Todd Zenger, MBC Online, Composing Your Theory

We have to this point in this course talked about your contrarian beliefs, we've talked about common beliefs, we've talked about problems and subproblems, and ultimately this is culminating in your efforts to compose your theory of value. I want to talk just a little bit about what this concept is and again remind ourselves of how we go from contrarian beliefs to subproblems and problem and ultimately there's composing a theory of value and what the connection among those different components is. We've talked about this is the value lab, we're pushing you and walking you through this architecture, ultimately, the objective here is to enable you to be able to clearly and succinctly articulate your unique theory of value that you're going to then go out and explore and try to build it into a business model. As we talked about you begun with a common and unique beliefs and you're at the point now being at the last phase of this center section of building this causal logic that is going to be your theory of value. What we're going to push you to do is to express your theory of value in words and in the back of your mind you should have an architecture of a core problem you're trying to solve and the subproblems you think are critical to solve in order to solve that core problem. Let me give you a few examples of this to just reinforce and give you some examples that you can use in thinking about your own theory of value. We think about Uber, the contrarian belief here is that there's a vast reservoir of personal vehicles and drivers which could easily satisfy the unmet demand for taxi service. The overarching core problem is how do we provide that and gain access to that untapped resource? How do we provide fast, reliable taxi service? Especially at times when taxes are difficult to secure and therefore this reservoir of untapped taxi capacity could be accessed. The sense is that there's some critical subproblems or your theory is that there's some critical subproblems that you need to solve to solve that core problem. You've got to solve a managing payment problem and tips problem, you've got to figure out how to efficiently match drivers and riders. You have to deal with the arrival uncertainty problem and of course, how do you get people to feel comfortable both transporting strangers and driving with strangers? The sense is if we can solve the subproblems, we can solve the core problem, the theory then in words in a very mechanical sense would be if we can efficiently connect drivers to riders, enable riders to feel confident in the timeliness of that service. That both riders and drivers are going to feel safe, then we can tap into this vast reservoir of personal vehicles to address an unmet taxi demand. This lays out a causal architecture in which you have clearly articulated the subproblems that you know you need to solve in, or you believe you need to solve in order to solve this broader core problem and thereby to make real this contrarian belief that you have. Apple something, again, familiar to folks, the contrarian belief here is in a simply articulated is a belief that computers, a consumer product then useful to the masses, which at the time was a very contrarian believe, everyone else believing at the time that this was really a business or scientific instrument. Product to be utilized in those environments. The problem at a very high level is how do we make personal computers that feel and look like consumer products? In this case, how do we make them easy to use for that average consumer and also highly reliable or something that's going to be very important to that consumer. The subproblems that I think Steve Jobs at least articulated over time or revealed over time where that you needed to deal with what at the time was a relatively clumsy, non-intuitive operating system. You also had one of the big reliability issues was that it was an ease of use issues. Where it was very difficult to connect new peripheral devices in particular printers, but other plotters were used at the time and other devices. Even just the addition of new software applications, anytime you introduce one it was a multi-hour effort to try to get this thing to work seamlessly. There was a mismatch between what you would actually see on the monitor and what you would see once it is printed. Again, just the stability of these products they would go down

frequently and you'd have to restart, how do you solve those subproblems? The theory was if we could solve these subproblems, suddenly this device would be something that the masses would use, you can articulate that theory. Then in words in some sense by saying if we can make personal computers easy to use and reliable then the masses of consumers will purchase and even purchase that product at a premium price. I think that was also part of his theory that we could actually make these something more than the commodity products that were being sold competitively at the time. Airbnb. You've walked through this as part of the value lab I just rearticulated it here. Format consistent with the other ones, it's a little bit easier to see visually that again, a unique belief, an overarching core problem, subproblems that you believe need to be solved if you're going to solve this overarching core problem. Then an expression of that theory in words which is if we can solve these subproblems then this overarching problem will be addressed and solved, and thereby our contrarian belief will be realized. I would encourage you to think about novel businesses that have emerged over the last 10 years and develop and refine your capacity to think about what the underlying theory of value is? What are the subproblems that they needed to solve? Because ultimately you're going to need to do this for your own business. Let me walk you through in real time two examples. Many of you may be familiar with the retailer Trader Joe's that has been highly successful with a very contrarian retail model, and of course, SpaceX has also been a novel business and has pursued a very contrarian approach to creating value. From the outset as you walk into a Trader Joe's, there's some unique beliefs that you see reflected in that current business model. One is that a belief that people will buy unique high-quality products and they're not necessarily interested in brand name products, so if you walk into Trader Joe's, you will not recognize a single brand within that store unless you've frequented the store for a number of years, and these won't necessarily be just house brands is not Trader Joe's brands, these are just brands locally manufactured or somewhere remotely manufactured that they bring in as Trader Joe that curates these brands. There's a belief that people enjoy the treasure hunt style of shopping, what new thing have they found? What do they curated for me that I want to go into the store and discover what's here? I think there's also a belief that people actually don't enjoy walking into a massive grocery store that has every possible thing that you might ever want, but rather go into a grocery store that's got three or four aisles that are relatively short, and I can get in and out of that store by the essentials that I'm interested in purchasing and do something like that in 10 minutes as opposed to an hour searching for all of the items and walking long distances to get there. It's also a unique vibe that's in these stores. They have a unique approach to employing their service people in those stores as well. If one might articulate their core problem as, okay, people hate grocery shopping, how do we make accessible unique grocery products at a low price in a convenient shopping experience? One could think about other subproblems that they needed to solve here. How do they create a store where things are easy to access and accessible? How do we create this treasure hunt field? How do we create this unique vibe? We won't spell out all of this, but you can see this is the way one might take up this exercise of figuring out what a new entrepreneurial ventures theory of value is. Let's talk about SpaceX for a minute, and rather than use this structure, let's think about it in just what's the core problem and what are the subproblems? SpaceX, of course, the contrarian belief of Elon Musk was that you could make rockets reusable, and if you could make rockets reusable then the cost of launching something into space would be dramatically cheaper, and this would create a much more robust business for commerce that involves projecting things into orbit. The biggest problem in making rockets re-usable and the reason they weren't reusable before is that every time a rocket went back through the Earth's surface that it would burn up. The friction that's created as it passes through the Earth's surface is so great that the thing just burns up and

is unusable. One thing you could do is you could cover the entire rocket with heat shields, much like they do with the capsules or the space shuttle, but of course that's extraordinarily costly and obviously there'll be a weight problem associated with this. Of course, they came up famously with an alternative theory, which is, why don't we just turn the rocket around as it passes back through the Earth's surface have it fire its engines, slow its descent and in slowing its descent it would not burn up just as it doesn't burn up when it goes through the atmosphere, it wouldn't burn up as it sends back through the atmosphere the other direction because it's going at a slower pace, and of course they solve other problems like how do you land this thing smoothly? Not just get it through the surface, but land it smoothly, durable materials, [inaudible] , you can think about other subproblems that needed to be solved. But the key subproblem that had to be addressed was, how do you address this heat problem? Ultimately, they are well on their way to solving all those subproblems and in the process of that creating a robust new business. Again, the vision here is that one can think about new ventures, and your new venture through this [inaudible] of, what's my core problem? What are the subproblems I need to solve? In doing so, really generate a theory of value or belief about how you're going to move forward and create a business model that solves this core problem that you think if solved will create tremendous amounts of value. My challenge to you as it relates to your venture is to think carefully about what your subproblems are, what's your core problem? Use that as a starting point and then try to capture your theory in words using an if-then structure. If we solve these subproblems then we'll solve the core problem. Ultimately, you may wish to make that theory of value expression a little bit less mechanical and make it more smooth and flowing, but keep the fundamental logic, this if-then structure, but recraft your theory of value into something that's a little bit more accessible and form. It might start with my venture seeks to create value by some expression that of the critical subproblems that need to be addressed in order for you to introduce this new value. Best of luck as you move forward and try to compose that theory of value using this architecture. Thank you.