



## > From Innovation to Value Creation

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### MAYFIELD VIEW: Kevin Fong and Raj Kapoor *Managing Directors*

*How do you judge if something is innovative?*

**Kevin:** You know it when you see it. It's not instinctual, it's experience. It's like the first time we saw YouTube and knew it was cool.

**Raj:** For consumer products and services, it's all in the user experience. Any true innovation we've found reaches beyond a slight enhancement and delivers a recognizable "a-ha" moment.

*How do you assess whether something that's innovative will have lasting value?*

**Kevin:** It's easy to know what innovation is. It's harder to figure out what has lasting value. We knew we had lasting value with 3PARData, one of our investments, because the company had a feature called thin provisioning that lets customers do the same thing as its competitors with less storage space. That saves companies money and has lasting value.

**Raj:** It needs to be something an incumbent finds extremely hard to do. It's a fundamental change to an old model. An example is Google. Google offers its web-based applications for free supported by ads. Microsoft charges. Salesforce.com disrupted the software model, creating a new market for the company by selling software as a service.

*How do you know whether a market exists for a particular innovation?*

**Raj:** In consumer investing, we look for demonstrated traction and satisfied customers before raising venture capital. We look for customers that represent a broad cross-section of the market and that are evangelists and not just users of the product.

**Kevin:** You need an ROI analysis. A market exists if you are replacing something and at the same time saving dollars for a customer and making



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– *Kevin Fong*



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### MAYFIELD VIEW: Managing Directors Kevin Fong and Raj Kapoor

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something more efficient or reliable. It’s hard to do. There also has to be exit potential. You have to ask if there’s a market for future rounds of investing and M&A potential. Right now, energy deals are hot and there are returns for early investors, but it remains to be seen if there is long-term value creation potential there.

*Can you discuss some innovative ideas that failed to result in any great companies in recent years?*

**Raj:** Interactive TV has long been a failure. There are several reasons: the ecosystem doesn’t support it and the technology isn’t there. Also, these companies are not really sure about what consumers really want to do. I’m not sure consumers want to do anything much more than sit in front of the TV. With movies, Netflix took out the late fees and eliminated the store trip for DVD rentals, improving an existing habit rather than trying to launch a sophisticated movies-on-demand service with the cable/satellite ecosystem. Another example is my former company, Snapfish, which initially didn’t work because we tried to change consumer habits for film processing. The company took off only after the digital camera was adopted by consumers.

**Kevin:** Wireless applications for the enterprise haven’t succeeded, aside from the Blackberry. The problem is that no one can manage wireless applications. People are still waiting for killer wireless apps for executing sales and managing customer data.

*Can you provide some examples from the Mayfield portfolio that showcase the idea of innovation to value creation?*

**Kevin:** Lattice Power, one of our China companies, created a new and disruptive way to create blue LEDs. They’re making the LEDs with silicon, which is easily available and cheaper than sapphire or silicon carbide. Mobile 365, which Sybase bought in 2006, recognized early on that text messaging would be important in Europe and that interconnecting global networks was crucial to the market’s success. The company also understood that marketing and advertising would prove a key part of messaging and that text would be used by companies like eBay, United Airlines, Schwab and Fox’s American Idol to connect directly to their customers.

**Raj:** Another Mayfield company, Tagged, is what we call a fast follower, entering an existing market with an innovative idea around viral marketing that applied to social networks. They used that as their innovation and have proven that scale matters. Jaxtr is building on the success of Skype. Skype is good but it’s a PC to PC application. Jaxtr uses any phone and allows the user to link their digital identity to voice callers. It’s not a PC client but a widget and that’s what users want.

*How has innovation changed in this industry over the past five years?*

**Raj:** The squares you go after are increasingly smaller and smaller. Way back when you had the biggest areas to target and you had a wave of new companies. Now, except perhaps in the new wave of gy, there’s not a lot of white space.

**Kevin:** The cycle time is much faster. You have to try something, see if it works, listen to your customer and move on to something else.



## > Guest Interview:

**LARRY KEELEY**, president and co-founder of Doblin, Inc.  
*a Chicago-based innovation consultancy.*



“People presume that innovation is about wild unfettered creativity. It isn’t. It’s about discipline and actively making choices that others have overlooked.”

– Larry Keeley

Larry Keeley is president and co-founder of Doblin, Inc. Since 1979, Keeley has worked with an influential list of clients including Apple, Citigroup, ExxonMobil, Hallmark, McDonald’s, Motorola and Pfizer. Keeley is a board member for the Institute of Design at Illinois Institute of Technology, where he also teaches graduate design strategy.

**Mayfield:** *You’ve spent a lot of time analyzing the root cause of innovation failure within organizations. What’s the main thing companies get wrong?*

**Larry Keeley:** They presume that innovation is about wild unfettered creativity. It isn’t. It’s about discipline and actively making choices that others have overlooked. Surprisingly CEOs don’t understand that the biggest innovations, the ones that go on to change the world, are almost never in new products. Instead, the biggest innovations change business models, build thoughtful and edgy brands, provide new customer experiences, and demand new kinds of partnering.

**Mayfield:** *What is the actual failure rate within companies trying to innovate?*

**LK:** More than 96 percent of innovation efforts fail to achieve satisfactory ROI by the standards of the companies that sponsor them. One reason concepts fail is that teams bank their entire future on what they believe is a unique idea when there is a 90-plus percent probability that some other team is working with the

exact same technology at that same moment. CEOs need to expect simultaneity of discovery, a concept well known in scientific research, which explains why independent teams work on the same things that emerge simultaneously.

**Mayfield:** *How can a startup raise its innovation success rate?*

**LK:** Startup CEOs need to move beyond products toward using many types of innovation. They should start by using diagnostics and toolkits that start the innovation process, set concrete innovation goals, and use customers to make discoveries about what works and what doesn’t for the company. They should consider working on a few bold concepts with teams and implement these new ideas clearly and quickly. Finally, use a prototype when implementing a plan or idea, not a spreadsheet. Following these rules should help boost the company’s success rate to between 35 and 70 percent.

**Mayfield:** *You design three-dimensional innovation landscapes and use them to help companies better understand innovation. What are these landscapes?*

**LK:** I call these “innovation diagnostics” and I’ve created them so companies can actually see their innovation strengths and weaknesses in relation to their rivals. These landscapes are crucial to help a team get a read on what matters most.

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## > Guest Interview

LARRY KEELEY, president and co-founder of Doblin, Inc.

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**Mayfield:** *But if everyone's brewing the same technology at the same time how does an entrepreneur differentiate?*

**LK:** It is really important to realize that multiple innovations can help control risk. You have to say: I don't mind being later to market as long as I bring a superior technology along with a switched-on brand attached to a great business model. Google did this by combining Page Rank technology with AdSense technology and some real attitude. That was enough to reinvent the world even though they were fifth to market.

**Mayfield:** *What can companies do to promote innovation from within?*

**LK:** Innovation will not happen in any profound, valuable or sustainable way without active, deep involvement from leaders. Yet the kind of involvement from leaders that's most valuable isn't the "engineer savior" or "pioneer" model. It's the leader who says: What kind of challenges do we face here and what's our ambition for innovation? How much innovation do we need and how fast do we need it to assure ourselves that our end story is newsworthy and that we make competitors obsolete and that we've seized the high ground? More broadly, great leaders focus on what is changing in peoples' lives that opens up the need for relevant new services.

**Mayfield:** *Is there a true formula for innovation?*

**LK:** No. But there are good and less good ways to do it. Innovation is evolving like every other part of management science. There was a time not long ago when there weren't great strategic planning systems or accounting systems. Now we have them. As a field, for the first time in history, innovation is giving up its secrets. In the best firms it is now possible to make it become a deep competence.

**Mayfield:** *You talk about innovation DNA. What is that?*

**LK:** Deep innovation DNA in a company means that its leaders are playing an active role in innovating and not expecting to hire to get it. You need a real process in place that's associated with good outcomes. Also, you need to define a mission for innovation and metrics for measuring it. Beyond that if you've done something to stoke talent, inspire and expect greatness, innovation will happen.

**Mayfield:** *What advice do you give to a startup CEO struggling to help managers innovate?*

**LK:** If you are CEO be very clear about how much innovation is good enough, what types of innovation you expect and what targets you expect to hit. Have very clear consequences if people fail. Then trust the talent and get the hell out of their way.

*Larry Keeley loves jazz and pop culture and secretly wants to be a research biologist.*

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### FOR MORE INFORMATION:

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