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This lecture is intended to give you a high-level overview of the Value Lab as a tool. You hopefully have already had an opportunity to read this article, the Value Lab or Value Lab: A Tool for Entrepreneurial Strategy. This is really a tool, as we've talked about, that's designed to help you build a theory of value. The Value Lab begins by pushing you to express what you believe are the common beliefs that are held in this space that you're trying to enter or the industry that you're trying to participate in, what are the orthodox beliefs about technology, consumer tastes, production technology, distribution, etc. Then, what's your unique contrarian belief? What do you believe that's possible here that others don't believe, and how might you differently organize things such that you can bring about this particular belief? From that belief, as we'll talk through, we want you to articulate the core problem that needs to be solved, that prevents the realization of that belief. From that, think about, if that core problem is going to be solved, what are the particular sub-problems that we need to solve in order to solve this core problem? Think of it in this particular way, what's this overarching core problem? What are the key subsidiary sub-problems? Then be able to convert this problem architecture into a causal logic and really capture it verbally or perhaps graphically into a theory expression? Attempt to capture that central hypothesis in some literary form with, if we can solve these three sub-problems, then we think we can solve this core problem, which will bring about this form of value creation. We're going to then use that verbal expression to guide the actions you take to test that theory and to bring that theory into light. You're going to think about the experiments that you need to run. What are the assumptions that are inherent to this theory? Is it possible to solve these sub-problems that you have articulated? What kinds of resources, what kind of knowledge do you need to solve these sub-problems? Where do we need to search for solutions? It's really going to guide, therefore, the actions that you take as a manager and ultimately guide the composition of the business model that you compose. This Figure 3 in the article talks through an example of this being played out with Airbnb. I won't walk through this verbally and leave it to you to think about this. Let me talk a little bit about this in the context of say, of an example of Apple computer. If you think about the contrarian belief that Steve Jobs had, it was that he could make personal computers easy to use and reliable, and that if that core problem could be solved, that the masses would then flock and purchase this product at a premium price. That is, people would pay for the resolution of that overarching problem. In order to solve that overarching problem, his sense was that he needed to solve some sub-problems and that this would require investing in a particular set of resources. It would require investing in design. Ultimately, the solution he comes up with is his graphical user interface, which he adapts and borrows from Xerox. He pursues a very closed system so that he has tight control over all of the components and how they interact in order to elevate the reliability and the ease of use of this product so you're not pulling lots and lots of different applications, and components, and software and hardware from different areas and expecting them to independently coordinate with one another. Instead, Apple has very tight control over this ecosystem and ensures that there's this ease of use in adopting the technology. Expressed verbally, one might articulate this theory as consumers pay a premium for easy-to-use, reliable, elegant computing products. Ultimately, he takes his theory and thinks about other consumer electronics which Apple will deliver and market through an unrivaled capability achieved through a relatively closed system, significant vertical integration, and tight control of design. It's that verbal expression, as well as we'll talk about visual expression, that I think is critical for you in crafting your theory of value. Let me give you an example of a visual depiction of a theory. If one was to capture Disney's original theory of value in words, it would be something like Disney sustains value-creating growth by developing an unrivaled capability and family-friendly,

animated in live-action films, and then it assembles other entertainment assets that draw from and directly support this central animation asset. That is, it tries to draw value from this animation asset in a variety of other entertainment assets. Remarkably, this theory of value is captured by the Walt Disney Corporation very early in its history. This is a drawing that was produced in 19, I think it's 59, that essentially visually captures this theory in which at the center of this system is theatrical films, which for Disney were mostly animated theatrical films. Each of these little arrows is labeling value that either emanates out into other assets, or if the arrows are coming in, it's how those assets reinforce the central theatrical films asset. From these theatrical films, music is extracted and infuses value into the music business. It's extracted into television and television shows into merchandise licensing, obviously into the theme parks, into comics that they were doing early in their history, and other publications. Of course, this theory drives a whole host of other strategic moves, and growth, and expansion opportunities at the firm pursues over time that you're familiar with as they move into other theme parks, into cruise ships and restaurants, and a variety of other types of businesses as they move forward. Moreover, you see this theory also played out as they accumulate other film assets, purchasing Lucasfilms and Marvel to essentially fuel the core of this theory. The article talks a little bit about the attributes of a valuable theory. Ideally, this theory that you articulate will be novel, and that through this theory, you'll be able to see value that others can't see. You'll be able to see an opportunity to solve a problem and create value that others can't see. At the same time the best theories, and this may be something you think about down the road, but they're also somewhat general. That is, they're able to solve not just a single problem, but an array of problems. In both the Apple and the Disney examples, we see exactly that, that they're able to extend this fundamental theory into solving a sequence of problems over time, not just a single one. Also, a good theory will be clear. It will tell you not just what to do, but what not to do, what things are inconsistent with this theory that we've articulated. That concludes this lecture. Again, the focus here is on just a high-level overview of the Value Lab apparatus as you engage with this over the coming weeks.