Chat AI

NEW MARKETS
ADVISORS

BEYOND THE CHATBOT

10 Strategies To Use AI in Shaping the Future

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INTRODUCTION

It's been well over a year since ChatGPT blew up and had everyone talking about the latest generative AI. Yet many companies are still struggling to decide what to do about it. While some have made incremental updates to their customer experience, a few leaders are figuring out how AI can truly revamp the way they do business. **What kind of change should you be seeking for your business?**

In this paper, we will lay out **10 Types of AI Innovation** that we've seen so far, and how you can decide which ones are the best fit for you. The emphasis is on uses that re-shape companies and industries, not on the more incremental productivity enhancements that are well-covered in other literature. As with any other innovation, your compass should be your customer: you should strive to solve for a real need in the market, being market-oriented and not technology-led. Given how many ways AI can support market-led innovation, we provide here a way to categorize and prioritize the ambitious, future-shaping options.

10 TYPES OF
AI INNOVATION

How exactly can a company re-make its industry using AI? There are many routes, and in this paper we lay out 10 of them, grouped into 4 categories. The routes don't exist in isolation and can be combined; for instance, a company can change both its business model and customer experience at the same time.

In a **previous paper co-authored by New Markets** and Deloitte, we recounted an analysis of 5,000 innovations that involved distinct types of innovation. In that study, by far the most impactful innovations were those that leveraged at least 5 or 6 types at the same time. Why? These innovations were typically quite customer-centric (which explains why they changed many things at once), they compounded the value created by pulling just one lever, and they were tough for rivals to mimic. AI-enabled innovation follows a similar pattern: multi-dimensional change is where revolutions happen.

Let's look at the 10 Types of AI Innovation one by one, including examples and questions to ask as you consider the possibilities. They are grouped into four categories: Ecosystem, Business Model, Product, and Customer.

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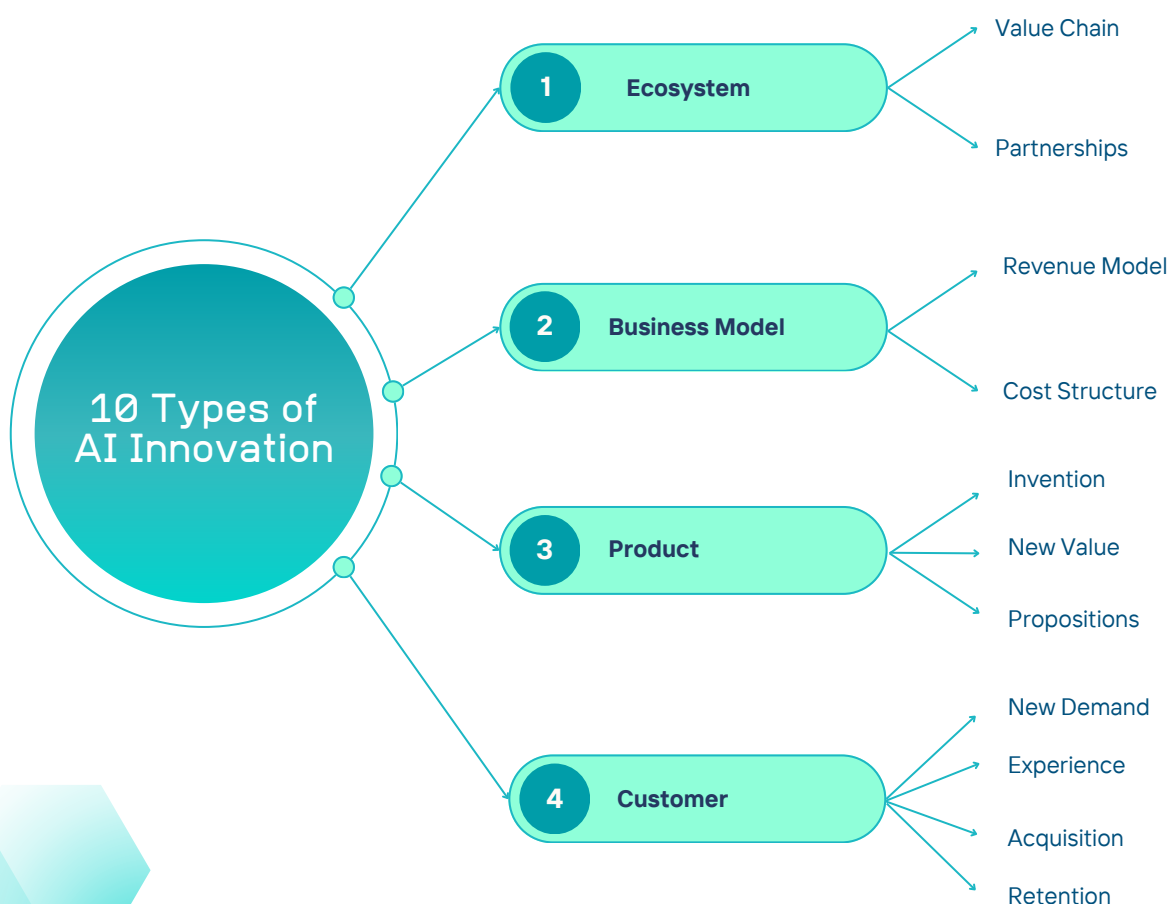
ECOSYSTEM

By making data vastly more usable, and therefore giving it much more value, AI opens doors for collaborations of companies to amalgamate and use information in new ways.

VALUE CHAIN

AI may reduce the need for some firms in the value chain. By assembling information, assessing it, and making it easily accessed, AI can take over some of the role that intermediaries play today or enable their function to become highly automated. For instance, if you're buying an item stocked by a third party, do you really need to go to Amazon to find it? Or can AI tell you exactly what fits your need, compare its price, and link you directly to the manufacturer?

EXAMPLE

AI-enabled insurance companies like China's **Ping An** using AI to digitally sell highly-targeted products and removing the function of traditional broker intermediaries.

QUESTIONS TO ASK YOURSELF:

◆ What steps in the value chain depend on information asymmetry or synthesis?

◆ In what steps do value propositions lose their targeted focus?

◆ In what steps can data for AI models be aggregated?

◆ Can the potential value-add from AI create new steps in the chain?

◆ Do the data needs of AI compel integration with suppliers or customers?

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PARTNERSHIPS

AI can make for strange bedfellows. Datasets may become vastly more powerful when combined with other ones, enabling customers to take ideal actions easily. Because the datasets have real value, their owners may not share them freely but can team selectively with other firms to enable new solutions.

EXAMPLE

Bayer teaming with Microsoft to enable digital farming with precise placement and nurturing of the right inputs such as seeds.

QUESTIONS TO ASK YOURSELF

◆ What total solutions will help customers accomplish key **Jobs to be Done**, and how might partnerships enable them?

◆ Can partnerships enable new business models that monetize AI's impact?

◆ Can pooling of data between partners enable more useful AI models?

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BUSINESS MODEL

AI creates value for customers in new ways, so it calls for innovative models of charging for that value. It also enables giant leaps downwards in costs.

REVENUE MODEL

You might charge more for extra value created by AI, but Revenue Model possibilities go far beyond premiumization. Might you enable free trials (or even pay people for trials) in order to get data to create valuable offerings afterward? Can you predict customers' needs better than they can? The possibilities are many. Through creating value from data and potentially engaging in either much smaller or much larger transactions than before, AI vastly expands the playing field for how companies can make money.

EXAMPLE

Hungryroot starting a consumer's online grocery shopping with an AI-populated cart that's full rather than empty.

QUESTIONS TO ASK YOURSELF

◆ Does AI enable new ways to make offerings modular?

◆ Can AI enable a new revenue formula, e.g. data acquired in free phase can enable a compelling premium offering?

◆ Are there new value-adds from AI that enable upselling?

◆ Can AI choose products for customers based on superior knowledge of needs?

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COST STRUCTURE

Some of AI's earliest and broadest adoption lies in reducing costs. That includes automating parts of jobs previously done by humans, but the possibilities go much farther. For instance, where do slow information transfer and decision-making create inefficient purchasing or asset utilization? For those with a particular interest in how to make radical step-changes in costs, we suggest reading our in-depth book on the subject, **Costovation**, or its **summary**.

EXAMPLE

Yseop saving thousands of hours in clinical trials by automating reports.

QUESTIONS TO ASK YOURSELF

- What tasks are the most routine and time-consuming?

- Where is unstructured data a big problem?

- Where does data synthesis create significant cost?

- Where do time lags in data analysis create great inefficiency?

- Where does coordination of decisions create potential for major problems, costs, or delays?

PRODUCT

AI can fuel totally new ideas, and it can fundamentally re-conceive value propositions that have been around for millennia. Through embracing the possibilities in AI, companies can vastly increase the opportunities in their innovation funnels. Moreover, the fast and inexpensive execution of AI-based prototypes can bring these concepts to reality in large numbers.

INVENTION

Over the past 100 years, annual applications for US patents have climbed about eightfold. What will happen when AI becomes a major source of invention itself? Through rapidly creating and screening new concepts, or through suggesting entirely different ways to solve a problem free from biases of "the way it's always been done," AI can turbocharge invention and iteration.

EXAMPLE

Google's **Deepmind** synthesizing and screening thousands of new minerals for intriguing chemical properties.

QUESTIONS TO ASK YOURSELF

◆ Where are invention possibilities too numerous to create?

◆ Where are unorthodox solutions most valuable?

◆ Where do concepts need to start with technical feasibility rather than customer demand?

◆ Where can inventions' feasibility not be inter-dependent with pre-existing systems?

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NEW VALUE PROPOSITIONS

AI can synthesize, tailor, adjust, and take rapid action to enable radically different value propositions. We've already seen many early iterations, from high-speed trading in financial markets to computerized screening of medical images. Imagine scaling those kinds of applications by several orders of magnitude. Those changes are now upon us.

EXAMPLE

Paloma Learning
developing highly tailored, AI-driven tutoring.

QUESTIONS TO ASK YOURSELF

◆ Where can precise tailoring of value propositions greatly enhance their value?

◆ Where can automated decision-making create faster, simpler, or more effective actions?

◆ How can data synthesis make products more impactful or easier to consume?

◆ How does AI change what customers will demand?

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CUSTOMER

Customer interactions with products and services have usually been complex, multi−step affairs. With AI, the potential touchpoints and their flavors can vastly expand. We find this happening in four ways.

NEW DEMAND

AI can tap into new sources of demand, making potential customers aware of a need and matching customers to the right offers. It's already done this for years through placing online ads, for example. Now, AI can leverage unstructured data and communicate with prospects in new ways such as images and generated text, making its use as a demand−generation tool truly exciting.

EXAMPLE

NeuraLight using AI eye scans to screen rapidly and cheaply for neurologic issues.

QUESTIONS TO ASK YOURSELF

◆ Where is information buried that could trigger new customers to consider a product?

◆ Where can AI make a product relevant for customers where it struggled to be relevant before?

◆ How can AI find problems in old solutions that lead to faster replacement?

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EXPERIENCE

Customer Experience has been a rapidly expanding discipline over the past two decades, and AI is likely to supercharge that growth. Through enabling new kinds of interactions – tailored, fast, and real-time – AI can remove tedium, speed action, and make customers feel more valued. The possibilities for remaking experience seem endless.

EXAMPLE

Nuance automating physician notes and summaries during patient visits.

QUESTIONS TO ASK YOURSELF

◆ What parts of the user journey are frustrating, time–consuming, distracting, or unpleasant?

◆ Where can AI remove steps from the user journey altogether?

◆ Where can AI create new forms of user experience through tailoring, structuring, or speeding steps?

◆ Where can AI deliver emotional and not just functional benefits?

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ACQUISITION

Many sales will still be enabled by human interactions, but the prioritization and targeting of prospects can substantially improve. Through AI, firms can enable sales representatives to have truly tailored interactions. Furthermore, AI can remove much of the back-and-forth in a sales rep's job as they coordinate elements of an offering, provide service to existing customers, and ensure effective delivery of items sold. Reps can concentrate more on actually making sales – in a way that feels truly personalized.

EXAMPLE

Verix enabling firms to target prospects based on hundreds of variables

QUESTIONS TO ASK YOURSELF

◆ Where are sales poorly targeted?

◆ Where is customer targeting challenging due to variation or rapidly changing factors?

◆ Where do sales and marketing expenses take a large share of gross profit?

◆ Where can AI enable new sales channels?

◆ How should new AI solutions be most effectively sold?

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RETENTION

Because AI feeds on data, information about past sales, interactions, and service can provide critical guidance to what matters to customers, and therefore how they can be upsold and retained. AI can suggest perfect accompaniments to recent purchases. It can also head off customer attrition before the attrition process even begins.

EXAMPLE

Flyfish's online sales advisor suggesting upsells and add–ons after the first sale.

QUESTIONS TO ASK YOURSELF

◆ Where can detailed information about a customer be used to improve the after–sale experience?

◆ How can the likely experience of a customer create opportunity for follow–on engagement?

◆ How does past purchase behavior suggest opportunities for new purchases?

◆ Does AI create new use cases or models for post–sale service?

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HOW TO GET STARTED

How can your company sift through these options and act on them?

1 SET CLEAR GUARDRAILS FOR YOUR INNOVATION EFFORTS

As with any innovation effort, you want to clarify what types of initiatives are in scope. Otherwise, you run the risk of wasting time and thought on ideas that the company is not ready to take on. Are certain ideas off-limits from the get-go? Are there parts of the business that the company is dead-set on leaving as-is? What exactly can be subject to change, and what might "acceptable" solutions look like?

It can be hard to define scope when there are no ideas on the table yet. To make sure everyone is aligned on the types of ideas you are aiming for, take inspiration from other players in your industry or analogous sectors. Give them concreate examples to make the guardrails clear.
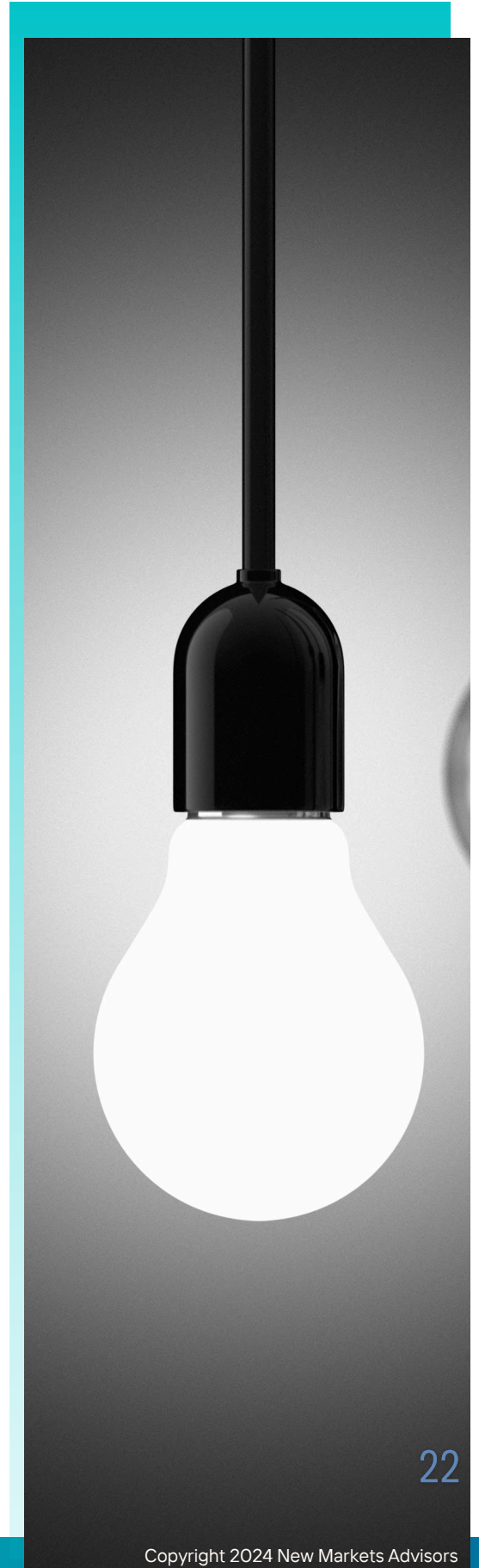
2 DETERMINE YOUR STRATEGIC OBJECTIVES

As noted earlier in this paper, your customer should be your guiding compass throughout your innovation efforts. This is especially the case when trying to re-make your industry, going beyond attaining internal operational efficiencies. Where in the market are you aiming to play? Which audience are you targeting? What kind of need will you be solving for them?

Remember that innovation doesn't happen in a vacuum, and any company trying to do things differently is bound to come in with assumptions and outdated information. The important thing is to be aware of potential blindness and test your level of knowledge. Are you sure your customers behave this way? Is there any selection bias that might skew the data somehow? When was the last time you investigated this area? From there, you will have the tools to make informed decisions down the line.

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3 IDENTIFY CLEAR OPPORTUNITIES

Early on, this paper cited research showing that the most lucrative ways to re-make an industry involve several types of innovation at once. That's likely to be the case with AI, too. Almost inevitably, these will involve the customer in a significant way, whether the innovations relate to value chain, business model, product, or direct customer contact. In your quest for opportunities, we urge you to root your thinking first in what the customer needs, then consider how the various types of AI innovation can support that overall direction.

Being user-led (whether users are customers or internal users) usually requires research. This research can take on many forms: you can conduct a survey of target users, speak with them directly via in-depth interviews, observe behaviors over a period of time through ethnographies, or organize focus groups. Whichever method you choose, make sure you're addressing the key business questions and assumptions that you laid out earlier. Also, avoid leading the witness — let them tell you about their full problem whether or not it falls within the traditional way you've defined your business.

The unmet needs that you are likely to find will invariably come in different shapes and sizes. Some needs might be very acute but focused on a niche population. Others might be less strongly felt but more widespread. Users might run into a series of pain points, some of which they might not even be aware of. This is the time to explore and identify all areas for improvement, both big and small.

4 HASH OUT INITIAL AI-ENABLED SOLUTIONS

You now likely have a long list of items that your users need help with. It's time to think about how you might address them.

Looking at a given opportunity, think about the first solutions that seem apparent. Then, look carefully at the 10 Types of AI Innovation laid out in this paper. Maybe your mind first went to customer experience; but what about innovating around your cost structure? Looking at analogous sectors will also help you churn out more ideas.

Once you have a few ideas that fulfill different needs, consider how some of these might be combined. After all, some solutions might address several opportunities at once. These synergies are especially important to watch out for.

Keep in mind that these solutions don't need to be fully fleshed out yet. The goal is simply to understand what addressing each opportunity might entail. What would it take to meet this or that need successfully? This way, when you end up selecting which ideas to focus on, you know at a high level what you're getting yourself into.

5 FOCUS YOUR ATTENTION ON THE RIGHT IDEAS

Now is the time to prioritize. You likely can't go after all of these ideas, so it's important to recall your original guardrails and objectives. What are the implications for selecting the "best" ideas? Some criteria might include where you have the right to win, your existing capabilities, potential risks, total addressable market, and others.

As you assess these ideas, remember to allocate the right amount of time, money and effort to moonshot ideas vs. lower–hanging fruit. What would a balanced portfolio look like to you?

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6 EXPERIMENT QUICKLY, CHEAPLY, AND WITH CLEAR LEARNING INTENT

Your list of priority ideas is a great starting place, but they're not ready to be commercialized at this stage. Your concepts still need some refining before being put out there into the world. And this is a tricky balance to strike: you don't want to roll out an untested product that's barely out of the oven, but you also can't drown your teams in endless tweaks and iterations.

The key to making progress in a timely- and cost-efficient way lies in disciplined experimentation. First, you will want to use the scientific method: take each concept and break it out into small, easily testable components. Be clear about the inter-dependencies and which hypotheses must be tested first vs. later.

From there, establish clear criteria for deciding which ideas move forward or not. This area is often overlooked but can be the source of a lot of frustration and wasted resources. The best venture capitalists know this, and they are ruthless at killing so-called "zombie projects". Make sure you fail plenty at the beginning, so that you can move forward with confidence.

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7 BE DECISIVE AND SCALE UP

Once you have a clear concept that emerges after several rounds of testing, you will need to secure widespread adoption. This applies to both customers and internal users.

Let's consider two scenarios. If your newfound innovative idea is about to reshape an internal process, you need to ensure that its future users are willing to abide by this new way of doing things. Changes in behavior do not come easily, so spend some time understanding what your internal team requires in order to feel comfortable with this new process.

In a different scenario, imagine that you want your sales team to roll out a new offering to their customers. To make sure it's a hit, your salesforce needs to understand this new offering well enough to craft a compelling story to prospective buyers, tout strong proof points, and address potential questions. They need to feel confident about the offering's value–add and their ability to speak to it. So before you try and gain traction among customers, consider how you'll need to gain traction among your salespeople.

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ABOUT US

MEET THE AUTHOR

Steve Wunker led development of one of the world's first smartphones, has built and sold several successful businesses, and advises companies worldwide on creating and executing bold plans for growth.

Steve is the noted author of four critically-acclaimed books:
1) **Capturing New Markets: How Smart Companies Create Opportunities Others Don't,** 2) **Jobs to be Done: A Roadmap for Customer-Centered Innovation**, 3) **Costovation: Innovation That Gives Your Customers Exactly What They Want-And Nothing More**, and 4) **The Innovative Leader: Step-by-Step Lessons from Top Innovators for You and Your Organization**. He also writes for Forbes, Harvard Business Review, The Financial Times, and other major outlets. Steve's media appearances include Bloomberg and BBC television, and he has been a guest lecturer at Dartmouth's Tuck School of Business.

As a leading consultant on growth and innovation for the past twenty years, Steve was a long-term colleague of legendary Harvard Business School Professor Clayton Christensen in building up his innovation consulting practice, Innosight. He wrote two articles with Professor Christensen and helped to put together his book on healthcare, **The Innovator's Prescription**. He also spent several years consulting with Bain & Company in their Boston and London offices. He founded New Markets Advisors in 2009 and advises innovative organizations across several industries, including Microsoft, Meta, the Mayo Clinic, Nike, and the World Bank.

As an entrepreneur and corporate venturer, Steve was a pioneer in the development and use of smartphones. He led the team creating one of the first, in the late 1990s, and since then he created trailblazing companies in mobile marketing, commerce, and social networking. Steve's international experience is vast, and his companies have been based in the US, UK, the Netherlands, South Africa, and Zambia.

Steve has an MBA from Harvard Business School, a Master's of Public Administration from Columbia University, and a BA cum laude from Princeton University.

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ABOUT NEW MARKETS ADVISORS

New Markets Advisors is a leading boutique firm founded in 2009 and focused on innovation. We help clients determine what to bring to market and how to do it successfully. We are experts in this space, widely published, and work with top companies around the world. We are both thinkers and doers who know you need more than slides; you need actionable recommendations.

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