3: Value Ladder Model

Watch Your Step

A new economics—
nowhere is this more true than in high technology.

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Chapter 1 gave a brief description of ventureland's traditional and modern periods, noting how each period focused on New Paradigm Lead Platform chasing. It described how its home runs were scored on new computer and communication paradigms during the traditional venture period and the lead protected intellectual property, materials, hardware, software components and systems, and products that these manufacturing pioneers made. Chapter 1 also noted the shift during the modern period to a new paradigm (Internet) lead *anything* environment. Now the postmodern venture period is seeking a new high ground of action to launch the next generation of high-growth companies. Where is that high ground of action in this topsy-turvy creation age and its network economy? That is what our models in Supertech Camp are after—a framework for understanding how the high-growth company creates the *next new, new thing*, a place in the lead platform of a new paradigm. This lead platform offering can be part product and part service—SuperScience at work. The traditional venture capital period's New Paradigm Lead

Platform formula is still alive. What is changing because of the SuperShifts reviewed in Chapter 2 is the diversity of factors that entrepreneurs can brew to create the formula. That is what this first model helps us do.

Up the Ladder

Creating New Paradigm Lead Platform technologies today begins with understanding the values that consumers and companies are finding important in this network economy. Figure 3, The Value Ladder Model, depicts the levels of discovery of new paradigms. This model begins with Level 1, and ends with Level 5. Are you ready? Let's walk up the ladder.

LEVEL 1—COMMODITIES

This is the basic level. Agricultural products best exemplify the nature of this level. True commodities are *things* extracted. Data and most information (thanks to the Internet) are now commodities. As computer and communication technologies become more ubiquitous in our lives, their invisibility coincides with their commoditization. Commodities are fungible and traded in *markets,* whereas supply and demand control prices. Venture capital itself is becoming a commodity. Chapter 14 discusses how this condition is affecting the venture investment process itself.

LEVEL 2—PRODUCTS

Using commodities as raw materials, companies make tangible things for *customers*. The industrial age taught us how. Today, only about 17 percent of the workforce is employed in making products. *What they love to do* characterizes product manufacturers. In its pure form, product manufacturers are craftspeople.

Product Technologies

When you mention the word *product*, most people think of technologies such as fiber optics, semiconductors, cell phones, modems, databases, computers,

Level	Offering	Function	Value	Nature	Technology	Standards	Seller	Buyer	Demand Factor	Method of Supply	Key Attribute
5	Transformation of an individual	Guided	Transformation	Effectual	Transformational technology	Content de facto	Elicitor	Aspirant	Traits	Sustained	Individual
4	Experiences of an event	Staged	Creativity	Memorable	Creativity technology		Stager	Guest	Sensations	Revealed	Personal
			Wisdom		Wisdom technology						
3	Services from operations	Delivered	Knowledge	Intangible	Knowledge technology		Provider	Client	Benefits	On demand	Customized
2	Products	Made	Connection/ information	Tangible	Communication and computer technology	Technical de jure and de facto	Manufacturer	Customer	Features	Inventoried	Standardized
1	Commodities and materials	Extracted	Data	Fungible	Communication and computer components/ materials		Trader	Market	Characteristics	Bulk storage	Natural

Figure 3. Value Ladder Model

handheld PDAs, and so on. Computer and communication technologies use commodities like data, information, electricity, and chips to craft devices (goods). But client-server computing, network devices, and software (both operating and application) are also products. Of course, we know that the end-user computer and communication products are comprised of a bundle of sophisticated materials, components, software systems and applications, and devices.

Chapter 1 described the home-run technology that traditional venture capitalists seek—the New Paradigm Lead Platform technology. Before we wander offtrack here with our models, let's get clear about something up front. It is important to understand that traditional venture capital practices will, for the remainder of most of our lives anyway, remain fixed on their preference to finance bleeding-edge technology. Fortunately, there will be plenty of New Paradigm Lead Platform technologies unleashed by the forever innovative scientific, engineering, and venture capital communities. For example, the premiere humancentric IT project, namely MIT LCS's Oxygen Alliance, will keep those investors and engineers raised and educated in the early years of the information age busy thinking there is no end in sight for hard-science-based breakthrough products. The venture capital portfolio mix of two home runs to offset the losses of two so-so companies and six outright losers is likely to remain the venture portfolio paradigm for the traditional venture community. Notwithstanding our belief at SuperLab that the venture process system described in Chapter 15 can change the traditional venture capital portfolio paradigm, we expect things in ventureland not to change much. The lure of Mount Everest-like returns that hard scientific breakthroughs promise will keep the attention of everyone who grew up with the venture capital paradigm.

The thin air of chasing hard-science NPLPs

As the traditional venture capital community keeps its head down "chasing hard science" to unlock NPLPs, they are finding the air thinner and thinner on their Mount Everest. It is getting harder to breathe—there really may be a scarcity of oxygen in the IT adventure.

There are three reasons why this is so:

1. Tier-one firms hold a superior position.
2. True NPLP technology adoption has a long ramp-up time.
3. Hard things are becoming less important.

Tier-one firms. For venture firms that are not tier one, meaning they are not widely funded and with long track records, playing in the thin air of "chasing hard science" is getting very tough. The long-standing relationships that tier-one firms have welded over the years with the research community and their reputations in their industry niches mean the bleeding-edge technology gets opted by the tier-one firms. The pressure on tier-two venture firms to please their newly acquired institutional investors with high and fast returns, coupled with their being bullied out of the way at the scientific hotbeds, makes life for tier-two firms almost unbearable.

Technology adoption is long. The history of discovering and commercializing true New Paradigm Lead Platform technologies, is a chronicle of time—usually lots of time. Our other models in Supertech Camp will describe and explain the ramp-up time the *next new, new* hard-science breakthroughs take before they become commercially feasible. The best example is the biotech model and its R&D, patent protection, and commercialization cycle. It is not uncommon for biotech firms to take ten years to get a product in the market. Witness Agouron Pharmaceuticals in San Diego, which finally got to market its first commercial drug, Viracept, an HIV protein inhibitor, after ten years. True breakthrough paradigms in information technology likewise have long ramp-up times. It took the Internet over twenty years to hit its tornado of growth. It took the computer itself thirty plus years before it became a main street item. The base materials, components, systems, and products that are involved in the discovery and development cycle of bleeding-edge technology usually takes a long time to develop. A good example is the humancentric IT paradigm that will probably play itself out over the next twenty years. The artificial intelligence paradigm is still in its early market despite its beginnings as long ago as 1959 when Marvin Minsky and John McCarthy founded MIT's Artificial Intelligence Laboratory. The venture community has, until the last eight years, been able to let the academic community bear the responsibility for funding the gestation period of the science and R&D of New Paradigm Lead Platform technologies. However, as interest and competition heats up in the venture capital industry, more and more firms are competing to get a proprietary acquisition position in the R&D community. The price tag is venture capital firms' dollars and courage, and it's throwing a monkey wrench into the traditional venture investing model. In other words, for venture firms to catch the *next new, new thing* they have to be prepared to invest earlier than they might otherwise like. A good example is the recent $50 million contribution to MIT's Laboratory for Computer Science's humancentric Oxygen Alliance project by the venture divisions of Acer, Hewlett-Packard, Nokia, NTT,

and Philips. This early-investing strategy spikes up their risk factor and wreaks havoc on the time-value factor of their return on investment (ROI). On top of this, early investing exposes the venture investor to the increased cram-down risk from any follow-on investors.

Hard things are becoming less important. Compounding the above two conditions, venture firms are confronted with the SuperShifts described in Chapter 2. There may be less value placed on the hard-science products and more value on how we use them. The more this becomes true, the more determined we see traditional venture capital firms "chasing hard science." Why? Because it fits their success models, which are based on technologies that promise more power, smaller size, and higher density. When the world starts changing, it is human nature to dig harder and deeper into the holes we know. This is why when Eric Schmidt, CEO of Google, announced in late 2002 that Google would not remain a slave to Moore's Law and buy the next generation of super chips, the computer titans were shocked. Mr. Schmidt is part of the SuperShift. Marc Andreessen, co-founder of Netscape, comments on Google's direction of *functionality* over *power*:

> When I read the Google announcement, I understood exactly where Mr. Schmidt was going. This is a fundamental, even revolutionary, change in the IT world, and most people don't even realize it yet. It's going to be disastrous for a lot of the big companies out there.[1]

This now brings us to our next level of value: services. It is here that tier-two venture firms and entrepreneurs can focus their attention for opportunities. They have good reason to do so. It is the direction of a lot of action in the telekosm, and there is just more air and room to breathe.

LEVEL 3—SERVICES

Before we all got connected and found more value in soft things like information, relationships, leisure, and the arts, products held center court. In those days of old, the differentiation of a product was another product. It has all changed. Telekosm has unleashed the soft stuff, and the softies are making a *difference* in the perceived value of most hard products. Chapter 2, "SuperShifts," noted the commoditization virus infecting the computer and communication sectors. There is no antidote for this virus. We need not belabor it again here, other than to note it well. But let's look at other things. For example, today's automobile is

not just a vehicle. Car manufacturers know that for every dollar spent on its cars, four dollars will be spent on financing it, insuring it, fueling it, and fixing it. Our old car is now a new media center and Internet node on wheels—because those services are important today. The technologies of telematics are booming. Ford CEO, Jacques Nassar, has announced that Ford wants to be a premium producer of consumer services.[2] Today, most products like an automobile are just things waiting for a service. Products become services when they are customized. Stanley Davis and Christopher Meyer, authors of the book *Blur,* describe this phenomenon as "productized services"—the integration of hard science with soft science.[3]

Everyone is ". . . izing" their things. General Electric's Jack Welch reported in 2000 that General Electric's bottom line showed that services were growing at two to three times the rate of its products. IBM and Hewlett-Packard, two hardware heroes of the information age, are well aware that producing hard-science stuff has been commoditizing for some time. IBM reports that 40 percent of Big Blue's revenues comes from its service division, IBM Global Services.[4] In fact, the IT industry reports that consulting, outsourcing, and network building is now its biggest sector, accounting for $666 billion in worldwide revenue. The number of Charles Schwab's service representatives has tripled in the last five years. Imagine, all the advances in automation and yet high-growth businesses are increasing their head counts in the service departments. Witness the niche-based, low profile data-center businesses being adopted as a vital revenue generator by the big telecos. There really is life beyond making things. When a technology-based economy like the network economy has sufficient infrastructure in place, as it does today, then performing services, not producing products, holds the margins of profits. This has not gone unrecognized by some venture capitalists, as evidenced by the venture capital recently secured by service-based firms. Zefer (web infrastructure services) secured $48 million. Recently, early-stage companies like TruSecure raised $22 million, ArcStream Solutions (wireless consulting) raised $5 million, and Finali (outsourcing services) raised $5 million.

From customers to clients

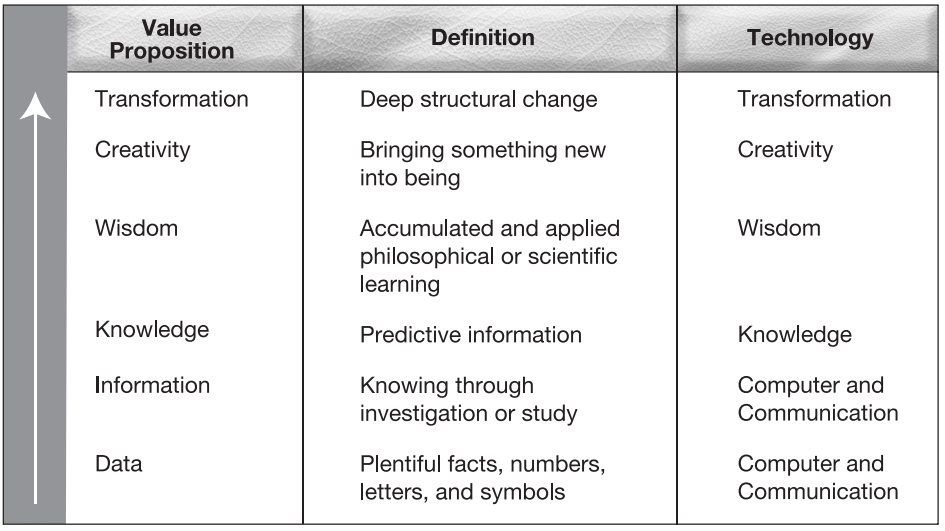
Eighty percent of the workforce is now employed in using things (goods) to perform personalized and customized services for *clients.* This trend is irreversible. Percy Barnevik, former CEO of Asea Brown Boveri Ltd. predicts that by 2010 services will make up 90 percent of the U.S. economy and manufacturing only 10 percent.[5] Clients are willing to pay more for services than people who think of

themselves as customers. Consumers (customers) look for bargains and discounts. Clients pay more and expect to be serviced accordingly. Customers stay at arm's length from their vendors. Clients get very close to their providers to make sure they get what they want.

When products were scarce and prices high, services used to be bundled free for customers. Now, products are offered free to customers and clients in order to win and maintain that precious and profitable vendor-user relationship. The network economy is placing a premium on commodifying the relationship between vendor and user. Netscape gave away their browser software product to have a chance of locking itself in as the standard navigator and thus be in a leadership position to *service* advertisers and content providers. Do not be surprised when the humancentric IT products hit the markets as freeware and are bundled with subscription-based higher value, high-priced add-on services.

All services are not created equal

We pay our doctors to transform our *disease* to *ease* more than we pay our computer technicians to make our data program run better. Lawyers get paid more for their services than auto technicians do for theirs. Figure 4 shows the pecking order of the basic service categories and their common meanings, compliments of Webster. The bottom of the pecking order starts with data. Note that the once highly valuable and specialized data and information service-based offers have now regressed into the computer and communication sector as goods.



Value Proposition	Definition	Technology
Transformation	Deep structural change	Transformation
Creativity	Bringing something new into being	Creativity
Wisdom	Accumulated and applied philosophical or scientific learning	Wisdom
Knowledge	Predictive information	Knowledge
Information	Knowing through investigation or study	Computer and Communication
Data	Plentiful facts, numbers, letters, and symbols	Computer and Communication

Figure 4. Service Values

Service Technologies

When any of the basic service categories are productized, it means some tangible or hard-science-based element from the product realm has been added to it. The reverse is also true. A product, like a car, can have a service added to it; so, in effect, a car is really a service technology.

Hard things can get softened, and soft things can get hardened. This is the process behind the creation of service technologies. It requires great acumen to *blur* an offer into something that is one part product and one part service. A prime example of information technology softening into services is the recent trend of IT e-sourcing, or utility computing. Essentially, this is servicing users with a pay-as-you-use outsourced IT offer. Soft is getting even ofter. The software industry is shifting from the packaged application to the software-as-a-service approach. The recent web application management service model is an example. This is the space where Marc Andreessen of Netscape browser fame had his next company, Loudcloud, perched. Another example is Research In Motion Ltd.'s BlackBerry™ wireless handheld. Here we find a company that undertook a massive software system-engineering task to deliver a complex service that would be easy to use. The BlackBerry™ handhelds are falling off the vine. RIM was doubling its revenue and profits every year as of 2002.

Going higher

The trend for the higher values of knowledge, wisdom, creativity, and transformation is offering client-based *self-help* through a software proposition in order to create the best of both products and services. Another way to harden the soft is through licensing. A recent example is JAZiO, which has patented a new interface design for high-speed chip-to-chip communications. Instead of using their expertise to manufacture chips, they license their *ideas* and *processes* to other chip developers. All this is called *hardening the soft*, and SuperScience is working overtime here. What is going on? Essentially, subject-matter experts are taking the "mystique of their personas" out of their offer and in its place inserting the *content* at the core of their value proposition. This content is either put in a license format or digitized into software and software-based systems. LeapFrog's LeapPad® and the library of books that LeapPad technology platforms is a great example.Clients, who are used to high fees, relish the prospect of becoming merely a customer for a software *product*—as long as price goes down and the benefits of the offer are delivered quickly and customized and easy to use.

The first kind of service technology usually hardened into a content-rich software application is a knowledge-value proposition. The next level up in value is wisdom, and its content can be productized, too. A good example is a software program operating off a $20 million database called Merwyn, developed by Doug Hall's Eureka!Ranch®. This online-enabled software provides instantaneous analyses of product and marketing plans. It is a high-knowledge, high-wisdom value proposition embedded in self-help software accessed over the Internet. There is higher value yet—creativity—which can also be productized. IdeaFisher™, a software program developed by Marsh Fisher, co-founder of Century 21 Real Estate, is an example of a creative thesaurus hardened into software.

Internet enabled

We can't have a discussion of service-based technologies without dealing with the Internet. *Creating* Internet technologies is different from *using* Internet technologies. It's a given that all our offers and operations should be Internet enabled. The Internet is more than just a technology and more than just a channel. Above all, it is a mind-set that platforms a company's product and operational strategies. There is no shortage of fabulous reference material on the subject. We won't take the space in this book to provide more. However, before we sign off and defer this subject to others, let's look at an excellent model provided by Stanley Davis and Christopher Meyer, authors of the book *Blur*. Table 1 shows their model of the "Blurred" productized offer. This model works well for testing the service technology component of an offering idea on the value ladder journey. Here it is:

Table 1. Attributes of "Blurred" Offers

Your offer has *speed*	Your offer is *connected*	Your offer has *intangible traits*
Anytime client	Online to client	The offer learns
Access and response	Interactive with client	The offer anticipates
Real-time operation	Anyplace client	The offer filters
	Access and response with client	The offer is customized
		The offer can upgrade

Welcome to the manufacturing world

Hardening service offerings into software applications presents a good news/bad news scenario. First the good news. For technology manufacturers trying to escape the computer and communication technologies commodity pit, software applications may not be a giant step out of their comfort zone. This small step, coupled with the prospects of finding a sweet spot of new higher-margin business in a higher-value proposition, should justify the innovation effort up the ladder. We began seeing this in the 1990s as computer and communication hardware manufacturers began embedding more and more software into their offers and calling it firmware.

For service providers, the software strategy opens up a grand new world. Welcome to the *network economy*. Every reason for being a software manufacturer is available to the service provider. All the increasing returns and network advantages of software offerings now open up for service providers. Through careful alliancing, the service provider can maintain its core-service deliverables. Perhaps more important, service providers can, by hardening one value proposition like knowledge-based services, now have more time and resources to unlock a higher value offer up the ladder. Looking down the ladder and finding lower-value product manufacturers coming up the ladder with service offerings, the service provider is able to maintain a competitive advantage and high-margin business by innovating up the ladder.

The bad news is this. For technology manufacturers there really is no bad news. The bad news for high-end knowledge-, wisdom-, and creativity-based service businesses is that software technologies infect their business operations with all the challenges and competitive threats shared by manufacturing businesses. What service businesses inherit here are the viruses of complexity, commoditization, and the demands of protecting their intellectual property. Subject-matter experts possessing knowledge, wisdom, or creativity now have to figure out how to integrate the complex world of manufacturing into their offers, operations, and value chains. As Chapter 6, "Lead Platform Model," will show, these software-based offerings will have to be positioned for a lead platform role if the company hopes for industry leadership and compelling competitive advantages. On top of this, the Internet is increasingly forcing software into the virtual commodity pit—since bits are becoming free. In our connected world, all service propositions are in danger of being commoditized through software applications and ultimately disintermediated over the web.

So the result is that everyone is forced to innovate somewhere on the ladder. There is no standing still. Knowledge, wisdom, creativity, and transformation service providers are pressured to go two ways—downward on the ladder to productize through software applications and upward to find higher-value add-on services called *personal performance systems.* Manufacturers have only one way to go—up.

The Full Monty of Service Offerings

Technology manufacturers are in love with *what they do*. Service providers are in love with *who they do it for*. The customercentric service provider has an advantage over craftspersoncentric manufacturers. Mind you, there is no moral judgment going on here. It just so happens that service providers have no natural boundaries or limitations on their performance levels that trap so many technology manufacturers. Jets can get only so big, computers can get so small, and everything in between is also subject to natural laws. Said another way, IT companies that pursue competitive advantage at the bottom end of the IT topography (see IT Topography Model in Chapter 4) will be "chasing hard science" for innovations. This will remain capital intensive, very risky, and home base for most venture firms still clinging to traditional venture practices.

Service providers, however, have only the metaphysical laws framing the outer limits of the form or function of their performance. So, service providers will be "chasing their customers." The metaphysical or spiritual laws are not chained to any base physical sciences. The light moving down our fiber optics is indeed a bountiful display of abundance. The abundance of bandwidth is impressive. But this pales in comparison to the light moving up from our hearts when focused on what can be done for the clients we are in love with. And this is the inflection point of innovation in today's economy. Service providers really have the *boundless* realm that AT&T tries to sell its communication technologies with. Service professionals of any technology company hold the trump cards for leading the innovation or corporate resurgence efforts of the company. And when any corporate triage is necessary, finding quick ways to generate cash flow is easier and less capital intensive with services than manufacturing devices and applications. Remember, the postmodern venture era is about *show me the money* now, not *show me future values* based on future long-term category, industry, and partner-positioning formulas.

Fast Company magazine's cover of February 2002 had it right when it proclaimed, "Love Is the Killer App." It is this boundless realm of performing

more and more value—pouring more and more love and service on clients, which makes service providers the center stage players in the network economy. *Fast* Company's cover of March 2003 proclaimed, "Double-Digit Growth in No-Growth Times." Examining the article by Adrian Slywotzky and Richard Wise, one can pierce through their *demand-innovation* jargon to find the secret weapon of growth for such high flyers as Cardinal Health, Clarke American, Johnson Controls, and others. Service. These add-on services were based on customer activities around the product rather than by simply improving the products themselves.

Enhanced by digital technology, service providers use computer and communication technologies as tools and platforms. These existing platforms and the new humancentric IT platforms will be used by service firms to become software application providers carving deep niche plays. A good example is I-Think, a systems-based software application that systems consultants and knowledge workers in the organizational development field deploy with their clients. Service providers harden into software a current generation of once-secret expertise into digital content and move on to the next generation of higher performance systems to manifest even greater commitment and service to the clients they love. Eventually this, too, gets hardened, and the innovation cycle moves on and with it corporate growth.

Figure 5 shows the full model for productized services.

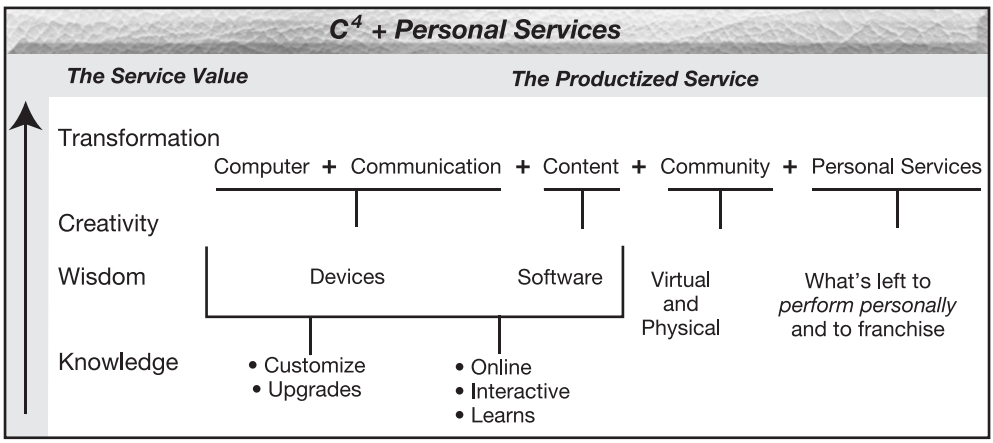


Figure 5. Productized Service Model

The last two components of the Productized Service Model, namely *community* and *personal services*, involve essentially nontechnology issues.

The role of community

Some content is strictly *form-and-function* based. For these form-and-function-based content offers to have any scale, there has to be a demand across many sectors of the economy. A good example of a form-and-function content is the chip interface design licensed by JAZiO across many sectors of the semiconductor industry. Another is Intuit's personal financial reporting content that has been adopted by Microsoft and others as the standard content format (OFX standard). These kind of content-based offers, when Internet enabled, usually result in a radial network between the provider and its customers—one customer at a time.

Other content is *community based*. This distinction between *form-and-function-based* and *community-based* content is important because a company does not enjoy increasing returns and market lock-in just by going on the Internet. Another kind of radial network is Amazon.com. Amazon is obviously Internet enabled, but the source of its increasing returns is different than, say, AOL or eBay. Radial networks like those of Intuit, JAZiO, Amazon, or Sale.com, and E*Trade are really transaction aggregators and not designed within the context of *community*. For increasing returns and market lock-in (other than through the costly and brutal branding process), they have to be designed to allow free interconnection for everyone in the radial network family of users.

In contrast to Amazon.com for example, AOL is a combinatorial network, so it can promote communities of *experience and meaning* that allow people to connect with each other through its hub of chat rooms, hobby centers, and buddy lists.

The real quest by knowledge, wisdom, and creativity software technologies will be to create easy-to-use, functional content within cultural niches and enabled through a combinatorial Internet portal. Doing so will help ensure market lock-in for their offers. So the context of culture sets up the easy-to-use, networking, increasing returns, and virtual-community-building agendas of any productized service offer. Remember, culture—people sharing meaning and experiences—catalyzes trust, and trust always precedes commercial activity. It is this very fact that underpins most of the technology development challenges facing the humancentric IT engineers and designers. These technologists are realizing that the meaning–oriented information model of this new paradigm hinges on transforming information structure into information meaning. The conventions and standards necessary for human-to-machine interaction, automation, individualized information access, collaboration, and customization—the five

technologies of the humancentric IT paradigm—all hinge on shared culture, and this is the field of culture and community. Many key technologists have noted this *cultural* challenge. John Seely Brown describes this application of SuperScience principles to service-based technology offers this way:

> The convergence of the telecosm, the microcosm, and the nanocosm are going to drive unprecedented development over the next twenty years. However, the degree of complexity in individual scientific fields requires a focus that makes collaboration across scientific fields difficult. Organizations that engage in "deep craft" will continue to bridge this gap. Deep craft is not just about knowledge, but is also cultural as well. Culture is often what is taken for granted and left unspoken.[6]

The role of personal service systems

After the computer, communication, content, and community agendas of the productized service model are dealt with, what remains is the personal services part of the model. This is the space of action driving all the new value propositions as the company proceeds up the value ladder. Since the personal services component has not been hardened into any license or software application yet, the difference is the experience the client has with its vendor. The growth strategy for companies will be to unlock the expansive power of the franchise business model for this personal service component of the Productized Service Model.

So service-based businesses have this dual quest going on—hardening their value proposition into humancentric-based software and devices while experientializing the personal service component and franchising it. This takes us to our next level of the Value Ladder: experience.

LEVEL 4—EXPERIENCES

Commodities, goods, and, to a large extent, services exist outside an individual. Commerce has largely been an outside job. Maslow's hierarchy of human needs has mirrored technology's march. First, the agricultural age met people's *survival* needs. The information age, and all its C&C technologies, have given people an opportunity to *belong*, as never before. Now the creation age is promising people intangible offerings to meet their internal needs for *prestige* and *self-fulfillment,*

where wisdom, creativity, pleasure, comfort, beauty, entertainment, love, and truth reign as the high-value agenda of choice. Our communication technologies have made the whole world a stage and all experience a simulation. Business is becoming like a circus.

When companies crank up the value proposition to provide the internal payoffs that people want, the companies are said to be *staging experiences* so that people can *feel the difference that makes the difference*. This is why the *culture industries* (a phrase coined by German sociologists Theodor Adorno and Max Horkheimer in the 1930s) are the fastest growing sectors of the global economy. The film, radio, television, recording, tourist, fashion, food, personal development, and wellness industries, along with shopping malls, theme parks, and cyber communities are the leading fields in our creation age. The Olympic Winter Games in Salt Lake City recently demonstrated the important role of the culture industries. Did you notice Steven Spielberg carrying the Olympic flag in the opening ceremonies with world leaders in sports, politics, and science? Futurist James Ogilvy noted the following:

> The growth of the experience industry represents a satiation with the stuff that the industrial revolution produced . . . today's consumers do not ask themselves as often, "What do I want to have that I do not have already?" They are asking instead, "What do I want to experience that I have not yet experienced?" The experience industry is all about trading in what makes the heart beat faster.[7]

We live in a world of information, connection, and product overload. Getting the attention of people is quickly becoming the biggest battle facing businesses today. And when contact is made, what do you want people to do more than anything else? To remember you. This is the differentiator that makes the difference in any offering. This is the differentiator for Ali Kasikci, general manager of the Peninsula Beverly Hills Hotel. Here he is in the heart of West Los Angeles winning all the industry awards and beating the pants off the established Beverly Hills hotels. How he does it is the key for any productized service offer. Here is his formula: "Our job is to think ahead of the customer—we invent something the customer hasn't thought of before."[8]

Products, even productized services, without memorable experiences are merely commodities that quickly become part of the information landslide that we're all trying to hide from. Microsoft is enticing people to buy their software products in their commercials by showing that you literally fly through the air

if you use their stuff. Bill Gates is selling flying, not computing. The National Football League's premier offer—the Super Bowl—is not enough. The NFL now offers the NFL Experience alongside the Super Bowl. Anything to engage customers is how to win the game.

The accelerated learning industry noted long ago that rich experiences were the key to fast, integrated learning. Edutainment grew out of the accelerated learning movement. The recent success of LeapFrog is certainly a testimony. The Internet may provide lots of online learning for customers that need basic information, but clients who need to learn how to get their sophisticated information translated, systematized, correlated, scenarioed, paralleled, compared, or, in short, made valuable for the big challenges they face, need more than just simple answers from online databases. This really comes through personal engagement, combined with a compelling and memorable experience. Doug Hall of Eureka!Ranch® stages creativity workshops and commands a $150,000 fee for a weekend experience. MG Taylor Corporation, and its licensee Cap Gemini Ernst & Young, stage three-day accelerated design Group Genius™ experiences and command upward of $200,000 for the experience. Are these high-value Group Genius™ experiences worth it? Clients such as Microsoft, Walt Disney, Cisco Systems, and Hewlett-Packard think so. Group Genius™ clients report that projects that had nine-month timelines, were shortened to three days by the Group Genius™ experience. Obviously, the high price for working smart and fast through Group Genius™ is worth it.

Knowledge has been defined as predictive information—intelligence gained from, and applied through, experience. The late scientist and philosopher Emmet Fox defined wisdom as the "perfect blending of knowledge and love."[9] Love is a feeling and is best transferred through direct experiential contact. The *experience* value level requires that clients become *guests* who have a *staged* encounter in order to have a *memorable* time. Disneyland works because everyone remembers and loves the *time* they had. This value level is all about soft science. It's why the entertainment industry is one of today's quintessential business sectors.

How do you draw a distinction between a service offering and an experience offering? Here's one test: if a client or guest remembers positive feelings about interacting with your offering, you've produced an experience. Here's another test, compliments of B. Joseph Pine II and James Gilmore: "If your customer or client pays you for the time they spend with you, then you're in the experience business."[10] No feelings—no experience.

Experience Technologies

The personal service component of a productized service offer suggests a big clue about the experience factor. That's right—turn off the lights and roll back the curtain. It's performance time.

Work is theater

Ali Kasikci thinks of his hotel as a stage, and each guest has a leading role. In their seminal book, *The Experience Economy,* authors Gilmore and Pine assert that the strategy that works is theater. This rich text explores from many angles the challenges and tasks for creating client value from the experience factor. Here is a short to-do list for any company that wants to capture competitive advantage for the intangible personal service component of their productized service offers. C&C technology firms might find this list useful in their quest for branding the experience of using their goods.

- What kind of engagement do you want your client to have—entertainment, educational, escapist, esthetic, or an integration of all these?
- Do you want clients to be passive or active?
- What is the theme of the experience?
- Can you harmonize impressions with positive cues?
- Can you eliminate negative cues?
- Can you mix in memorabilia?
- How many of the five senses can your performance system engage?
- Can you charge for the experience with you?
- What form of customization is your focus—collaborative, adaptive, cosmetic, or transparent?
- How are you eliminating client sacrifice and providing satisfaction, surprise, and suspense?
- Is your business model built around the theater model? If so, what kind—improv, matching, platform, or street?
- Are your operations like scripting, staging, and performing?
- Does your team know their roles?

Virtual or physical theaters?

One reason dot-com bombed was it forgot that culture precedes commercial activity and all real culture exists in geography. In geospace, intimacies take place and with it social trust. The cyberspace cowboys of the modern venture era must have thought their e-business virtual communities, crafted through computer chat rooms, would engender the same kind of bonding it took Sears decades to build. Geospace strategies are the antidote to the wired and unwired world's temporality and superficiality. For example, just because our wires or signals connect does not assure that we really know each other. If we don't, we may not really know how much we care for each other. Any client relationship lasts as long as the client feels cared for. My doctors cannot hide online. They need to see me at least once a year and spend quality time with me. Their offices and their performing staff better impress me that cutting-edge medicine is going on. If these two things don't show up, my doctor's marketing budgets better be alive and well. This same personal contact and sensory experience is conditioning all of us, everywhere and with everything we buy. For example, when we go into Starbucks we know they care for our drink by all their trendiness, music, and smells that carry us into the Starbucks experience. We never get the same feeling buying their coffee at the supermarket. The real success of Starbucks is getting people into their corner theaters where they perform their South American coffee show. The impression they leave lasts for at least three to four trips to the supermarket, where we remember to buy their coffee.

LEVEL 5—TRANSFORMATIONS

Traditional venture capitalism has always concentrated its investments on technologies in Level 2—Products, and in Level 5—Transformation. Just when you probably thought this Value Ladder journey was getting too soft and not pragmatic enough, we arrive at a space of action that venture investors call home. It is at this level where we find the life-science fields of medicine and biotech, because the promise of their discoveries is truly transformational. Transforming *disease* into *ease* is the highest form of value, and people are willing to pay dearly for it.

It is important to note that transformation should not be confused with mere innovation, although they both involve change. The dictionary defines

transformation as a *deep structural change*, while innovation is defined as just *change*. Transformation is not incrementalism or novelty. Deep-structured change is the great quest of all hard-science technologies. From biotech to communication-tech, the "holy grail" is the discovery or invention of something that will cause a discontinuity to occur in the market—such as the profound transformation that occurred in the business market when typewriters were replaced with computers. How else can you explain traditional venture capitalists' appetite for the New Paradigm Lead Platform offering?

Transformation is also a proposition that people value independently from medicine and things. For example, religion is a great business. Why? Because it's in the transformational business. There is nothing more difficult to get, or to fulfill, than the request to *change me*. It is therefore extremely valuable. And in our age, more and more people are aspiring to *become* something more, that is, to *change* fundamentally. Overweight people ask Jenny Craig to change them. Addicted people ask AA and its twelve steps to change them. Stressed-out people ask Rancho La Puerta to change them into serene people.

People who want to be transformed are saying to the vendor or supplier, "We are aspiring to change so that we can become more than we are." The vendor or supplier thus becomes an *elicitor* for an *aspirant* who wants to go on a quest. These quests are usually long term. The long-term value of having aspirant-type clients for *elicitors* is very high. For example, our firm, SuperLab, is in the transformation business because SuperLab promises aspiring entrepreneurs that we can ensure that their *good* teams and technologies will become *great* companies by working with us—continuously.

So, service-based businesses can unlock new value propositions for their personal service component here at Level 5—Transformation. Here is where all the knowledge, wisdom, and creativity experts and their technologies find a home to prove just how deep their craft really is.

The client is the product

For the service-based business, exploring transformation as a value proposition merely notes that the customer is the product or offer. It's not like Microsoft's ad, "Where do you want to go today?" Instead, it's "Who do you want to be tomorrow?" The client or buyer is essentially saying, "Change me." Performance systems are not the economic offering—the offering is the client. The aspirations of clients focus on what they want to *become* not what they *have*. They are not changing in degree, but in kind—not in function, but structure.

Service-based businesses that deploy their knowledge, wisdom, and creativity technologies to change a client, don't accomplish this through one event or experience. No, the personal service component is provided, even required, through time so that the desired change can be sustained. Think of this as being in the "ensurance" business—guaranteeing performance. Contrast this with a service-based insurance contract that pays out a cash payment as the offering's guarantee or the concept of *assurance* that guarantees a feeling.

Transformation Technologies

The things that can be used by client-aspirants are determined by the kind of transformation trip the elicitor service provider offers. The point here is that all kinds of C&C devices and creativity-based software can be part of the transformation process. The entire e-learning agenda of companies now takes on new meaning. Instead of e-learning as something companies use, it is instead something they offer to all their customers. Cisco recently recognized this and has quickly hustled an online customer-training program. To develop this, Cisco is partnering with over 120 special development vendors. One is KnowledgeNet.com, an Arizona start-up that received a $30-million investment from Cisco and others.

Experiences provided by special events and extraordinary processes are likewise part of the toolbox the aspirant has to use on the journey. These technologies, hard and soft, need to be offered over the three phases of the transformation experience:

Diagnosing. The elicitor has to understand what the client-aspirant truly needs to become and how far away the client-aspirant is from becoming that. Diagnostic technologies in medicine are a good model for nonmedical fields.

Staging experiences. Here the full spectrum of the experience realm opens up a smorgasbord-like array of possibilities. Knowledge, wisdom, and creativity technologies have to be integrated with rich experience-embedded performance systems.

Follow-through. "Ensurance" is only possible through continuity of a rich and powerful follow-through service. The true transformers will be those elicitors who care to the max. It's all about heart, destiny, and commitment on both sides—aspirant and elicitor.

This concludes our walk up the Value Ladder. Hopefully, with each step up this ladder you felt encouraged about the innovation opportunities in front of us all. The stock market that began crashing in 2000 (and continues even as of

January 2003) is not the sign of the times for entrepreneurs and investors who understand that *money and meaning* is made in the simple context of adding value.

Chapter 4, "Paradigm Model," examines the first part of the NPLP formula: the *new paradigm* part. Any layer of the Value Ladder Model offers a fertile territory for unlocking new paradigms of customer benefits. There is an art for discovering new paradigms. Chapter 4 examines the fundamentals of this art. Before we turn to it, let's summarize what we just learned in Chapter 3.

CHAPTER SUMMARY

Value Ladder Model—Key Points

This chapter first focused on the "thin air" of the venture capital community's quest for the next New Paradigm Lead Platform technologies. The entrenched and highly capitalized older venture capital firms have a locked-in *first look* at the new science coming out of the research community. Tier-two venture firms are not so lucky. This chapter examined again the trend of the computer and communication sector's hard technologies and products becoming commoditized. The antidote to this commoditization is, of course, soft things like high-value services, access, entertainment, and so on. These softer items of value can drive higher margin business. Next, this chapter segued off Chapter 2, "SuperShifts," to offer a framework for *how* and *where* to look for delivering new value to customers in our network economy. This framework can be summarized this way:

- Companies will be spiraling up the Value Ladder to unlock new paradigms of data, information, and the even softer values of knowledge, wisdom, creativity, and transformation values.
- These same companies, once they are in the higher value realms with their first servicecentric offers, will be racing like mad to transform their soft services into licensed property and/or packaged software. This digitizing will, in effect, harden their content-based offers into software and will be delivered over the Internet.
- We call this merger of products with services the *productized service offer*.

- Productized service offers will behave much like the computer and communication sector because they are Internet enabled. The most robust model of the productized service formula is:

Computer + communication + content + community + personal services

- The productized service model reaches its full potential when the Personal Service component of the formula is executed within the context of experience- and transformation-based value propositions. Twentieth-century customers are becoming twenty-first-century clients, guests, and aspirants.
- The old expression, what goes up must come down, will apply to the NPLP chasers of the network economy. Of course, once a knowledge-, wisdom-, creativity-, or transformation-based offering is hardened into a software or device, the commoditization devil shows up. This evil threat will force the innovative company to look once again up the Value Ladder and repeat the cycle of creation. Whoever can turn this cycle of creation the fastest will be a big winner. Let's now turn to our next model and learn what a new paradigm is and where to find one.