direct CEO involvement in product decisions

Executives held accountable for metrics outside of their divisions e.g. iPod BU execs are held accountable for driving Mac sales

Fast innovation cadence / release cycles with "fail fast" ethos

Rapidly learnt lessons from jail broken iPhones allowing 3rd party app – released app SDK within 6 months

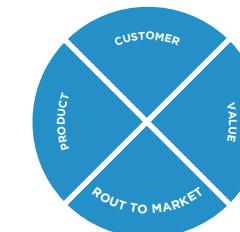
Evolve core foundational technologies over time to allow 3 screen experiences (e.g. Bonjour networking)

OPERATIONAL ASSESSMENT OPERATING MODEL

EXAMPLE: APPLE

Business Principles

Operating Model Principles



Clearly articulated business strategy:

- Premium hardware and experience
- Direct CEO interaction with business to avoid Darwinism among teams

Support the strategy with incentives:

- Executives have their own metrics (e.g. iPod) and are held accountable for improving other parts of the business as well (e.g. Apple TV)
- Reward for success and consequence of failure

Align business to what is known

- Core tech trends (e.g. ARM, etc.)
- Evolve and build products / services around existing capabilities



Create experiences where the sum is greater than the parts

Lead with industrial design rather than technology

Dedicated customer care as a part of the E2E experience

Treat developers like customers with first class developer experience

Fast innovation cadence / release cycles with "fail fast" ethos

Use unauthorized 3rd parties as a source of product innovation

Use authorized 3rd parties to enhance experience

Share common components / services where it makes sense (e.g. OSX, billing platform, development tools)

FURTHER READING

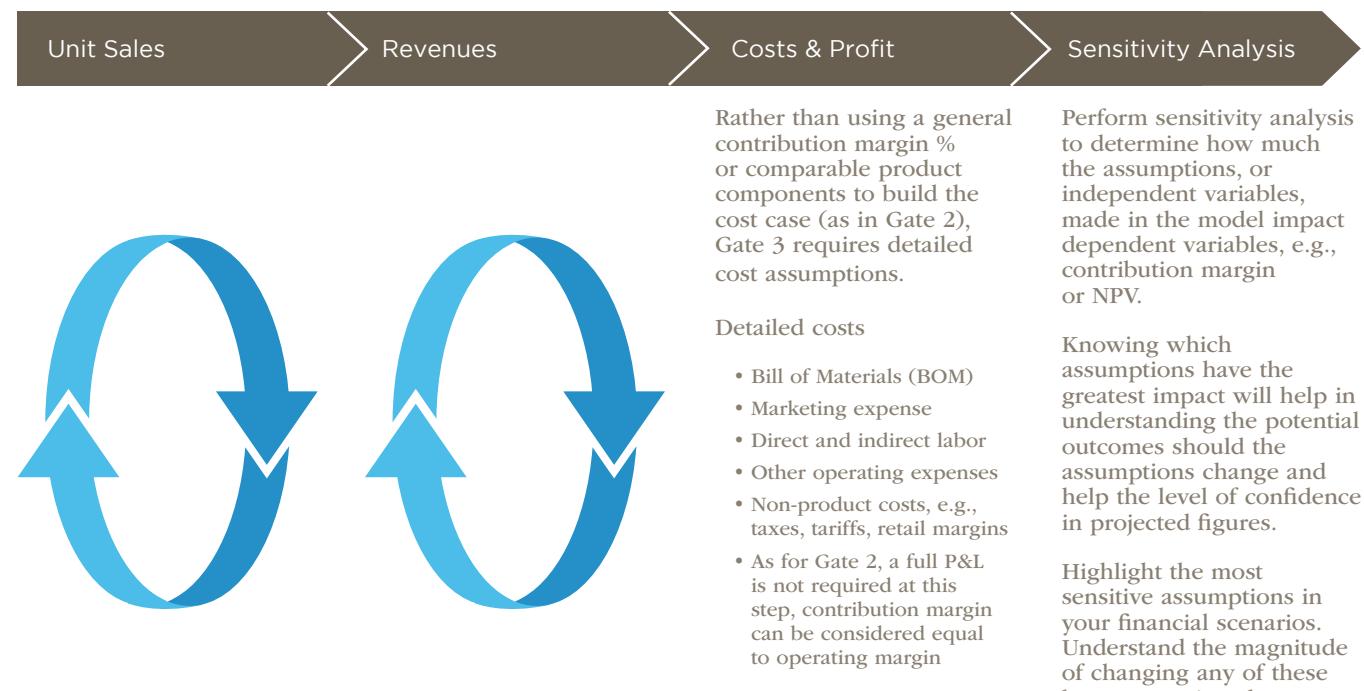
Ross, Jeanne W., Weill, Peter and Robertson, David C. "Define Your Operating Model: Designing a Foundation for Execution". Harvard Business Review, August 08, 2006.
Prod. #: 8070BC-PDF-ENG.

Includes Topics: Operating Model

MARKET SIZE & FINANCIAL ASSESSMENT

FURTHER READING

For Gate 3, unit sales and revenue should be refined and updated as needed. Costs are defined at a much more detailed level than at Gate 2. Cost estimates should be developed using a bottom-up approach.



FURTHER READING

Jeffery, Mark and Rzymski, Chris. *How to Perform Sensitivity Analysis with a Data Table*. Harvard Business Review, January 01, 2006. Prod. #: KEL151-PDF-ENG

Includes Topics: Sensitivity Analysis, Excel Modeling

Tjia, John S. *Building Financial Models: the Complete Guide to Designing, Building, and Applying Projection Models*. New York: McGraw Hill, 2009.

Includes Topics: Financial Modeling, Excel Modeling

RUN A PROJECT WORKSHOP

A QUICK “HOW TO”

INPUTS

The Business, Experience, and Technology experts all bring data they've gathered from research activities. You should pick a lead facilitator to coordinate the agenda and content for the workshop.

ACTIVITIES

Prepare for the Workshop:

- Determine your goals and outcomes ahead of time.
- Define activities and prompts to generate more targeted discussion.
- Consider the size and makeup of the group for collaborative activities and choose the best room.
- Assign homework as it helps the extended team start to think through the issues at hand.

Facilitate the Workshop: During the workshop, play an active role managing the discussion. Make sure you move through the following activities:

- Share emerging insights.
- Look for common themes and develop an initial hypothesis of the target.
- From those themes, generate lots and lots of ideas – refer to the “Brainstorming Ideas” method for specific tips.
- Develop preliminary frameworks and solutions.

Make Deliverables from the Workshop:

- When people contribute to an activity they want to see results. After a workshop send out the key insights or ideas, or send the team the final outcome after it's been created.

OUTPUTS

The Project Workshop yields a first pass at the Experience Themes and Design Principles, including a range of insights and ideas.

SCENARIO BUILDING

A QUICK “HOW TO”

WHAT IS IT?

Developing use case scenarios or user journeys that demonstrate the key experiences for the target consumer.

WHY IS IT VALUABLE?

Scenarios help you:

- Start to define the story you want to tell.
- Define the context and show how an idea fits into a lifestyle.
- Communicate ideas with a wider audience.
- Highlight each step in the process and ensure designers are thinking about every touch point throughout the user journey.

HOW TO USE IT FOR THIS GATE

Create “user journeys” with the stages of Attract, Engage and Extend. Each gate focuses on the user journey in a different way; for Gate 3, focus on building the entire user journey: Attract, Engage, Extend.

USER JOURNEY

The five phases of a user journey allow a holistic analysis of the user experience. Below is an example that illustrates the three main phases:

Attraction

I've got two Mariners tickets, are you interested?

Laura's got two tickets for the Mariners' game at Safeco Field. She asks if Shelby wants to go. Shelby has never been to watch a Mariners' game, but knows they are famous and thinks it should

be fun. She chats about it with Laura, and has a quick look at the website to see what a game is like.

Engagement

Watching a baseball game with friends is so much fun! Laura and Shelby have fun watching the game. They buy hotdogs at the stand and talk about plans for tonight while watching the game. Shelby doesn't know much about baseball, but the people next to them in the stadium explain the game rules. Being part of this crowd is fun!

Extension

Now I'm connected to the Mariners, and a big fan of Ichiro. Shelby becomes a big fan of Ichiro after the game. She starts collecting Ichiro's autograph and T-shirts. Tonight, Shelby and Laura are going to meet up with the people they met at the Mariners game. Shelby is planning to talk about her new Ichiro collection! Later, the Mariners send Shelby an email with info and suggestions for the rest of the season...

VISUALIZATION

WHAT IS IT?

Bring the ideas to life through sketches or prototypes in order to share and evaluate them with others.

WHY IS IT VALUABLE?

Visualizing ideas helps make insights and ideas tangible and able to be shared for review and iteration.

HOW TO USE IT FOR THIS GATE

Each stage in the process involves visualizing ideas; however, the outputs become more refined as incubation progresses. In Gate 3, create higher fidelity prototypes for the entire user journey.

A QUICK “HOW TO”

INPUTS

Ideas and idea fragments from the Project Workshop and brainstorm activities.

ACTIVITIES

Start sketching and making paper prototypes: All visualization starts with sketching. Get comfortable drawing up your ideas and find the media that works for you. Get physical by making prototypes out of paper.

Tip: If you're not good at drawing, consider making a collage or tracing over images to express yourself visually.

Make some prototypes: Refine your concepts and put into a higher level of detail by prototyping using methods such as:

- Wireframes, Screens
- Flash Prototype
- Animated Video
- Motion Studies
- 3D Models
- Appearance Models
- Breadboard Prototypes

Refine one type of prototype: Choose the type of prototype you plan to build and develop it in a more detailed manner

OUTPUTS

A set of ideas more fully described visually such that they can be shared and explained to other people.

DEVELOP THE EXPERIENCE THEMES & DESIGN PRINCIPLES

A QUICK “HOW TO”

WHAT IS IT?

Final insights defined in a set of categories (themes) with guidelines for design (principles).

WHY IS IT VALUABLE?

The Experience Themes are a framework that provides the transition between insights and design because it's a diagram that encapsulates all the insights in meaningful yet simple categories. The Design Principles are a set of statements for what the design should be based on the insights.

HOW TO USE IT FOR THIS GATE

The Experience Themes and Design Principles are created in Gate 2 to provide guidelines and direction for the first round of concept development. A similar conclusion document may be created for Gate 3, but the exact definition of that document will be tailored to the project.

INPUTS

The Experience Themes and Design Principles are first drafted during the Project Workshop and finalized after the workshop. Key data from the project up to this point is also reviewed.

ACTIVITIES

Creating the Experience Themes and Design Principles involves the following steps:

- Cluster the data from the primary and secondary research into core Experience Themes that reflect the insights.
- Layer on key insights from Business and Technology investigations.
- Develop value statements for the Experience Themes.
- Create a set of strategic imperatives and Design Principles to help guide designers, engineers and business leads.

OUTPUTS

The Experience Themes and Design Principles make up a refined document concluding the insight exploration.

EXPERIENCE FRAMEWORK AND CONCEPT ROADMAP

A QUICK “HOW TO”

INPUTS

The Experience Framework and Concept Roadmap are the final deliverables for Gate 3. As such, all key deliverables up to this point are referenced as input.

ACTIVITIES

Build the Experience Framework: An Experience Framework has three parts, which should be written simultaneously as they inform each other.

Write the “Vision Statement”: This is a succinct and catchy phrase or sentence that sums up the opportunity and direction, written as an action statement.

Write the “Key Themes & Features”: These are key aspects of the concept grouped into categories (often 3-8) that include a description of the theme and specific features of the concept that reflect the theme.

Write the Design Principles: Design Principles are the guidelines for developing solutions that will meet the themes and features.

Build the Concept Roadmap:

- Assemble all your concepts and consider what it would take for your company to build them.
- Draw a timeline with three phases (Near-Term/Immediate, Short-Term/Mid-Term/Soon, Long-Term/Future) and articulate what your company would have to do in each phase.

OUTPUTS

The Experience Framework and Concept Roadmap are the final outcomes.

TECHNOLOGY WRITE-UP

GATE 3

Architectural Summary

Update From Round 1: Translate the eXperience data into major SW/HW components.

Key Technologies

Update From Round 1: List key technologies, their risks and maturation trajectories for next 3-5 years.

Describe the functionality of each key technology.

Technical Landscape

Describe the technical landscape.

Technology Advantage

Update from Round 1: Describe the technical differentiators that are hard to copy (ours and competitors').

Project Sizing

Update From Round 1: Use 'T-Shirt Sizing' (S, M, L, XL) to describe the engineering effort required for each of the key technology components.

Key Partners – Internal & External

Update from Round 1: Identify potential partners for HW, SW or Service components.

Describe the products' relationship to other company products (proposed or existing).

Risks

Describe the key risks for the project from a technology perspective.

POST MORTEM

Alchemie Ventures is a work in progress and we see Post Mortems as an important learning tool.

We use Post Mortems to: Learn, Correct, and Improve; and we try to follow these tenets when conducting them:

- Run each Post Mortem in a spirit of openness.
- Include everyone involved in the project.
- Provide a space for participants to tell the truth about the project without fear of repercussion.
- Openly outline plans for improvement.
- Complete Post Mortems within a few weeks of a milestone, or project.

WHEN TO DO POST MORTEMS

- After each gate review, run a Gate Review Post Mortem
- At the end of the project (whatever gate or round that may be) run a Project Post Mortem

GATE REVIEW POST MORTEMS

Because these happen in the middle of a project it's difficult to get teams to complete long questionnaires or sit through all day off-sites, so keep it short and sweet.

SCHEDULE THE MEETING

Schedule a team meeting within 2 weeks of finishing the gate review. The meeting should be 2-3 hours long, depending on the size of the team.

SOLICIT FEEDBACK

A few days prior to the meeting, send out the following questions to the team, asking members to provide 2-4 bullet points for each item.

1. What were our "superpowers" (i.e., what did we do well, and what should we keep doing)?
2. What was our "kryptonite" (i.e., what are our key areas for improvement)?
3. What didn't we see coming? Identify issues that weren't apparent until they arose
4. What should we do differently for the next round/gate? Strategize how things could be done differently or improved

COMPILE FEEDBACK

Team members should send their answers back to the facilitator (likely the Project Lead or Project Manager) about 3 days before the meeting.

The facilitator should read through the responses, pulling out key themes for each question. Don't attach names to responses in the compiled list, and avoid direct quotes or other text that would make it clear who the feedback came from.

Type up those themes and print out enough copies for the meeting.

HAVE THE MEETING

Set the stage and make sure that everyone in the room understands what you are there to do: Learn, Correct and Improve.

- On the white board create 4 sections, one for each of the questions
- Hand out the compiled list of themes to the room
- For each topic, recap the themes that you compiled and take feedback from the room, recording it on the board

SEND A FOLLOW-UP

Within 5 working days of the meeting, send out a summary email to the group highlighting key takeaways and any actions that will be taken.

Save all of the notes for use at your end-of-project post mortem.



DRILLING DOWN: Gate 4 Tools

WHAT IS GATE 4?

This is it...after teams pass Gate 3, they work to turn their draft business plan into the Strategic Business Plan; the Strategic Business Plan is used to request funding from the project approvers in hopes of becoming a real business. The Strategic Business Plan takes the form of a word document that we refer to as the Project Book. Essentially, the Project Book is a summation of

all of the work analysis to date. Teams will also prepare any collateral necessary (e.g. slide decks, videos, prototypes, etc.) to present the plan in a compelling way to their approvers and Advisory Board. Teams that pass Gate 4 are considered funded businesses that have graduated from Alchemie Ventures. Moving forward, they are reviewed as part of the standard review rhythms for their organizations.

GATE 4 CHECKLIST

- Plan the Round
- Establish Alignment
- Mine Existing Knowledge
- Operational Assessment
- Market Size and Financial Assessment
- Project Book

- Run a Project Workshop
- Define Concepts
- Technology Tools
- Post Mortem

PLAN THE ROUND

WHAT IS IT?

Identifying the goals, activities, and outcomes of the phase, and determining required resources.

WHY IS IT VALUABLE?

While project planning is always important, it's critical to have solid project planning at the beginning of each round because:

- Every innovation project is different. It helps to have the team align on process and methods as they change from project to project
- Specific outcomes are unknown at the outset. The team defines hypothetical outcomes, but defining timing and resources provides additional guard rails and helps set expectations and scope the project
- Innovation projects typically involve a broad core team that spans internal groups and external partners. The project plan helps align the entire team around goals, activities, and timing
- The Business, Experience, and Technology experts play different roles at different times. Project planning helps define roles and responsibilities throughout the round

A QUICK "HOW TO"

INPUTS

The previous gate's final documents, project kickoff, stakeholder meetings and existing knowledge mining all feed into the project plan.

ACTIVITIES

Define goals: Be clear about why the project is being done and the goals because the outcomes are likely less defined.

Establish tentative outcomes: Specific outcomes are likely to be unclear in innovation projects, but start with some and expect them to change.

Set the timing and resources, and plan for iteration, change, and collaboration: Since innovation projects can be very broad, it's especially important to set deadlines throughout as they help scope the project and keep it on track. Timing is a bit different with innovation projects as the plan has to accommodate iteration, frequent changes in direction, and more collaborative work-sessions.

OUTPUTS

The project plan may be a document on its own or feed into the Project Brief.

EXAMPLES

Project planning for incubation projects is different than traditional project planning in that the process is iterative and the outcomes only loosely defined at the outset. While it's important to write a project plan, it's equally important to plan for it to change. The project plan should include the opportunity to revisit past activities to iterate.



ESTABLISH ALIGNMENT

A QUICK “HOW TO”

WHAT IS IT?

Key steps to engage in when starting an innovation project, including the project kickoff and stakeholder meetings.

WHY IS IT VALUABLE?

With innovation programs there are typically multiple teams involved, including outside stakeholders and partners. Also, while goals and hypothetical outcomes are defined, the specific outcomes are often less known. Establishing alignment up front sets expectations and helps ensure good working relationships throughout an ambiguous and complex process.

HOW TO USE IT FOR THIS GATE

These activities should happen at the beginning of every gate to align expectations.

INPUTS

The previous gate's final documentation.

ACTIVITIES

While there are many ways to establish alignment, the following two activities are consistently useful and should be done right at the beginning of the round:

Do a formal project kickoff: Meet as a project team to discuss goals, deliverables and approaches to the project.

Tip: Prepare content for the kickoff including key questions and potential sources of disagreement.

Set up stakeholder meetings: Meet with external stakeholders and opinion leaders to align on vision and expectations.

Tip 1: Meet with stakeholders one-on-one to get their personal opinions, knowledge and buy-in.

Tip 2: If the project is particularly contentious, you may want to do stakeholder meetings before the kickoff.

OUTPUTS

The content from these activities feeds into the project plan and Project Brief.

MINE EXISTING KNOWLEDGE

A QUICK “HOW TO”

INPUTS

To mine for existing knowledge you need to gather documents from past and current project reports, internal databases, and internal publications.

ACTIVITIES

Talk to key people: Talk to people who can point you to internal resources about the topic at hand. Research & Strategy teams tend to have access to, and keep, this type of information.

Tip: Sometimes these people are key stakeholders so you can simultaneously conduct stakeholder interviews while gathering information.

Get on your internal network: Most big organizations have an intranet filled with useful information.

OUTPUTS

Existing knowledge feeds into defining the project plans in terms of what additional data needs to be collected. The data itself is organized and combined with the other data collected in the project to form the insights and opportunities.

OPERATIONAL ASSESSMENT

BUSINESS PLAN APPROACH

WHAT IS IT?

A business plan is a formal statement of a company's business objectives and a plan for how they will be achieved. It serves as the main document used in attracting potential investors as well as an internal blueprint for the company's goals and strategies. For the purposes of the incubation process, the business plan will help the Advisory Board determine whether your concept passes through Gate 4.

The analysis done prior to Gate 4 will feed into the business plan, but at a summary level. The business plan should be a story that incorporates business, experience and technology.

While page count varies and is not a good way to measure effectiveness, business plans typically range anywhere from 15-40 pages depending on the purpose and concept.

WHY IS IT VALUABLE?

A compelling, comprehensive business plan is critical because it is the main document used in deciding whether to go forward. It paints the picture and provides the analytical backing that you can turn your idea into a product with strong market demand and an operation run by an experienced management team.

KEY COMPONENTS

While each individual business plan varies in layout, style, and length, all business plans should address the following key components:

Executive Summary

A few concise and compelling paragraphs that introduce your product or service, your objectives, and your business strategy.

Product and Service

A description of your product or service. Explain the current market needs and how your product or service addresses those needs.

Market Analysis

A description of the market in which your product or service will play.

Competitive Analysis

Competitive landscape and key competitive developments, both now and in the future, and how your product or service will beat the competition.

HELPFUL HINTS

Since the analysis completed for previous gate reviews will feed into the business plan, remember to refine and update your analysis at each gate leading up to the final review.

Your business plan should tell a story. Avoid providing analysis without interaction among the various sections and components outside of the business elements.

OPERATIONAL ASSESSMENT

BUSINESS PLAN APPROACH

WHAT IS IT?

The executive summary is a one page (or less) summary that introduces your product or service, your objectives and your business strategy. It should include the key points from each business plan component.

PRODUCT AND SERVICE

Market Pain

- Describe the pain of the customer
- Outline how the customer addresses the issue today

Solution

- Describe your product or service in terms of how it solves the customer's pain
- Show where your product or service would sit in the market
- Provide use cases

Product and Service Description

- Outline product line-up (form factor, functionality, features, architecture, intellectual property)
- Provide use cases

HELPFUL HINTS

Although it introduces the business plan, the executive summary should be written last. This allows you to use key information from the rest of the report and ensure there are no inconsistencies.

MARKET ANALYSIS

Market Trends

- Set up the historical evolution of your category
- Describe recent trends that make your solution possible
- Describe recent trends that show that the market is growing

Customer Research

- Provide evidence of market needs based on customer research

Target Market

- Identify the market segment that your product/service caters to

Market Size

- Calculate the size of your target market
- Calculate your estimated market share

COMPETITIVE ANALYSIS

Competitive Landscape

- Identify the competition (direct competitors, substitutes, new entrants, future competitors)
- Define barriers to entry and how you plan to overcome them

Competitive Developments

- Product road maps, strategy, M&A, strategic partnerships

Competitive Advantage

- Describe how your product or service beats the competition

OPERATIONAL ASSESSMENT BUSINESS PLAN APPROACH

BUSINESS MODEL, STRATEGY, & OPERATIONS

Business Model

- Describe your plan for generating revenue and profit from your operations

Operating Model

- Describe the strategic capabilities that will take your product or service from development to distribution to transaction
- Describe the organizational elements (process, people, technology, structure) that will enable your operations

Marketing & Sales Strategy

- Describe your marketing plan (price, place, promotion, position)
- Describe your go-to-market strategy

MANAGEMENT & ORGANIZATION

Organizational Structure

- Lay out how your company will be structured in an organizational chart
- Estimate employee headcount

Management Team

- Provide the names, backgrounds, and roles of key team members

FINANCIAL INFORMATION

Key Assumptions

- Provide the assumptions that will drive all of your financial projections. Base these on actual results from current performance or similar firms

Financial Indicators

- Define the financial indicators that will measure your performance

Financial Scenarios

- Describe scenarios that tell a story of how the financial case changes depending on the assumption you make and the strategy you want to follow

Break-Even Analysis

- Describes the point at which total revenues equals total expenses. This calculation should be part of the business case

Projected Profit and Loss (P&L)

- Also known as the Income Statement, the P&L is used to show the revenue generated and the costs incurred over one financial year. Its purpose is to show profit

Projected Cash Flow

- The Cash Flow Statement identifies a company's sources and uses of cash during the period

Projected Balance Sheet (Optional)

- The Balance Sheet provides a snapshot of a company's financial position at a specific point in time

Business Ratios

- Include the standard operating and financial ratios used in financial reports. These can be derived from the pro forma financial statements.
- These ratios are typically not as necessary for an internal plan as an external one going to bankers and investors, however the following key ratios are helpful.
 - Profitability ratios: gross margin, return on sales, return on assets and return on investment
 - Liquidity ratios: debt to equity, current ratio and working capital

OPERATIONAL ASSESSMENT FURTHER READING

FURTHER READING

Sahlman, William A. *How to Write a Great Business Plan*. Boston, Mass.: Harvard Business School, 2008.

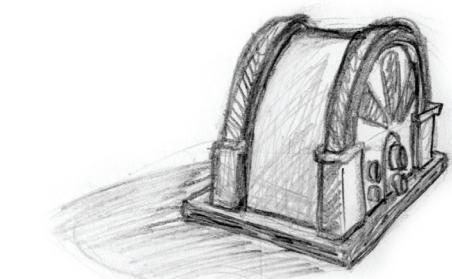
Includes Topics: Business Plan

"Writing a Business Plan: The Basics". Harvard Business Review, October 30, 2004. Prod. #: 5344BC-PDF-ENG.

Includes Topics: Business Plan

DeThomas, Art, and Stephanie A. Derammelaere. *Writing a Convincing Business Plan*. Hauppauge, N.Y.: Barron's Educational Series, 2008.

Includes Topics: Financial Modeling, Excel Modeling



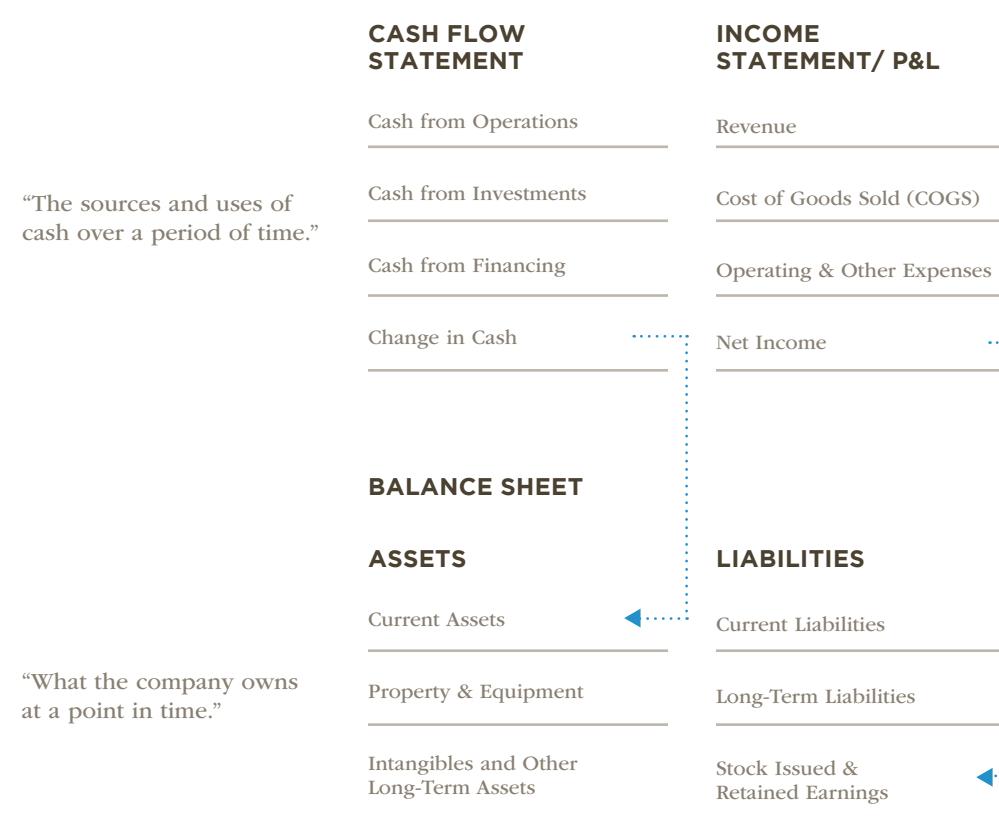
"Just because something doesn't do what you planned it to do doesn't mean it's useless."
~Thomas A. Edison

MARKET SIZE & FINANCIAL ASSESSMENT

PRO FORMA FINANCIAL STATEMENTS

By the Gate 4 review, you will have a refined TAM and P&L. In addition to the Income Statement you should have a completed Cash Flow Statement. The Balance Sheet is optional.

INTERACTION AMONG CORE FINANCIAL STATEMENTS

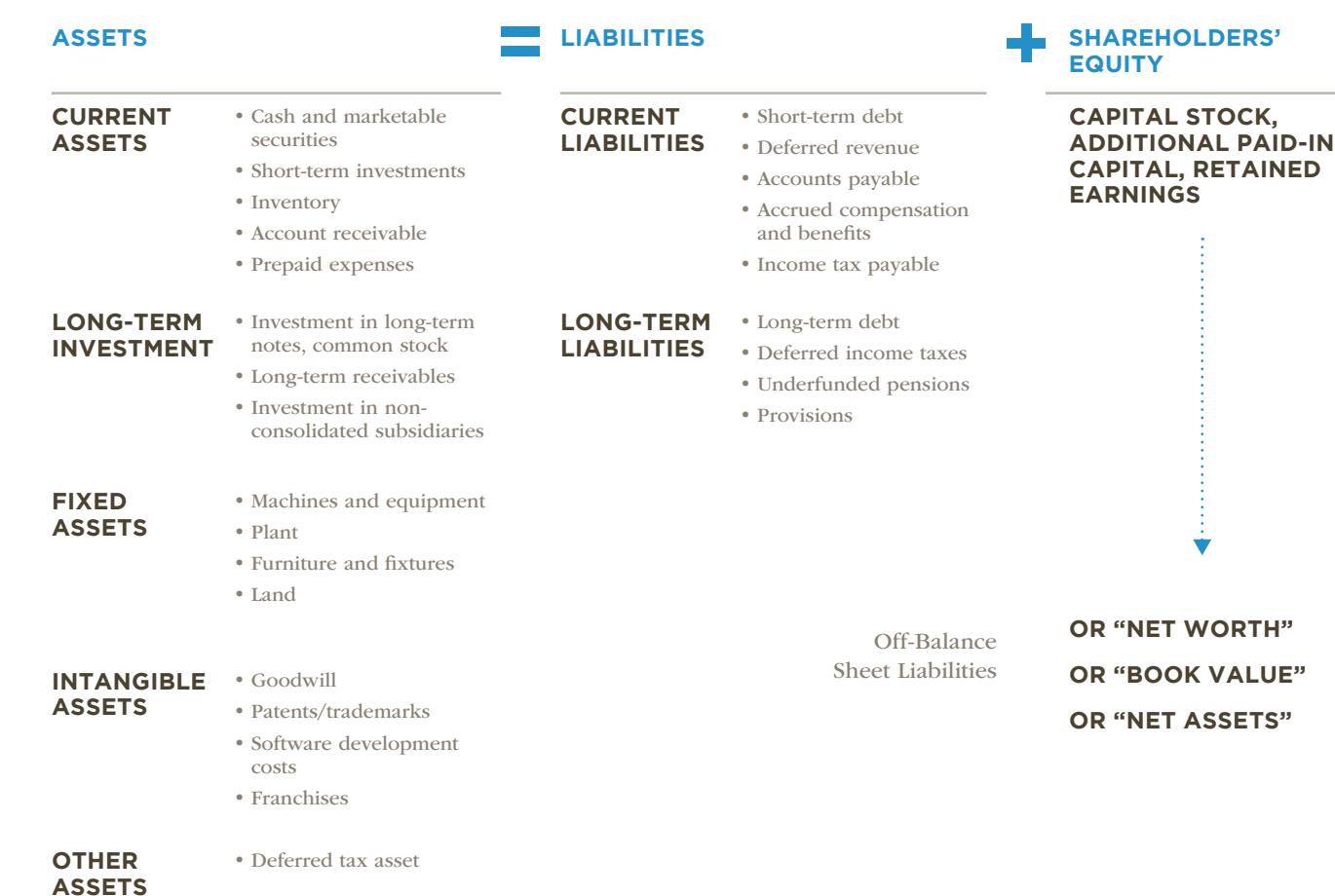


MARKET SIZE & FINANCIAL ASSESSMENT

PRO FORMA FINANCIAL STATEMENTS

The Balance Sheet provides a snapshot of a company's financial position at a specific point in time. The fundamental equation for the Balance Sheet is: Assets = Liabilities + Shareholder Equity.

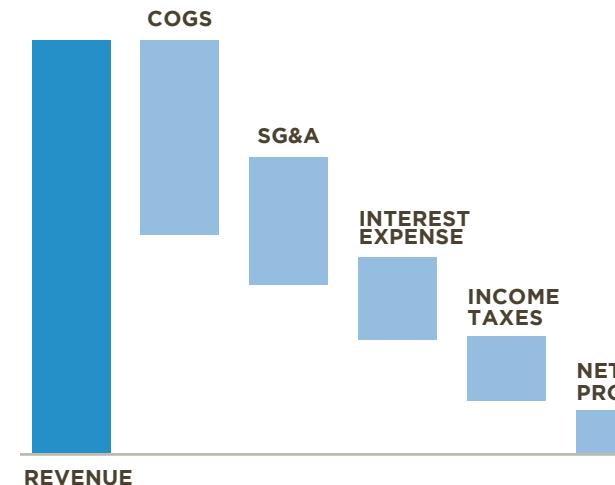
CONCEPTUAL BALANCE SHEET



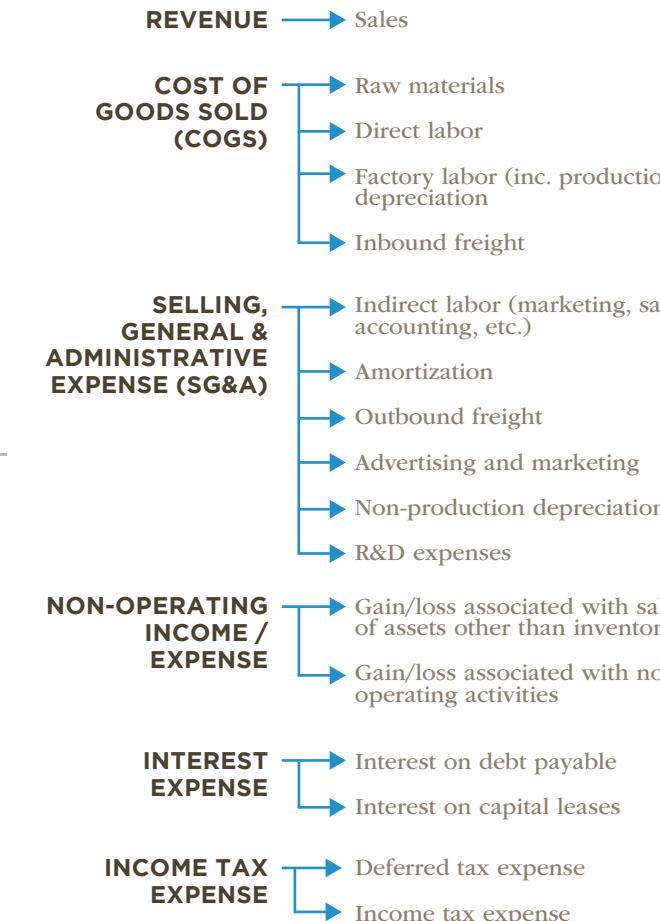
MARKET SIZE & FINANCIAL ASSESSMENT PRO FORMA FINANCIAL STATEMENTS

The Income Statement (Profit & Loss Statement) is used to show the revenue generated and the costs incurred over one financial year. Its purpose is to show profit.

CONCEPTUAL INCOME STATEMENT



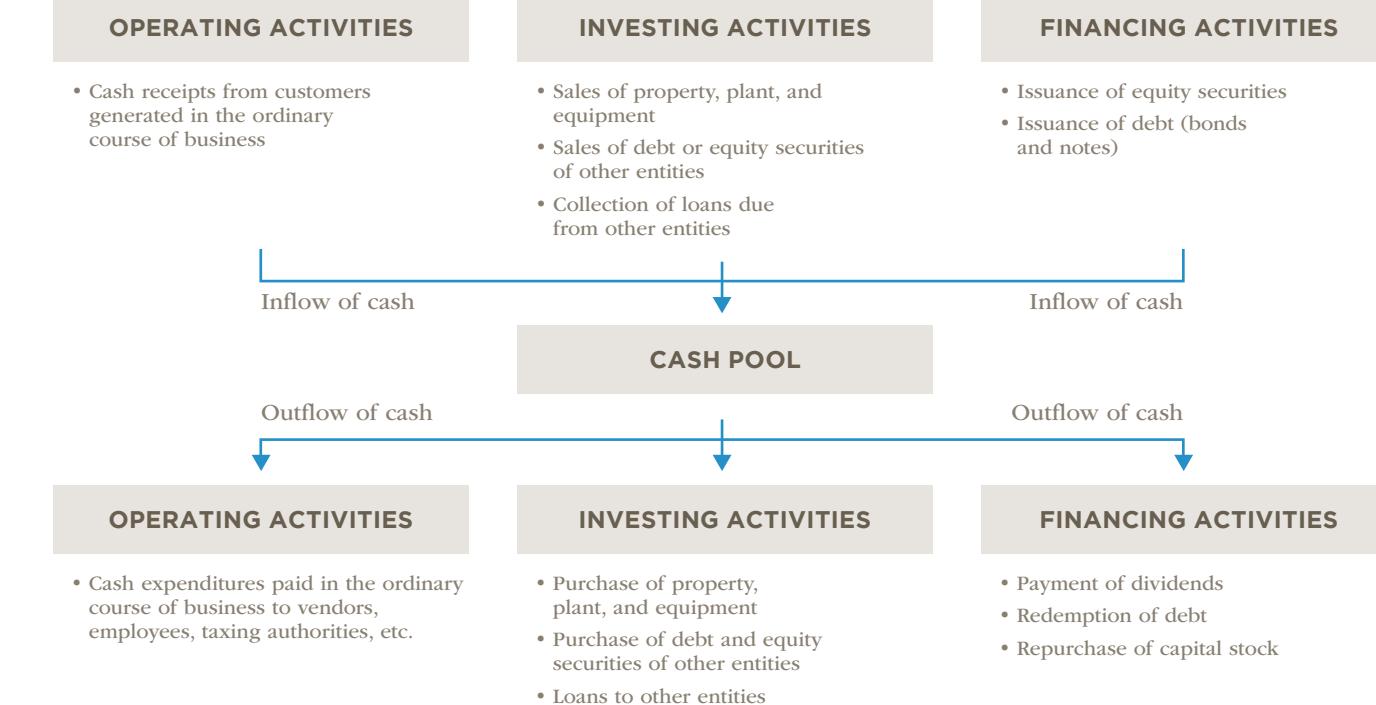
TYPICAL COMPONENTS OF INCOME STATEMENT



MARKET SIZE & FINANCIAL ASSESSMENT PRO FORMA FINANCIAL STATEMENTS

The Cash Flow Statement identifies a company's sources and uses of cash during the period.

CONCEPTUAL CASH FLOW STATEMENT



FURTHER READING

Ittelson, Thomas R. *Financial Statements: a Step-by-step Guide to Understanding and Creating Financial Reports*. Franklin Lakes, NJ: Career, 2009.

Includes Topics: Pro Forma Financial Statements

Berman, Karen, Knight, Joe and Case, John. "Exercises to Build Your Financial Intelligence: Income Statement; Balance Sheet; Cash Flow Statement; Ratios--For Entrepreneurs". Harvard Business Review, October 07, 2008. Prod. #: 6574BC-PDF-ENG.

Includes Topics: Pro Forma Financial Statements

PROJECT BOOK

WHAT IS IT?

Here it is... the summary of all your work so far in one place; a single 'book' to capture what your project is and how you'll make it real. The Project Book is designed to help your approvers and the Advisory Board determine whether your concept passes through Gate 4 and provide your team a roadmap of next steps if your project is approved.

Make sure you cover all your bases by using the template as a table of contents. While page count varies and is not a good way to measure the effectiveness of your Project Book, the content typically ranges anywhere from 15 to 100 pages depending on the purpose and concept.

WHY IS IT VALUABLE?

A compelling, comprehensive Project Book is critical because it is the main document used in deciding whether the idea will go forward. It paints the picture and provides the analytical backing to demonstrate that you can turn your idea into a product or service with strong market demand and an operation run by an experienced management team.

HELPFUL HINTS

Since the deliverables and analysis completed for previous gate reviews will feed into the Project Book, remember to refine and update your work at each gate leading up to the final review.

Your book should tell a story. Avoid providing analysis without interaction among the various sections and components.

RUN A PROJECT WORKSHOP

WHAT IS IT?

Facilitating a cross-disciplinary workshop where the Business, Experience and Technology (BXT) experts gather to share and synthesize research and design inspiration to develop Experience Themes and Design Principles and generate ideas.

WHY IS IT VALUABLE?

The Project Workshop helps:

- Establish buy-in – This workshop is another opportunity to ensure everyone is on the same page
- Share what everyone is learning – This workshop is where the B, X, and T experts share their secondary research and meld it all together
- Create the best content – This workshop is an opportunity to leverage the expertise from all three domains. It is a key touch-point for gathering multiple perspectives on the problem at hand
- Generate a volume of ideas – This workshop is a key starting point for generating a volume of ideas which will help define the Experience Themes and Design Principles

A QUICK "HOW TO"

INPUTS

Prepare for the Workshop

- Determine your goals and outcomes ahead of time
- Define activities and prompts to generate more targeted discussion
- Consider the size and makeup of the group for collaborative activities and choose the best room
- Assign homework as it helps the extended team start to think through the issues at hand

Facilitate the Workshop: During the workshop, play an active role managing the discussion. Make sure you move through the following activities:

- Share emerging insights
- Look for common themes and develop an initial hypothesis of the target
- From those themes generate lots and lots of ideas – refer to the "Brainstorming Ideas" method for specific tips
- Develop preliminary frameworks and solutions

Make Deliverables from the Workshop

- When people contribute to an activity they want to see results. After a workshop send out the key insights or ideas, or send the team the final outcome after it's been created

OUTPUTS

The Project Workshop yields a first pass at the Experience Themes and Design Principles, including a range of insights and ideas.

DEFINE CONCEPTS

A QUICK “HOW TO”

WHAT IS IT?

A concept is an idea that is more fully fleshed out into a full experience including a customer, user scenario, and details.

WHY IS IT VALUABLE?

Concepts are more fully defined ideas that include specific details and the broader use context so that the concepts can be evaluated more realistically for future development. Concepts connect the core idea to the consumer insights, technological innovation, and business values.

HOW TO USE IT FOR THIS GATE

Concepts are defined in each Round with increasing depth and specificity. In Gate 4, you'll complete the design for the chosen concept(s) including more detail and the complete user journey.

INPUTS

To create a concept you need to have chosen an idea to further define, the customer and possible use case scenarios.

ACTIVITIES

Assemble the concept: Take possible ideas and scenarios, relate them back to the Experience Themes and Design Principles, and gel them around one concept.

Define the concept: Further explore and detail out that specific direction using the Experience Themes and Design Principles as guidelines for development and evaluation. Brainstorm more ideas, reconsider the concept, and gather additional data if needed to fully understand the concept.

Fully communicate the concept: Add comments and details to the concept to bring it fully to life including detail callouts, captions, and additional imagery. Include context for the idea in the form of a use case scenario, journey map, brand experience, etc.

OUTPUTS

A fully detailed and contextualized idea expressed with visuals and narrative.

TECHNOLOGY WRITE-UP

GATE 4

Architectural Summary

Update From Round 3: Translate the eXperience data into major SW/HW components.

Key Technologies

Update From Gate 3: List key technologies, their risks and maturation trajectories for next 3-5 years.

Describe the functionality of each key technology.

Technical Landscape

Describe the technical landscape.

Technology Advantage

Update from Gate 3: Describe the technical differentiators that are hard to copy (ours and competitors').

Project Sizing

Update From Gate 3: Use ‘T-Shirt Sizing’ (S, M, L, XL) to describe the engineering effort required for each of the key technology components.

Key Partners – Internal & External

Update from Round 3: Identify potential partners for HW, SW or Service components.

Describe the products' relationship to other company products (proposed or existing).

Risks

Describe the key risks for the project from a technology perspective.

OVERALL PROJECT POST MORTEM

Alchemie Ventures is a work in progress and we see Post Mortems as an important learning tool.

We use Post Mortems to: Learn, Correct, and Improve; and we try to follow these tenets when conducting them:

- Run each Post Mortem in a spirit of openness.
- Include everyone involved in the project.
- Provide a space for participants to tell the truth about the project without fear of repercussion.
- Openly outline plans for improvement.
- Complete Post Mortems within a few weeks of a milestone, or project.

WHEN TO DO POST MORTEMS

After each gate review, run a Gate Review Post Mortem.

At the end of the project (whatever gate or round that may be) run a Project Post Mortem.

GATE REVIEW POST MORTEMS

Because these happen in the middle of a project it's difficult to get teams to complete long questionnaires or sit through all day off-sites, so keep it short and sweet.

SCHEDULE THE MEETING

Schedule a team meeting within 2 weeks of finishing the gate review. The meeting should be 2-3 hours long, depending on the size of the team.

SOLICIT FEEDBACK

A few days prior to the meeting, send out the following questions to the team, asking members to provide 2-4 bullet points for each item.

1. What were our "superpowers" (i.e., what did we do well, and what should we keep doing)?
2. What was our "kryptonite" (i.e., what are our key areas for improvement)?
3. What didn't we see coming? Identify issues that weren't apparent until they arose.
4. What should we do differently for the next round/gate? Strategize how things could be done differently or improved.

COMPILE FEEDBACK

Team members should send their answers back to the facilitator (likely the Project Lead or Project Manager) about 3 days before the meeting.

The facilitator should read through the responses, pulling out key themes for each question. Don't attach names to responses in the compiled list, and avoid direct quotes or other text that would make it clear who the feedback came from.

Type up those themes and print out enough copies for the meeting.

HAVE THE MEETING

Set the stage and make sure that everyone in the room understands what you are there to do: Learn, Correct and Improve.

- On the white board create 4 sections, one for each of the questions
- Hand out the compiled list of themes to the room
- For each topic, recap the themes that you compiled and take feedback from the room, recording it on the board

SEND A FOLLOW-UP

Within 5 working days of the meeting, send out a summary email to the group highlighting key takeaways and any actions that will be taken.

Save all of the notes for use at your end-of-project post mortem.

PROJECT POST MORTEMS

Sometimes the end of an incubation project is just the beginning of an even bigger project (shipping what you incubated, for example), but at the end of such a milestone it's important to take the time to reflect.

SCHEDULE THE MEETING

Schedule a team meeting within 2-3 weeks of finishing the gate review. The meeting should be 3-4 hours long, depending on the size of the team.

If possible get someone from outside the team to facilitate the meeting. Ask your HR representative for recommendations.

SOLICIT FEEDBACK

A week prior to the meeting, send out Post Mortem Templates to your team. You can adjust the topic areas as appropriate for the project. Be sure to include any Advisory Board members or other virtual team members in the feedback.

COMPILE FEEDBACK

Team members should send their answers back to the facilitator a week before the meeting.

The facilitator should read through the responses, pulling out key themes for each question and averaging the numeric responses. Don't attach names to responses in the compiled list and avoid direct quotes or other text that would make it clear who the feedback came from.

Type up the themes and averages, and print out enough copies for the meeting.

HAVE THE MEETING

Set the stage and make sure that everyone in the room understands what you are there to do: Learn, Correct and Improve.

- On the white board create sections for each topic area on the questionnaire.
- Hand out the compiled list of themes to the room.
- For each topic, recap the themes that you compiled, and take feedback from the room, recording it on the board.

SEND A FOLLOW UP

Within 10 working days of the meeting, send out a summary email to the group highlighting key takeaways and any actions that will be taken to improve.



"It's fine to celebrate success but it is more important to heed the lessons of failure." ~Bill Gates



Conclusion

The Alchemie Ventures team worked to design and implement a repeatable, predictable and measurable approach for building new businesses. We hope that the tools, templates, examples, and other information contained in this book will serve as a guide as you create your own approaches and frameworks for turning your ideas into great new products.

Sincerely,
Dr. Ken Urquhart
and the Alchemie Ventures Team

Members of the Alchemie Ventures Team at Microsoft's Pioneer Studios who contributed to the AV Toolkit were (in alphabetical order): J Allard, Meredith Amdur, Kim Denny, Amanda Doerr, Mark Egner, Alistair Fulton, Ginger Hudson, Einat Lapid, Paolo Malabuyo, Andrew McCombie, Mary McGuane, Juan Posada, Andrew Royal, Ken Urquhart, Giorgio Vanzini, and David Wykes.

Printing: This PDF is designed to be printed as a book on 8" x 8" paper stock, two-sided, and at a resolution of 1200 dpi. The first and last pages of this PDF are the front and back covers of the book.

APPENDIX GLOSSARY

GLOSSARY OF COMMONLY USED TERMS

TEAM	DEFINITION
Economies of Scale	Cost advantages that a business obtains due to expansion
Switching Costs	Costs associated with changing products or suppliers
Brand Identity	How the brand owner wants the consumer to perceive the brand
Barriers to Entry	Obstacles that prevent easy exit from a given market or industrial sector
Exit Barriers	Obstacles that prevent easy entry into a given market or industrial sector
Price Performance	Product's ability to deliver performance for its price
Buyer Purchase Volume	The number of units that a single buyer purchases
Price Sensitivity	The degree to which price is a criterion in a buyer's decision making process
Decision Makers' Incentives	Purchase incentives of the person who makes the buying decision—not necessarily the person who buys
Value Added	The difference between the sale price of a product and the cost of materials to produce
Supplier Concentration	Number of suppliers that serve the industry
Access to Distribution	Ability to distribute products to the target market

