Why Do “Good” Ideas Fail?

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Good Ideas?

- “If only the customer was smart enough to understand my idea”
  - many entrepreneurs
- The Psychology of Gains & Losses
- The Endowment Effect
- The Nature of Innovations
- The Developer’s Curse
- Capturing Value from Innovations
- Taking Action
The Psychology of Gains & Losses

Figure 1  The Prospect Theory Value Function

The Psychology of Gains & Losses, cont.

- Individuals are sensitive to Gains & Losses
  - Better at judging changes than absolute value (temp.)
  - Net Worth has limited impact on pleasure/pain of changes (Bill Gates gets a parking ticket)

- Reference Points Matter
  - Gains & Losses are evaluated against current state
  - Current state is different by individual
  - Current state changes
Decreasing Marginal Sensitivity
- Marginal impact is declining for both increases & decreases

Aversion to Loss
- Equal value losses hurt more than the same gain
The Endowment Effect

- “People value items in their possession (or part of their endowment) more than they value items not in their possession.”

- College students given coffee mugs or large chocolate bar:
  - Each class given one item and at end of class could trade for other item (e.g. 1/2 started with mug)
  - How many would you predict traded? 50%?
  - Basketball tickets for big games at Duke

- Taking away free soda shut down Cisco Systems
The Psychology of Gains & Losses

Figure 1  The Prospect Theory Value Function

<table>
<thead>
<tr>
<th>Innovation</th>
<th>What you &quot;Give Up&quot;</th>
<th>What you &quot;Get&quot;</th>
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<tbody>
<tr>
<td>TIVO (Digital Recorders)</td>
<td>Ability to Play Rentals</td>
<td>Easy Recording</td>
</tr>
<tr>
<td>Electric Cars</td>
<td>Easy Refueling</td>
<td>Environmental Friendliness</td>
</tr>
<tr>
<td>Online Grocery (e.g. Webvan)</td>
<td>Ability to Select Freshness</td>
<td>Home Delivery</td>
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<td>NetFlix (DVD Rentals by Mail)</td>
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<td>Satellite Radio</td>
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<td>CF Light bulbs</td>
<td>Delay at Start</td>
<td>Environmental Friendliness/Long-term Cost Savings</td>
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<td>Goggle+</td>
<td>Effort to setup &amp; maintain</td>
<td>Better control vs.. FB</td>
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</table>
Additional Trade Off Complexities

- Timing
- Certainty
- Ability to Quantify
The Developer’s Curse

Problem #1: Self-Selection
- Typical innovator is not typical consumer
- Benefit in being ahead of the curve visionary
- …but may be dead before the curve catches up

Problem #2: A Clash in Perspectives
- Typical consumer will overweigh the benefits of the “status quo” by 2-3 times
- Typical developer will overweigh the benefits of the new product by 2-3 times-views it as ‘status quo’
- Results in a huge 4-9 x gap
Problem # 3: The Curse of Knowledge

- Years of experience with the concept vs. Seeing it for the first time
- Recognized the need vs. Unaware of the need
- Convinced that it works vs. Skeptical
Capturing Value from Innovations

Behavioral Change Required (Value Capturing)

Product Change Involved (Value Creation)

- Strike Out
- Long Haul
- Tinkering
- Home Run
Capturing Value from Innovations, cont.

- **Tinkering**: Can be profitable but unlikely to be huge
  - Good
- **Strikeout**: Expensive solution to a slight problem
  - Bad outcome
- **Long Haul**: Likely to fail or take time to be a big success
  - Need to plan accordingly
- **Home Run**: Best chance of a huge success
  - Do it
Taking Action

- Accept Resistance
  - Brace for the Long Haul
    - Make sure you survive to enjoy the rewards
    - Do not overplay the first mover advantage
    - Be willing to alter your plan and have the resources to do so
  - Require 10X improvement

- Minimize Resistance
  - Make it behaviorally compatible (hybrid vehicles)
  - Seek out the Un-endowed
    - Target those consumers who are not going to give up an existing competitor.
    - Mobile Phones in developing countries or college students
Taking Action, cont.

- **Find Believers**
  - Find segments that place the highest value on benefits or have lowest switching costs

- **Eliminate the Old**
  - Government mandate
    - Zero emission autos
  - Dollar coin success in US vs. Canada
Taking Action, cont.

- Reduce the Complexity
  - Change the payment schedule to reduce the perceived risk
    - Low/free up front cost
    - Monthly fee
    - Software, cell phones, TIVO contests
  - Strong customer guarantees
  - 3rd Party qualifications
  - Risk sharing
    - Consulting projects that base cost on resulting savings
Questions???

Other items:
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