

Strategic and Economic Value Analysis of New Business Ideas

FEATURED COMPANY:

Hewlett-Packard Company



The Growth Team Membership™ (GTM)

GTM is a subscription program that supports executives within the functions that report to the CEO

CEO's Growth Team™



GTM provides best practices, events, and services that enable executives to address challenges within their companies

GTM: Creating Client Value

GTM's case-based best practices help executives:

- 1 Speed the design and implementation of initiatives by not reinventing the wheel
- 2 Save money and reduce risk by avoiding mistakes made by other companies
- 3 Accelerate problem-solving with a cross-industry perspective
- 4 Improve their functions' and companies' performance and productivity

Profiled Best Practice Company



Firm: Hewlett-Packard Company

Industry: Information Technology: Computer Products and Services

Headquarters: Palo Alto, California, United States

**Geographic
Footprint:** Global

Ownership: Public

Revenue (2010): \$126 billion USD

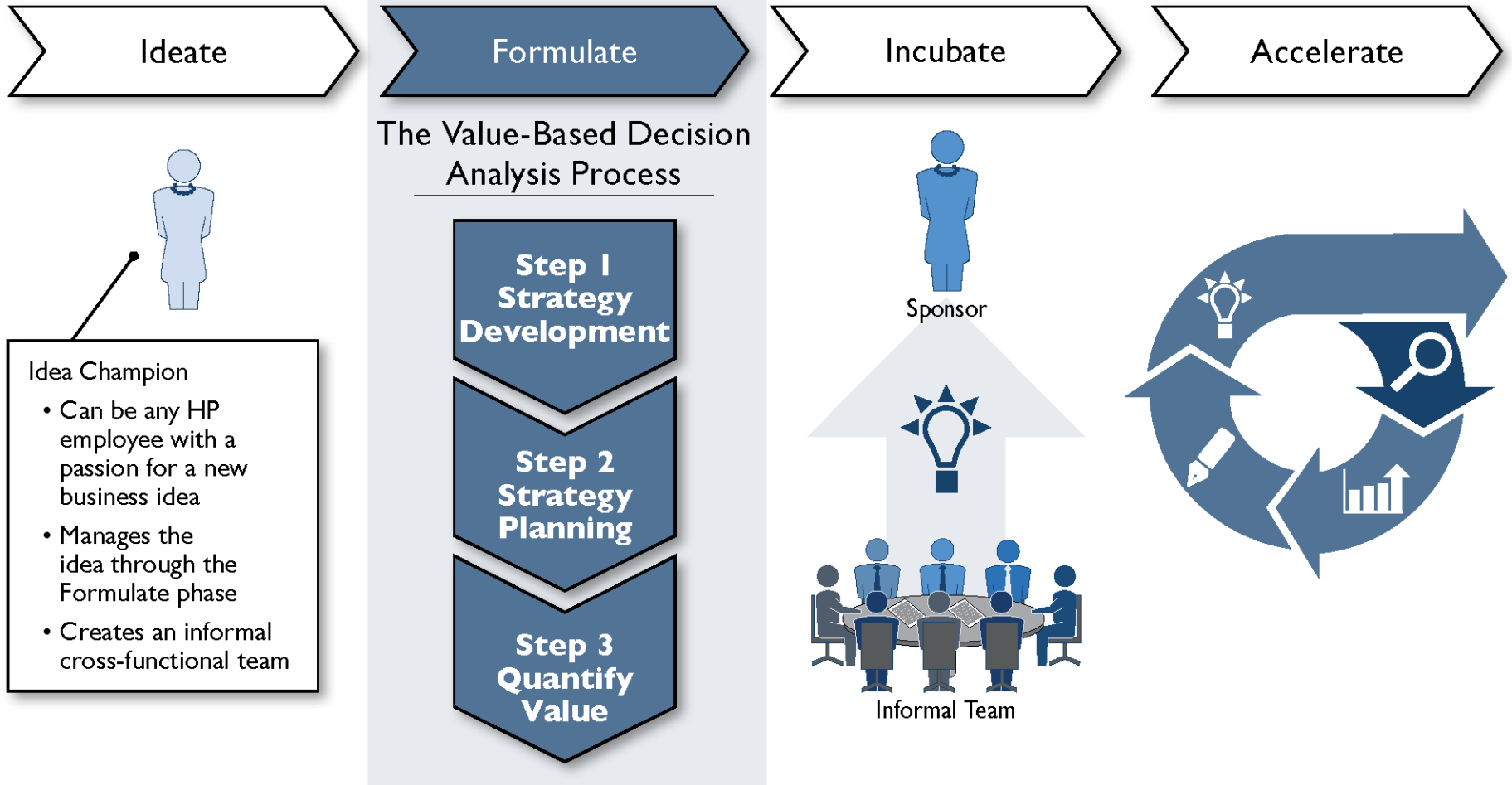
Growth Challenge

Problem:

HP needs a rigorous process for developing, evaluating, and launching new businesses based on strategic and economic value.

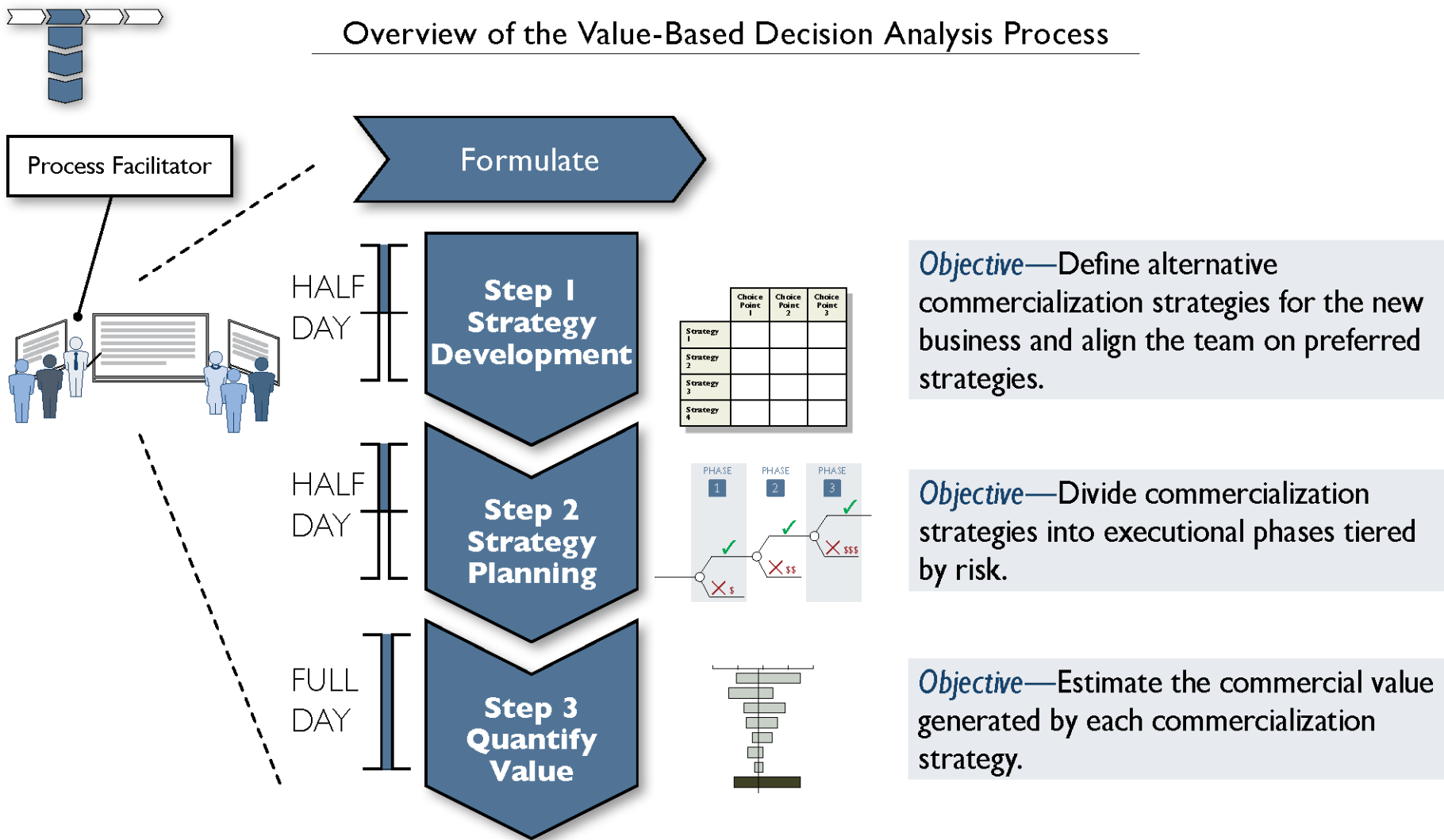
HP employs a multi-step process to identify, evaluate, and launch businesses that are outside of HP's current offerings

HP's New Business Development Process



HP's Value-Based Decision Analysis Process involves a two-day workshop that formulates and evaluates commercialization strategies for new businesses

Overview of the Value-Based Decision Analysis Process



Use facilitated dialogue sessions to identify viable commercialization strategies

Half-Day Workshop: Strategy Development (Strategy Table)

STRATEGY TABLE

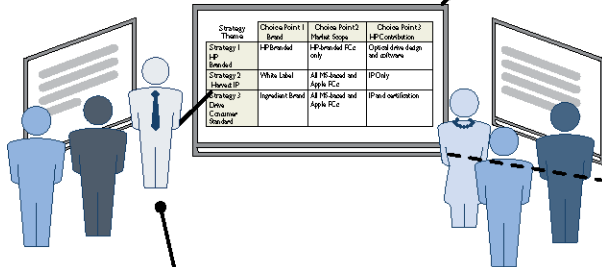
The Strategy Table is a dialogue-based exercise that develops multiple commercialization paths for new businesses. The table allows the strategies to be compared easily and aligns the team on which path(s) to pursue.

1 Choice Points consist of the primary decision areas that shape a strategy.

Strategy Theme	Choice Point 1 Brand	Choice Point 2 Market Scope	Choice Point 3 HP Contribution
Strategy A HP-Branded	HP-Branded	HP-branded PCs only	Optical drive design and software
Strategy B Harvest IP	White Label	All MS-based and Apple PCs	IP only
Strategy C Drive Consumer Standard	Ingredient-Brand	All MS-based and Apple PCs	IP and certification
Strategy D			

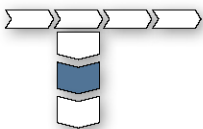
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Process Facilitator

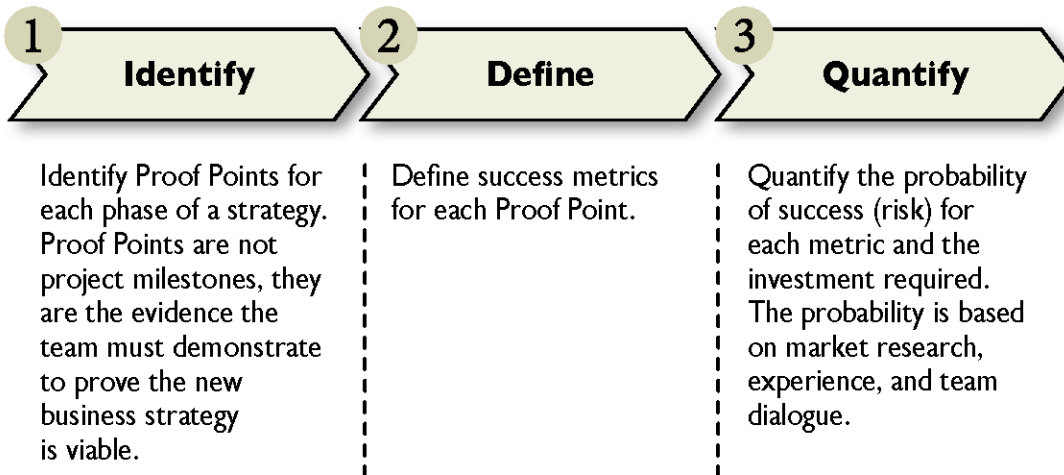
Prioritize commercialization strategies based on risk



Half-Day Workshop: Strategy Planning (Strategic Plan)

STRATEGIC PLAN

The Strategic Plan is a three-step process that structures a commercialization strategy into phases with key success measures, the probability of success, and required investment.



Conventional Strategy

Consumer Technology Device Example

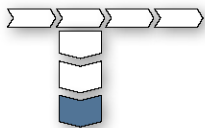
Phase	Proof Points	Metric	Probability	Cumulative Success Rate
I	Technology proof of concept	Working prototype	70% (\$20 M)	
II	Sign up critical suppliers	Sign up 3 suppliers	10% (\$1 M)	7%
III	Drive market adoption	Retail presence	80% (\$10 M)	8%
Overall Probability of Success:			5.6%	

Strategic Plan ("Strategy A")

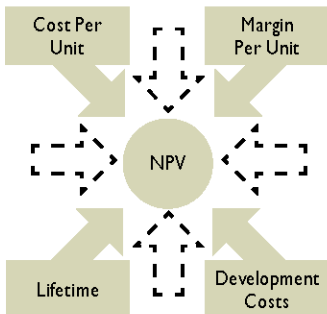
Consumer Technology Device Example

Phase	Proof Points	Metric	Probability	Cumulative Success Rate
I	Sign up critical suppliers	Sign up 3 suppliers	10% (\$1 M)	
II	Technology proof of concept	Working prototype	70% (\$20 M)	7%
III	Drive market adoption	Retail presence	80% (\$10 M)	56%
Overall Probability of Success:			5.6%	

Estimate the value of the new business by calculating the uncertainty around the economic factors that drive NPV



Traditional Value Analysis



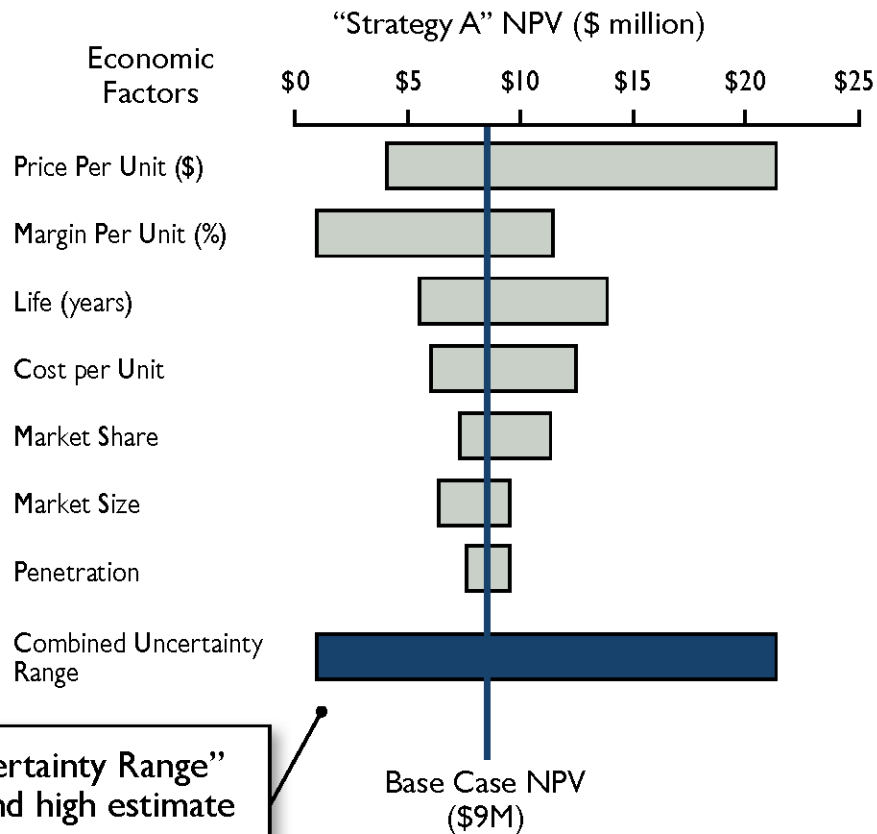
Full-Day Workshop: Quantify Value (Tornado Diagram Analysis)

Calculations

- 1 Define factors
- 2 Estimate low and high value
- 3 Base case NPV
- 4 Calculate uncertainty
- 5 Plot results

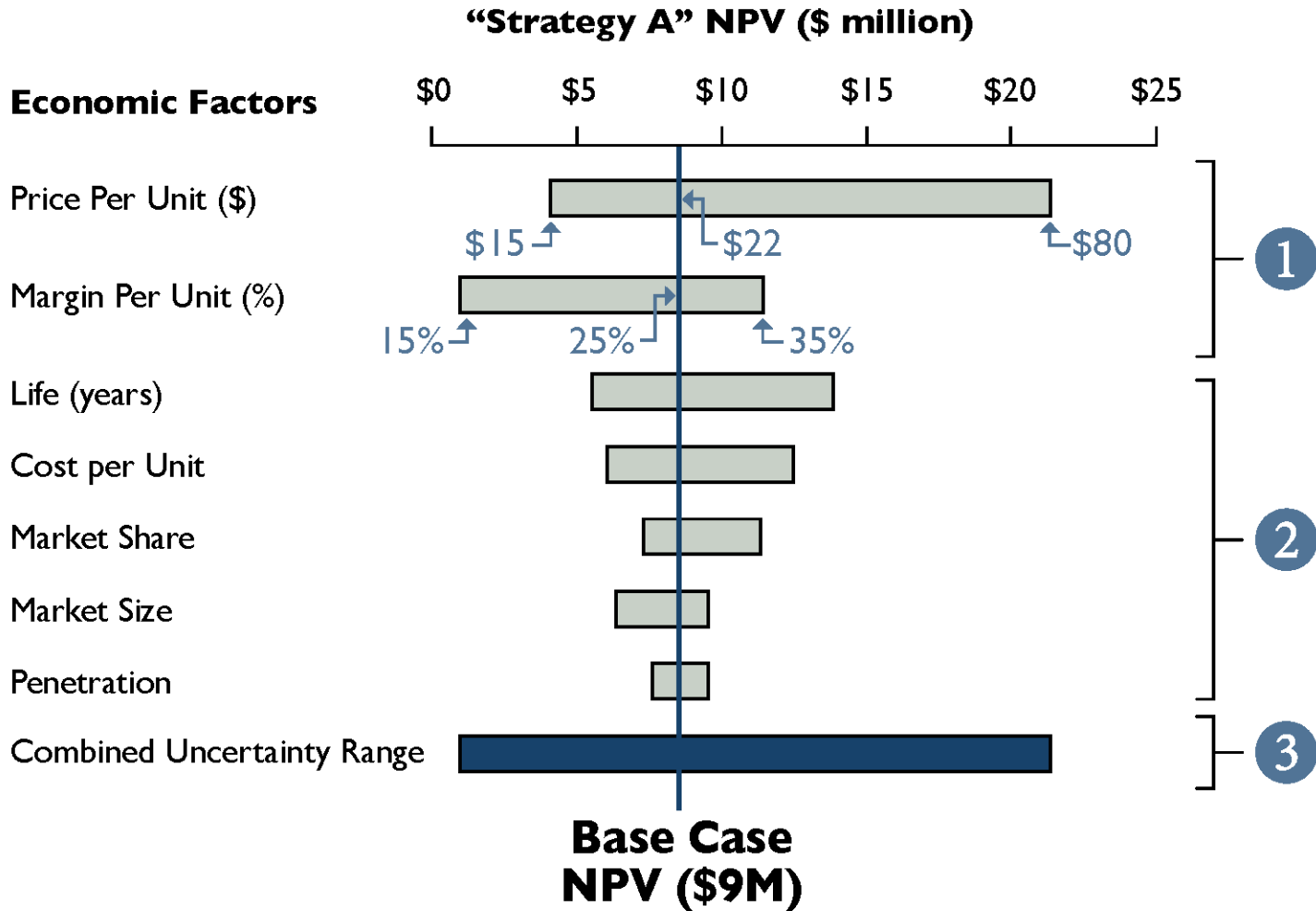
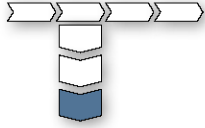
A "Combined Uncertainty Range" sums up the low and high estimate NPV range for the strategy.

Results



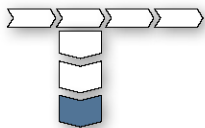
Focus on the economic factors that drive the greatest variability in commercial value

Full-Day Workshop: Quantify Value (Tornado Diagram Analysis)



Compare competing strategies' commercial value and execution risk to select the optimal launch strategy

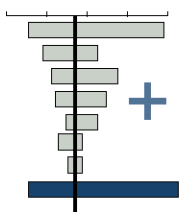
Full-Day Workshop: Commercialization Strategy Selection



Commercial Value Impact

Execution Risk

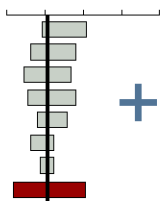
Strategy A



Phase	Proof Points	Metric	Probability
I	Sign up critical suppliers	Sign up 3 suppliers	10% (\$1 M)
II	Technology proof of concept	Working prototype	70% (\$20 M)
III	Drive market adoption	Retail presence	80% (\$10 M)
Overall Probability			5.6%

Overall Probability of Success: 5.6%

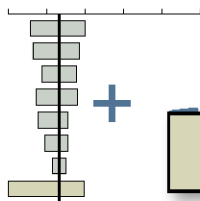
Strategy B



Phase	Proof Points	Metric	Probability
I	Create a new HP brand	Find microsites to support new business unit	7% (\$0.2 M)
II	Technology proof of concept	Working prototype	70% (\$20 M)
III	Drive market adoption	Retail presence	80% (\$10 M)
Overall Probability			19%

Overall Probability of Success: 15%

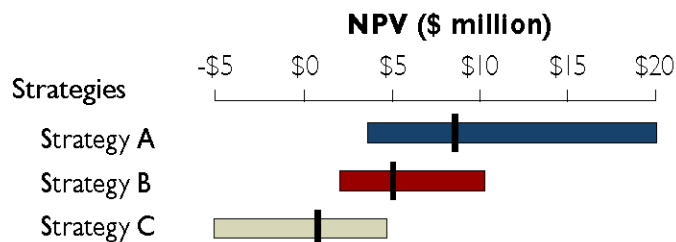
Strategy C



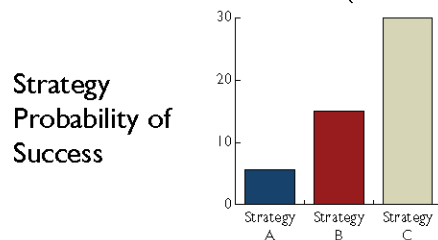
Phase	Proof Points	Metric	Probability
I	Find potential IP licenses	Identify 3 interested parties	16% (\$0.5 M)
II	Technology proof of concept	Working prototype	70% (\$20 M)
III	Drive market adoption	Retail presence	80% (\$10 M)
Overall Probability			30%

Overall Probability of Success: 30%

Commercial Value Impact (Cumulative)



Execution Risk (Cumulative)



STRATEGY SELECTION

- When the team faces a risk-reward trade-off, it will usually choose the strategy with the highest NPV.
- This selection enables the team to learn quickly and potentially generate considerable value.
- Even if the riskiest strategy falls short, the lessons learned help the team employ the highest-value alternative strategies.

Utilize the workshop results to bridge the credibility gaps in funding requests

Sponsor Funding Presentation

SPONSOR MEETING

Following the workshop, the team spends a month, on average, preparing for the funding meeting with the project's sponsor—the VP/GM who committed to attending a funding presentation.

Sponsor Funding Concerns

Team Solutions

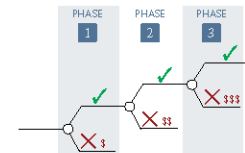
Business Model Ambiguity

Strategy Table
Build credibility out of ambiguity

	Choice Point 1	Choice Point 2	Choice Point 3
Strategy 1			
Strategy 2			
Strategy 3			
Strategy 4			

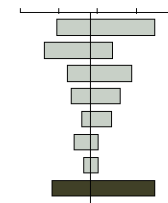
Risk

Strategic Plan
Treat risk as a partner in decision-making



Uncertain Market Value

Tornado Diagram
Focus on key economic factors that drive value variability



Business Results

Value-Based Decision Analysis: New Business Pipeline



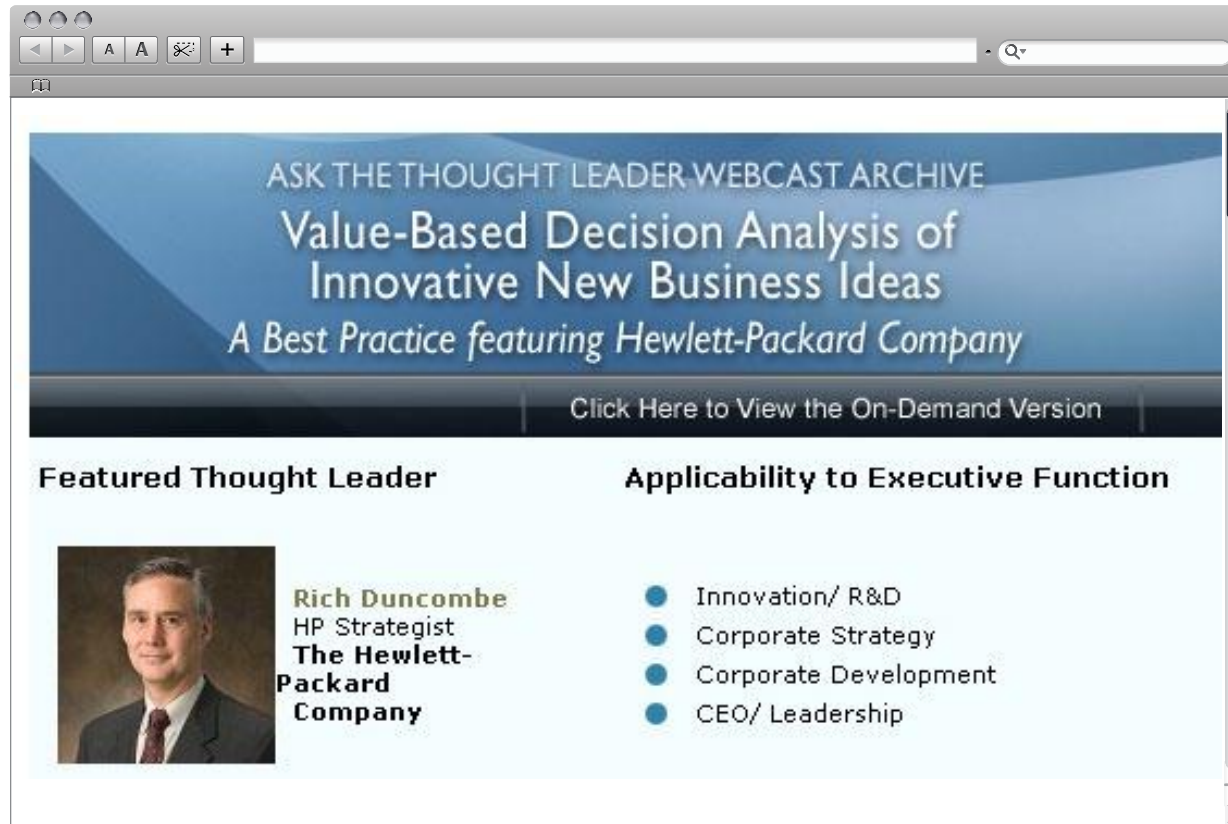
NEW BUSINESSES

The new businesses analyzed or launched via Value-Based Decision Analysis include:

- Retail Photo Solutions (RPS) business: the methodology was used to develop and implement a major strategy change, including an acquisition to accelerate the RPS business
- HP Sensing Solutions
- LightScribe Direct Disc Labeling
- HP Indigo Digital Presses
- HP Labs' Misto Collaboration Display

View GTM's webinar with Rich Duncombe (Hewlett-Packard)

- In the webinar, Rich shares his key lessons learned and participates in a Q&A session
- The webinar is available 24/7 at frost.com/atl



ASK THE THOUGHT LEADER WEBCAST ARCHIVE

Value-Based Decision Analysis of Innovative New Business Ideas

A Best Practice featuring Hewlett-Packard Company

[Click Here to View the On-Demand Version](#)

Featured Thought Leader	Applicability to Executive Function
 <p>Rich Duncombe HP Strategist The Hewlett-Packard Company</p>	<ul style="list-style-type: none">● Innovation/ R&D● Corporate Strategy● Corporate Development● CEO/ Leadership

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