

SUMMER 2020

TWO TALES OF INNOVATION

DESIGN METHODS

STEPHEN M. WALLS, PH.D.

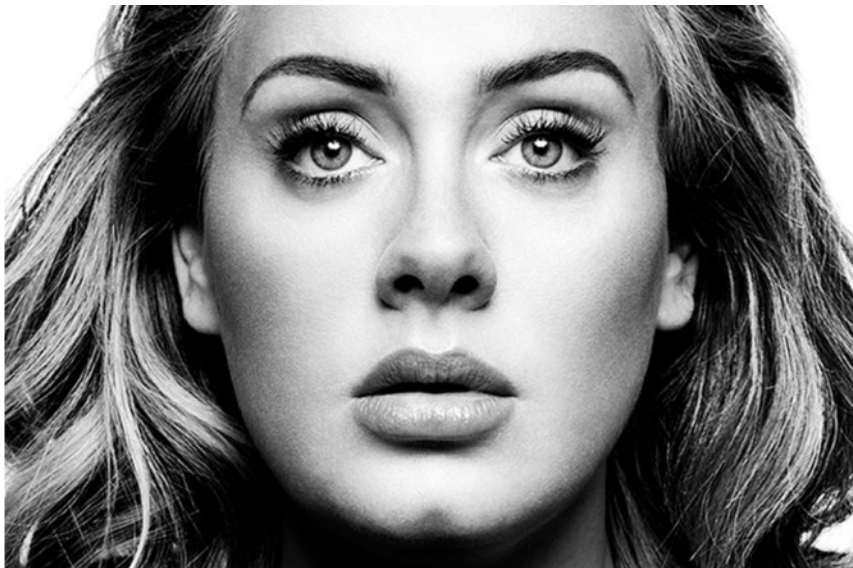
Senior Lecturer & Director for Career Accelerator Programs, The University of Texas at Austin



Discussion Objectives

- Understand factors that can help or hinder the ability of an organization to be more innovative
- Approach to technology
- Approach to business model
- Approach to building empathy
- Approach to idea generation & testing

What do these things have in common?





Adele Saved Music, Rock Recovered, and 12 More Fun Facts From SoundScan's Year-End Spectacular

By Daniel Kreps on January 5, 2012 3:06 PM [Cc](#)

• Adele's complete parade of 2012 SoundScan accolades: Best Selling Artist, Best Selling Album, Best Selling Physical Album, Best Selling Digital Album, Best Selling Internet Album, Best Selling Digital Song, Best Selling Digital Track, and Most Played Song on the Radio. With 1.8 million downloads, *21* also scored the title of Best Selling Digital Album of All Time. To further put Adele's impact in perspective, the music industry sold 330 million albums in 2011, a 1.3 percent increase over 2010's total of 326 million. Subtract *21* and its 5.8 million copies from the equation, and total record sales are down. So, Adele saved the music industry, who are now counting the seconds until *23*, *24*, or *25*.

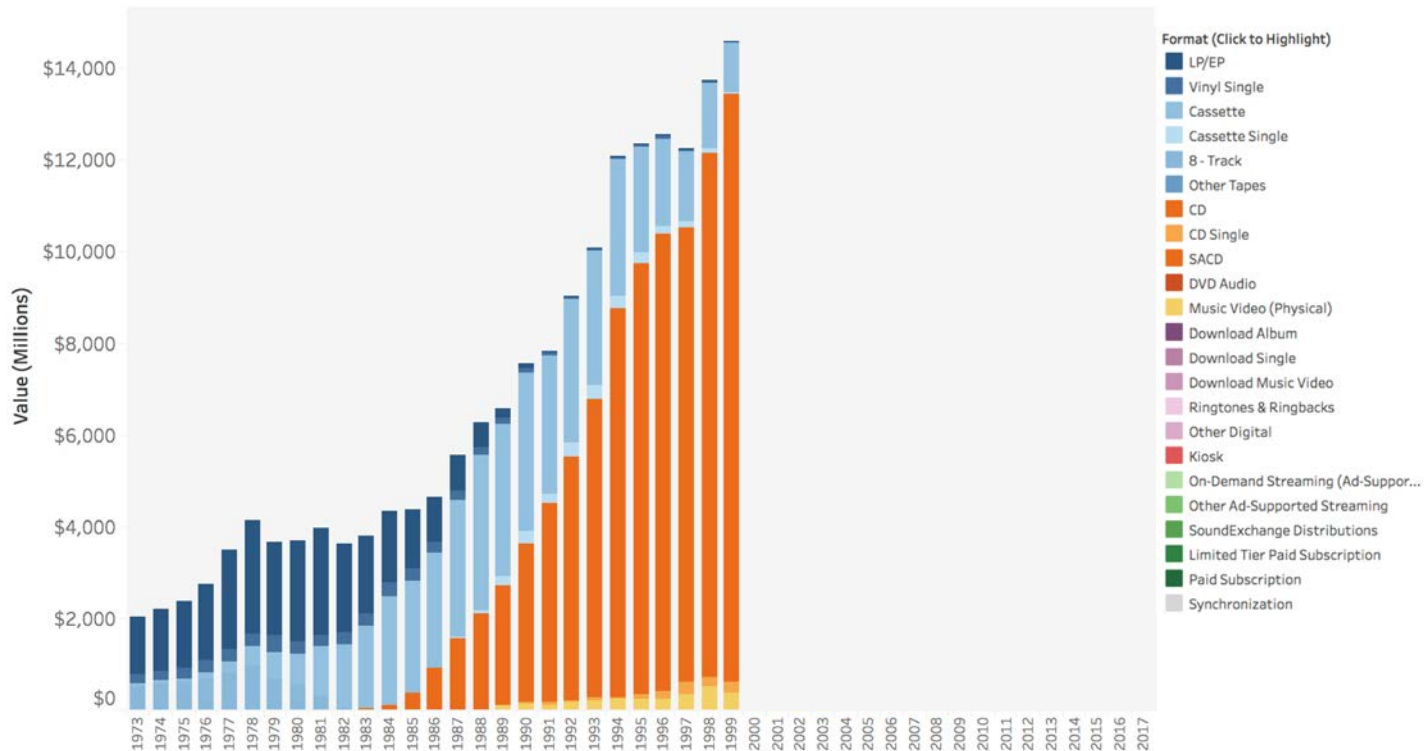
Major Recording Labels



U.S. Recorded Music Revenues by Format

1973 to 2017, Format(s): All

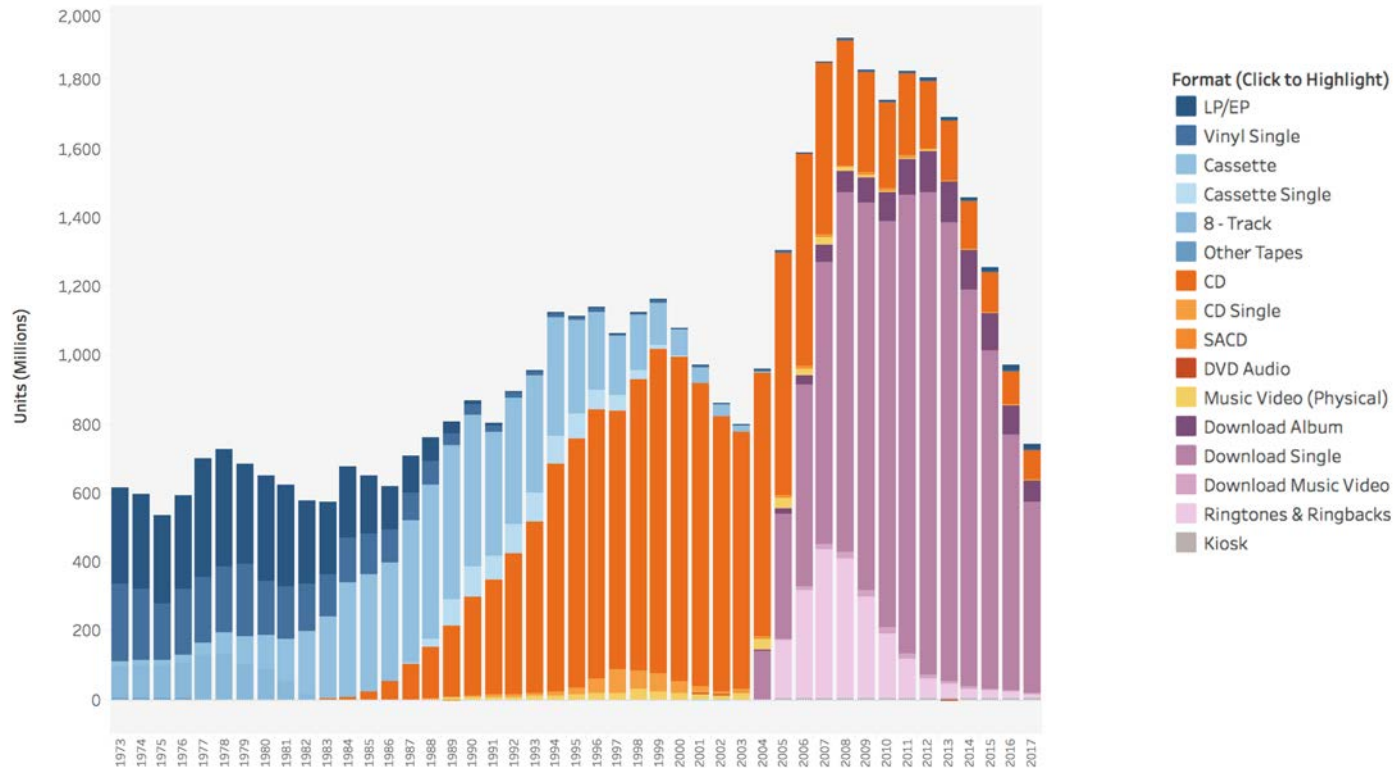
Source: RIAA



U.S. Recorded Music Sales Volumes by Format

1973 to 2017, Format(s): All

Source: RIAA



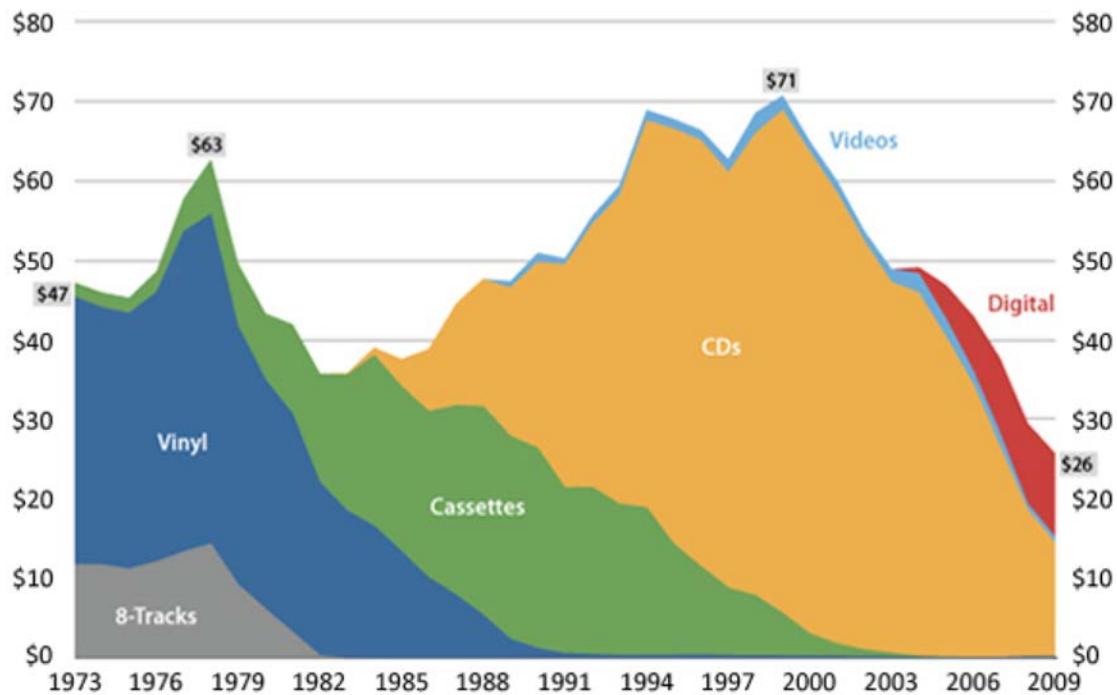


Silicon Alley Insider

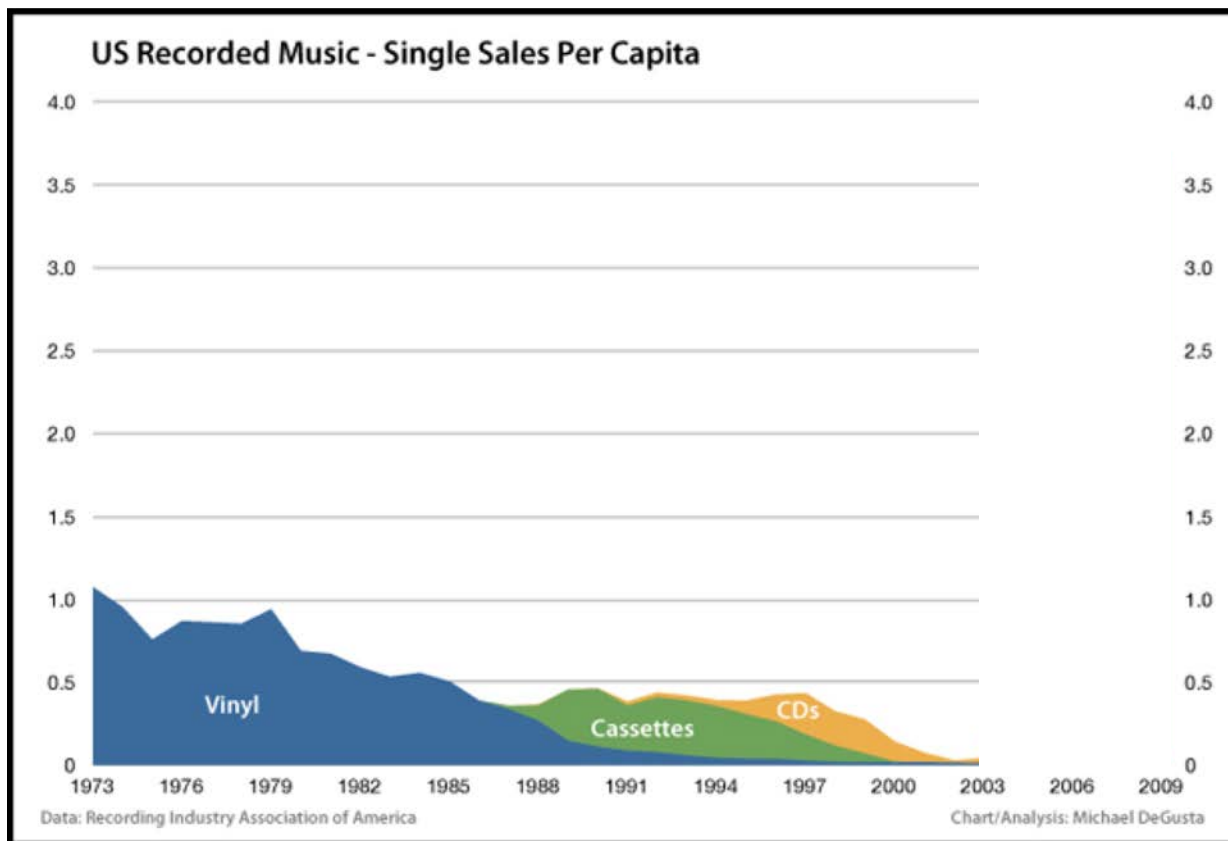


Chart of the Day

U.S. Recorded Music Revenue - 2011 Dollars Per Capita

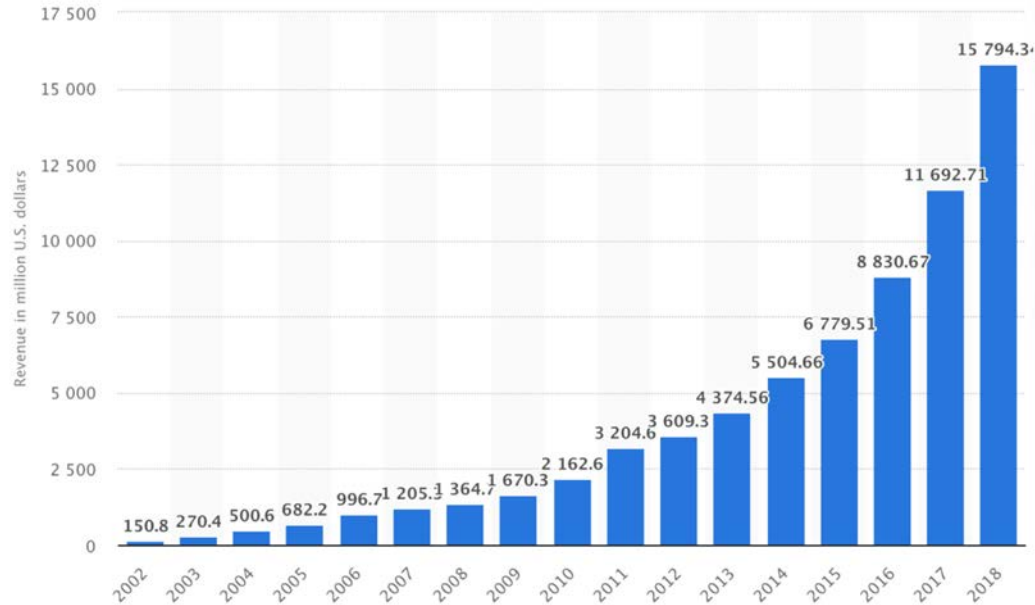


Source: Recording Industry Association of America; Analysis; Michael DeGusta (Feb 2011)



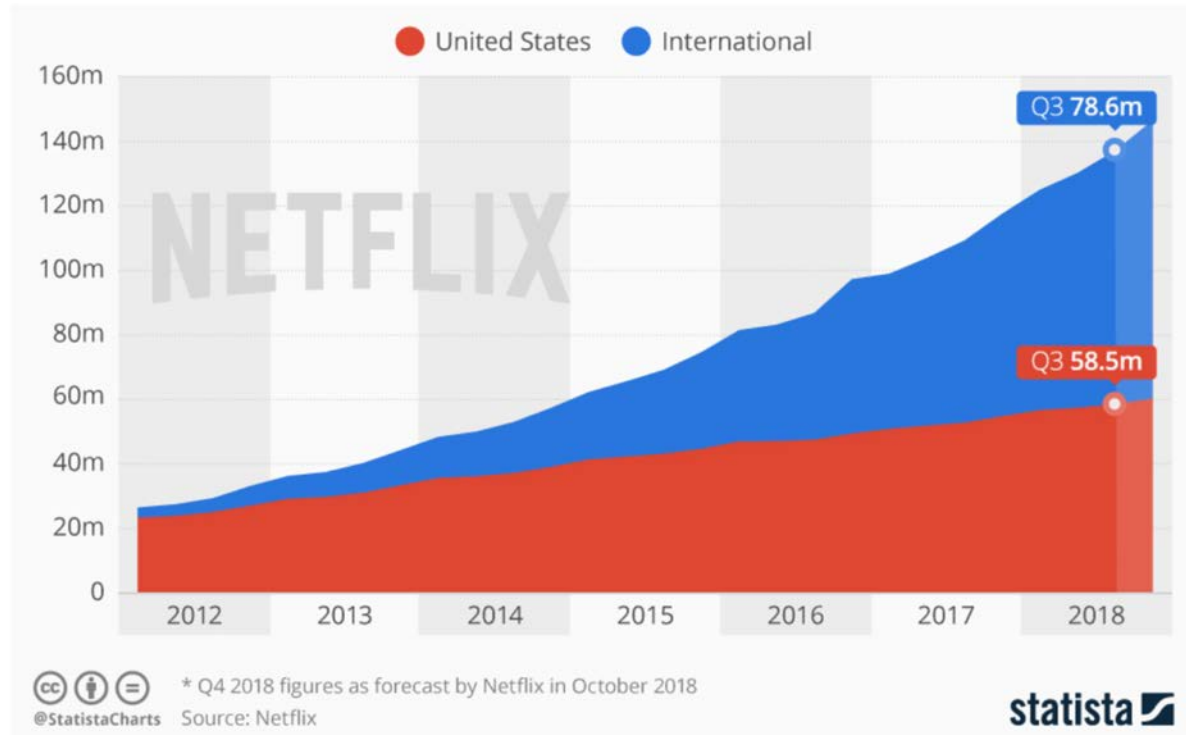
Netflix's annual revenue from 2002 to 2018

(in million U.S. dollars)



© Statista 2020

Total Netflix subscribers, US vs international



APPROACH TO TECHNOLOGY

Music Technology





Music Industry – A Storied Past

1933

FM Radio introduced

Frequency-modulated (FM) radio, once believed to be an impossibility, becomes reality in 1933. FM radio, as opposed to amplitude-modulated (AM) radio, offers higher fidelity sound with less static, and it requires less transmittal power. The inventor of FM radio, Edwin Armstrong, is working at RCA when he presents his technology at a meeting of the Institute of Radio Engineers. However, Armstrong's invention threatens RCA's hold on the AM radio market, and the company fights back by launching a campaign to smother FM radio. RCA's first attempts at persuading the Federal Communications Commission (FCC) to limit FM radio capabilities fail, but as the nation becomes distracted by World War II, the company succeeds. The FCC announces that FM radio would be moved to a new spectrum and the transmittal power of FM stations would be cut. These regulations effectively cripple the emerging FM market and Armstrong appeals. RCA declares his patents invalid, refuses to pay him, and a broke and defeated Armstrong jumps out of a 13th story window to his death.

Chronology of the Music Industry

1940s – Vinyl Becomes the Medium of Choice

More durable format, but battles emerge over size & speed

1964 – Cassette Tape Becomes Mainstream

Philips introduces 30-minute tape that becomes standard; price drops

1966 – 8-Track Goes on Sale

Better sound quality than cassettes, but not as convenient

1970s – RIAA Fights Back Against Cassette Recording

Sony Walkman introduced in 1979; tax on blank tapes due to piracy

1980s – Compact Discs Rise to Dominance

80s become the most explosive boom in recorded audio history

1987 – RIAA Protests Over the Digital Audio Tape

Debate over the format ultimately kills its chances in the marketplace

1990 – Birth of the MP3 Format

Compresses digital audio files by a factor of 12

Chronology of the Music Industry

1992 – Audio Home Recording Act of 1992

Requires manufacturers of digital audio recording devices to pay royalty

1995 – Streaming Internet Audio Introduced

RealAudio launches first major streaming audio service

1997 – Early Attempts to Sell Music on the Internet

Retail stores see this as a threat to their sales

1998 – RIAA Battles Internet Piracy

RIAA sues 3 unnamed “pirates”

1999 – Napster Debuts

shut down in 2001; new services avoid centralized server

... and then all hell brakes loose!

Chronology of Netflix

1998 – Netflix Website Goes Live

Had already build an underground following through Usenet groups

1999 – Experiments with Multiple Concepts

6 DVDs at a time for \$20/month; 1 DVD at a time, per rental price

2000 – Settles into Unlimited Rentals w/ Up to 4 DVDs Out

Customer testing led them to combine concepts

2000 – Netflix Proposes to become Blockbuster.com

Blockbuster turns them down

2003 – Netflix Co-Founder Leaves to Start Redbox

By 2004, McDonald's installed Redbox kiosks in all 50 states

2004 – Blockbuster Online launches

Eliminates late fees too

2006 – Blockbuster Launches Total Access (mail/store hybrid)

Netflix subscriber growth stalls

Chronology of Netflix

2007 – Netflix Launches Streaming

Blockbuster retail stumbles with CEO change

2008 – Netflix Launches Roku for TV Streaming + Xbox

Netflix made deals over next 3 years to incorporate software on over 200 internet-connected devices

2008 – Netflix Makes Deals with Starz & AMC

Binging begins

2010 – Blockbuster Files for Bankruptcy

Blockbuster tries Kiosks in 2008, but things are going downhill

2011 – Netflix Tries to Separate DVDs into Qwikster

They lose 800k subscribers and reverse the decision

2013 – Netflix Launches “House of Cards” as Original Content

Enabled by detailed knowledge of customer preferences

2013 – Netflix Gets Nominated for an Emmy

APPROACH TO BUSINESS MODEL

The Album – Product or Business Model?





Artists, Merchandise, Concerts, Videos



Pricing: \$15.99 CD

- \$0.17 Musicians' unions
- \$1.60 Artists' royalties
- \$0.82 Publishing royalties
- \$0.80 Packaging/manufacturing
- \$0.90 Distribution
- \$1.70 Label profit
- \$2.40 Marketing/promotion
- \$2.91 Label overhead
- \$3.89 Retail overhead
- \$0.80 Retail profit

Distribution Channels

- Big Box Retailers
 - Walmart, Target, Best Buy
- Chain Music Stores
 - Virgin, Tower
- Independent Music Stores
 - Waterloo
- Downloading
 - Each Label Works Independently

The Walmart Effect

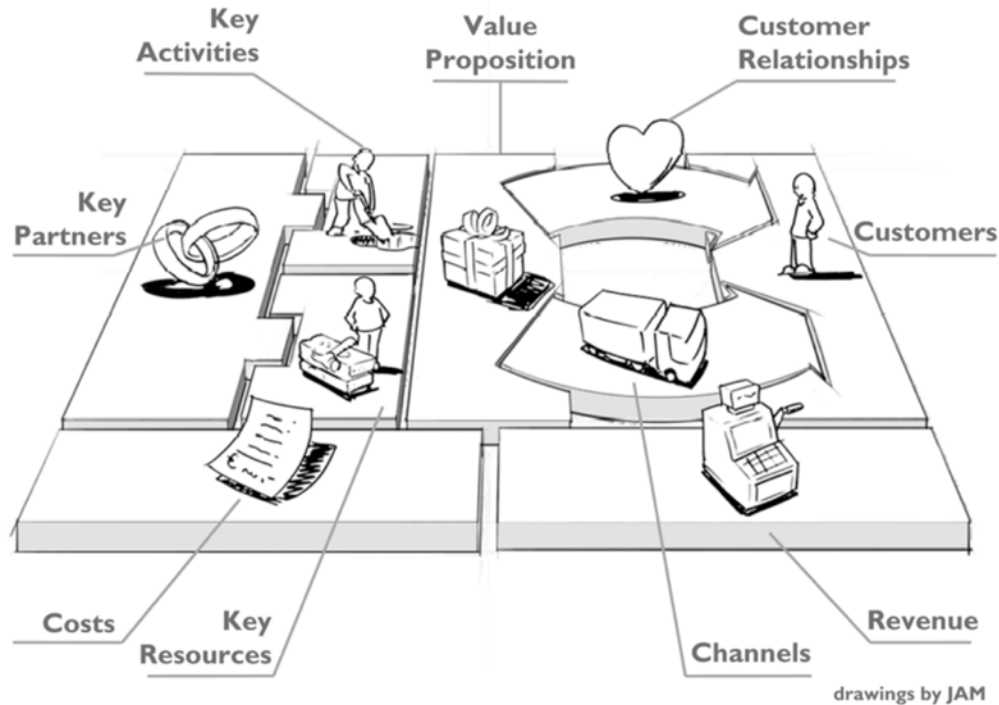
- Walmart Spokesman: “The record industry needs to refine their business models, because the consumer is the ultimate arbitrator. And the consumer feels music isn't properly priced.”

The Walmart Effect

- Music Executive 1: “While Walmart represents nearly twenty percent of major-label music sales, music represents only about two percent of Walmart's total sales. If they got out of selling music, it would mean nothing to them. This keeps me awake at night.”
- Music Executive 2: “Walmart has no long-term care for an individual artist or marketing plan, unlike the specialty stores, which were a real business partner. At Walmart, we're a commodity and have to fight for shelf space like Colgate fights for shelf space.”



Business Model Canvas



Newer Business Models

- Paid-For Downloads (Apple's iTunes)
- Advertising-Supported Streamed Music (Pandora)
- Subscription Services (Pandora, Amazon)
- Free, Then Pay for Portability (Spotify)
- Comes With Music (Nokia)
- Cloud Services (Apple Music, Amazon)



“It isn’t the incompetent who destroy an organization.

The incompetent never get in a position to destroy it.

It is those who achieved something and want to rest upon their achievement who are forever clogging things up.”

– Charles Sorenson

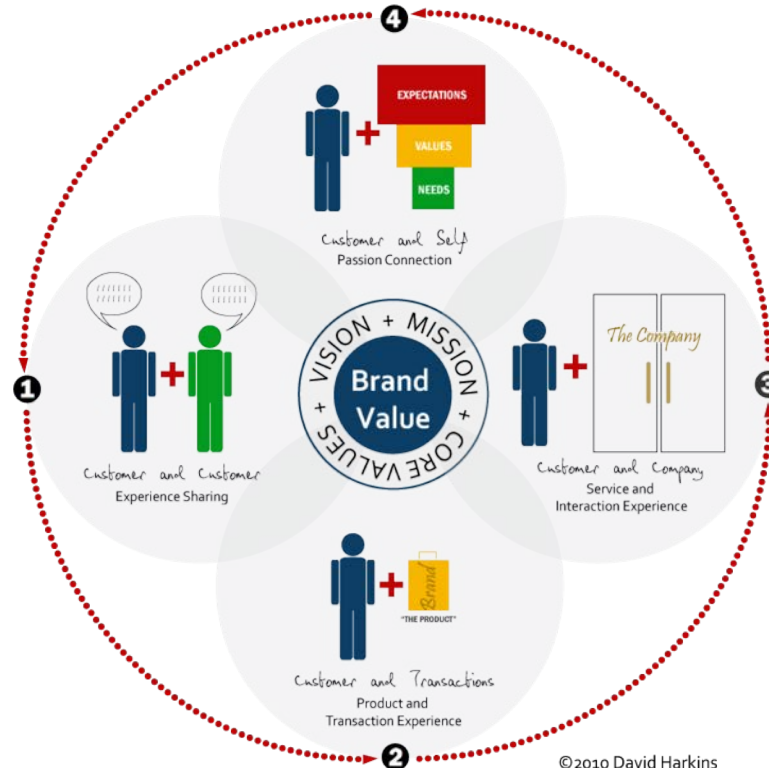
*“It’s easy to come up with new ideas;
the hard part is letting go of what worked for
you two years ago,
but will soon be out of date.”*

– Roger Van Oech

What is Netflix?

- DVD Sales by Mail
- DVD Rental by Mail
- DVD Subscriptions by Mail
- Movies/TV Shows Streamed to Computer
- Movies/TV Shows Streamed to Any Device
- Movies/TV Downloaded to Devices
- TV Show Production Company
- Movie Production Company

Experiential Marketing

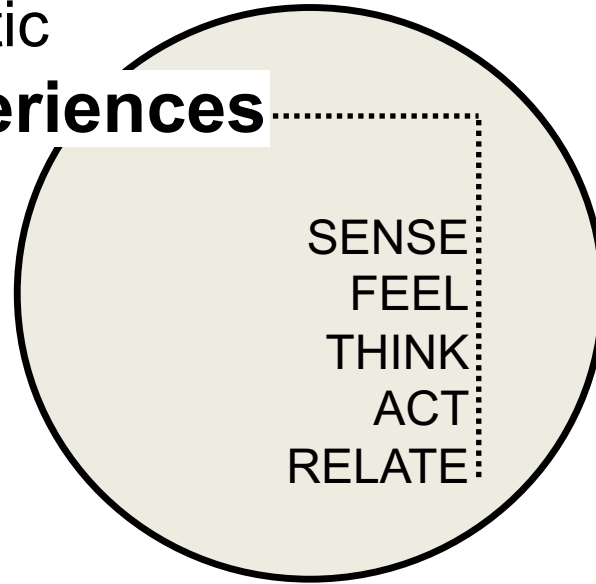


Experiential Marketing

The Ultimate Goal of Experiential Marketing

Holistic

Experiences



Think About the Entire Experience



Think About the Entire Experience



APPROACH TO BUILDING EMPATHY

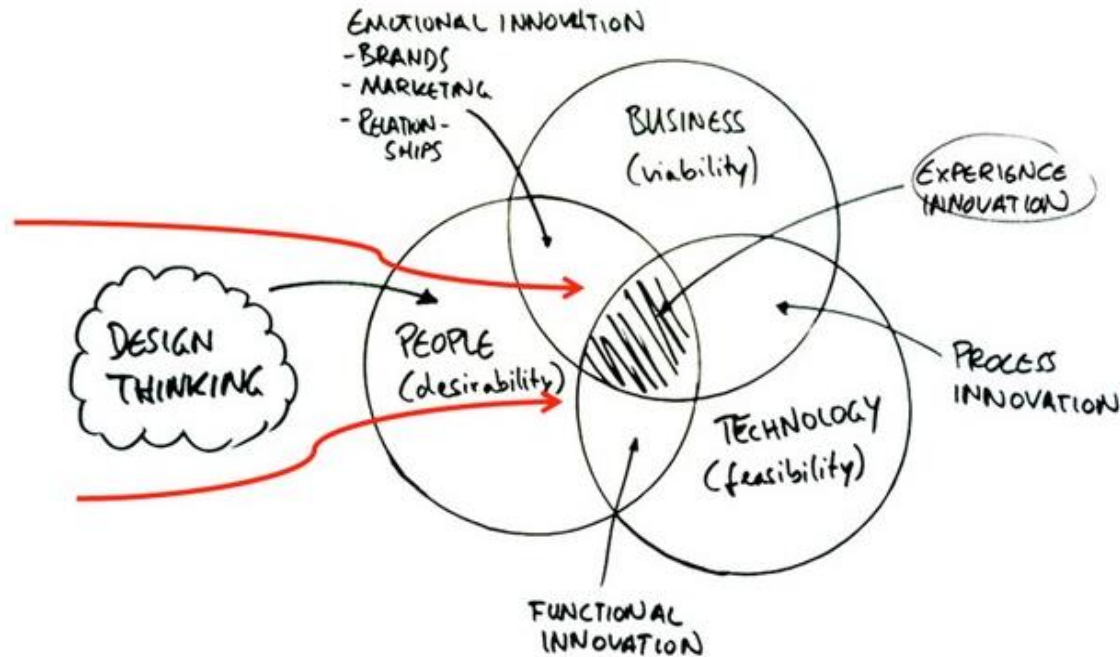




Mix Tapes & CDs



Approach to Building Empathy



Realities of Today's Customers

- Desire for value
- Desire for uniqueness & personalization
- Desire for convenience & channel options
- Desire to participate in the value creation process
- Desire to make better decisions
- Desire for connection & social interaction

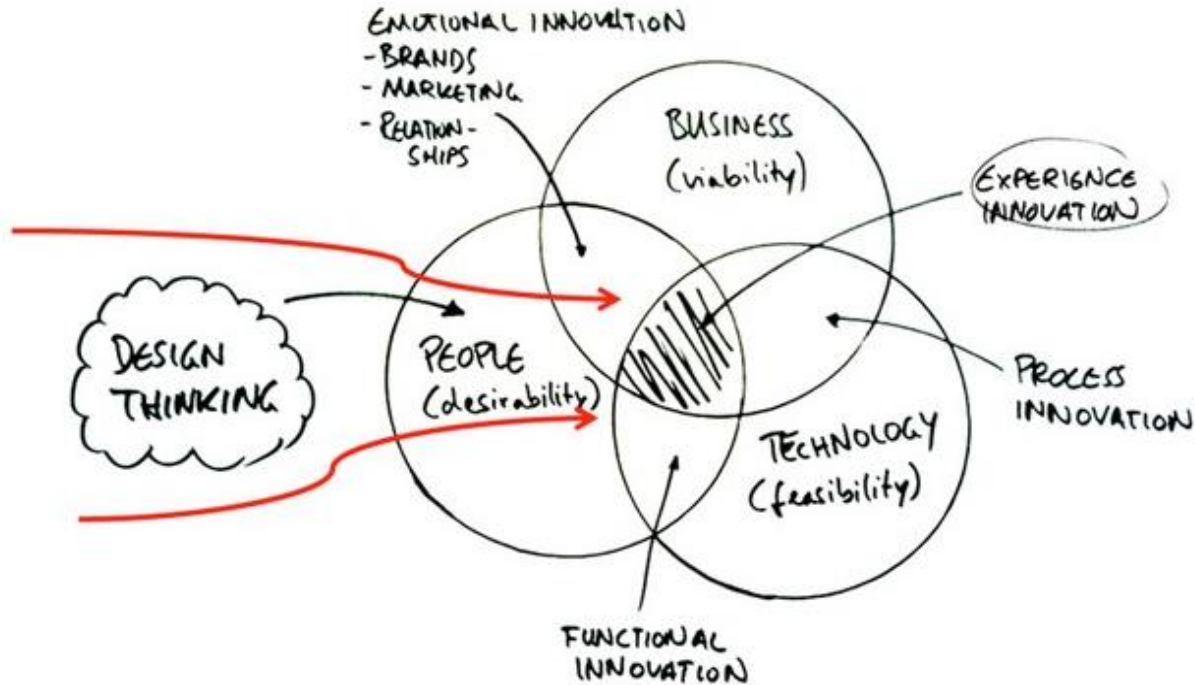
Nature of Customer Insights

- It is a not-yet obvious discovery
 - You should not assume that the obvious is true or that the truth is obvious
 - Insights often emerge from looking at problems differently and by being eclectic in research methods
 - We must understand that we are prisoners of what we know and what we believe
- It rarely emerges only from quantitative research
- It is often rooted in an observed anomaly
 - Interesting opportunities emerge for outsiders who find that the status quo in the industry is at odds with what should or could be



APPROACH TO IDEA GENERATION & TESTING

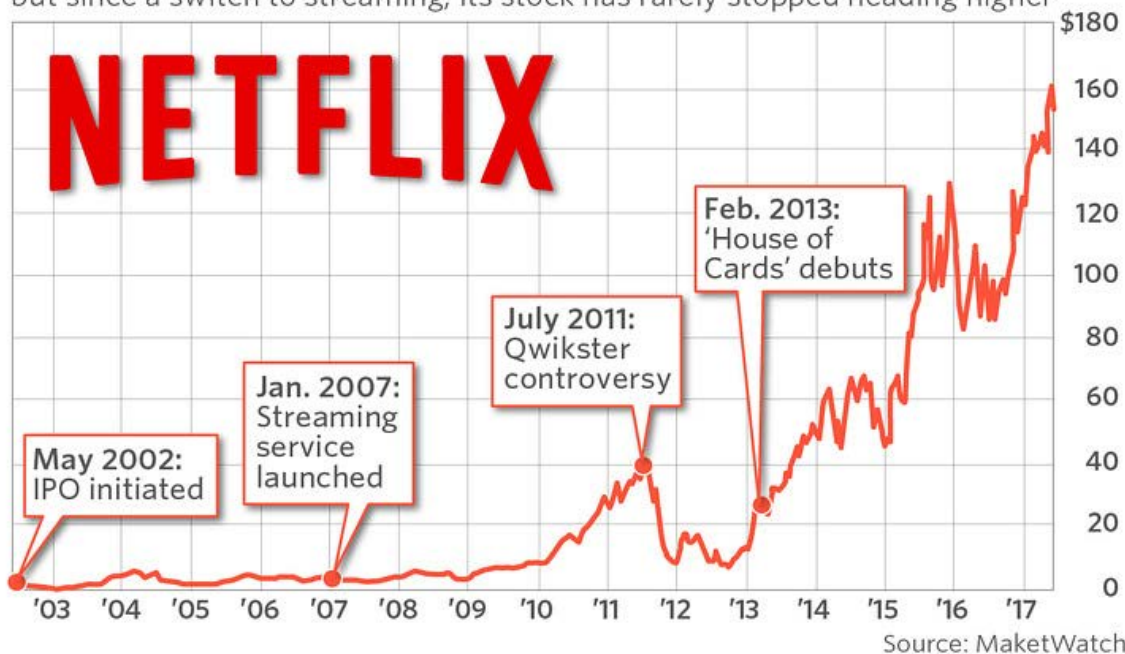
Approach to Idea Generation & Testing





Netflix streaming ahead

Netflix went public 15 years ago with a focus on providing DVDs by mail, but since a switch to streaming, its stock has rarely stopped heading higher



Some Innovation Takeaways

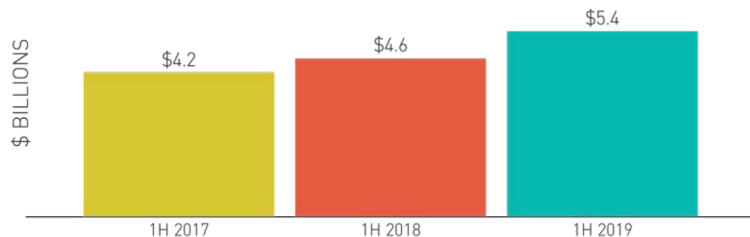
- Embrace & leverage technology
- Explore alternative business models (stop focusing just on the product/service)
- Invest time & effort into gaining and understanding key customer insights
- Ideate & test outside of the current business model
- Think about the entire system/universe
- Create experiences that customers value

Making Lightning Strike More Often

- Involve the whole firm
- Expand your repertoire
- Understand non-customers (& renegades)
- Create new observation posts
- Become proactive (open-ended projects)
- ★ Continuously challenge the business model

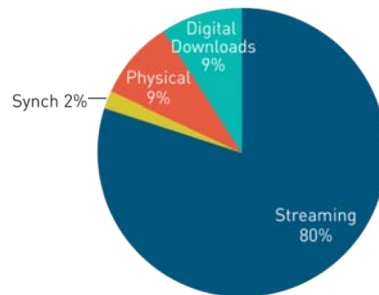
Update on Music Industry Revenues

U.S. MUSIC INDUSTRY MID-YEAR
RETAIL REVENUES



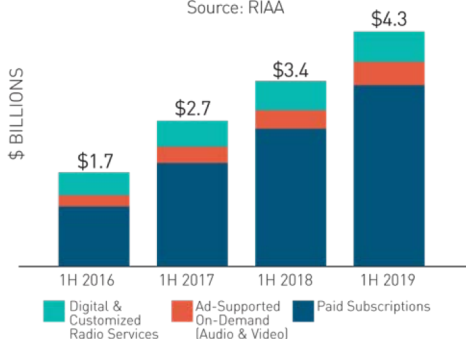
U.S. MUSIC INDUSTRY
REVENUES 1H 2019

Source: RIAA



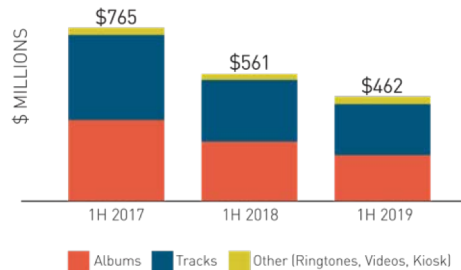
U.S. MUSIC INDUSTRY
STREAMING REVENUES

Source: RIAA



U.S. DIGITAL
DOWNLOAD REVENUES

Source: RIAA



QUESTIONS/THOUGHTS?