

# *William Putsis, Professor of Marketing, Economics and Business Strategy*

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*Paradoxes of Innovation and Transformation:  
The need for a Dual Engine Strategy via  
Innovating Inside the Core and Innovating  
Outside of the Core.*

*William Putsis, PhD*

*UNC Chapel Hill / Yale School of Management /*

*Chestnut Hill Associates / CADEO Economics*



This is the most exciting time in the history of the planet to be in business ...

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“So, what’s so different about today?”



# Michelangelo. Da Vinci. Vanderbilt. Rockefeller.

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Jobs. Zuckerberg. Musk. Bezos.  
Ma. Brin. Schmidt. Gates.





# What's so different about today?

- A. Speed
- B. Ubiquity
- C. Mobility
- D. Information access (e.g., MLS, GPS)
- E. Convergence



“New Math” of today”

$$A + B + C + D + E = e^x \text{ (Transformational Growth)}$$



# What's so different about today?

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## A. Speed

*Just under 7 years ago, RIM (now Blackberry) had a higher market share of the smart phone market than Apple and Samsung combined. Today, its market share is less than 1%. Such rapid change is unprecedented.*



## Speed

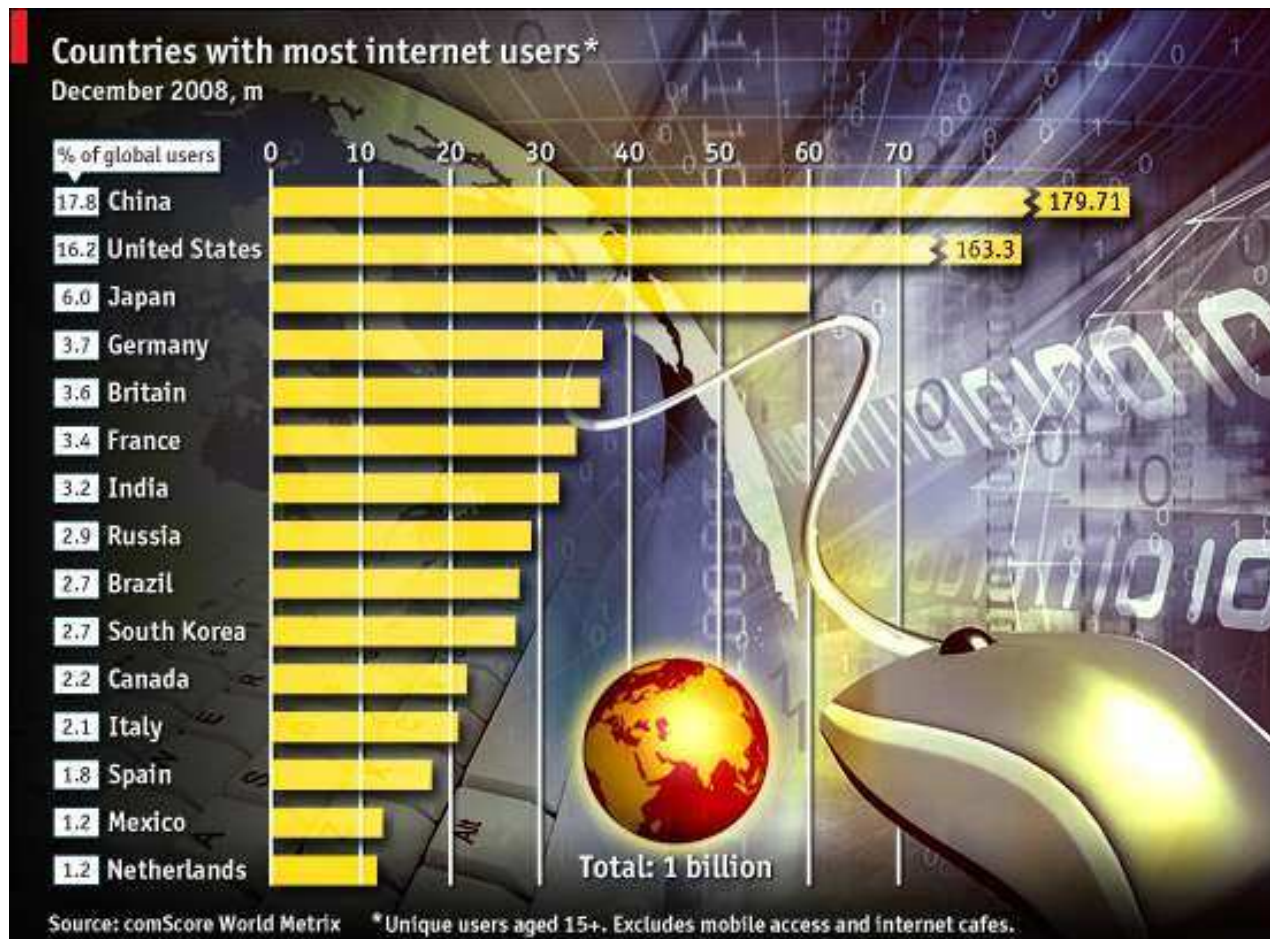


Last quarter, they own 92% of the world Smartphone profits



# What's so different about today?

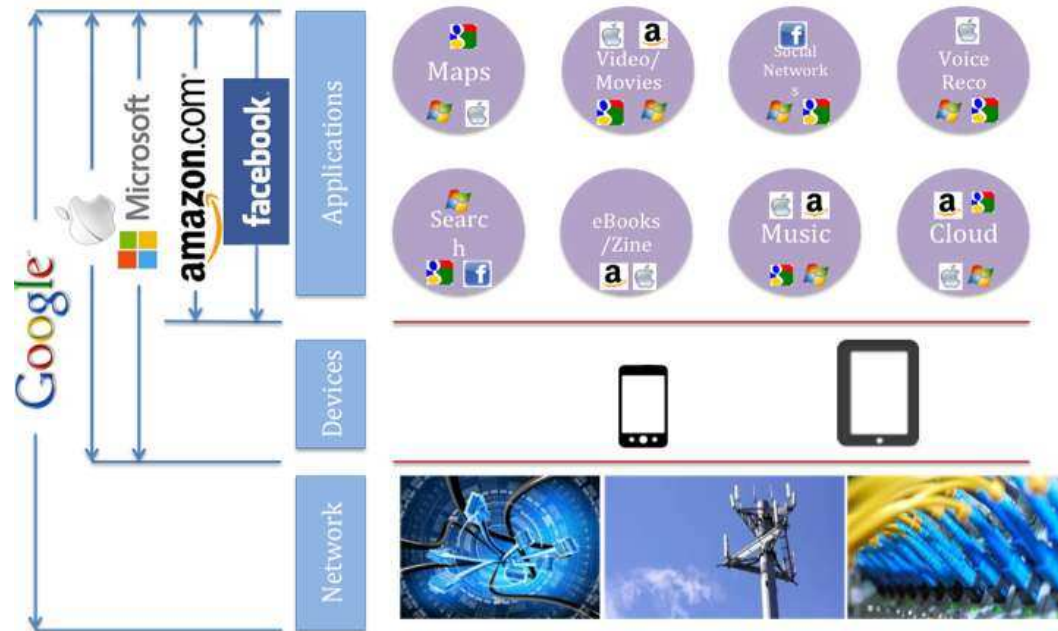
## B. Ubiquity





# What's so different about today?

## C. Mobility



# What's so different about today?

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## D. Information Access

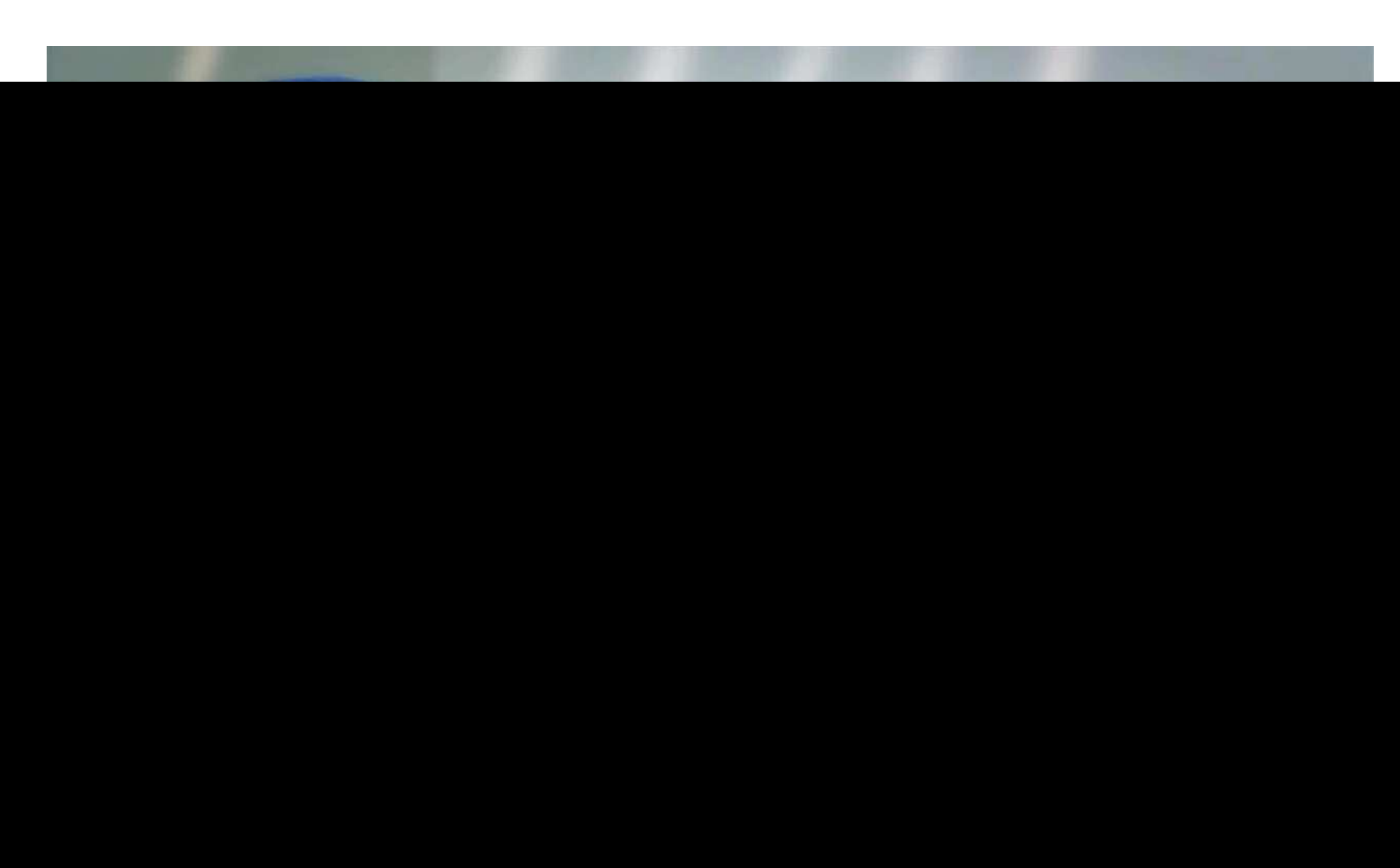
Real estate commissions in the United States stood at 6% for over a century, surviving U.S. Supreme Court rulings and Department of Justice lawsuits. Until the Multiple Listing Service (MLS) opened up to the Internet. Now, companies like Redfin have dramatically changed the structure of the brokerage industry and are rebating a portion of what has now become a 5% commission back to buyers.



# What's so different about today?

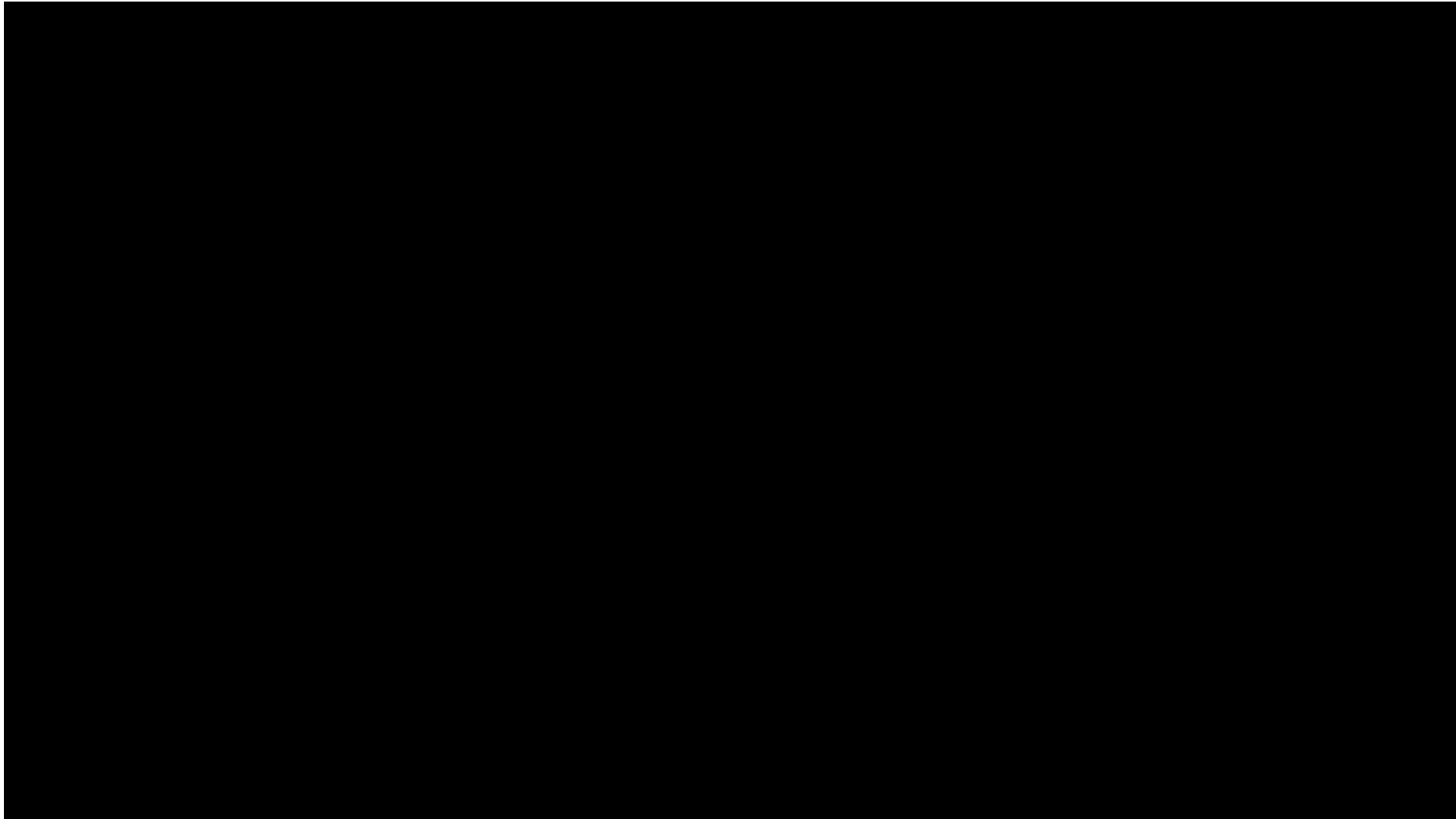
## E. Convergence





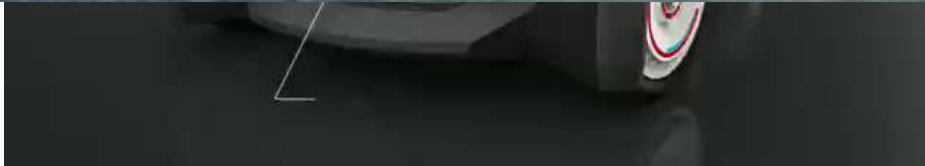


# Google Project Loon



# Application – Local Motors and Divergent Motors

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# Discussion Exercise:

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***What are the leading trends that you are facing domestically? Internationally?***

If, 10 years from now, someone said to you:  
“You were sitting in the this meeting and you, as  
a key part of the your organization, didn’t focus  
on “X”, what were you thinking?!”

What would “X” be????



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# Agenda

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## What's so Different About Today?

- Google Glass, Local Motors and Production
- Innovation is key for future progress (“competitiveness for the future”)
- Alternative Business Model Innovation

## Innovating Away from the Core:

- Empathy and Design Thinking
- Empathy Maps

## Innovating Inside the Core:

- Process from *Compete Smarter, Not Harder*
- Carrot and Stick: Strategic Control and Vertical Alignment
- Use of a “2x2” strategy
- Concluding Exercise



- 1.
- 2.
- 3.

# Supporting a culture of innovation with strategic prioritization...

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What should we learn from the earlier examples?

- Innovation entails innovating both away from and at the core
- We can't afford to stand still
- Standing still today IS failure
- It's not either or ...



# What is innovation?

*“a new method, idea, product, etc.”*

- An idea that generates revenue (Noonan)
- Significant positive change (Berkun)
- The process of translating an idea or invention into into a good or service that creates value or for which customers will pay (Business Dictionary)
- “Something different that has impact” (Innosight)

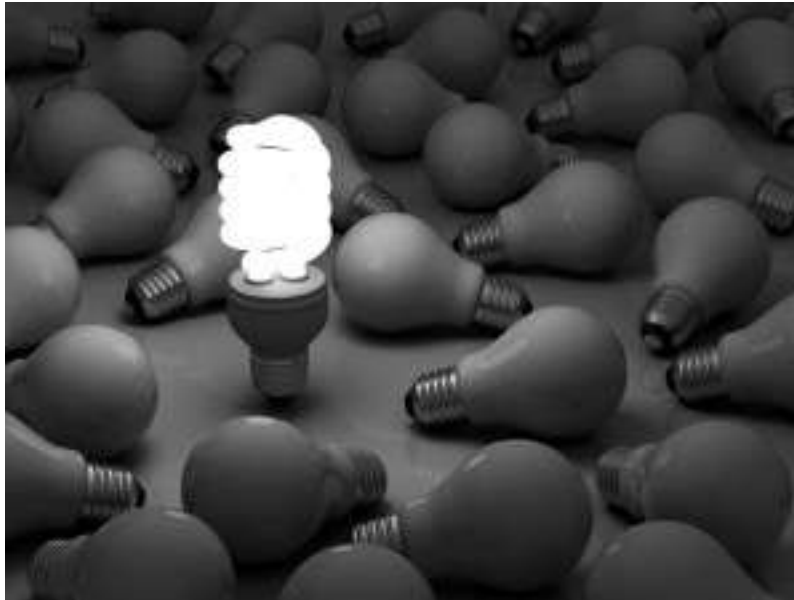


# What is innovation inside the core?

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*“Something different that has impact inside of internal processes, services, culture and/or external opportunities that leverage the core to nearby adjacent product, services and customer solutions.”*

*(Putsis)*





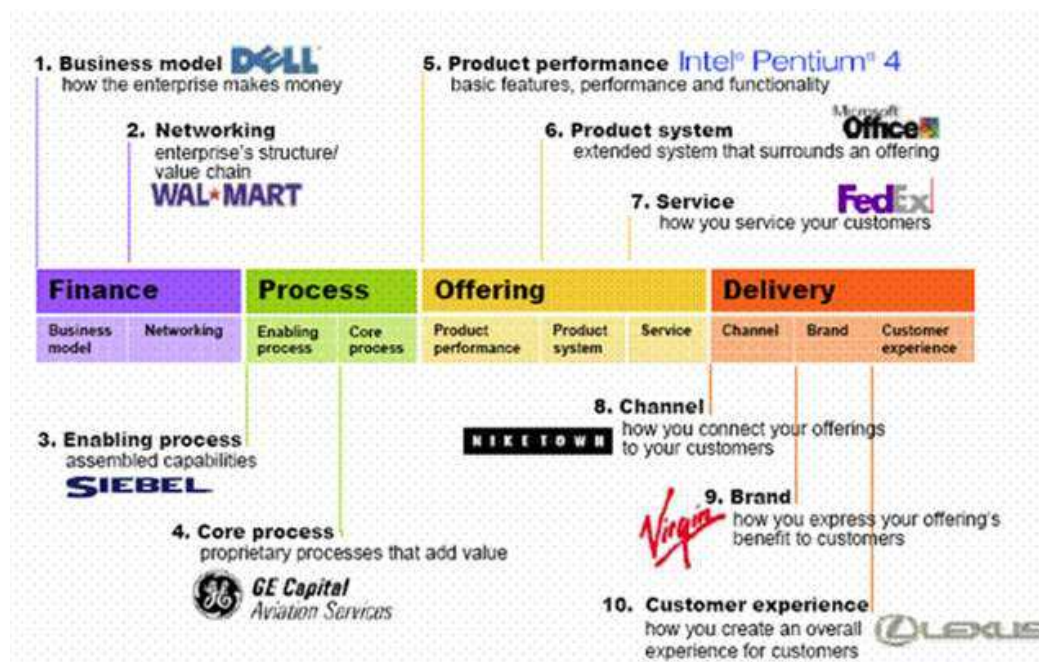
# Innovation can Take on Many Forms

- Business Model Innovation (Amazon)
- Service Innovation (Starbucks, Netflix, Boeing GoldCare)
- Internal and Organizational Innovation (SAS, Starbucks)
- Externally Driven Innovation (Countless – Boeing 777, Green Mountain Coffee Roasters)



# Doblin's Innovation Types

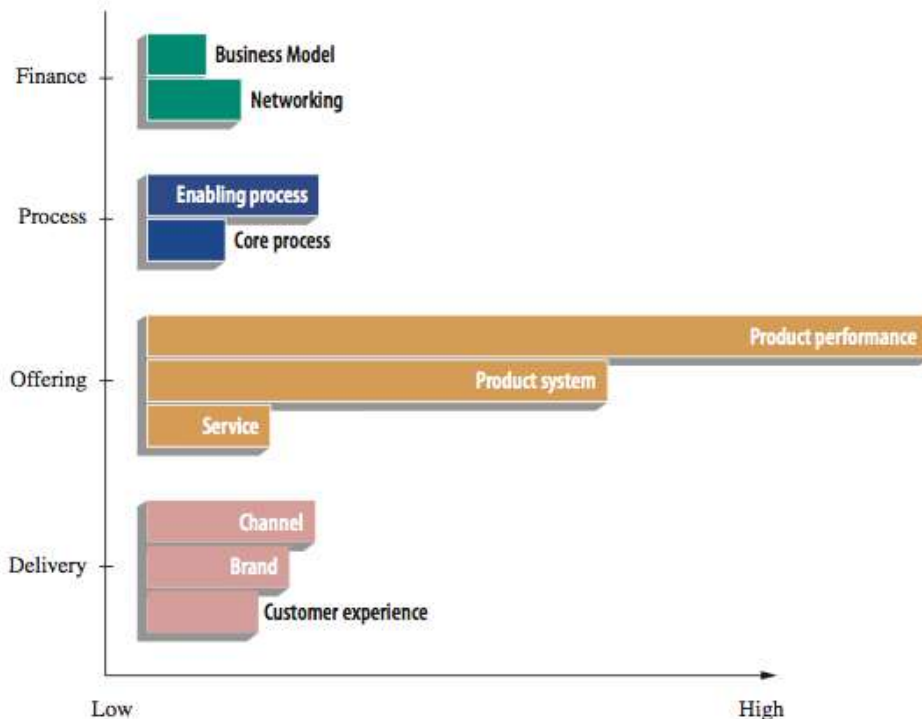
FINANCE		PROCESS		OFFERING			DELIVERY		
business model	networking	enabling process	core process	product performance	product system	service	channel	brand	customer experience
How an enterprise makes money	Value chain and partnering	Routine non-differentiating processes often outsourced to others	Differentiating proprietary processes	Basic features and functions	Structured offering with an array of tailorable, integrated components	Assistance provided to prospects and customers	Conduits through which offerings reach customers	How value is communicated to customers	All aspects of customer interaction with a company and its brands



# Innovation Volume versus Value

**Volume of innovation efforts —**

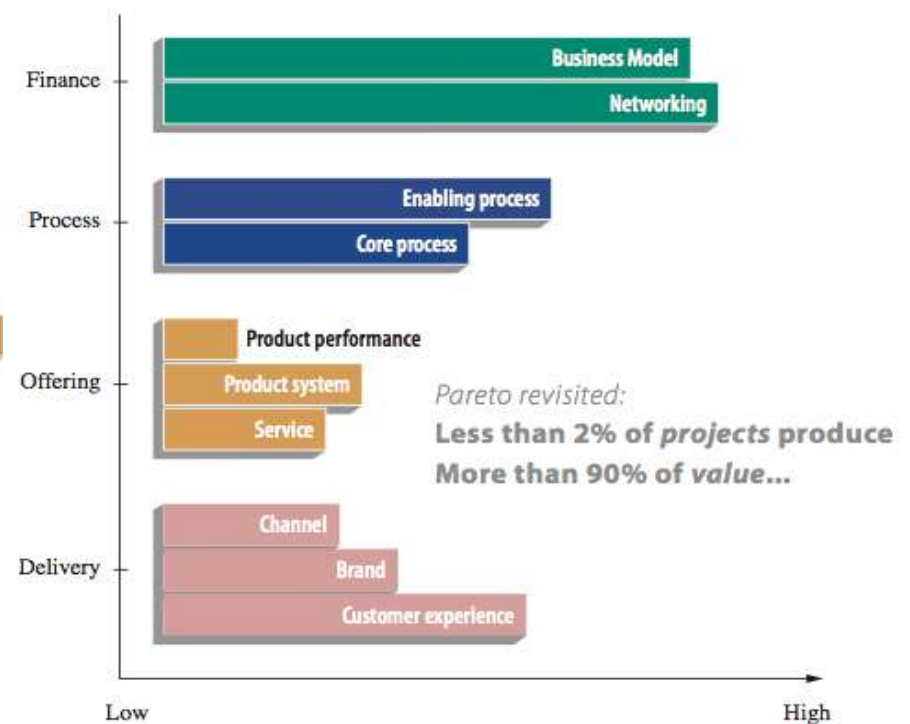
*Last 10 years*



Source: Doblin Inc.

**Cumulative value creation —**

*Last 10 years*



Source: Doblin Inc.

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# The importance of being customer driven ...

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# Innovation and Empathy




# Innovation and Empathy





# Transformation



A pair of worn, light-colored sneakers with dark laces, viewed from a low angle against a dark background. The shoes are positioned side-by-side, with the left shoe slightly in front of the right one. The soles of the shoes are visible, showing a textured pattern. A semi-transparent grey banner is overlaid across the middle of the image, containing the text.

**Empathy: the ability to understand and share the feelings (and thoughts) of others.**





**“If I’d asked my customers what they wanted, they’d have said a faster horse.”**

**-Henry Ford**

## Empathy in Action

# Zappos' 10-Hour Long Customer Service Call Sets Record

The Huffington Post | Posted: 12/21/2012 1:18 pm EST | Updated: 12/21/2012 3:20 pm EST



380

87

18

144

430

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It appears Zappos has a unique definition of good customer service.

The online shoe and apparel retailer broke its personal record for longest customer service phone call on December 8 with a conversation that lasted 10 hours and 29 minutes, spokesperson Diane Coffey stated in an email to The Huffington Post. Shockingly, Zappos doesn't view the incident as bad news.

A member of Zappos' Customer Loyalty Team was apparently just following protocol when he or she took the record-setting phone call. For Zappos, the lengthy conversation is proof of the company's dedication to its customers.

POWERED *by* SERVICE™



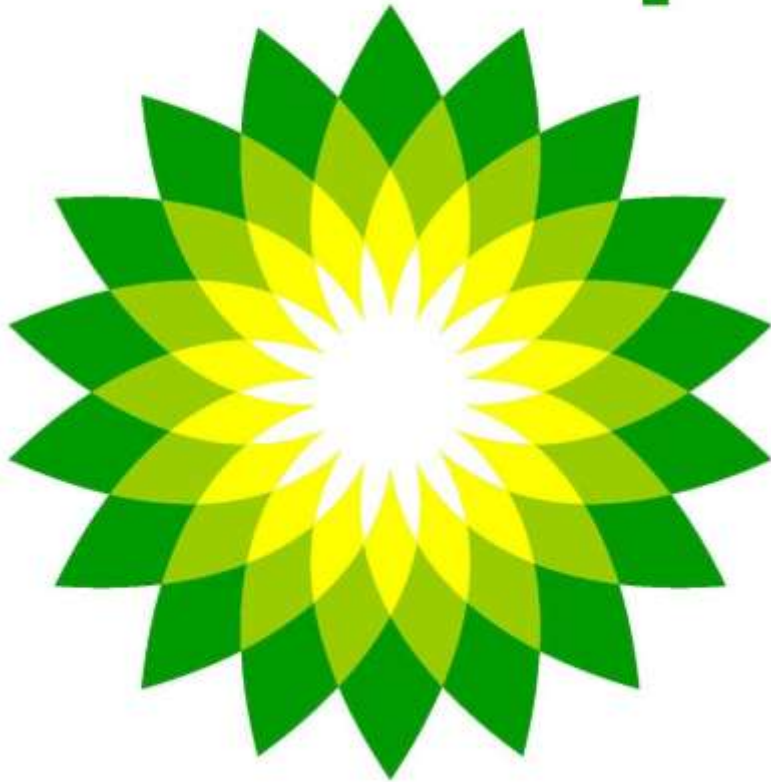
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BUSINESS SCHOOL



# Empathy Inaction

bp



# Connecting Emotionally vs. Technically

All Downloads Events Groups News People **Projects** Publications Videos

## HomeOS: Enabling smarter homes for everyone

It is no secret that homes are ever-increasing hotbeds of new technology such as set-top boxes, game consoles, wireless routers, home automation devices, tablets, smart phones, and security cameras. This innovation is breeding heterogeneity and complexity that frustrates even technically-savvy users' attempts to improve day-to-day life by implementing functionality that uses these devices in combination. For instance, it is impossible for most users to view video captured by their security camera on their smartphone when they are not at home. Heterogeneity across devices and across homes also makes it difficult to develop applications that solve these problems in a way that work across a range of homes.

To simplify the management of technology and to simplify the development of applications in the home, we are developing an "operating system" for the home. HomeOS provides a centralized, holistic control of devices in the home. It provides to users intuitive controls to manage their devices. It provided to developers high-level abstractions to orchestrate the devices in the home. HomeOS is coupled with a HomeStore through which users can easily add obtain applications that are compatible with devices in their homes and obtain any additional devices that are needed to enable desired applications.

**NEW!** HomeOS now supports [Lab of Things](#)

### Prototype

We conducted studies to both understand the difficulties that people face today in managing modern technologies in the home and understand how they would like to manage and secure them in an ideal world. Based on these findings, we have developed a research prototype of HomeOS. Our current prototype includes support for a range of devices (e.g., switches, cameras, TVs) and applications. Experimental results show that it is easy for developers to write applications and for non-technical users to manage their home networks with HomeOS. A dozen homes have "dogfooded" our prototype, and over 50 students have developers applications and drivers for it.



## HomeOS

### People

- A.J. Brush
- Ratul Mahajan
- Danny Huang
- Jaeyeon Jung
- Ray Matharu
- Amar Phanishayee
- Arjmand Samuel
- James Scott

# Routes to Empathy

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## Observe



## Engage



## Experience



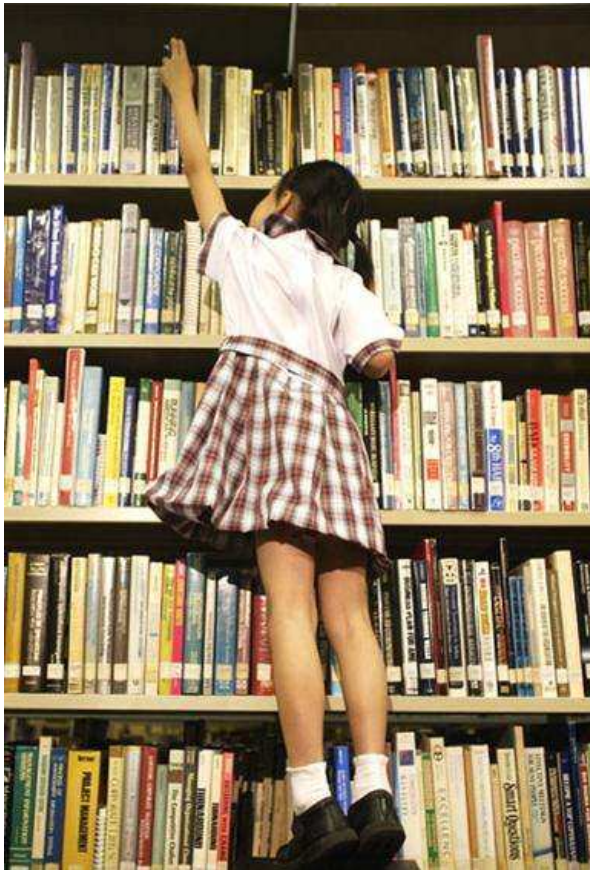


## Tool: Observation – Who Lives Here?



# Look for Needs, Not Answers

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# Black and Decker

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***“Black and Decker realized it wasn’t selling drills, it was selling holes”***





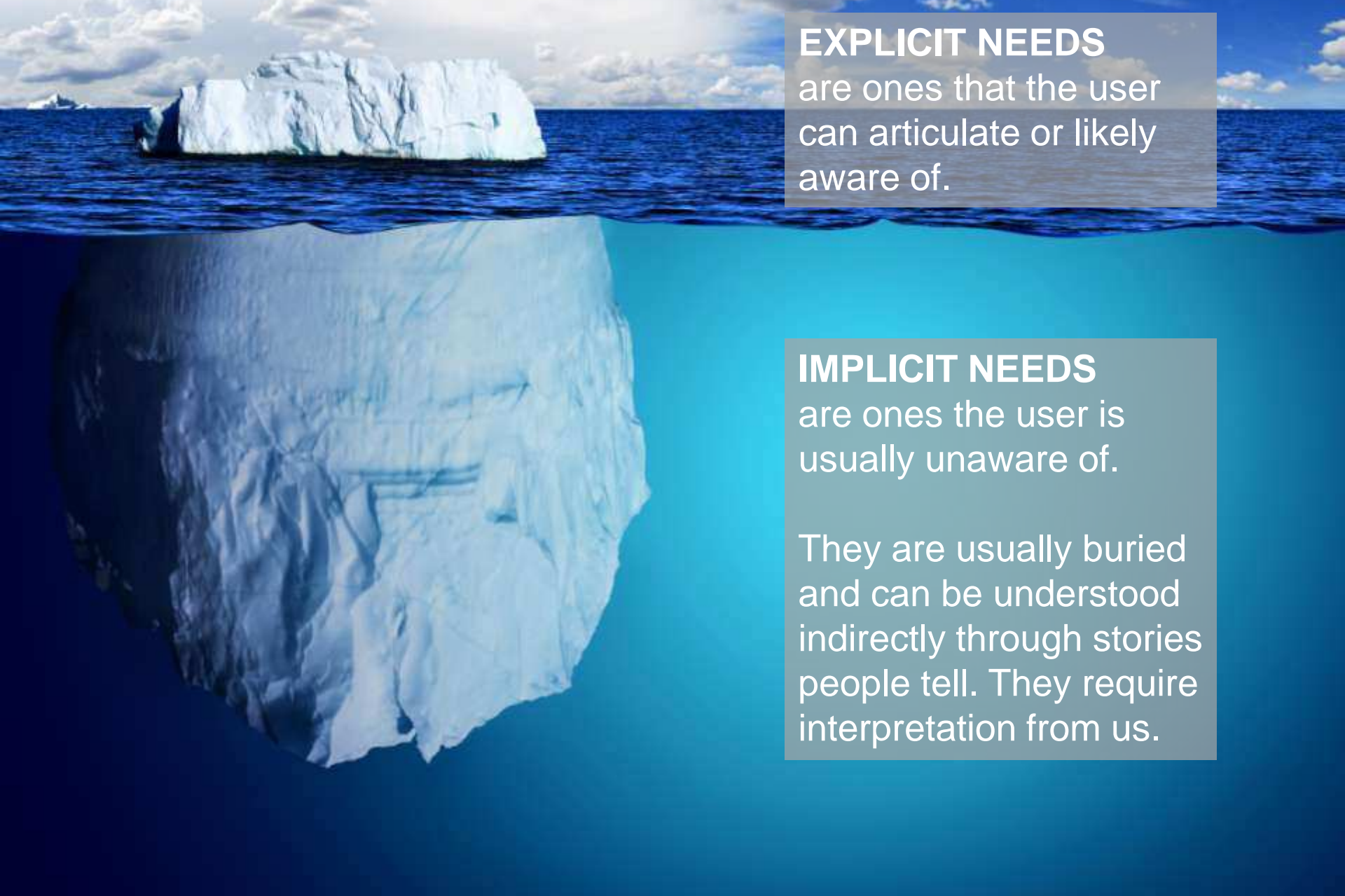
# Needs Last, Answers Often Don't

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# Kodak

“I need to capture memories of my daily life.”





## **EXPLICIT NEEDS**

are ones that the user can articulate or likely aware of.

## **IMPLICIT NEEDS**

are ones the user is usually unaware of.

They are usually buried and can be understood indirectly through stories people tell. They require interpretation from us.



# Latent needs and salient differentiators

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<http://www.strategy-business.com/article/ac00057>

# Recognize Relevant Decision Maker

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**BASF**  
The Chemical Company



**BASF Means Better Results...  
Which Means Better Turf.**



**TOWER**  
HERBICIDE



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# Ethnographic Interviews

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# Capture stories - Sam

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## What he said:









“I love the staff.”

“I hate the up-selling they do.”

“Everyone else complaining makes it even worse.”



# Tool: Empathy Map

<p><b>What does he SAY?</b> </p> <p> "I love the front desk staff."</p>	<p><b>What does he DO?</b> </p> <p> Writes nasty letters to the organization.</p>
<p><b>What does he THINK?</b> </p> <p> "Ed is great, his company? Not so much."</p>	<p><b>How does he FEEL?</b> </p> <p> Conflicted, Sad</p>

For 2 - 3 customers:

- Fill in Empathy Map above

Needs:

- Explicit
- Implicit
- Must Haves
- Salient Differentiators





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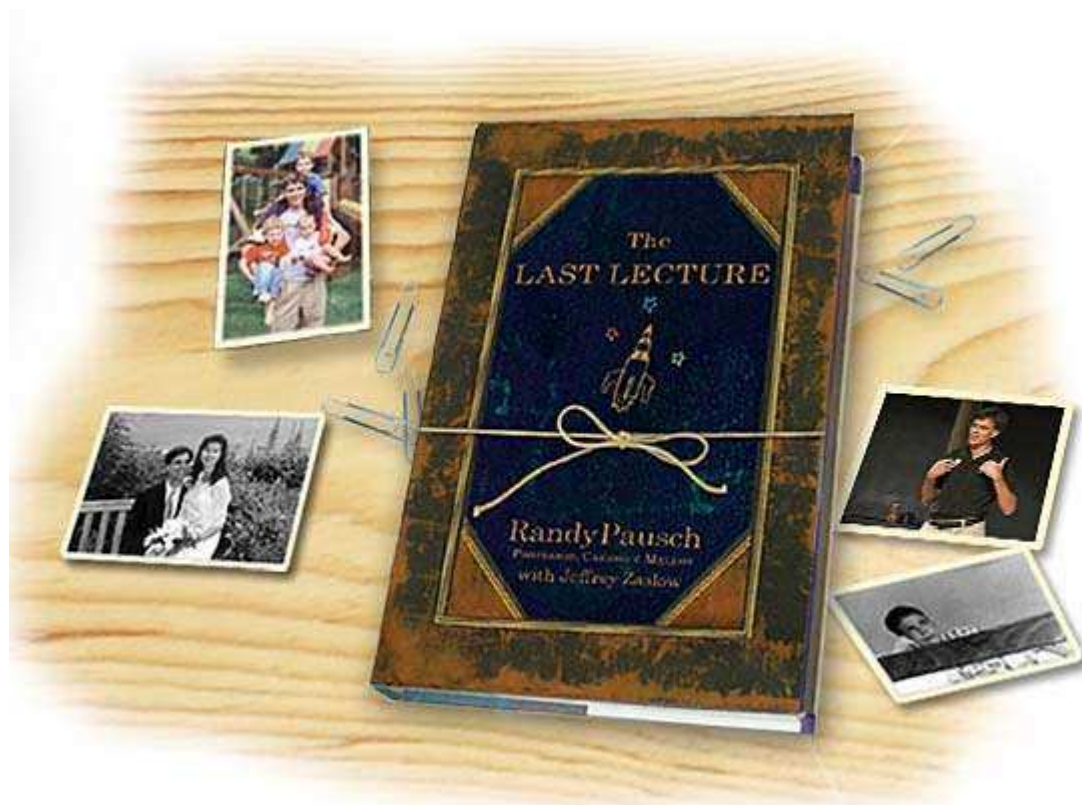
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# Fundamentals, fundamentals, fundamentals

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- 1.
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- 3.

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# Logical Flow of Strategic Tools ("Innovating inside of the core")



*Choosing which part  
of market opportunity  
space to compete*

- ▶ External business environment
- ▶ Overall Market Assessment
- ▶ Core and adjacent markets
- ▶ Value chain / Strategic control points
- ▶ Vertical Incentive Alignment

*"Pivot" – which  
customers with  
which offerings*

- ▶ Segmentation / Value Proposition
- ▶ Strategic Considerations and Financial Assessment and Due Diligence

*Go to Market  
(GTM)  
Tactics*

- ▶ Points in Positioning: Value Proposition
- ▶ Points in Time: Offering Timing
- ▶ Points in Value: Pricing principles and Conjoint Analysis
- ▶ Points of Access: Aligning to Customer Needs
- ▶ Points of Touch: Integrated communications



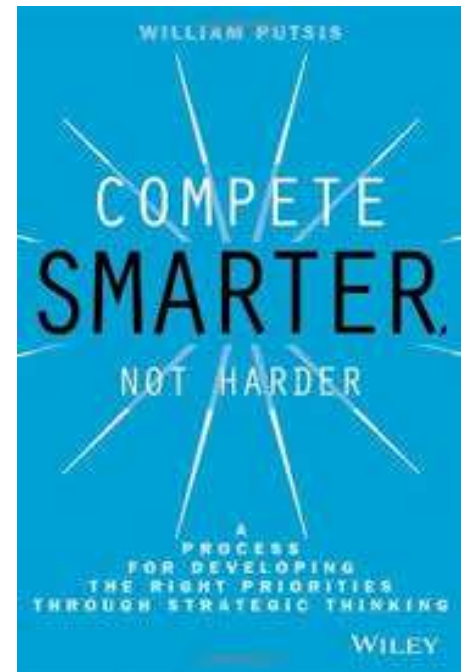
# Think of the process from the bottom up:

The rationale is to prioritize at every step ... “Ruthlessly Prioritize”



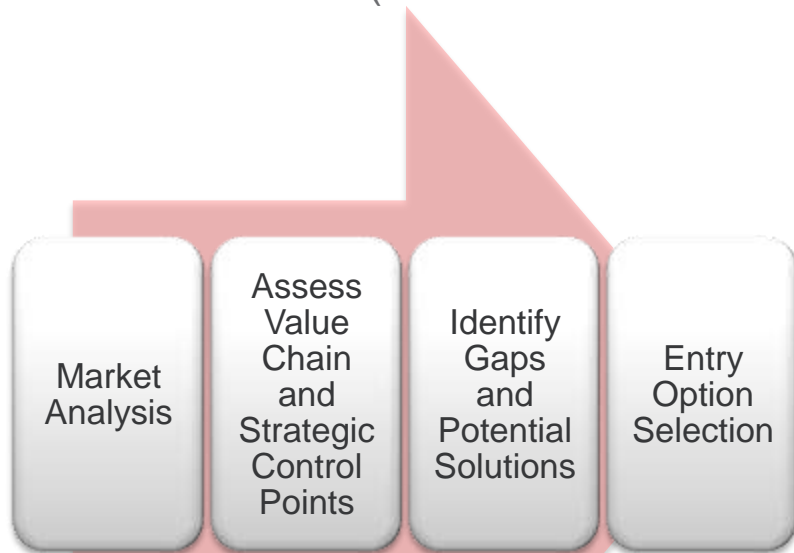
<http://www.competesmarternoharder.com/>

<http://competesmarternoharder.wordpress.com/>



# OK, so we know what the core is, but what IS a business model? An overview (a “4x4” checklist):

## Business Case (Market/Product Strategy)

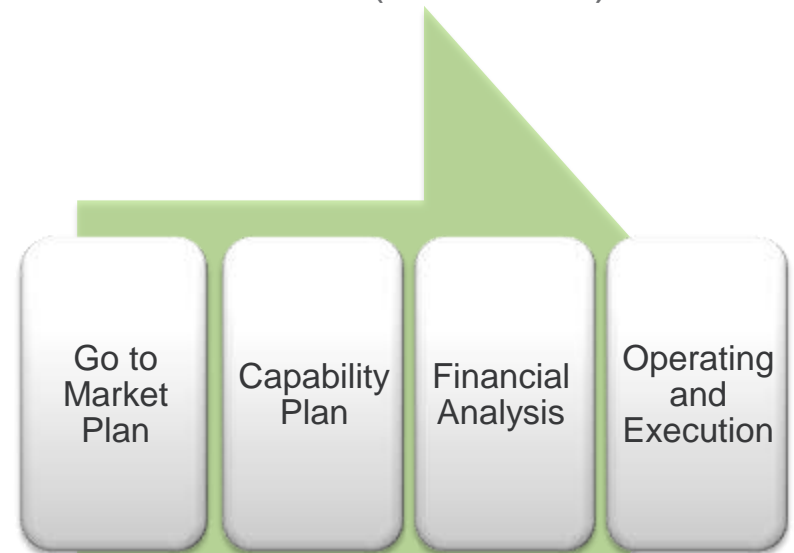


- Market trends
- Disruptive technologies
- Core vs. adjacency
- Market size, growth, margins
- Competitive intensity
- Overall attractiveness
- Strategic requirements
- Value chains/strategic control points
- Capabilities/technologies/Gaps
- Salient Differentiators
- Segmentation
- Value Proposition
- Competitor capabilities
- Your capabilities and gaps
- Strategic solutions and options
- Options assessment
- Detailed business model
- Competitor response
- Financial analysis
- Risks/scenario analysis
- Choose best entry option

Strategic Decision

If “GO”

## Business Plan (Execution)



- Business model
- Customer & sales pipeline
- Key segments and value proposition for each
- Product & pricing plan
- Marketing communications plan
- R&D/product development roadmap
- Supplier plan
- M&A plan (if applicable)
- Pro forma financials
- Investment requirements
- Return on investment
- Risk assessment
- Organization
- Internal communication
- Timeline & action plan
- Milestones & off-ramps



# Value Chain

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# There are many different potential sources of strategic control:

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1. Distribution/Access
2. Production/capacity
3. Raw material and input
4. Intellectual Property and regulatory based market access
5. Key manufacturing component
6. Information
  - Hardware/software (today's version of razor/razorblades)
  - Data access, ownership and analytics



# There are many different potential sources of strategic control:

---

## 1. Distribution/Access

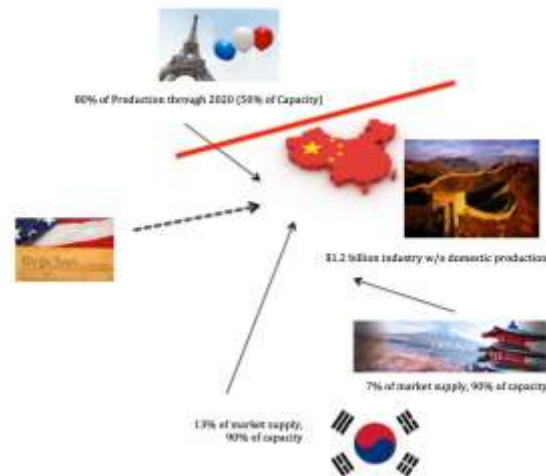




# There are many different potential sources of strategic control:

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## 2. Production/capacity



There are many different potential sources of strategic control:

---

### 3. Raw material and input / cost structure



There are many different potential sources of strategic control:

---

#### 4. Intellectual Property and regulatory based market access



## HARDWARE > PHONES

# Help! Apple has snaffled the WHOLE WORLD'S supply of sapphire glass

**Ubuntu chief: We wanted it for our mobes and they took it ALL**





## Strategic Control 101 – Fundamentals

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- Strategic Control Points are not binary.
- Strategic Control Points are market / industry based; competencies are firm based.
- Strategic Control Points can only be implemented in areas that help produce something that is important to the customer.
- Strategic Control Points must be rivalrous in nature.
- If everything is a point of strategic control, nothing is; if everyone has competencies in an area of strategic control, it is not one.
- Employing points of strategic control can and should be used in conjunction with other strategic approaches (e.g., The End of Competitive Advantage, Coopetition)
- Today's applications are all about the broader ecosystem ("Think platforms, not products; ecosystems, not platforms").



# Adding Competency Gap Analysis: The story of Captain Jepp

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## Competitive and Capabilities Map

 High
  Medium/  
Inconsistent
  Weak/  
None

	Legacy Market				Digital Future			
Value Chain	Data		Application		Distribution			
Value Chain (Details)	Source Data	Mine Data	Fusion (Application)	Software Code	Paper Distribution	Network Distribution	Access (Hardware)	Product Interface
Level of Strategic Control	High	Low	Low	Low	Low	High		
Capabilities Required	Relationship with data owners	Data mining and cataloging software	Algorithm	Software development expertise	Printing, packaging shipping	Distribution network, hardware access, certification authority (SOLAS)		



# Competitive and Capabilities Map



	Legacy Market				Digital Future			
Value Chain	Data		Application		Distribution			
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Jeppesen Marine								
UK Hydrographic Organization/ NOAA/NGA/USCS/USACE								
C-Map (Recreational)								
Navonics (Recreational/ Coastal)								
IIC								
Seven C's								



## Choose your Style

Solar roof tiles are manufactured with durable, long lasting tempered-glass in four styles that complement and power your home.



Tuscan Glass Tile



Slate Glass Tile



Textured Glass Tile



Smooth Glass Tile



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# Value Chain / Vertical Incentive Alignment Table

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Constituent	Incentives	Conflicts	Action Items to Correct
Initial Value Chain			
...			
...			
Ending Value Chain			



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Research on data 2009 – 2014 (US S&P 500) has suggested a “Carrot” and a “Stick” approach:

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# The Stick: “Strategic Control Points”

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The Carrot: Vertically Aligned Incentives  
(Asset Specificity and “Virtual Vertical Integration”)



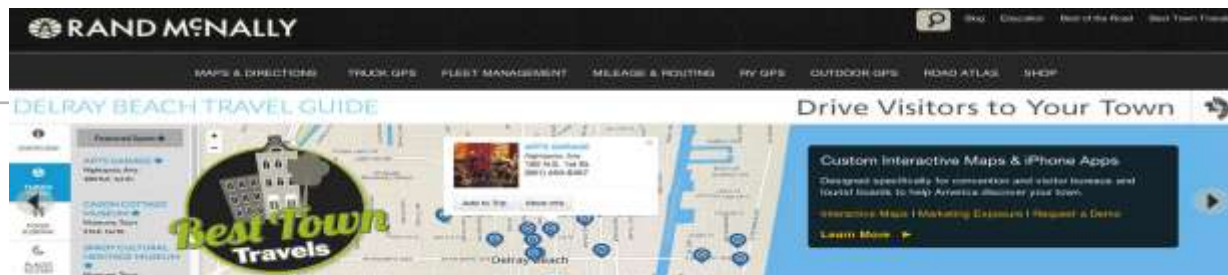
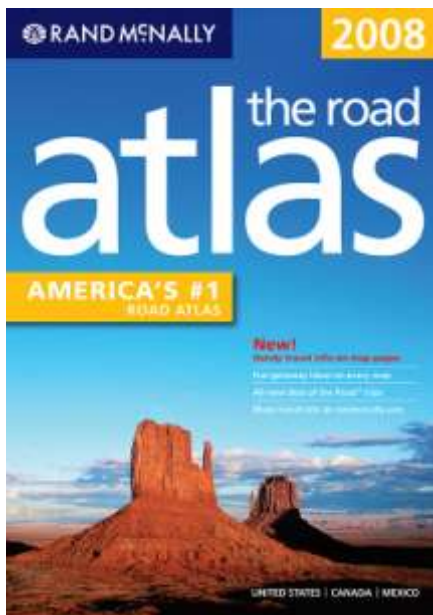
# A Preview “Bottom Line” – Life in 2015 and Beyond

		Point of Strategic Control	
		Low	High
Vertical Incentive Alignment	Weak	<b><u>Update the Resume</u></b> <b>(Others will Dominate)</b> Barnes and Noble, JC Penney, Blackberry, Nokia (26%)	<b><u>It's Fixable</u></b> <b>(Dominance under Pressure)</b> Microsoft, Facebook, Twitter (20%)
	Strong	<b><u>It's a Matter of Time</u></b> <b>(Unsustainable Dominance)</b> Netflix, Comcast, Time Warner Cable (42%)	<b><u>Don't Quit your Day Job</u></b> <b>(Sustainable Dominance)</b> Amazon, Walmart, Google, American Express (Bluebird), Apple (12%)

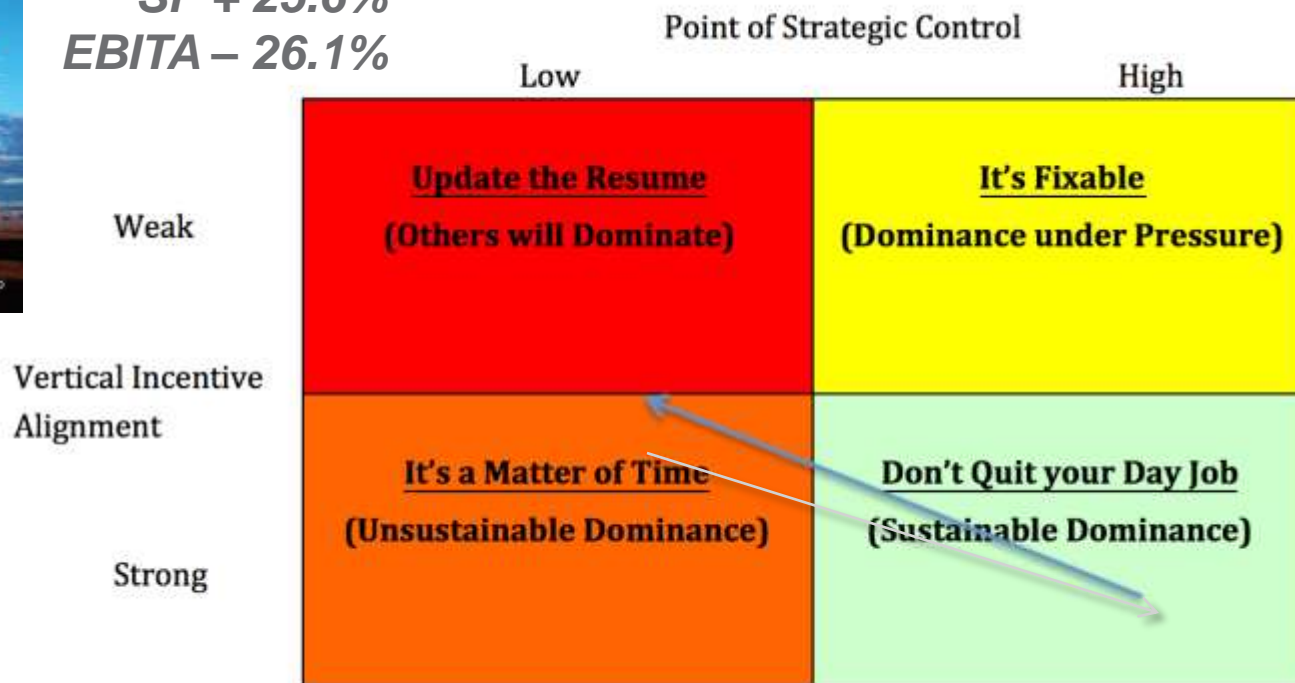
**SP + 69.8%**  
**EBITA + 224%**



# Recall the “Bottom Line” – Life in 2017 and Beyond



**SP + 25.6%**  
**EBITA – 26.1%**



**SP + 69.8%**  
**EBITA + 224%**





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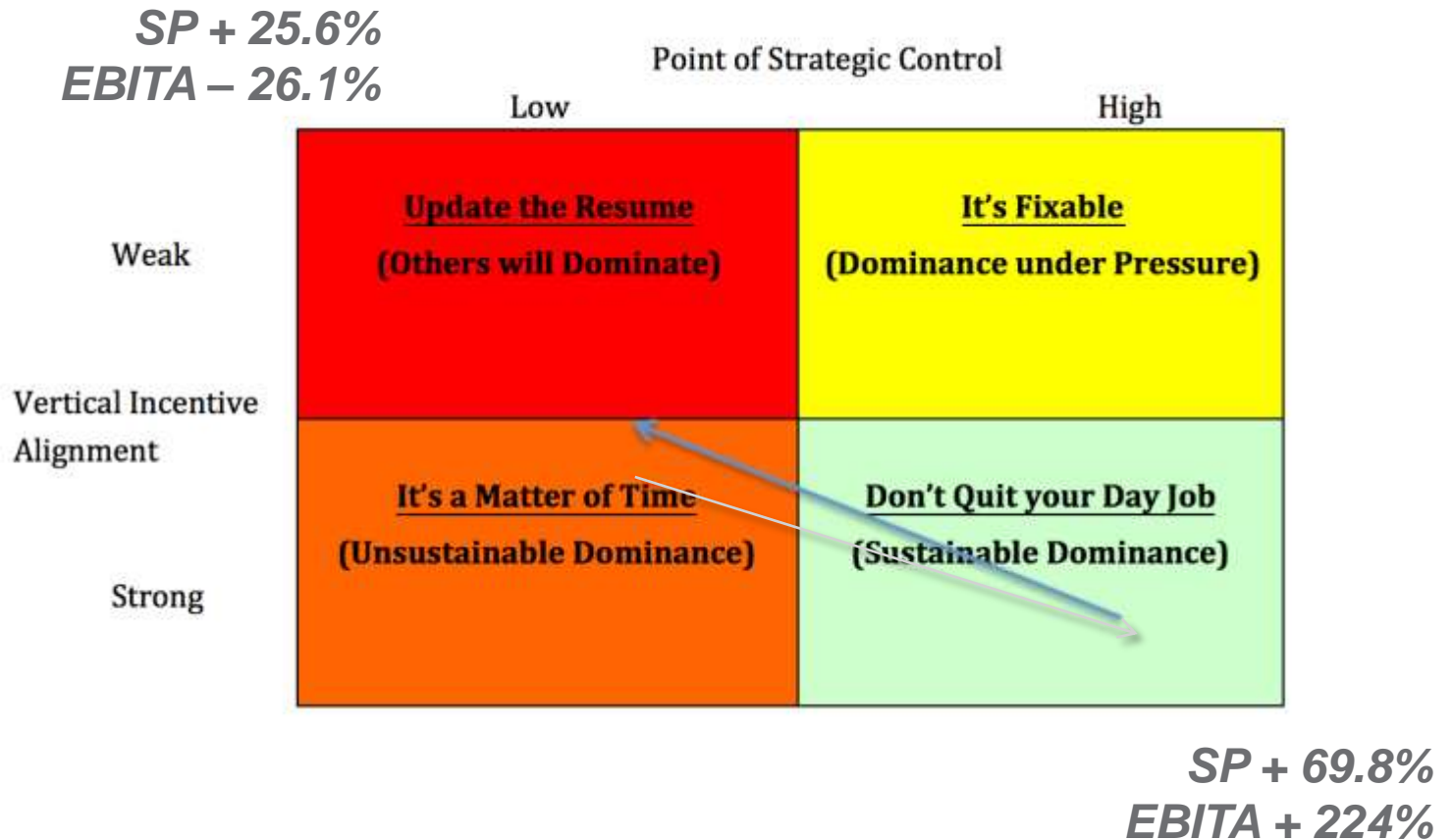


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# Recall the “Bottom Line” – Using the “2x2”



## Table Exercise (individual)

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How can you use what we discussed today to further your business objectives? What do you need to do in order to make this happen?

How can this group “raise the bar” by applying all of this?  
What do we need to start doing?  
What do we need to stop doing?



# Conclusions

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“Thoughtful questions are the sign of a bright, inquisitive mind ...”

.... *Shep Hill, President Boeing International*

## Any questions????

Discussion question:

What does all that we’ve discussed  
mean for your part of the business?



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