



What Is Your 650 Strategy?

Why Non-Tech Companies Globally
Need to Think Harder Than Ever
About Silicon Valley

Preamble, Rules & Opines

- Strategist, Investor, Speaker, Adjunct Professor, Corporate Agitator, Easily Distracted
- Conversation, Not Presentation: 'Challenge & Discuss'
- @markzawacki
- Writing a book about various industries being disrupted by Silicon Valley
- Healthcare deep dive: Topol, Kraft, Poste, Khosla, Ioannidis, #TEDMED, #FUTUREMED, #healthIS, Singularity, Teisberg, etc.
- Going for the trifecta tonight

What Do
You Think of
When I Say...

'Silicon Valley'

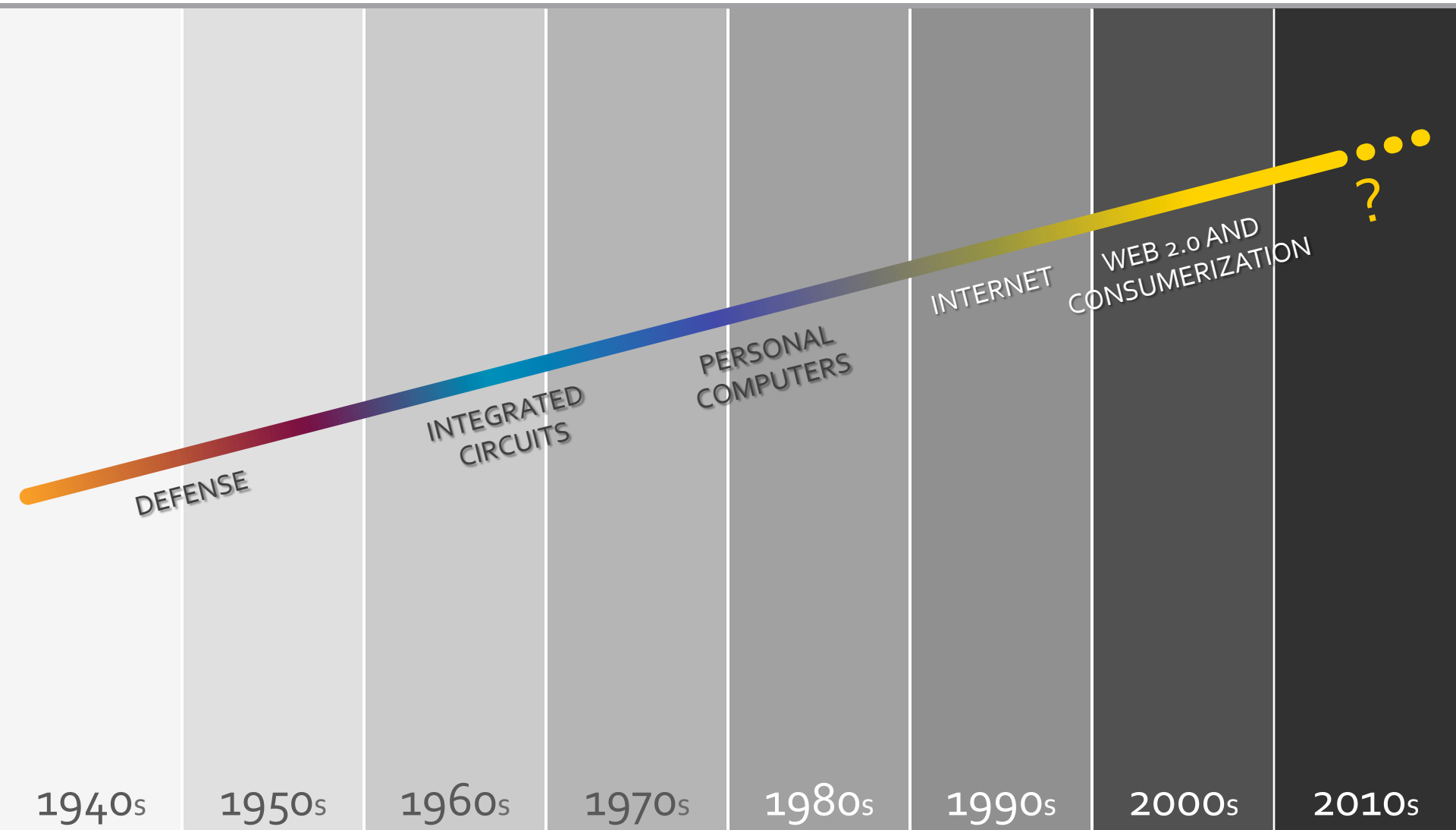
Two guys and a garage: Again and again and again



Silicon Valley: Home to 74 years of technology innovation



Silicon Valley is at the dawn of its next reinvention



A very big shift in Silicon Valley underway

High Tech Capital of the World

- Makes technology-based products
- Sells IT to businesses globally
- 'Arms merchant'



Industry- Disruption Capital of the World

- Builds disruptive businesses
- Competes with businesses globally
- 'Mercenary'

The incumbent's nightmare

What's the most unsettling scenario if you're the CEO of large incumbent in a slow-growth mature industry somewhere in the world?









How about a well planned, focused attack by a fully-funded, below-the-radar disruptor that simultaneously ...

- ... Takes on the risks of re-envisioning how your industry can operate and grow
- ... Builds a product or offers a service that is deemed 'much better' by your customers than your current offer
- ... Focuses on efficiently tearing away your most profitable customers with a better value proposition and/or business model
- ... Undercuts your cost structure with advanced technology innovation
- ... Hits you with sustained force sufficient to inflict major damage
- ... Outflanks your every response with a superior battle plan and strategy
- ... Not constrained as you might be by a bureaucratic culture, lack of an innovative culture, high cost structure and being slow to competitive responses

► ***Your move***

Ask companies like Motorola, Nokia, RIM and Blockbuster if they felt the Valley wrath ...

Five Examples:

Vertical	Disruptors	Revenue Disrupted	Disrupted
1. Mobile Handsets	 	\$ 75B	Motorola, Nokia, RIM
2. Advertising	 	\$ 45B	Broadcast & print media, big brands
3. Music	 	\$ 16B	Music retailers, distributors, labels
4. Movies		\$ 4B	Movie retailers, content creators
5. Hospitality		\$ 4B	All major hotel chains globally

So what's happening?

1. Thick information layer now on top of every industry, and getting thicker. That information layer being exploited by both software and business model innovation at an increasing rate.
2. Unavoidable transparency for incumbents is the new norm: transparency in pricing, product offerings, service levels and customer experiences, business practices, etc.
3. An incumbent most often can see an emerging threat, but is equally likely not well positioned to act upon it.
4. New entrants quickly, cost effectively and in non-traditional ways enter established markets. By definition, disruptors never play by traditional rules.
5. Customer switching costs continue to decrease across industries.
6. Incumbent strategies can be very quickly & easily copied.
7. Customer expectations vis-à-vis a companies products & services continues to rise.
8. Large companies are inherently low risk, and more and more are competing with a risk-embracing ecosystem called Silicon Valley.
9. There is no such thing as a tech company anymore.
10. Mobile changes everything.

Controversial Assertion #1

Large companies globally across industries have an extremely poor track record of innovation

4,800 public cap companies globally across all industries with revenue of USD \$1B or more

What percentage of the 4,800 can grow top line revenue organically by 5% per year for 5 years in a row?

8%

Controversial Assertion #2

The very best corporate employees who should be driving disruptive innovation activities very seldom are

Neuroeconomics

- Big companies are typically $\downarrow\beta$
- $\downarrow\beta$ companies tend to attract & hire $\downarrow\beta$ people
- Personal appetite for risk? ($\uparrow\beta$ or $\downarrow\beta$)
- Corporate ladders & the 25 year anniversary clock

Why Under 35?

1. Nothing to lose
2. Something to prove
3. Healthy naivety
4. More energy
5. 'Closer to the future' – represent creative destruction
6. More optimistic
7. Not corporately formatted (yet)
8. Often recently up-skilled
9. Single = more discretionary effort
10. In peak cognitive age

Controversial Assertion #3

Silicon Valley doesn't innovate, it practices *incrementalism*

Silicon Valley did not invent:

- Integrated circuit
- PC
- Smart phone/feature phone
- Internet
- Browser
- Database
- Search technology



But it certainly knows how to create trillions of dollars in shareholder value off others' core IP

Controversial Assertion #4

There is only one Silicon Valley; there is no 'second place' anywhere near it's industry disruptive prowess

40+ Silicon (blanks) globally:

- Many have been at it 30+ years
- Most are using the wrong formula
- None have anywhere near the concentration and scale in the talent ecosystem
- Only one other location has built an industry disruptor (with qualifications)
- Some success will come ...



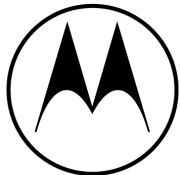
Only Silicon Valley has disrupted more than one industry

New vertical clusters are forming and interlocking providing perhaps sustained competitive advantage

Controversial Assertion #5

Most large companies globally have not built a strategy to counter Silicon Valley based industry disruption

NOKIA



MOTOROLA



BORDERS



The New York Times

The Boston Globe

Los Angeles Times

No. 1:

What do all these companies have in common?



Mercedes-Benz



Volkswagen



Audi



TELENAV®

better place 



 **TOYOTA**

HONDA
The Power of Dreams

STANFORD
UNIVERSITY



Google™

CarnegieMellon

No. 2:

What do all of these companies have in common?



No. 3:

What do all these companies have in common?

STANFORD
UNIVERSITY

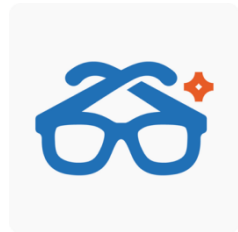
Berkeley
UNIVERSITY OF CALIFORNIA



coursera

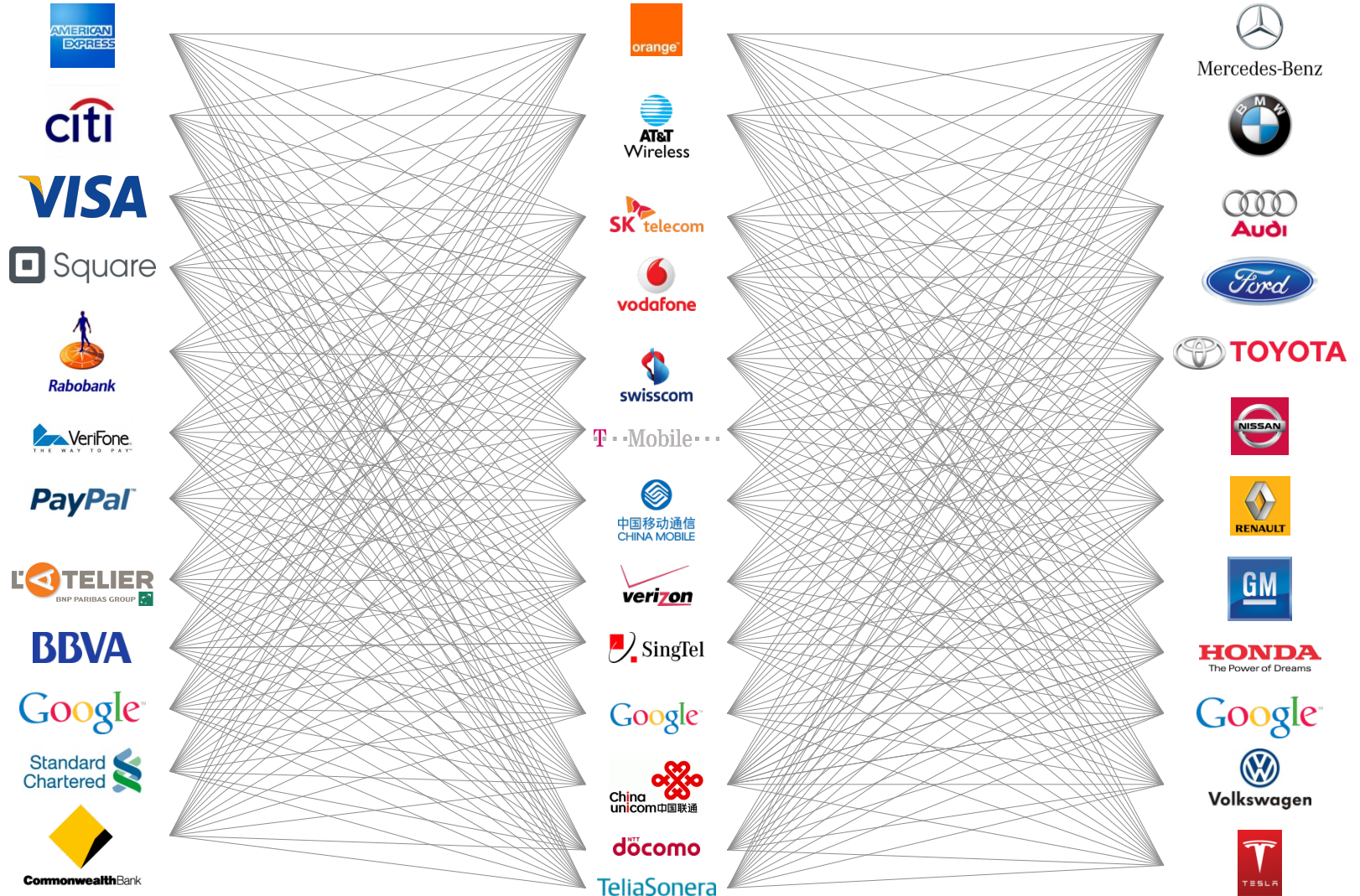
UDACITY

Udemy

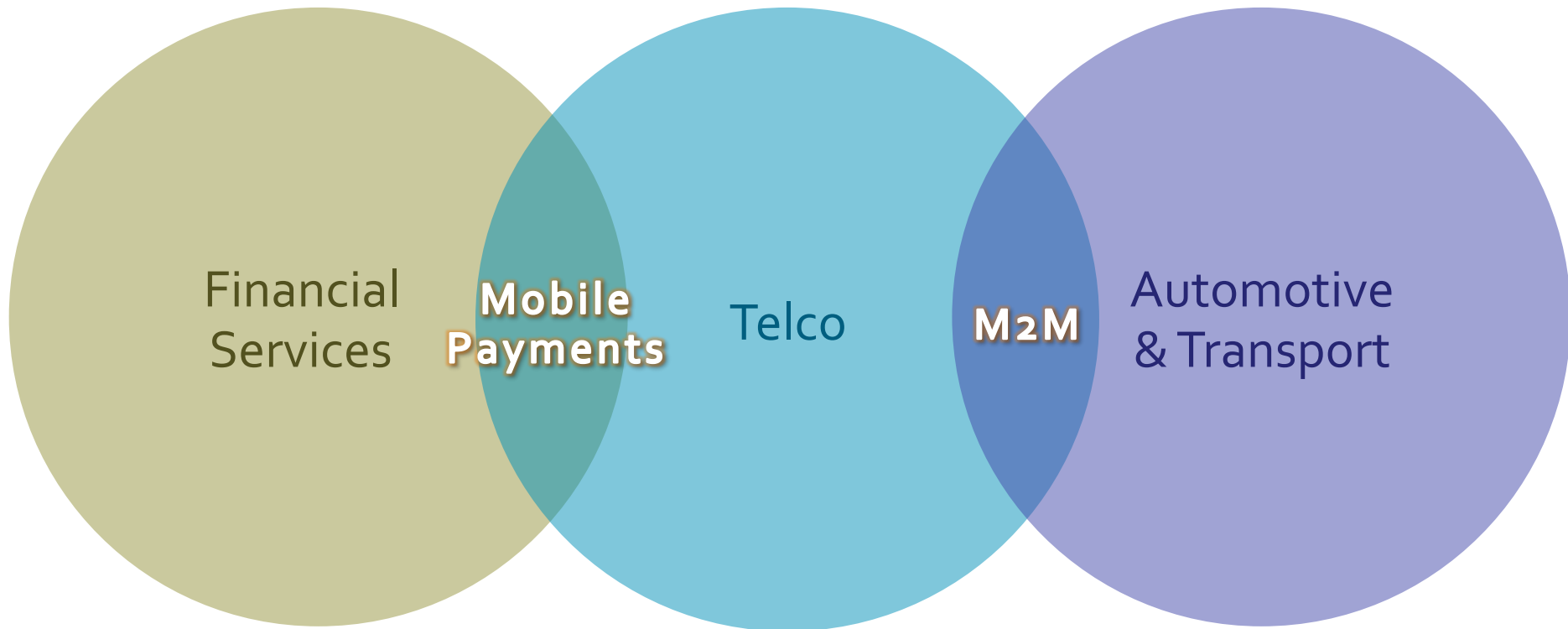


imagine
K12

Massive Sharing, Ideas Competing, Massive Learning, Fast Clock Cycles – 'Ideas Having Sex'




Cross-cluster collaboration in the Valley is becoming critical



Valley clusters are starting to overlap and work on mutually interesting solutions.

10+ Silicon Valley vertical clusters are getting real scale

1. Mobile
2. Advertising
3. Automotive/Transport
4. Financial Services
5. Education
6. Retailing
7. Media & Entertainment
8. Hospitality
9. Personnel/Staffing
10. Food ↔ Healthcare
11. Consumer Electronics
12. Energy



'The formula for creating copycat clusters is always the same: Pick a hot industry, build a technology park next to a research university, provide incentives for businesses to relocate, add some venture capital and then watch the magic happen. It simply doesn't work without the right people'

– Vivek Wadhwa

'Disruptive innovation' – Clayton Christensen

Christensen studied why great companies with smart management and substantial resources consistently lost to 'disruptors' – companies with simpler, cheaper, and inferior products.

Two Ways Disruptive Innovation Can Happen

Low-End Segment Strategy

Disruptors introduce a product that is at the low end of the market and that is neither profitable for the incumbents nor in demand from the incumbents' customers ...

This becomes a problem as the disruptors improve their offering and move up market, eventually encroaching on the core business of the incumbent, and doing so with a lower cost structure.

Amazon.com/Netflix/PayPal

Non-Consumption Strategy

Disruptors introduce a product that was unavailable to consumers before, effectively competing with non-consumption.

iPhone/iPad/Facebook/Tesla ...

Source: "Untangling Skill and Luck: How to Think About Outcomes – Past, Present and Future" (7/15/2010).
Michael Mauboussin, Legg Mason Capital Management

How Silicon Valley REALLY Works...

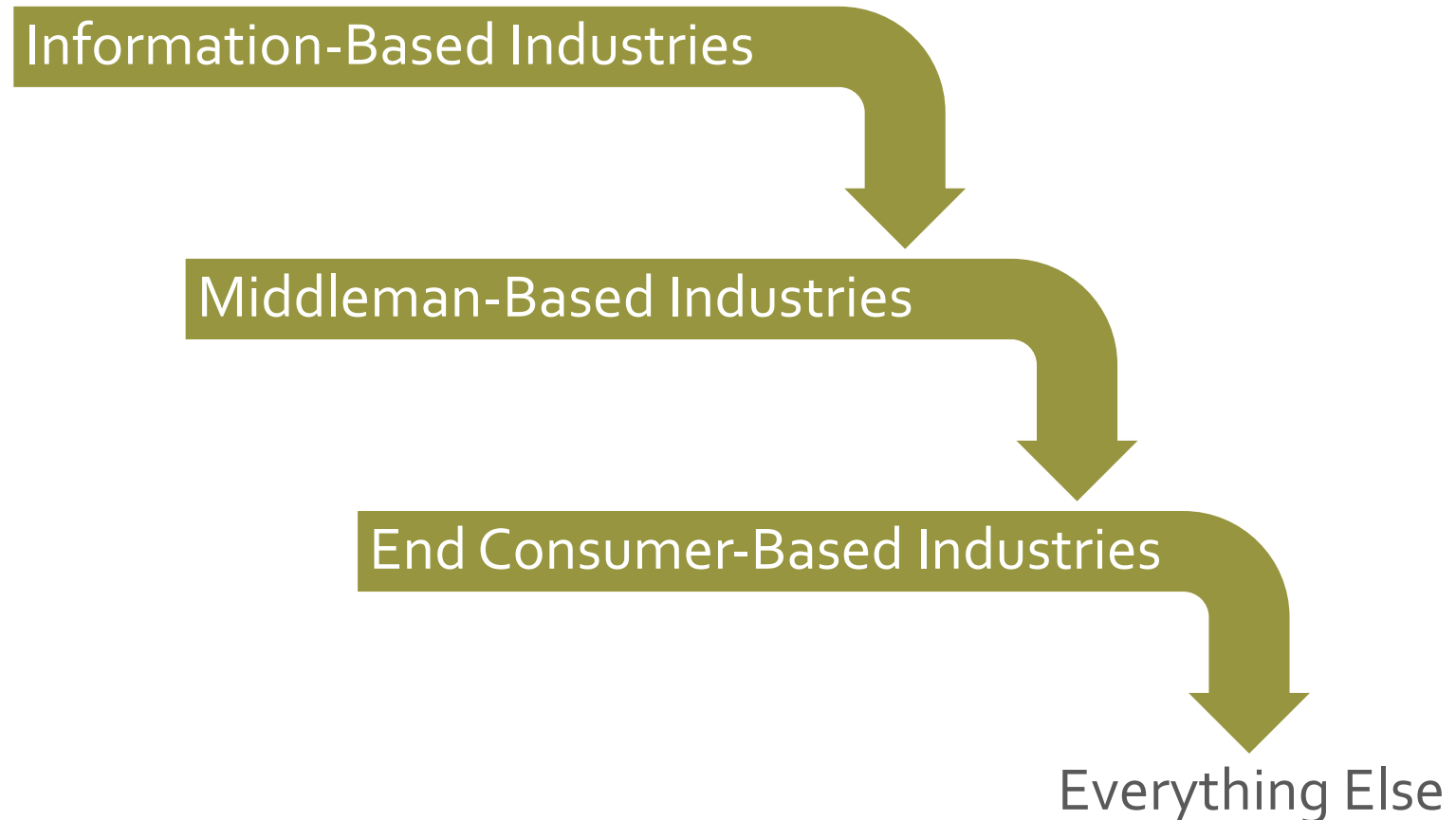
1. Software Is Eating the World
2. Incrementalism (not innovation)
3. Open Sharing + Concentration + At Scale (mutually exclusive)
4. Speed To Complete Jigsaw Puzzles
5. Geek Olympics
6. Youth Gone Wild
7. Broad Vertical Expertise/ Interlocking
8. Pay It Forward
9. Failure OK (with two very important conditions)
10. Lots and lots of little bets

Summary of Big Messages

1. Silicon Valley has evolved from arms merchant to industry-disruptor
2. Only Silicon Valley has now disrupted several industries, no other tech/innovation cluster has done one fully – there is no ‘second place’
3. It’s not just about the technology anymore; it’s about the infinite number of combinations of business models + technologies to disrupt industries
4. Large incumbents have historically had a poor track record creating disruptive innovation
5. It’s a myth Silicon Valley innovates
6. Tap the under 35’s!
7. Many companies globally compete less and less with other named/traditional competitors, but rather with Valley-based disruptors
8. Companies globally thus need to have a thoughtful ‘650 Strategy’

Sleep with one eye open, clutching your pillow tight

What Industries Will Be Affected By Silicon Valley?



Five ways non-tech companies tap into Silicon Valley by opening a strategic outpost



Scouting & Business Development

This is the most prevalent type of non-tech activity in Silicon Valley. The company is scouting for innovation trends and their impact on their business, conducting business development, meeting with and evaluating interesting startups, driving alliances, gaining insights what the disruptors are up to, etc.



Build Staff

This activity tends to be focused on application or product development, prototyping, etc. For instance, Deutsche Telekom has 20+ software developers in an office across the street from Google. Their focus is related to Android and it's success inside DT.



Research Staff

Several companies have pure research teams in Silicon Valley working on advanced technologies that have very long lead times to get to market. These pure research offices generally work closely with Stanford, MIT, etc. They attend academic conferences, etc.



Venture Investing and M&A

Some companies elect to participate via venture investment funds, both on and off balance sheet approaches. Some companies are making direct investments in startups; typically more for strategic insights and staying close to innovation vs. a purely financial returns.



Culture Vultures

Looking at Silicon Valley best practices for hiring & retention, leadership development, organizational design, innovation, etc. and trying to replicate those best practices back at HQ.

OK Mark, So What Does This All Mean For Healthcare?

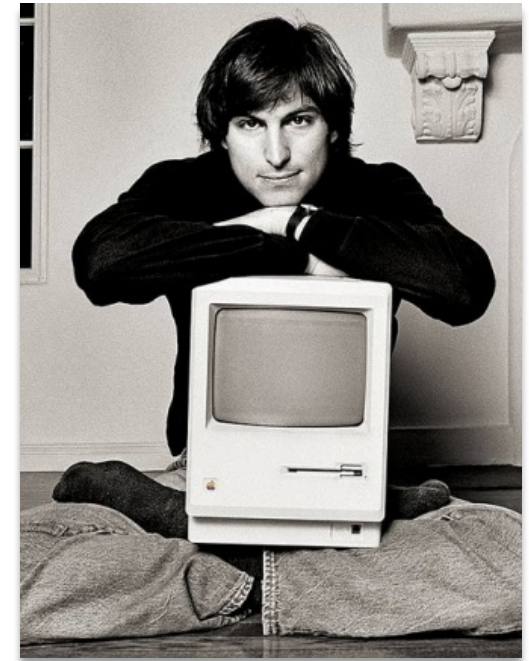
Directionally Correct?

- 'Only 2 of 100 patients on lifelong Crestor derive benefit' - Topol
- 'Machines are better at integrative medicine than doctors' – Khosla
- '50% of initial diagnosis in US are incorrect' – Poste
- '80% of medicine is taken in a non-compliance manner' – Poste

10 Big Levers In Healthcare Going Forward

1. Mobile connectivity + bandwidth
2. Increasing computing power + data explosion
3. IoT/M2M, wireless sensors, nano-sensors
4. Bioprinting
5. Genomics
6. Robots – nursing (and surgical!)
7. EHR's/PHR's
8. Prescribing apps
9. Telemedicine + consumer medical devices
10. Populations > Individuals, rigorous patient segmentation

'Here's to the crazy ones, the misfits, the rebels, the troublemakers, the round pegs in the square holes ... the ones who see things differently – they're not fond of rules ... You can quote them, disagree with them, glorify or vilify them, but the only thing you can't do is ignore them because they change things ... they push the human race forward, and while some may see them as the crazy ones, we see genius, because the ones who are crazy enough to think that they can change the world, are the ones who do.'



– *Steve Jobs*

Thank You

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About 650 Labs

About us

Who we are

- Analytically driven strategy consulting firm
- Established in 2001
- Headquartered in Silicon Valley; projects worldwide
- 25 Professionals
- Over 200 Clients, 400+ successful projects

Why we are unique

- Focused on revenue acceleration and growth for large and mid-sized companies
- Team with balanced mix of operational, venture capital and strategy consulting backgrounds
- Proprietary methodology and software IP

Mark Zawacki

Founder

Mark is the Founder of 650 Labs and Milestone Group. Since 2001, he has led/supervised engagement teams on more than 200+ tech, media and telco (TMT) clients globally, working a myriad of growth and revenue-related initiatives including strategy, innovation, business and corporate development, alliances/partnering and international expansion. Prior to founding both Milestone Group and 650 Labs, Mark spent nearly a decade as a strategy consultant with the CSC Index, the strategic management consulting division of Computer Sciences Corporation (CSC). Various based in Amsterdam, London, Sydney and San Francisco, Mark's consulting at CSC Index focused on corporate strategy, organizational change and leveraging technology for business advantage. Mark began his career in tech at Symantec, joining in 1987. Mark is a frequent speaker, panelist and moderator at industry events globally.

We work with ambitious non-tech multinationals globally, helping them understand and react to the myriad of disruptive forces emanating from Silicon Valley

Service offerings

- **Innovation Audit** – determining if a clients existing innovation initiatives will achieve desired results and make recommendations for improvement.
- **Innovation Advisory** – advising existing client innovation teams on disruption, competitive threats & opportunities, business model innovation, incubation, innovation pipeline management, customer segmentation, go-to-market, pricing, customer change management & adoption, internal stakeholder management, pilot & launch & realizing benefits.
- **650 Strategy** – defining & assessing the type(s) and intensity of disruptive threats Silicon Valley may inflict on a particular industry, and how best a client ought to react, including mapping out strategic opportunities that may result.
- **Interim Strategic Outpost** – working closely with client HQ innovation teams, delivering regular/ongoing actionable insights regarding Silicon Valley as it relates to a clients corporate strategy and related initiatives.
- **Craft a Compelling 'Plan B'** – utilizing a carefully selected team of early/mid thirtysomething high potentials in the client organization, task them with 're-inventing the business' over a 5-7 year timeframe. The program is conducted primarily in Silicon Valley and in an immersive style.
- **Transition Planning** – for clients who may want to establish a Silicon Valley presence, devising and refining the right goals and objectives, operating model and desired ecosystem participants, reporting and stakeholder management mechanisms, staffing levels and staff rotation models, knowledge transfer processes between HQ & outpost, executive & Board engagement, outpost location, financial budget, launch planning, etc.
- **Silicon Valley Study Tour** – organizing tailored Silicon Valley study tours; typically 3-5 days and 6-12 senior executives and Board members.
- **Keynote Speaking & Workshops** – delivering compelling keynote speeches and related workshops regarding the big shifts underway in Silicon Valley and how non-tech multinationals have responded. Typical audiences for keynotes/ workshops are largely at Board & executive management level, though some programs have been tailored for mid-level executives.

All our work **must** meet three criteria

Insightful

Our analysis tells our Clients new things they did not already know

Impactful

Our findings must positively affect our Clients' top-line revenue growth

Actionable

Our recommendations must be implementable and pragmatic, not just theory

In summary

Since 2001, we've been focusing on one thing and one thing only: helping our Clients **accelerate their top-line revenue growth**.

It starts with objectively analyzing where they are at and figuring out a plan to viably grow the business. A proper diagnosis combined with an objective and analytically grounded prescription going forward takes dedication, experience, perspective, objectivity and candor.

We're not like the others. Really. We promise we won't tell you what you want to hear just to curry favor and/or get the follow-on consulting work.

Unfiltered, unfettered, unconventional and **un-consulting like**.

Perhaps we should start a dialogue and **figure out what's really going on?**

The meaning of 650?

'650' is the telephone area code covering most of Silicon Valley. The main telephone numbers for companies like Google, Facebook, Oracle, HP and thousands of others at the center of Silicon Valley will all start with + 1 (650) xxx-xxxx. So asking 'What Is Your 650 Strategy' is equivalent to asking 'What Is Your Silicon Valley Strategy'. OK, now you're officially in on the inside joke.