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First Edition

This book is dedicated to our colleagues at SRI International and at our subsidiary, the Sarnoff Corporation, and to our partners and customers around the world. Special gratitude goes to the following teammates whose ideas, human values, and commitment to creating the highest customer value made it possible:

NORMAN WINARSKY

HERMAN GYR

LEONARD POLIZZOTTO

LASZLO GYORFFY

It's as simple as NaBC:

HOW LIZ GOT HER BIG JOB

IF YOU CAN'T STATE YOUR VALUE PROPOSITION,
YOU DON'T UNDERSTAND YOUR JOB.

An Opportunity

Liz was the editor of nonfiction books at a top publishing house when the job of editorial director opened up. She saw it as a great opportunity, but she was worried. Liz is smart, savvy, and energetic, but normally the job would go to someone in his or her thirties or forties with ten or more years of experience. Liz was twenty-seven and looked six years younger. She thought she had the intelligence and skills to do the job, if those making the ultimate decision could look beyond her youthful appearance. But would her application be taken seriously?

Liz called her father, Art, to get some advice about what she might do. Art asked her for her value proposition. "My what?" she asked. He explained that every business transaction has at least two value propositions. In this case, one would be from the hiring manager at the organization to the job candidates, explaining why they should take the job. Another would be from her to the company, explaining why she was the best person for the job. Each side needs to persuade the other. Remarkably, many people go into interviews without thinking of how they can add value. Some sit there expecting to be "sold," while

others cite items on their résumé. They miss the opportunity to fully describe why they will be the best person for the enterprise. Thus, Liz could distinguish herself by using her knowledge and packaging it into a compelling value proposition: her vision of how the department could create more value for its customers and the publishing house. And it would be in a form that would facilitate a productive conversation about the job.

Art acted as Liz's partner as she developed and improved her value proposition. They iterated it a dozen times. She talked to many others, continually synthesizing into her presentation the new ideas she uncovered. In the end, when she came to the interview she addressed four issues:

- **The Publisher's Need:** The nonfiction department's overall book list was not making money, although a few books on Liz's list were. Its normal customer base of libraries was purchasing 5 percent fewer books every year, setting a terrible downward cycle into motion. The department needed to keep its brand at the highest quality, yet it had authors asking for royalties that were too high to leave any profit. So it needed to maintain its brand and quality, expand its customer base, change its book portfolio to be more profitable, and somehow pay less in royalties.
- **Liz's Approach:** She proposed to change the mix of books based on an analysis of what was profitable, since 90 percent of the department's profit came from 20 percent of the books sold. She proposed new models to expand the customer base, such as introducing lower-priced books, with subject matter that was high-quality and would appeal to a broader readership. She suggested ways of enlisting more emerging authors in addition to the established ones, thereby lowering royalties. She also described new ways to combine previously published material into new books.

- **Benefits per Costs for the Publisher:** Liz produced a spreadsheet of the current revenue and earnings, and she forecast 10 percent per year revenue growth and 15 percent profit based on her suggestions. She also showed how the publisher's brand would be enhanced, causing a "virtuous cycle," attracting more authors and therefore more books and more profit as well. Her approach would not cost more than the publisher's current approach.

- **The Publisher's Alternative:** Doing business as usual was causing a slow and inevitable decline. Her approach was the only one presented that offered the publishing house a way to revamp its approach and grow. She was also the only candidate who quantified, in a realistic way, the financial advantages of the changes she suggested.

Partly because of her value proposition, Liz was unanimously chosen as the top candidate and given the position. In her first yearly review, her manager gave her a double-digit raise and said that she exceeded all targets and was a "blessing" to the publishing house. When we talked to Liz she said, "There was no way I could have won this job without creating a value proposition. The format was perfect. You start off reviewing the company's needs, and they agree with you where you get it right. You can then have a deeper discussion with them about their needs and learn more before you go to your approach. It was perfect, just perfect."

If you are like Liz, or most of us, when you start a new project it seems impossible. It is scary. We are often asked, "How do you take a vague, incoherent idea and turn it into one that creates compelling new customer value?"

The process Liz used provides the answer. It has been developed, tested, distilled, and refined for years by us and our colleagues. It is the origin of hundreds of projects, more than fifteen new companies, and two broadcasting Emmys, including one for developing the U.S. standard for digital high-definition television.

As you read this chapter some of you may say that you already do these things. Yes, you probably do some of them. Because of the effectiveness of this process, many other creative professions, such as music teaching, moviemaking, journalism, and public relations use variations of these ideas.¹ The celebrated dancer and choreographer Twyla Tharp wrote a book called *The Creative Habit*.² Her view is that achievement—

whether in dance, business, or restaurant cuisine—is the result of preparation, effort, and proven practices, all disciplines that can be learned. She emphasizes closely observing the world and starting by getting your ideas down on paper. As you read this chapter, you will think of your own examples about how these ideas apply to other activities.

Even though these ideas are not complicated, very few people and even fewer enterprises systematically apply them. After learning about and meeting with senior managers from hundreds of organizations, we have found only a handful that do. These few companies tend to be leaders in their fields, like GE, P&G, Baldor, Toyota, 3M, and W. L. Gore.

Value Propositions: NABC

Every important innovation opportunity requires a value proposition. When it's missing, the result is confusion, poor communication between employees and management, a lack of focus on the customers' actual needs, and wasted organizational resources.

The goal of every innovation is to create and deliver customer value that is clearly greater than the competition's. The difference has to be compelling to the customer, which is expressed as:

"Our New Customer Value is *much greater* than the
Competition's Value."

But how do you, like Liz, start to develop new value for the customer? Begin with your value proposition. It is the nucleus for value creation, because it addresses the four fundamental questions that must *always* be answered when you start to create new customer value. These questions are:

1. What is the important customer and market *Need*?
2. What is the unique *Approach* for addressing this need?
3. What are the specific *Benefits per costs* that result from this approach?
4. How are these benefits per costs superior to the *Competition's and the alternatives*?

In an essential way, these ideas are not unfamiliar. You create value propositions as a matter of course in everyday life. For example, if you have a visitor and it is time for lunch, a typical conversation might be, "June, I understand you are as hungry as I am [Need]. Let's go have lunch at the Company Café [Approach], instead of McDonald's [Competition] because, for the cost of McDonald's, it has great food, it's quiet, and we can continue our conversation [Benefits per costs]."

Who determines the worth of this value proposition? Do you as the host? No, it is your visitor, June. And June might say, "Thank you, but I promised my children that we would go to McDonald's today, so I would prefer going there. My children will be happy playing on the slide, and we will be better able to continue our conversation."

This simple example demonstrates several other important points. First, the order of the questions—need, approach, benefits per costs, and competition—does not matter. What is important is answering all of them. Second, there are many different approaches for addressing a particular need. Your goal is to develop an approach that provides superior customer value—benefits per costs—when compared with the competition and alternatives. To be effective, value propositions must be quantitative and easily understood. A picture, image, or mock-up greatly facilitates communication of your ideas. When it's appropriate, always create one.

Value propositions are difficult to develop in business, because initially you don't know enough about any of the four questions. In addition, these four key questions interact with one another. One must repeatedly improve or "iterate" value propositions by getting feedback from others to make them complete and compelling. As we discussed in Chapter 2, you must repeatedly go back and forth between the unmet needs of your customers and your sources of new ideas to create new innovations. Without a process to help, answering the four questions in a value proposition tends to be either elusive or impossible.

One reason value propositions are hard to develop is that we all love talking about our "approach," to the exclusion of the other components. We have listened to many hundreds of business presentations during our careers, and in the beginning they always sound like this:

Need, Approach, Benefits per costs, Competition.

They are all about "approach." For example:

"What the world needs is a little red wagon.

Our approach is to build a little red wagon.

The benefits are that we will have a little red wagon.

There is no competition, since our wagon is a nice shade of red."

It's all approach, with no need, benefits per costs, or competition. You might think that this example is an exaggeration, but it isn't. People are always consumed with their approach—after all, they thought it up. They want to tell you about it and they want you to appreciate it. If you don't, they often assume it is your problem, not theirs.

When you begin developing your value proposition, it should initially look more like this:

Need, Approach, Benefits per costs, Competition

In this case the focus is on understanding the customers and the potential competition. That is, it is all about understanding the market ecosystem—the customer and market needs and the current and potential future players. Over time, you can create an approach, or refine an existing one, with compelling benefits per costs when compared with those of the competition.

When it comes to innovation, most enterprises are a Tower of Babel. The staff and decision makers literally speak a different language. The staff will initially talk about "nAbc," because they are focused on their approach. There is no need, benefits per costs, and competition. But the decision makers will be initially interested in "NabC," because they want to address their customers' unmet needs and beat the competition. They assume the staff can figure out the approach and benefits per costs once the needs and competition are understood. With no process in place to put all the pieces together, the staff and decision makers are at loggerheads. The staff will say things like "The decision makers don't get it" or "They don't support us." When you talk to the

decision makers they also will say things like "The staff doesn't get it" or "We're unable to get the staff to do useful things." Remarkably both groups say the same things about the other and both feel powerless. The solution is to have a value-creation process in place where everyone speaks the language of customer value, including all elements of a value proposition, NABC.

Remember Frank from Chapter 1. When he came into the room he brought a "nAbc" presentation. He was frustrated because no one would take him seriously. Actually that wasn't the problem—no one could understand him. In most organizations this is a common problem. I you are a decision maker with no value-creation process in place, you too will probably be befuddled when a Frank walks in, because you don't have the time to figure out what he is saying in order to determine whether it has value for the enterprise. At that point you have two poor choices: 1) You can politely ignore him or 2) you can send him off, saying "Do more homework" in the hope that something will happen to help you make sense out of what you just heard. These choices demoralize the staff and leave the decision maker feeling ineffective absent a way to engage the staff member, they may eventually walk out the door. Steve Wozniak, cofounder of Apple with Steve Jobs, left HP, a company he loved, because he couldn't get management to pay attention to the potential of personal computers. This outcome is no unique. Hundreds of talented employees, carrying billions of dollars of new value in their heads, leave companies they love each year. As champion, you must make sure value-creation processes are in place to engage your Wozniaks in order to capture their important innovations.

The next time someone gives you a presentation, keep the four ingredients—need, approach, benefits per costs, and competition—it mind and see if they are all included. If they are, you are talking to a very rare and special person. But if they aren't, be tolerant—developing a good value proposition is extremely difficult. That is why it must be part of a thoughtful improvement process with your team and organization, not an ad hoc activity.

competition for both you and us, but they have a handling-cost disadvantage of 75 cents per tape. Sending videos back is inconvenient, plus they cannot provide spontaneous purchases.

Below are some short, effective value propositions. The first one is from Paul Cook, a Silicon Valley Hall of Fame entrepreneur. It is the value proposition presented to a cable company executive for a video-on-demand system. We have labeled the four key ingredients—need, approach, benefits per costs, and competition—so you can see how they all fit together.

{ VIDEO-ON-DEMAND VALUE PROPOSITION }

"I understand that you are looking to expand your business. I think we might be able to help."

- [Need] Movie rentals represent a \$5 billion business opportunity that you currently cannot access. The only parts of rentals that people really dislike are the obligation to return the tapes plus the late fees. Customers find that it is inconvenient and wastes time.
- [Approach] We have developed a system that allows you to provide videos on demand to your customers using your cable system, with access to all the movies of Blockbuster. Our approach makes use of one of your currently unused channels, with no changes to your system. In addition, you do not need to invest any capital. Each movie costs your customers \$6.99, the same cost as a rental at a video store.
- [Benefits per costs] You will receive \$5 of new revenue per movie rented, with a margin of 20 percent after paying for the movie costs. Your customers will have all the pause and fast forward functions of a VCR when watching the movie, and they do not have to return the movie when done. Late fees are gone. We estimate you could capture a market share of 20 percent.
- [Competition] Our system is patented, and it is the only one to include all of these features. Online rentals represent new

Would you like a follow-up meeting to see how we could help you increase your revenue and profit?"

Writing down your initial answers to these questions is the beginning of a proposal or innovation plan for your project. The power of the NABC value proposition is that it is concise and to the point. As we will describe in Chapter 8, it is also the basis for your Elevator Pitch, which is a short, pithy summary of your value proposition; and then, in Chapter 9, we describe your full innovation plan.

Note that earlier we wrote competition *and* alternatives. In many situations there is direct competition, such as Corvette versus BMW. But in other cases there are alternatives that we might not consider at first. For example, for those interested in an exciting driving experience, the comparison might be between a sports car and a motorcycle. In this case motorcycles are a serious alternative with sales growing rapidly.

When someone comes up with a new idea, ask the person to answer these four questions: need, approach, benefits per costs, and competition and alternatives. Communication about an innovation is facilitated through a *common language*, including value propositions. And if the value proposition is not persuasive, the simple NABC template enables you to develop a compelling, persuasive one that will help sell your innovation to your peers, supervisors, and, eventually, customers.

Multiple Value Propositions Are Required

In every situation, *at least two* value propositions are required. The first is to your prospective customers, the people who might buy your product or service. The metrics for them are benefits per costs and how those benefits per costs compare with those of the competition and alternatives.

The second value proposition is to the investors. In an established organization, that might be the manager of the company, the principal

of a school, or a contract officer at a government agency. In other cases, it might be to outside investors, such as venture capitalists. In that case, the metrics for success include market size, profit, revenue growth, and return on investment (ROI).

In most situations, more than two value propositions will be required, because you may have business partners in addition to your customers and investors. In the Paul Cook video-on-demand example, the owner of a cable distribution system was a necessary partner in addition to Paul's investors. The value proposition to the cable owner emphasized revenue and profit growth for his company. But you will also see that this brief value proposition included benefits per costs for the cable owner's customers, such as the benefit that at the same price, there is no need to return rented tapes. The cable owner would only be interested if he was sure his customers would be getting additional value too. Typically, in any new initiative, value propositions must be developed for suppliers, distributors, staff, and other partners, if they are all to join the initiative.

Below is an early draft of a hands-free car phone value proposition. It is in outline form, which is the best way to get started. Note that it includes benefits per costs to both customers and investors.

{ HANDS-FREE CAR PHONE VALUE PROPOSITION }

NEED

- Cell phones are difficult and dangerous to use when you are driving.
- There are more than 500 million cell phones in use around the world.
- Because of the driving risks, many U.S. states and other foreign governments are legislating against the use of cell phones by drivers of moving cars, which would limit cell phone usage in cars.
- Consumers want to continue to be able to use their phones while driving.

APPROACH

- Use voice-activated dialing with a headset.
- Provide additional software for existing phones.

- Make the software "downloadable" to existing phones with a \$10-per-year subscription for the "in-car service."

CUSTOMER BENEFITS PER COSTS

- Convenience
 - Allows increased phone usage.
 - Safe, comfortable, and easy to use: does not require a new phone.
- Quality
 - Excellent speech recognition for voice-activated dialing: 99 percent accuracy with untrained users.
 - Supports twelve different languages.
 - Robust performance in noisy environments—better than human performance.
- New applications: the speech interface allows access to the Internet and other services.
- Cost: \$10 per phone per year.

INVESTOR BENEFITS PER COSTS

- New product = increased sales.
 - Assume our available market share is 10 percent of the 500 million total market.
 - At \$10 each, then $50 \text{ million} \times \$10 = \$500 \text{ million per year total revenue potential.}$
 - Initial investment needed: \$5,000,000
 - After three years, achieve revenue of \$50 million per year with a return on investment of 5:1.
- Other sources of revenue are available, because of the speech interface.
 - Initial discussions under way with other service providers.
 - Applications include: navigation, auto service, food.
 - Business model TBD.
- Hands-free auto use can reduce litigation, which many be another revenue opportunity.
 - Today the average cell phone car lawsuit is around \$50,000.
 - Opportunity for reduced auto insurance to the consumer.
 - Business model TBD.
- Low product risk = prototype developed and demonstrated.

COMPETITION AND ALTERNATIVES

- Existing phones, which must be used outside the car.
- Speech-activated phones built into the car.
 - More expensive at more than \$100 per car.
 - Less convenient for the consumer who wants to use a regular cell phone.
- Possible competitors: Intel, IBM, and Microsoft.
 - Our demonstrated 10 percent better speech quality and car noise insensitivity enables this application.
 - Intellectual property protection: we are protected by a family of fourteen patents.

This early draft was written after just a few hours of thought. It left many questions unanswered, and some of the early assumptions turned out to be incorrect. But that didn't matter. It was a start, and this initial draft convinced us that the opportunity was important enough to pursue. Therefore we began the iteration process to improve the value proposition and determine whether we could create a compelling business opportunity.

Specific, Quantitative, and Illustrative

Good value propositions are specific, quantitative, and illustrative; they tell a story. When people present their first value proposition to us, we usually give them one to four minutes to present it. We have listened to hundreds of these presentations, and only a few have been passable. Many are unintelligible. But we are sympathetic; we have never gotten one right the first time either. Even with the NABC template in your mind, it takes numerous rounds of improvements to be effective. For example, the hands-free-phone value proposition says, "Many U.S. states and other foreign governments are legislating against the use of cell phones by drivers in moving cars." This is not good enough. We need to know the dates when the new laws will come into effect and exactly what they will mandate. We also assume that 10 percent of

the 500 million phones will want our service. We need much more specific evidence about the number of potential customers and how we will engage them.

Try this simple experiment. Imagine that someone just came into your office and asked for the value proposition for your most important project. What would you say? Try it.

- N: My customer's needs are . . .
- A: My approach to satisfy that need is . . .
- B: The benefits per costs of my approach are . . .
- C: My benefits per costs are superior to the competition and alternatives because . . .

Your value proposition template gives you a more powerful worldview, which also applies to everyday business tasks. Recently, we were with a colleague preparing a presentation. He is an expert in understanding customer value, but he was like everyone else in that the first time he practiced his presentation it was about him. That is, he talked about the topics with which he felt comfortable—his approach. We all do this, but presentations like this just exasperate your audience. We asked him to put on his "customer value hat" for each slide he showed. That is, to think about what the audience needed, why the points on the slide represented value for them, and why this value was superior to the alternatives. When he gave the final presentation, he got rave reviews, and a few months later he won a huge contract.

Finally, where possible, you should create a detailed picture of the product or service in use, so the concept of the innovation becomes evident. Below are some tips for creating compelling value propositions.

- Customers
 - Talk to and interact with your prospective customers; Deeply understand your market space.
 - Create a first Value Factor Analysis to make sure you are considering all elements of potential value, from tangible features, to convenience, to the overall experience, and to intangible issues, such as security and identity.

- Create a prototype, if possible, or at least a picture or mock-up of your product or service.
- Watch and study your prospective customers using your prototype.
- Competition
 - Study your competition: know the competitors by name.
 - Understand all the alternatives.
- Look to the future: anticipate new competitors and market disruptions.
- Be quantitative: if you are not sure, take a SWAG [Scientific Wild A—Guess].
- Iterate.
 - Fail often to succeed early.
 - Form a "Watering Hole" [Chapter 6].

Innovation Plans

Value propositions are not complete innovation plans. But they address the *fundamentals* of a plan. It doesn't make sense to develop a more extensive plan until these basic questions are answered in a clear, concise, and compelling way. We use the term *innovation plan* rather than business plan, because this phrase emphasizes the urgent, dynamic imperatives of value creation.

In many situations, a short value proposition is sufficient information to decide what to do. But where substantial resources are to be invested, the value proposition must eventually gather and include all the components of a full plan, whether it is a government proposal or a new venture. In Chapter 9 we will show how value propositions naturally evolve into full-blown innovation plans, and other ingredients and tips for success will be described.

formation of new products and businesses, product improvements, management productivity tools, government policies, education reforms, basic scientific research, and enterprise-wide programs from the finance and human resources departments. It's also an invaluable tool for your personal career development, as we showed in Liz's story.

Steve Obsirnik was a founder of Discern Communications, an SRI International company. Steve learned about NABC value propositions and value creation during the formation of Discern at SRI. Several years later, he said how much he appreciated learning about these concepts, which he uses all the time. He told us that his talks to employees were in the NABC format, since it helped him focus on what his audience needed. He even does performance reviews using NABCs. He gives his value proposition to each employee, and the employee gives one to him. He said it was a remarkably efficient way to develop goals and achieve organizational alignment.

Innovations can be incremental (the development of a new website) or transformational (the creation of a new drug to control diabetes). In most organizations, the value creation process is a series of ad hoc, inefficient steps. But innovations never occur out of whole cloth. Innovations must be developed in a value-creation process. The value proposition is your most important value-creation tool. It allows you and the entire organization to focus on answering the core questions for each initiative. It also provides a tool to allow the compounding of ideas, one upon the other. Without such a tool, exponential improvement, as described in Chapter 2, is not possible.

Discover the power that Liz used to win her new job. The next time you give a presentation, put it into the NABC format. Make it as specific and quantitative as you can. Add a picture or sketch of your approach, if appropriate. Then find a partner, and others, and ask them to critique your content and presentation multiple times. We'll bet that when you give your presentation, your colleagues will notice a positive difference. Your value proposition is the starting point. Eventually, it will become the core of your Elevator Pitch and your complete innovation plan.

These ideas have been used at SRI International for all organizational activities, whether incremental or transformational. That includes the

All Activities Need a Value Proposition

A value proposition should be developed for all your organization's innovation activities, whether incremental or transformational. That includes the

new companies, requests for capital equipment, and changes in human resources policies. Since every activity within an organization has a customer and a need for resources, every new activity requires a value proposition to demonstrate why it is the best use of the organization's time and money.

WATERING HOLES FOR CREATING VALUE: *the Day the BBC walked in*

THE OBJECTIVE IS TO BUILD NEW CUSTOMER
VALUE AT RAPID, EXPONENTIAL RATES.

A Wake-Up Call

One Monday at 7:30 A.M. not too long ago, senior managers from the British Broadcasting Corporation (the BBC) came to participate in the SRI Discipline of Innovation workshop. They are an outgoing, articulate, and witty group. The team members were full of energy but they had little idea what was in store for them.

The BBC was formed in 1922 and is considered to be the most respected news and entertainment organization in the world. Its roots go back to the early days of radio and television. It broadcasts not only in English but in forty-two other languages in Asia, Europe, the Middle East, the Americas, and Africa. Not only does the BBC provide international news coverage, it has also been a pioneer of top-quality entertainment programs, such as *Masterpiece Theatre*, as well as shows that have been adapted for commercialization in America. Some examples include *Who Wants to Be a Millionaire?*, *The Weakest Link*, and *Who Line Is It Anyway?*²

While the BBC is often seen by outsiders as a superbly creative enterprise, its management did not think it was keeping up with

worldwide changes in media and broadcasting. The management team was searching for a partner to help invigorate the “creativity” of the organization. They signed up for the SRI Discipline of Innovation workshop, and over a period of a year and a half they brought six waves of senior executives to the workshops in Silicon Valley. At SRI we were excited to find a quasi-governmental organization wanting to improve its innovative practices, especially given the enormously high regard we held for the BBC.

We noted earlier that most people cannot concisely state their value proposition. To test this, when the BBC managers first arrived we immediately took them, one at a time, into four separate rooms that had video cameras. Once there, with the door closed, we said, “You have just gotten on the elevator with the director of the BBC. He turns to you and asks, ‘What important project are you working on today?’ You have ten seconds to think about this, and then we will turn on the camera for exactly one minute. At the end of that minute a bell will ring and we will stop the tape.” It was a wake-up call that the workshop was going to be intense. Luckily, no one expired, and all were able to get through their one-minute Elevator Pitch. Since so many of them had television experience, it was fun to see how articulate they were and how well they made eye contact with the camera.

We then brought the entire team together for a meaningful discussion about the exponential economy and the speed of change in broadcasting around the world. With our workshop instructors and facilitators, Herman Gyr and Laszlo Gyorffy, guiding them, they mapped the changes in their world. As they created their “world map” of new customers, potential competitors, and transformational technologies, they began to get a glimpse of the enormous opportunities—and threats—opening up in their world.

The next question was “How does one respond to these opportunities and threats and turn them into sustainable innovations?” With new digital devices in their hands, customers are less inclined to passively sit and watch TV or listen to the radio. They are continuously communicating with one another, playing electronic games, and surfing the Internet, which decreases the time spent with traditional broadcasters, such as the BBC. We noted that the only way one can meet these chal-

lenges is to create more customer value with innovative new approaches that leverage these emerging developments.

We then introduced the idea of a “Watering Hole,” a multidisciplinary, collaborative environment used at SRI where participants come together to *improve their value propositions* and create more customer value. In an SRI Watering Hole, Elevator Pitches and innovation plans are presented and participants give feedback on how to make the value propositions more accurate, crisp, and comprehensive. We explained that there needed to be such forums in the BBC, where the hard innovation topics could be tackled.

The BBC workshop participants were divided into four teams. Each tackled an innovation opportunity by developing an Elevator Pitch with the instruction to present it in three minutes. The groups went to work, amid comments like “We need an hour, not three minutes. Are you sure this is possible?” They were used to hour-long presentations back home, where program developers would prepare for weeks or months and then present to a “controller,” who would give a yes-or-no decision. Typically, only one program out of ten or more would be funded. We were asking them to play a different, supportive role with one another to improve each team’s value proposition.

Value propositions improve rapidly only if you get new ideas and useful feedback. We had noticed early on that the wry, acerbic British wit and tendency to debate would jump out even when people tried to be supportive, so we divided the audience into “green hats” and “red hats.” Those designated as green hats could only give positive feedback, while the red hats would suggest ways to improve the pitch.¹ At first, they all wanted to be red hats, since they were so practiced at it! But we insisted that everyone had to play both roles at different times as the Watering Hole progressed. If you were appointed to be a green hat, you could only point out the positive elements of the presentation, such as “I appreciate how effectively you quantified the market need,” and “I like how you painted a clear picture of the audience demographics.” When you go into a Watering Hole as a presenter, you quickly realize how important it is to get this feedback to help you understand what worked. Positive feedback also encourages you to work even harder to get ready for the next presentation. We even worked with the red

hats so that they could frame their comments in a helpful way. So rather than saying something like "That's the most muddled mess I have ever heard," they would say, "This would be more effective if it were quantitative. You might consider saying our new product will reach 25 percent more audience members in the twelve-to-eighteen age range." Both red hats and green hats were asked to be brief, specific, and quantitative in their suggestions.

Another crucial behavior surfaced. Because they were so eager to debate, we would make sure the presenters didn't immediately respond to the feedback—they stood there in front of the entire group and listened intently. As the urge to debate with the red hats emerged, they would just thank the feedback providers. To make sure the comments were not lost, each presenter was assigned a "coach." If the presenter survived the feedback, she or he would meet offline with the coach and review the feedback.

Midway through the week, after we had explained value propositions, the NABC format, and had gone through a Watering Hole experience, we showed the videotapes of their one-minute presentations from the first morning. Not surprisingly, the one-minute pitches were not exactly Academy Award quality. We have sat through hundreds of similar pitches and *no one* ever gets it right the first time—not us, nor the BBC professionals, no one. When people are asked to describe the new customer value they are developing, it is extraordinarily difficult to specify. After multiple Watering Holes, with each team revising its NABC again and again, we came to the final day, when teams had five minutes to present complete innovation plans to the group. Each team got rousing ovations in the final round. Their presentations included cardboard cutouts, funny skirts, pictures, and artwork that helped us all visualize the innovative programs they were proposing. Everyone agreed they were among the best presentations they had seen.

customers. They talked about them, but they didn't really know them. They would use language like "We need to fill the 8 o'clock slot" or "We need a comedy at 11." As one response to this realization, they changed NABC to aNABC, where "aN" reinforces the focus on "audience need" in addition to approach, benefits per costs, and competition and alternatives. Subsequent programs such as *Fat Nation* benefited from this realization. They talked to audience members and found out about people's real concerns.

The second epiphany was that disciplined processes do not necessarily squash creativity, which was one of their major concerns. Rather, they discovered that the processes we described were actually *creativity amplifiers*. Specifically, Watering Holes provided a forum to gather staff from across the BBC to gain needed information and expertise to improve proposals faster. Previously, there was no good way to do this.

Third was the unanimous agreement that important innovations require hard work. Only with a systematic process that helped answer essential questions at rates matching those of the exponential changes in their environment could they be successful. As a result, with the help of our colleague Herman Gyr, they adopted the Watering Hole practice at home under the leadership of Caroline Van Den Brul, who served as Group Leader of "Making It Happen," which was the organization's change program. They then went further and used a team of volunteer facilitators to conduct Watering Holes.

The fourth epiphany was that their larger goal was not to be the "most creative" organization in the world but, rather, to deliver the "greater public value." In other words, to employ innovative approaches that serve the needs of their various audience segments. They realized that creativity is just one input that needs to be at the service of the end goal—creating customer value. The focus on customer value for the public was a profound realization that has the potential to redefine how public organizations conceive and execute their missions. It is now part of the new charter for the BBC. The BBC is engaged in a process to understand how to measure and deliver programs that realize this goal.

The fifth epiphany was that the BBC's business model had to change. The BBC realized that their customers were being segmented into different markets by the emerging technologies and business models of the

Epiphanies

Five epiphanies emerged from the BBC's Watering Hole experiences. The first was the realization that they did not really understand their

exponential economy. The BBC, rather than being a “broadcaster” of content to a passive audience, had to become a “platform” that used multiple channels, including games and interactive Web services, and allowed audience involvement in creating content. As one person said, “Imagine if every school had cameras and teams of teenagers creating programs. They would come up with ideas we would never dream of and tell us where our customers are going with their interests.”

One BBC participant, Andy Parfitt, controller for Radio 1, started his new innovation processes at home by sending out all his employees to take pictures of their audience. Large blowup pictures of their audience now adorn the walls, staircases, and halls of their workplace. Talk about customer focus! Parfitt said, “In the twelve months since my visit to SRI, we have totally revolutionised the creative processes at Radio 1. It is clear that ideas we have generated, such as *Star Pupil* and our approach to *Glastonbury* and the *Big Weekend*, have been step changes in our level of creativity and innovation.”

Essence of Watering Holes

Watering Holes are not just brainstorming sessions. What has become known as brainstorming has been around for millennia, but it wasn’t until 1948 that Alex F. Osborn, a former journalist turned advertising executive, developed the technique and gave it the label *brainstorming*. Adapted from a 400-year-old Indian Hindu process, brainstorming is used in groups to “amass all the ideas spontaneously contributed by its members.”² It is useful for uncritically collecting as many ideas as possible so that a group can find solutions to a problem.

Now, almost seventy years later, the demand for generating ideas for developing high-value innovations far outstrips the conventional uses of brainstorming. Indeed, some research has shown that conventional brainstorming has limited, or perhaps no, effectiveness.³ Brainstorming, to be effective, must be structured around answering specific questions, and a great deal of work needs to be done before and after the meeting.⁴ But even this is not enough. What is required is to not only gener-

ate new ideas, but also to exponentially improve the customer value of potential innovations through the compounding of ideas. Without a process to improve your initial ideas—over and over—your creative flash of genius will never result in a new innovation.

Innovations require a synthesis of many ideas to succeed, including the new product or service, enabling technologies or capabilities, barriers to entry from competitors, a compelling business model, and essential partnerships. Ad hoc brainstorming meetings cannot lead to the depth of understanding that innovation demands.

Watering Holes leverage reactions from a disparate audience in a structured format to create customer value. Only by regularly tapping into the genius of this extended team will new, high-value innovations be created rapidly enough to keep up with the exponential economy.

Structured, Recurring Meetings

One of our colleagues called these meetings Watering Holes because they are market-focused, structured, and recurring meetings that give substance to all the “business animals.” Although not a direct analogy to watering holes in nature, the name stuck. They are a “safe place” where people can try out new initiatives and gain ideas, feedback, and resources. Participants include the technical, business, financial, and legal staff plus outside experts, as needed. The meetings bring together multidisciplinary teams to get all the perspectives needed for success. Groups interested in a specific market segment, product, or service meet every two to eight weeks to strengthen their value propositions. There are generally five to twenty participants, including:

- a facilitator who announces, sets up, and runs the meetings, and allocates funds
- champions and their innovation teams
- coaches, partners, and customers from inside or outside the enterprise, as appropriate

- Jungle Guides—market domain experts
- Other multidisciplinary contributors, such as technical, business, and legal staff

Watering Holes are not populated with bench sitters—everyone is expected to participate. If you have a value proposition for a new project or business initiative, you are expected to participate regularly to continue refining your ideas. Watering Hole meetings respect people's time. The presentations are crisp and to the point. Each champion of an innovation stands up for the team and gives a five- to twenty-minute presentation of his or her value proposition, proposal, or innovation plan, followed by ten to twenty minutes of specific feedback.

Watering Holes help make the presenter's value proposition compelling and quantitative. You assist the presenter in constructing and improving their Elevator Pitch (Chapter 8) and eventually their proposal or innovation plan (Chapter 9). Watering Holes capture the essence of brainstorming by opening up a free flow of ideas—but always centered on improving the presenter's value proposition to create new customer value.

Profound realizations often come out of Watering Hole meetings. For example, as described earlier, the BBC gained clarity about the need to create greater value for their customers, the public. The BBC is now focused on creating the maximum *public* value.

Metrics

Watering Holes can help you identify *important* customer needs, not just interesting ones. If you have an idea for a project, the first criterion is whether it is important—in terms of either existing customers, market size, impact on the world, or other organizational criteria. Communicate your criteria for important needs to all Watering Hole participants. Otherwise you waste time and disappoint presenters.

In a nonprofit organization working on housing for the homeless, for example, “important” might be judged by the number of people who receive quality shelter. Within a company's financial department, “im-

portant” might mean reducing billing cycles by 20 percent. For new commercial products or services, “important” usually relates to market size, growth, and profitability. Whatever the goals of the organization, communicate clear metrics for success. For example, “We are only interested in businesses that can have revenue of more than \$50 million per year” or “We want to have a return on investment of more than 15 percent per year.”

Watering Hole meetings cost time and money, and the returns must justify the investments. The meetings have to be efficient: everyone in the room should gain from being there. At SRI we form Watering Holes only when we are seeking to create significant new customer value, not for everyday tasks, although we still apply our other concepts, such as NABC value propositions, to all activities.

Watering Holes come and go in response to the marketplace. At SRI some Watering Holes last for six or twelve months and are then disbanded because the opportunities have been fully explored. Others go on for years because we have made a long-term commitment to a major business area.

A Learning Environment

The Watering Hole structure ensures individual and organizational learning. It takes effort and a great deal of experience to understand how to be successful at value creation, and Watering Holes provide a powerful forum for this learning to occur. Consequently, just showing up at a Watering Hole is not enough. As the BBC did in preparing for the Watering Holes in our workshops, there are pre-meeting actions, specific steps during the Watering Hole, and post-meeting actions. All these are designed to maximize learning and position champions and teams for the next improvement in their value propositions.

Before coming into the meeting, the champion and team will have talked to potential customers and iterated their presentation with others. Until you have talked to potential customers, all business discussions are academic. No one at SRI receives significant investments until he or she has interacted with customers and understood their needs.

Presenting a value proposition is hard at first because there is much to discover. For example, essential learning in Watering Hole meetings comes from watching others struggle with and then master a new concept, such as "market positioning" or "business model." When you are in the audience, frustrated because you cannot figure out someone else's presentation, you see how hard it is to be clear and compelling. Since we all struggle to understand the same general issues, Watering Holes help us become more open to improvement. And then, when one of your colleagues figures out a key point, you are better able to appreciate and learn from it. Because Watering Hole discussions can be confusing to presenters at first, it is helpful to have a coach or partner who meets with the champion of the project both before and after the meeting to help improve the concepts presented. The coach also helps by taking notes for the champion during the Watering Hole discussion, when ideas are being thrown out as fast as people can talk. This helps because we have found that the most the presenter can remember at the Watering Hole is about 10 percent.

Watering Holes are meant to enhance the champion's and team's value proposition, not to destroy the champion's confidence. It is inevitably frustrating and sometimes mortifying when at first you are still learning and feeling insecure. Participants build the champion up, not down, by being allies and friends. Watering Holes provide motivation. The feedback spurs you on and your competitive juices kick in, providing the stimulus to do better. Once someone does a good job on an aspect of the value proposition, the entire group wants to exceed that mark the next time. We have not found a faster means of teaching innovation concepts.

know someone across the organization who has a bit of critical information. Champions can be empowered at the meetings to go across the company to talk to that person. It is also important to invite *potential* champions who have not been through the process, who can become motivated and inspired by the Watering Hole experience, and who can then begin their own innovation journey.

We provide modest financial resources for use by the facilitator in charge of the Watering Hole meetings. These funds are to send people on trips to visit potential customers and partners, hire market experts—Jungle Guides—build models and simulations, and generally support the early first steps in creating a new innovation. Once a promising innovation has been identified, more substantial financial resources are provided.

SRI uses different names for Watering Hole presentations as they evolve. These names help set expectations. A research team will come to a Watering Hole seeking early input on an initial idea, and gather input. We call those "jam sessions," just like impromptu music jam sessions. In a jam session, an invention might be applied to a potential business opportunity. There was, for example, an early presentation on electro-active polymers, a plastic-like material that expanded when a voltage was applied. It had the potential to replace electric motors, valves, generators, and speakers. This idea eventually turned into a new company, Artificial Muscle, Inc.⁵ After the jam session, they did more research and presented it multiple times, finally moving toward a more complete innovation plan.

These later presentations are called "rehearsals," because you are still working hard to make it better; parts don't fit together and other parts are missing. Finally, when you are eventually getting ready to meet with clients, you have a "concert"—a presentation of a complete innovation plan. You are trying to fine-tune aspects of the presentation and make the hard choices about what to include and exclude. In all types of Watering Holes, you receive constructive feedback and continue to improve your value proposition.

Providing Organizational Support

Watering Holes are an excellent way to eliminate organizational boundaries, which are major barriers to innovation in most companies. You can invite participants from a variety of disciplines and projects whose input may be valuable. Inevitably, someone at the Watering Hole will

Getting Started

Here are some additional rules of thumb to help kick off the Watering Hole process and have it be effective:

- Have a clearly articulated initial goal: find a market segment where your expertise and market needs best align and where the thematic focus has value for all participants.
- Announce the schedule of the meetings and provide a formal agenda: set out the framework for the meetings so your teams can see the trajectory of what you are attempting to accomplish.
- Store and share your achievements: keep either a loose-leaf binder or a website containing all the presentations and backup materials.
- Make market analysis a regular presentation topic: keep building a broader and deeper understanding of the market segment's ecosystem.
- Include prospective partners: create value with your partners to gain their knowledge and buy-in.

Encourage a broad range of participation: important innovations usually happen at the boundaries of different disciplines. Look for those colliding exponentials described in Chapter 2, which open up new opportunities for white-space innovation.

our “Me.” Asking for the alternative often sharpens the issue to help make better decisions. As you run your Watering Holes, whether they are face-to-face or virtual, you should be asking the same question at each step. But we hope that you will emulate the BBC, institute Watering Holes, and experience the joy of building value propositions that compound in quality to match the changes occurring in the exponential economy.

more ideas for faster value creation:

origins of LINUX

"THE BETTER WE GET, THE BETTER WE GET AT GETTING BETTER."¹
Douglas Engelbart

genius of the world's population to gather ideas. Wikipedia is an open-source encyclopedia available on the Internet that has emerged as a daily tool for those interested in comprehensive, in-depth, encyclopedic knowledge. Wikipedia is available in more than one hundred languages and it is growing exponentially, with an increase in articles of more than 100 percent per year and with active contributors growing at more than 200 percent per year. There are several million articles available, and the average article has been edited more than fifteen times. Some think, "If it is not on Wikipedia, it's nowhere." To see the emerging ascendancy of this approach, consult Wikipedia.org on a topic of your choice and you will find top-notch articles that are both readable and informative. It seems remarkable that such an extensive, high-quality document could be produced with a minimum of supervision and control. But it has a huge advantage that makes the difficulties pale by comparison: It has thousands of people from around the world making contributions. More important, it taps into some of the best minds in every field, who occasionally write articles with quality that matches professional encyclopedia staffs.³ As the Japanese proverb says, "None of us are as smart as all of us."

In the commercial world, Procter & Gamble is one of the leaders in leveraging innovation ideas from outside. Rather than relying only on their in-house research labs, their "Connect + Develop" program seeks "opportunities to connect with innovators from around the world."⁴ As Larry Huston, the VP of innovation and knowledge, says, "Imagine opening up your borders for free trade. P&G employs 7,500 people in its R&D division, but there are 1.5 million scientists throughout the world with expertise in P&G's areas of interest. It doesn't take a genius to figure out that if you can engage the brains of your 7,500 plus the key ones from that 1.5 million, you can build better products."⁵ P&G now has more than 35 percent of their innovations coming from around the world, with a goal of 50 percent within a few years.

Another example from Eli Lilly, the pharmaceutical company, is InnoCentive. It is an Internet-based forum of 80,000 technologists in 175 different countries who collaborate for a fee with companies to find innovative solutions to complex problems.⁶

Exponential improvement, as discussed in Chapter 2, is possible when

getting insightful ideas fast. As the discussion above illustrates, the Internet provides a powerful new capability to facilitate the conditions needed for exponential improvement, first as a direct means to access new ideas and second as the basis for entirely new business models, including ways to collect more ideas, as P&G does. Chapter 11 will describe additional models for how you can exploit the potential of the Internet to gather ideas and achieve exponential improvement.

Getting Started

Whether you are in a face-to-face or virtual Watering Hole, you begin the process of creating customer value for a new innovation by rapid iteration with others to get the specific answers needed. Iteration is composed of (1) writing down your initial NABC value proposition, (2) getting feedback on it and collecting more new ideas, (3) synthesizing the ideas collected and revising the value proposition, and (4) continuing this process over and over.

Writing down your value proposition is essential; talking about your ideas is never enough. Our colleague Susan Gauff, who was head of human resources at Sarnoff Corporation and now runs her own company, always pointed out, "If it's not written down, it's not real." She's right. Only after your ideas are written down can you show them to others and collect their ideas for the next iteration of idea gathering and knowledge compounding.

Because change is inevitable, keep it simple at the beginning. Start new initiatives by creating only four PowerPoint slides, one each for need, approach, benefits per costs, and competition. The first version will be poor, but don't worry. By keeping your NABC value proposition short in the beginning, you will also avoid falling in love with your initial approach. What counts is being open to improvement while driving the improvement process. Only after you have repeatedly talked with customers, deeply understand the competition, and have refined your unique approach will you have an excellent value proposition.

Create illustrations, pictures, computer simulations, and prototypes of your solution so that people can quickly grasp and understand your

value proposition. In the beginning, you will want to use multiple rough sketches to encourage a broader array of ideas from your prospective customers and partners. When you get closer to the solution, you will make these illustrations and prototypes as accurate as possible in order to get specific feedback. In all cases, be open to new ideas and the prospect of completely discarding your initial proposal.

Present your value proposition to experts, colleagues, and friends, allowing them to help you add to and refine your ideas. Present them in Watering Holes, at lunch to colleagues, to your spouse at night, and to anyone else who will listen. Each person will be interested, knowledgeable, and confused about different things. They will challenge you to answer questions in ways that are simple and convincing. These different perspectives are valuable because, as computer scientist Alan Kay says, "Point of view is worth an extra 80 IQ points."¹² Each of us has a lifetime of experience and knowledge that makes us a "genius" when thinking about certain problems.

As a champion, it is your job to collect these "extra 80 point-of-view IQ points" and synthesize them into a strong value proposition. Each person forces you to present your case more effectively, and each iteration brings more IQ points to the process. We call this tapping into the genius of the team. Try out your value proposition on the most demanding and knowledgeable people you can find, including your significant other. We do. Most people are more than happy to share their knowledge with you. It is flattering to be asked.

No NIH. Encourage your teammates to avoid the Not Invented Here (NIH) disease. In the exponential economy, most of the great ideas are neither yours nor your organization's. To test this, just plug your favorite idea into Google and see how many hits you get. It will inevitably be there. You distinguish yourself by collecting these individual ideas and synthesizing them into a new solution.

Customers Aren't Virtual

Get out of your office; hit the road. The best source of information about whether your value proposition is on the right track is your

prospective customers and partners. They don't live in your office and they aren't all on the Web; you need to call them and visit them. Iteration with customers and partners should occur before you attend Watering Hole meetings.

Watch your customers. Rather than relying only on what they say, actually observe them. For instance, if you are working on a new way to present classroom information using handheld computers, observe students in a variety of classes rather than just asking them what works. If you want to design a new word-processing program, sit with people using a product and see where and when their frustration arises. If you want to design a new shopping cart, go to the grocery store and watch shoppers in action.¹³ If you want to improve health care delivery, go to a hospital and watch patients; see what their total experience is.

Simple observations can yield vital results. For example, if you were an airport designer, imagine what you could learn just by spending a few hours in an airport. You would see people sprawled on the floor by electrical outlets and roaming around with electrical cords dangling from their hands trying to find a place to plug in their cell phones, portable computers, and other electronic devices. Consider as another simple example your last visit to a hospital. Could you easily figure out where to go? Open your eyes and ears to collect the best ideas.

Philips Medical Systems employs the concepts of customer observation to understand the potential for new customer value. They build sophisticated medical imaging systems, such as magnetic resonance imaging systems (MRIs) big enough to image a full person. One of their managers took the *SRI Discipline of Innovation* workshop and then went back to design a new table that patients would recline on before entering the MRI. As the manager said, before the workshop they would have told an engineer to take out 20 percent of the cost. But they sent a team out to see how the table was used, both by the patients and the doctors and nurses. What they discovered was a family of new ways to improve the benefits provided while reducing costs.

Ask Questions

Most people talk too much and listen too little. As the saying goes, "God gave us two ears and one mouth—use them proportionally."¹⁴ The purpose of visiting customers is to get them to show you and tell you things you don't know. In addition to observing them, ask questions and listen intently for understanding. In critical meetings, assign someone the job of listening to the customer. Talking and listening are too hard when it is a tense meeting.

The sooner you get out and interact with customers, the better. They will give you critical information about the marketplace and customer needs. Friendly prospective customers will often volunteer to be one of your "iteration partners," encouraging you to come back time and again as your value proposition becomes more focused, interesting, and valuable. Let your future customers and partners be your free expert consultants.

Yvon Chouinard, the founder of Patagonia, quotes Kristine McDivitt about asking for help after he turned the company over to her to run. She said, "I had no business experience, so I started asking people for free advice. I just called up presidents of banks and said, 'I've been given these companies to run and I've no idea what I'm doing. I think someone should help me.' And they did. If you ask people for help—if you just admit that you don't know something—they will fall all over themselves trying to help."¹⁵ That is our experience too.

Our colleague Len Polizzotto says that when he takes the members of his team in to talk to a customer, he tells them just before the meeting—"only partly kidding"—"If anyone says anything other than to ask questions, you will be shot." Prospective customers love to talk about what they are interested in and what they most need. Remember: "The person who talks the most has the best time." Make sure your customers and partners have a *great* time.

Polizzotto has an excellent example of the power that comes from asking informed questions. Once, when he was working for a large company, his team was developing a new medical device requiring Federal Drug Administration (FDA) approval. Normally, such approvals

take 18 to 24 months. Len didn't want to wait that long. He immersed himself in a crash course on the FDA approval process using outside experts and then had a friend help him set up a meeting with the entire FDA approval team. During the meeting Len *only* asked questions about what each person needed for approval. He was after ways he could make their jobs easier, which would then make his life easier. As each person described what was required, Len took notes on a flip chart to confirm his understanding. Since he had done his homework before the meeting, he was able to ask informed questions as they went along. When everyone had spoken, Len went around the room one last time to double-check his understanding of what it took to obtain FDA approval. He submitted the paperwork for his device; it was approved in only five months.

Success requires deep market knowledge. Obtaining an understanding of a market space—with its business models, players, suppliers, competition, and potential disruptions—takes years of experience. It calls for someone who has walked in the customers' shoes. Polizzotto, for example, consulted with experts about the FDA approval process. If you do not have that experience, you need a Jungle Guide. As our colleague Carmen Caranese once said, "It's a jungle out there; we'd better get a guide." The Jungle Guide is a content or domain expert who leads you through the jungle. You can get lost in a jungle and you can get lost in the marketplace; use a Jungle Guide to make the trip less risky and more fruitful.

It takes work to gather, observe, and synthesize the insights required. When you start this process with prospective customers and partners, it will be, at first, confusing. But a remarkable thing will happen: After a few awkward and perhaps slightly embarrassing meetings, when you really don't have all the answers, you will quickly progress. Your meetings will begin to take on a very different tone. And at this point you will be able to focus your attention on those remaining issues that represent real difficulties and risks. *You* will rapidly become *the* expert.

Ask informed questions. Since almost no one else does, you will distinguish yourself while gaining critical information.

Remove Risk—Be Demanding

The exponential economy is demanding, so you must be demanding of your value propositions and innovation plans. Our colleague Walter Moos says, "If you are standing still, you are moving backwards." True—in today's world you are actually going backward at an exponential rate.

Unfortunately, the majority of project teams in organizations are not nearly demanding enough about developing compelling, quantitative value propositions. The result is billions of dollars of lost resources and untold hours wasted every year. Even in Silicon Valley, the entrepreneurial center of the world, only about one of every five new start-ups has significant success.¹⁶ Many start-ups fail because the individuals involved were not prepared. They have an idea, they write a quick business plan, they raise an insufficient amount of money, they spend it on the wrong things, and they fail. These are hard lessons to learn.

One of your objectives in developing a value proposition is to reduce risk. Successful entrepreneurs and individuals in organizations do their homework. They get solid answers to the critical questions, minimize risk, and thereby maximize value. Consequently, they spend their scarce resources only on those few elements of the plan that are risky. Think of learning how to play a musical instrument. Many musicians fritter away their practice time rehearsing the parts they already know. The people who rapidly improve are those who work on the parts they can't yet play. Risk can take many forms:

- market risk
- technical risk
- people risk
- financial risk
- business-model risk

Don't be afraid to admit what you don't know. Put the issue squarely on the table to focus attention on the need to address it. Over time, you will collect the ideas needed to figure out the answer.

This point is worth emphasizing. Most people spend large amounts

of money and time before a clear value proposition has been developed and obvious risk has been removed. *This is always a mistake.* Until a compelling business direction is established, much of the initial effort will be wasted. We believe in moving quickly but with extreme parsimony until a compelling value proposition has been developed. Money should initially be spent *only* to develop the value proposition and the business model, and to remove those elements of the plan that represent risk. Once the direction for the initiative and major areas of risk have been reduced, it is much easier to raise the money needed to complete the project. Moving ahead without a compelling value proposition is the biggest mistake we see companies and inexperienced entrepreneurs consistently make. It is a project, product, and new company killer.

You might be asking yourself, “What is the compelling value proposition for my current situation?” It can be a bit unsettling to ask this question. If you don’t know your current value proposition, you can’t fully contribute. If you do know it and it is not compelling, then you may either be wasting resources or be vulnerable to the competition. Fix it.

It's a Journey

Your initial value proposition will be incomplete and flawed. The first version of Linux, for example, which Torgvald published in 1991, was usable only by serious hackers. It wasn’t until March 1994 that version 1.0 of Linux kernel was released.

The path to success is seldom straight. Being wrong in the beginning doesn’t matter. As the design firm IDEO says, “Fail often to succeed early.” Rarely do you end up where you thought you would when you started. You shouldn’t expect to, since in the beginning you have not talked to, studied, or observed your customers and competition. You don’t know which approaches are feasible. And you have not developed a business model that is viable. Successful innovations require a journey. You need to listen carefully to the marketplace and you need to be adaptable. Your original vision might have been to end up, meta-

phorically, in Chicago, but the right destination for your innovation might be San Francisco.

Early failures cannot be avoided; don’t think that you will be the exception that gets an easy ride. Look at the notebooks of people who have accomplished great things and you will see failure after failure. Pasteur, for example, generated one strange theory after another. But he kept learning, rejecting theories that did not work, compounding his knowledge, and eventually he succeeded in inventing vaccination and the process of pasteurization.¹⁷

Find a partner, create your first four PowerPoint NABC slides, talk to some potential customers, present at a Watering Hole, and continue the iteration process afterward. The journey will be a lot more fun and productive than you ever imagined.

Exponential Improvement

At the beginning, improvements to your value proposition will hardly be noticeable. But when all the pieces start coming together, you will experience an exponential-like improvement in your value proposition—which you need to match the challenges of the exponential economy. As you continue, your research and the ideas you get from others will compound. The “curve of exponential improvement,” as indicated in Figure 7.1, shows how the quality of a typical value proposition develops over time.

Note that you don’t iterate just once or twice, you do it many times, improving at each stage. Most people don’t iterate enough or fast enough. They stop after three or four iterations. Nor do they seek out all possible feedback from customers, partners, and others. They get discouraged, protect themselves from input, and give up. Your value proposition is the first step in creating your new innovation. Once you get the answers needed, you go on to create a new innovation plan, raise the resources needed, develop a prototype product or service, and then deliver the final product or service to your customers in the marketplace.

it comes to innovation—literally day in and day out as a computer that you use to make high-definition unusual numbers enable your data entry.

Speech recognition firm when we a financial of these in others—creates the central of about int... It is the s... improved f... our customer. The first was just an in hoff created ed program genius of this innovation. I two groups v... ers who mal... lines who c... age. Instead executive suite ed over it ar... whether the p... erstanding,

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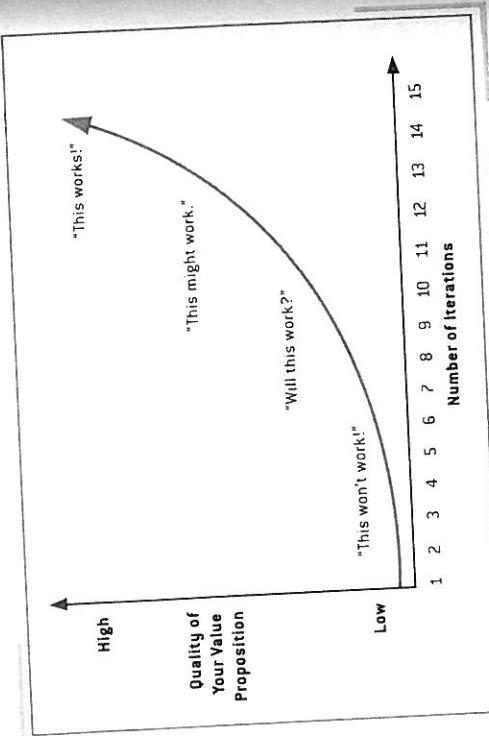


Figure 7.1 Curve of exponential improvement. The comments are what people presenting value propositions often say as they make the journey of value creation. When you have answered the fundamental questions and improvement slows down, it's time to move to the next stage in developing your innovation.

Edison continuously improved his value propositions—often hundreds of times. When a colleague of his observed that he had again failed to find a filament that would not burn out in a lightbulb, he said, "I didn't fail, I just found something else that didn't work."¹⁸ But eventually he succeeded. Reach out to your colleagues and iterate, iterate, iterate until you create a compelling value proposition. If you do, you too will experience the curve of exponential improvement, uncover more customer value, and increase the likelihood of a successful innovation, just as Linux did.