THE OPPORTUNITY
A Catalyst for Strategic Innovation

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A problem is something you want to do but cannot.
An opportunity is something you do not yet know that
you want to do – and can.
Edward de Bono

As innovators, we often talk about ideas as the raw material of innovation. We hear about ideas emerging from both diligent exploration, such as ethnography and open innovation efforts, and from creative activities that include "ideation" and design thinking. We love to talk about new ideas. Ideas have cachet.

Yet we all struggle with ideas—how to generate them and what to do with them once we have them. That's largely because ideas are always *about* something: about a problem or a solution, about a need or a desire, about a technology or a relationship. Ideas can be about pretty much about anything, and this is the essence of the struggle. For this reason, at least in the case of innovation, we need a framework to direct, focus and measure our ability to generate, shape and act upon the *right* ideas.

The opportunity creates a framework for generating and subsequently vetting focused, actionable, valuable ideas that fuel strategic innovations.

Generating these "right" ideas is critical to strategic innovation, discussed at length in a previous white paper, *Strategic Innovation: If it Feels Comfortable, You're Not Doing It Right*. Strategic innovation expands a company's boundaries in both internal and external dimensions that, together, define the firm's innovation space. Strategic innovations shape a company's future and evolve its business model so it can become dominant in the complex, fast changing ecosystem in which it exists.

But ideas, no matter how interesting, creative, novel or powerful, are not enough in and of themselves to form an effective foundation for strategic innovation efforts. Ideas are most effective when they are in service of something bigger. The "opportunity" is that bigger thing. The opportunity creates a framework for generating and subsequently vetting focused, actionable, valuable ideas that fuel strategic innovations.

This paper describes an opportunity-based architecture for strategic innovation that has proven itself practical, useful and effective in innovation initiatives for all types of industries, markets, offerings and business models. This architecture has been the inspiration for the development of an array of integrated innovation processes, methods and tools that are used on a daily basis to discover, design and develop new opportunities. This architecture relies on ideas, and the creative energies they emerge from, but it expands beyond the concepts of idea generation and management to achieve something of much more significance.

The Opportunity Model

> ***Opportunity*** – *A potential to create value, constructed where unmet needs and emergent possibilities intersect.*

Innovation efforts must create new opportunities, not just new ideas. The value of focusing on the opportunity has been articulated by people like Edward de Bono in his 1978 book *Opportunities* and by Peter Drucker *in Innovation and Entrepreneurship*.i In his list of the seven sources of innovation, Drucker singled out the opportunity as the object of attention for entrepreneurial activities.

> *Innovation is the specific instrument of entrepreneurship. The act that endows resources with a new capacity to create wealth. … This defines entrepreneur and entrepreneurship—the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.*

An opportunity encompasses new products and services as well as new business models and manufacturing and business processes. It encompasses what is actual as well as what is wanted and what is possible. It encompasses the tangible offering that is adopted *and* the business model that surrounds that offering. It encompasses the physical material and virtual information as well as the behavioral rules people follow when the opportunity is made real. It encompasses the outcomes of adoption and the experiences. It encompasses technology, design, channels, segments, value chains, customer relationships, costs, revenue, value claims and myriad other factors we know are required for an innovation to flourish.

An opportunity-focused mindset and framework enable innovators to address – early on and methodically – all the elements required to transform a set of ideas into a cohesive offering and business model.

In other words, an opportunity-focused mindset and framework enable innovators to address—early on and methodically—all the elements required to transform a set of ideas into a cohesive offering and business model that adds value to the adopters who will use it, the enterprise that creates, produces and delivers it and the ecosystem that supports it.

Thinking in Terms of Value

In 2008, a successful Tier 1 automotive supplier was eyeing other businesses that could potentially provide long-term, strategic growth despite the then current economic downturn; the company wanted to power growth when the economy improved. Executives also were convinced that the automotive industry was undergoing a transformation due to a number of forces: technological (electronics, power), social (urbanization, globalization), economic and demographic. These trends, they believed, would transform personal mobility and offer significant new business for those who could foresee, influence and leverage them.

But two key issues faced the company: a) the trends identified are generational changes that require long-term commitment, and b) these potential new opportunities require changes to underlying business models.

During the course of the company's efforts to explore the future of personal mobility and uncover new opportunities, the team, which consisted of 10 people from a variety of functional areas and levels within the company, generated a large number of ideas. The vast majority of these ideas took the following form (note: this was not an idea that moved forward):

- **Idea:** A device in the vehicle that lets the driver, while driving, communicate driving intentions to other vehicles near it. A "super" turn-signal.

In practice, most idea generation and idea management systems start out like this: ideas about solutions. As humans, we see and think about the world in terms of tangible things. We like concepts that are concrete and real, that have an analog with which we have experience and of which we can form a mental picture. It is much more difficult for us to keep the source of these solution-oriented ideas in mind. Needs and desires are intangible, and we immediately leap from them to a solution, often without realizing.

But what if we were to insist on transforming solution ideas into value-based ideas? Value is the foundation of an opportunity. A value idea—often called a value proposition—might look like this:

- **Value proposition:** Increase the information available to nearby drivers about your immediate driving intentions in order to allow them to drive more safely.

This is a better representation of what really is important. It doesn't presuppose a solution (a device that lets the driver…), and it identifies the need (information about intentions). But while this may be a good starting point, it is still insufficient for capturing the full depth and breadth, even in its earliest, formative state, of a comprehensive "idea" about something new to the world.

The Opportunity Model is meant to address a problem we all face when "thinking up new ideas": how to organize and focus our initial thoughts and direct our thinking to where we need to learn. By explicitly defining a structure, and insisting on examining all of its facets, the implicit assumptions and underlying ideas are made explicit and can be purposefully researched and designed.

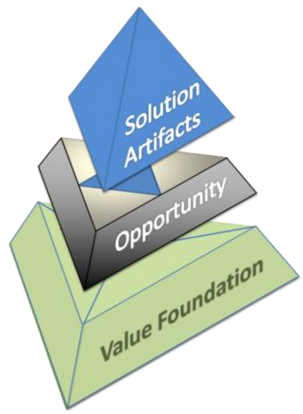

Figure 1 – Opportunity Model

Value

Value comprises the foundation of the opportunity model, and the solution artifacts[ii] comprise the apex. Opportunity comprises the center. The value foundation of the model is its reason for being, not just for an adopter (e.g. the customer) but for the enterprise itself and for the ecosystem within which the enterprise operates. When an opportunity is first conceived, this value foundation is unknown and speculative (hence the common use of the term "value proposition"). The value foundation should be the focus of intense research and discovery on the part of the innovator, who discovers and designs the opportunity. If an opportunity lacks value, then it is not worth pursuing. Further details of the value foundation will be discussed later.

Solution Artifacts

Solution artifacts at the top of the model are the manifestation of the opportunity. The solution artifacts are the real-world entities that are developed, produced and delivered into the world by the enterprise and its partners. Solution artifacts always comprise a system that contains, in addition to the specific product or service, the production, delivery, marketing, support and all the other components that must be designed and developed as part of the complete opportunity. These components consist not only of the means of production and delivery, but of the formal and informal processes, procedures and behaviors that govern the actions of adopters and influencers of adoption.

While the solution artifacts are the ultimate realization of an opportunity, focusing on the specifics of the solution too early can be detrimental to the opportunity. Being too specific often results in "lock-in" – eliminating promising options too early – and provides "handles" for critics to grab ahold of. It is a lot easier to say why an opportunity won't work than why it will and to ask for "proof" of viability when a very specific detail is put forth too early. Not that there shouldn't be critics or, even better, skeptics, but they need to be focused on critical evaluation at the right level of detail. We often get lost in the trees when it is the nature of the forest we should be discussing.

The Opportunity Itself

Between the value foundation and the solution apex is the opportunity itself. Specifics of the opportunity structure follow in greater detail below, but for now let us consider it the conceptual framework that defines all aspects of something a company is creating, producing and delivering. It is the focus of design efforts and the means by which the enterprise allocates resources, takes action and evaluates results. For opportunities that are incremental and sustaining (i.e. similar to what the enterprise already is doing), much of the opportunity structure is implicit and largely relies upon the "default" way of doing things. For strategic opportunities (those that are new to the enterprise and that push the enterprise's boundaries), relying on the old ways of doing things can be dangerous.

It is the job of the innovator to come up with correctly conceived and designed opportunities that connect value with artifacts. The opportunity model enables this.

One of the most common reasons new opportunities fail is that companies often make implicit assumptions about some aspect of an opportunity being "just like what we do now." This was the case for one of the market leading makers of electric motors for HVAC systems. The company came up with a new motor system that could be retrofit into existing furnaces and result in significant energy savings for much less than the price of a new furnace. After introducing the motor, sales were disappointing despite the fact that, through the company's research, company management knew customers would love the product. What management hadn't factored in was that the company's existing sales, installation and service channel partners would rather sell a whole new furnace than a replacement motor. The new product required a new business model with new channels and new customer relationship mechanisms. It took the company more than two years to figure this out and rectify the situation. Using the opportunity model from conception would have saved a lot of frustration and delay.

Amazon's EC2 Cloud Service: The Opportunity Model for Strategic Innovation

For an example of an opportunity model that was new to the enterprise that created it, consider Amazon's EC2 cloud-based service, a strategic innovation discussed in *Strategic*

Innovation: If it Feels Comfortable, You're not Doing it Right.[iii] The foundational value upon which the opportunity was built consists of:

- Convenience, cost, reliability and security of a hosted cloud service – the **value to the adopters**;
- Use of core assets and expertise, the creation of new capabilities and competencies – the **value to the enterprise**; and
- New facilities requiring a host of support and a new tax revenue base, improved web access and reliability, consolidation of energy use and potential for efficiency, among others – the **value to the ecosystem**.

The solution artifacts are comprised of three fundamental elements on which every offering and its business model are based:

- Server blades, facilities, networks – the **hardware atoms**;
- Client services, monitoring, accounting, support services – the **information bits**; and
- Procedures for operating, procedures for using, standards, conventions for accessing and using the service – the **behavioral rules.**

Between the value foundation and the solution artifacts is the opportunity as it was conceived, developed and designed by Amazon. The opportunity at the center is the current conception of the offering and its business model. It is subject to continuous evolution based on new learning and experience. The opportunity is the connective tissue that holds the artifacts and the value they deliver together. When this connective tissue is not designed properly, or when it is allowed to deteriorate over time, all sorts of bad things happen because what is being used and experienced (i.e. the solution artifacts) is disconnected from the value that is needed or desired by the adopter, the enterprise and/or the ecosystem. It is the job of the innovator to come up with correctly conceived and designed opportunities that connect value with artifacts, and the opportunity model enables this.

Using the Opportunity Model for Learning

> *Very rarely is a new idea borne in the full glory of its potential. At first an idea may be weak, dull or even impractical. Like an infant, an idea needs proper handling if it is to develop its potential.*[iv]
>
> *Edward de Bono*

The opportunity model directs discovery and learning. It tells you what it needs to complete itself and fosters exploration in the right places. In its nascent form, the model has undeveloped facets that need to be designed and nurtured and that tell the innovator where to pay attention. An opportunity begs for focused action.

As an example of the power of the opportunity model, a major, Fortune 50 company was looking at the ground source heat pump (GSHP) domain as a potential source of strategic innovation. The firm's innovation group had been tasked with "coming up with ideas" for new businesses that could be created, but with one caveat: no new technology could be proposed. Any new GSHP business had to be conceived using mechanisms and components that existed commercially, were well established and had been proven to work reliably. This was not difficult since GSHP technology and related products have been available for decades, but this fact was precisely the conundrum. Despite well-established solutions that were superior in many respects to conventional heating/cooling systems, the GSHP market had not developed. Experts in the domain knew the reasons why, given the structure of the industry, but what was less well understood at the time was what, if anything, the company could do to change the dynamics of the system. Was there an opportunity that the experts had missed, one that did not rely on new technology or a new market, but instead relied on changing the rules of the game in ways that would connect the latent wants of potential adopters with existing and potential capabilities of the enterprise?

Innovation is everything that affects the creation and adoption of a realized solution which generates value over time.

As a result of filling in the opportunity model with what was "known" by a variety of subject matter experts (what was "known" didn't always agree!) and what was discovered during the project, the answer to this question became clear. What the company needed were ideas about how to change the rules of adoption by changing the rules of production and delivery of the offering. The result was a new way of looking at how certain customer segments could be motivated to use GSHP solutions if they were purchased, installed, operated and serviced in new ways that delivered value to all parties involved. The key in this case was that the parties involved in the new business model were different from the parties previously involved. A new type of entity was identified, one that did not exist in the current value chain. The creation of this new entity solved some of the adoption barriers that previously existed. It was not the offering that was being disrupted, but the business model.

Opportunities answer a compelling question: "Now what do we do?"

Even with the opportunity front and center in the innovation process, creativity and ideas still matter – a lot. Virtually all companies face this situation at one point or another, when the process of "coming up with new ideas" needs to be directed and structured in order to generate real value. It is awfully hard to know what to do with an idea just sitting there, however brilliant it may seem. Opportunities, though, inspire action and engagement. Opportunities answer a compelling question: Now what do we do? By focusing on the complete opportunity from the very beginning, when the concept first comes to mind, significant benefits are realized — benefits that ripple throughout the innovation process, all the way to launch.

Opportunity Architecture

Opportunity informs value creation. A well-defined opportunity reveals how what is wanted, what is possible, and what is offered interact to deliver value. After all, the innovator's goal is to create value. The questions the model poses then become: What is the offering to be adopted? How can we develop it, produce it and deliver it? Why should we make it? And, why should someone adopt it?

Figure 2 – Opportunity Architecture

The structure of an opportunity is shown in Figure 2. The four facets of the opportunity – develop, produce, deliver and offering – define what is necessary to make the opportunity real. Its center is the offering – what will be adopted by a customer and/or user. It is surrounded by the facets that represent the business model to support the offering and the *how* of developing, producing and delivering it.

This simple model can be quite powerful. It is as applicable to opportunities that focus on products or services as it is for opportunities that focus on processes and operational innovations. The model explicitly acknowledges that innovation is much more than an idea about a new solution or a new performance dimension or a strategy attribute. The model acknowledges that innovation is everything that affects the creation and adoption of a realized solution that generates value over time.

The Offering

The offering is what most people think of when they are asked about innovation. It is the definition and design of the tangible artifact an adopter uses and experiences. It is most often thought of as a product or service (or some combination), but it also includes everything that influences the adopter’s interaction with the artifact, such as, in the case of Amazon's EC2, the means of accessing content, the regulations surrounding use and the support system. The offering comprises all the solution artifacts created by the enterprise and adopted by the customer, consumer or user (which may be different individuals).

The offering is the focus of design efforts that start with the initial idea for something new and proceed through a series of iterations that integrate knowledge about what needs to be created. These efforts ultimately result in detailed requirements and specifications that can be engineered and built. Exploring the design space of possibilities to end up at a specific and concrete prototype and set of specifications for an offering is at the heart of opportunity exploration.

Develop, Produce, Deliver

The Develop, Produce, Deliver segments of the Opportunity Architecture define the actions and resources that enable the existence and adoption of the offering. A new-to-world offering often requires the learning and implementation of new design and development methods, new manufacturing capabilities, new channels, new customer relationships and even new organizational structures and processes. The segments are related to, but distinct from, the offering itself.

- **Develop**: This segment includes everything that goes into the design and creation of the offering, such as new partners, methods, tools or technologies that allow the enterprise to take maximal advantage of the possibilities of the design space. There is always a tension at the boundary of the design envelope that requires decisions about how far to push to achieve a particular effect that has value. The entire development ecosystem is involved in this process and is a critical part of opportunity design.
- **Produce**: This segment includes the complete supply chain and network as well as manufacturing and production partners, components and activities. Production design involves the purposeful construction of (and changes to) those functions that are geared towards meeting the performance, quality and aesthetic aspects of each artifact that is produced to satisfy demand.
- **Deliver**: This facet is customer facing and includes everything related to channels, customer relationships, brand, customer segments, service, support and the revenue model. Delivery design is the purposeful construction of the adopter experience, from initial awareness of the offering to the adopter's access and adaptation to the offering.

Note the recursive nature of the opportunity. The offering at the opportunity's center is the focus of innovation activities, but in the process of turning the offering into reality, it often is necessary to design new manufacturing processes, delivery mechanisms or support infrastructure that themselves present new opportunities, which require design and implementation in their own right. An opportunity can, therefore, result in a cascade of new offerings that percolate through the ecosystem. The opportunity may affect both internal and external organizations, processes and tangible artifacts that influence the outcomes and experiences of the adopters of the offering.

Value Claims

As depicted in Figure 2, value is the foundational component of an opportunity and codifies the reasons why the opportunity should exist in the world. Value proposition[v] refers to claims about benefits to the customer, or more accurately, the adopter. Often the person using or experiencing a new artifact may be different than the person purchasing it. Both of these individuals, however, influence adoption and therefore are adopters.

But innovators must consider other types of value, too. What about value to the enterprise or value to the ecosystem within which the enterprise exists? Both are critically important to the success or failure of something new to the world. An artifact can have tremendous value to the adopter community, yet it can still fail if producing and delivering it are alien to an enterprise's existing business model. This was the situation when Cisco bought Flip, the creator of an easy-to-use video camera that had sold two million units in its first year. An article in *The New York Times* from April 13, 2011, makes this point:

> *"Cisco was swayed by the sexiness of selling to the consumer," said Mo Koyfman, a principal at Spark Capital, a Boston venture capital firm. "They're not wired to do it themselves, so they do it by acquisition. Flip was one of the most visible targets out there. But it's really hard to turn an elephant into a horse. Cisco's an elephant."*[vi]

Despite the offering's value to the adopters, as indicated by the Flip's popularity, ultimately the value to Cisco, the enterprise, was negative.

An opportunity's value to the adopter, value to the enterprise and value to the ecosystem are the three critical realms of the opportunity model's value foundation. We use the term "value claim" (as opposed to value proposition) to refer to the statement of an opportunity's value creation across all three realms.

In each of these three realms of value, value claims can and should be made, but they are different. Something that may be of value to an adopter may not be of value to the enterprise. Something that may be of value to the enterprise may not be of value to the ecosystem, at least as it now exists. Understanding these different value claims and their interrelationships is critical in determining the overall potential of an opportunity, potential that must balance adoption against the time, resources and other costs needed to bring it to fruition.

Adopter Value Claims

Adopter value claims are those that affect anyone acquiring the new offering. There may be two or more levels of adopters as is the case for franchise or wholesale business models in which the franchisee is an adopter (of the enterprise's offering) as are the customers of the franchisee. Both constituents have, sometimes very different, value propositions. The term, as used here, encompasses the distinctions often made between customer and consumer as well as all of the aspects of B2B, B2C, C2C, B2C2C and other adoption dynamics.

Enterprise Value Claims

An opportunity must have value for the enterprise. Value to an enterprise is different than value to an adopter, but innovators often confuse this fact. Executives and managers within an enterprise often believe that if they find an opportunity with great adoption potential, they should pursue it even though it may require very different company behaviors, values, competencies and culture. Such a misfit can doom an opportunity just as surely as misestimating adopter value.

A number of enterprise value dimensions exist, including the more common dimensions listed below. This is not an exhaustive list, and the dimensions change from company to company and over time.

1. **Strategic value** – Does the opportunity support, expand or conflict with the strategic intent of the enterprise?
2. **Options value** – Does the opportunity open up new, future options? Does it close off other options?
3. **Capability/competence value** – Does the opportunity require dramatically new knowledge, new capabilities and/or new ways of behaving? Is it a good vehicle for learning new competencies?
4. **Organizational value** – Will the opportunity energize the enterprise or frustrate it? Does it fit the culture, push the culture or challenge the culture of the enterprise?
5. **Brand value** – Does the opportunity support, enhance, extend, challenge or fall within the brand identity of the enterprise?
6. **Market value** – Will the opportunity enhance, detract or be neutral with respect to the perception of the overall value of the enterprise to stakeholders?

Discussions about these types of enterprise value claims are essential to the ultimate success of an opportunity. It is not enough that an opportunity have strong demand drivers if it will not add value to the enterprise; or, if the potential value that it could create is not recognized, it will fail. The value to the enterprise is a form of the "why us" question companies often ask -- "why should we be the ones to pursue this?" The problem is, framed in this way, enterprise value discussions often become exercises in looking for reasons *not* to do something. Building up the enterprise value claims from the outset of opportunity identification reframes the questions of value to the enterprise and allows the opportunity designer to shape the opportunity (and the enterprise), so that it is compelling to the adopter and supported by the company.

Ecosystem Value Claims

With a new offering, the end customer is adopting something new, but it is the entire ecosystem that needs to adapt. A new offering not only requires the customer to behave differently, it requires channels and channel partners to behave differently. It requires suppliers and supply chain partners to behave differently, and it will force competitors, regulators, opinion purveyors and all sorts of other "influencers" to behave differently. The following is a (non-exhaustive) list of some of the ecosystem value dimensions that should be part of any opportunity design effort.

1. **Supply chain value** – Does the opportunity change the value supply chain partners will realize either positively or negatively?
2. **Channel value** – How does the opportunity change the value equation for channel partners, either existing or new, in positive or negative ways?
3. **Relationship value** – Does the opportunity change the value of relationships (from the others' perspective)?
4. **Influence value** – Can the opportunity alter the influence of the enterprise within its ecosystem? Does it change the ability to alter other enterprises' behaviors?
5. **Competitive value** – How does the opportunity change the value of competitors in (hopefully) negative ways?
6. **Regulatory value** – Does the opportunity change the value perceptions or behaviors of regulatory bodies?
7. **"Voice" value** – Does the opportunity change the value perceptions of behaviors of the "chattering class" of media influencers?

All of these value claims come together to form the foundation of an opportunity.

The Opportunity Model and the Business Model

The beauty of the opportunity model is that it encompasses the business model. Figure 3 shows a business model canvas embedded within the opportunity model. Each of the segments of this canvas is represented within the opportunity structure. The canvas is a convenient mechanism to see, in one unified view, the various components of a business model. There is, naturally, a lot of depth and detail underlying the canvas that is developed in the course of designing a new strategic opportunity that cannot be shown in this one view, but the ability to see the big picture and discuss it in a holistic manner is extremely valuable.

In the business model canvas shown below, there is a correspondence between all the facets of the opportunity model and the segments of the canvas. For example, there will be key partners, resources and activities in those segments of the canvas that are associated with all three of the Develop, Produce, Deliver facets of the opportunity. Similarly, there will be value claims for the ecosystem that apply to development partners, production (e.g. supply chain) partners and delivery (e.g. channel) partners as well as others.

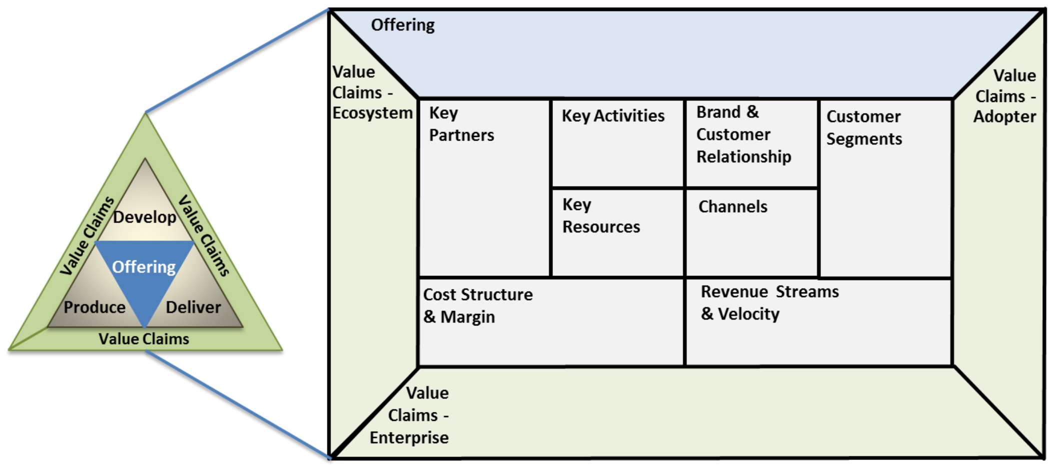

Figure 3 – Opportunity Model Encompasses the Business Model Canvas[vii]

The segments of the business model canvas, and their relationship to the opportunity, are listed in Appendix A. More detail about some of these segments can be found in the book *Business Model Generation* by Osterwalder and Pigneur.[viii] A more in-depth discussion of business models, their construction, use and innovation is described in *Business Models – An Emergence of Rules.*[ix]

Designing Opportunities

Including the offering *and* the business model components in the opportunity model connects them in a way that forces consideration of all aspects of the opportunity from the beginning. The offering is, after all, what the business model is all about. Too often, business model aspects of an opportunity are left to the end of the development process or not considered at all. It is common for companies to assume that new offerings will conform to the "default" business model (i.e. the current one) when, in fact, more value could be realized by incorporating new business model components.

One of the most interesting and powerful aspects of having the opportunity as the focus of innovation efforts is that it allows both design thinking and systems thinking, and the corresponding methods and tools, to be applied to all aspects of the opportunity — the offering, its business model and its value claims. Ideas about the *design* of the offering, and of its development, production and delivery become salient and part of every conversation about a particular opportunity, all the way from the nascent concept to a fully realized business.

As an example of using design and systems thinking in service to new strategic opportunities, a health insurance and services company was considering new opportunities vis-à-vis the current transformation of the U.S. health care industry. The company was intrigued by a particular trend, a model of care known as "direct medicine" or "direct care." Under this model, one physician cares for a few hundred patients instead of the thousands that many primary care physicians normally have. Patients pay a premium directly to the physician above and beyond the co-pays and deductibles they normally pay. In return, patients receive superior service – immediate call-backs, convenient appointments, no waiting rooms and the like.

The power of the opportunity model is precisely this: It forces the design thinking, systems thinking, and analytic thinking required to make the concept whole."

The question facing the company was, what new opportunities does this model of care open up? To answer this, it was necessary to understand the needs, desires and underlying motivations of the patient, the physician and others involved in this type of care arrangement. This is the design-thinking aspect of opportunity design that requires a focus on unmet needs and desires and experiences of both the patient and the physician.

In addition, it was also necessary to understand the causal relationships and influences not just between the physician and the patient but also among the payer, referring physicians, hospitals or other health system entities and even, perhaps, the patient's employer and family. This is the systems thinking aspect of opportunity design. New opportunities, as they were thought of and created by this health services company, had to address these issues from the very first, nascent concept. The power of the opportunity model is precisely this: It forces the design thinking and systems thinking, as well as the analytic thinking, required to make the concept whole.

Conclusion

Strategic opportunities that push the boundaries of an organization need the opportunity model's methodical and comprehensive approach the most. A strategic opportunity, by definition, includes aspects of the offering and its business model that are foreign to the current enterprise and involve hard decisions on resource allocation and change.

Ideas about strategic opportunities can come from anywhere, and the process can start from any point. It is just as valid to start with an idea about a new key production partner as it is to start with an idea about a new offering. The point in both instances is to fill in the rest of the model. Consider all aspects, implications and possibilities, and do this in a structured way.

The desire to create new opportunities lies at the heart of any enterprise wishing to grow and thrive over time. But if we as innovators are fixated on the idea as the driver of value, we are missing a critical piece of the picture. Ideas alone are worthless; ideas in service of an opportunity are priceless. Having a framework within which to direct and focus our ideas and knowledge makes the innovation process more efficient, productive and, ultimately, fruitful.

While an enterprise may be able to get away with ignoring aspects of the opportunity model for incremental or sustaining opportunities (although this is not recommended), it does so at its peril for strategic opportunities.

Notes

[i] Drucker, Peter. *Innovation and Entrepreneurship,* Collins, 1993.

[ii] The term "artifact" was used by Herbert Simon in his 1969 book, *The Sciences of the Artificial* (third edition, The MIT Press, 1996), to refer to phenomena or entities that are "artificial" in the sense that they are contingent upon a designer (as opposed to natural phenomena). Here, the term artifact refers to any human creation that produces an outcome or experience that is measureable and meaningful to one or more individuals. In this sense, artifacts include what are commonly called products and services and also encompass business models, organizations and operations used for the production and delivery of other artifacts. It includes anything that is the result of human action.

[iii] Schmitt, Larry. *Strategic Innovation: If It Feels Comfortable, You're Not Doing It Right* (white paper), The Inovo Group, 2012.

iv De Bono, Edward. Opportunities: A Handbook of Business Opportunity Search, Penguin, 1992

v The term "value proposition" has received much currency recently. It's hard to say when it first came into use, but references to the term can be found in publications from the early twentieth century. The first use of the phrase in its modern meaning is generally credited to Michael Lanning, who used the term in a 1984 white paper for McKinsey & Company to mean:

> *"The combination of resulting experiences, including price, which an organization delivers to a group of intended customers in some time frame, in return for those customers buying/using and otherwise doing what the organization wants rather than taking some competing alternative."*

[vi] Retrieved 5/13/13. http://www.nytimes.com/2011/04/13/technology/13flip.html?_r=0

[vii] The canvas depicted in this image is derived from Alex Osterwalder et.al. and is licensed under the Creative Commons Attribution-Share Alike 3.0 Unported License

[viii] Osterwalder, Alexander and Pigneur, Yves. *Business Model Generation*, John Wiley & Sons, 2010.

[ix] Schmitt, Larry. *Business Model Innovation: An Emergence of Rules* (white paper), The Inovo Group, (Release date: Sept. 2013).

Appendix A – Glossary

Offering – In the business model canvas, the offering is represented as a set of solution effects. In other words, it is described by what it does rather than how it is built or how it works.

Value Claims – These encompass value to the adopter (commonly referred to as the "value proposition"), value to the enterprise and value to the ecosystem within which the enterprise exists. All are critically important.

Key Partners – The people and organizations that are necessary to develop, produce and deliver the offering. These partners include those both directly and indirectly involved. At early stages of design, the business model canvas will contain the general types of key partners required (e.g. "software expert in mobile apps"). At later stages of design, specific partners (e.g. company XYZ) need to be identified.

Key Activities – The activities performed by the enterprise **and** its key partners that are **necessary** to develop, produce and deliver the offering. Key activities include items that affect underlying processes and procedures both of the enterprise and its partners. These are activities that require special skill, effort, expertise or knowledge that is differentiating.

Key Resources – People, money, facilities, equipment, tools and knowledge that are critical to the success of an opportunity, including the resources necessary to develop, produce and deliver the offering.

Cost Structure and Margin – Changes in costs, and the allocation of costs and margins, often create barriers and trip-up a new business model. Even an increase in margins will involve changes in behaviors that are not always obvious (i.e. more R&D or more support infrastructure). Explicit identification of cost and margin changes and assumptions (even if the assumption is no change) is important.

Brand and Customer Relationship – This encompasses the entirety of how the customer interacts with the enterprise as the customer adopts, adapts to and uses the offering. This includes both the direct support and service aspects as well as the emotional connections the customer forms with the offering and the enterprise that creates it.

Channels – The channel is the "other side" of the supply chain and, as such, has its own special structures, behaviors and interfaces. Channels consist of key partners, activities and resources that focus on how a customer initially encounters and experiences the offering. The aspects of the channel directly affect customer relationships and customer segments. The four primary functions of the channel segment include: attention (how does the customer come to know about the offering?), access (how does the customer start using the offering?), adoption (how does the customer make the offering a part of everyday life?) and adaptation (how does the customer change behavior as a result of adopting the offering?).

Customer Segments – The motivational segments (i.e. the personas) of the adopters. There may be different classes of adopters, each with its own segments, and it is important to determine the motivational segments of each class.

Revenue Stream and Velocity – Revenue is clearly important but so is the "velocity" of the business. This is not just the number of inventory turns, but also the frequency with which new products need to be developed and introduced, the pace of technological change that drives new offering releases, and the response of competitors. Changes in velocity are often trip wires that cause a new offering to fail.

About The Inovo Group

Founded in 2001, Inovo is an innovation consulting firm based in Ann Arbor, MI, that helps the world's top organizations succeed at strategic innovation.

About the Author

LARRY SCHMITT, PH.D. is Co-Founder and CEO of The Inovo Group. He is the lead architect of Inovo's theory-based framework and tools, which Inovo uses with its Global 1000 clients to identify significant unmet needs and develop compelling new-to-the-world products, services, and business models.

Larry teaches innovation at the University of Michigan's Medical Innovation Center and has served as an invited guest speaker on innovation in the U.S. and India. In addition, he serves as a subject matter expert for the Industrial Research Institute (IRI)'s Research-on-Research Working Group on Business Model Innovation.

Larry previously served in technical roles at General Electric and Unisys, as well as in executive roles at two successful tech start-ups, Applied Intelligent Systems (acquired by Electro-Scientific Industries) and Intelligent Reasoning Systems (acquired by Photon Dynamics).

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