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L'IMPRESA GLOBAL VIEW

The Innovator's Blind Spot

Why things go wrong when you do everything right

by **Ron Adner**

There is a blind spot that undermines great mangers in great organizations even when they identify real customer needs, deliver great products, and beat their competition to market. Philips Electronics fell victim to this blind spot when it spent a fortune to pioneer high-definition television (HDTV) sets in the mid-1980s. The company's executives drove a development effort that succeeded in creating numerous breakthroughs in television technology, offering picture quality that customers loved and that the competition, at the time, could not match. Yet, despite sterling execution and rave reviews, Philips's high-definition TV flopped. Even the most brilliant innovation cannot succeed when its value creation depends on other innovations – in this case the high-definition cameras and transmission standards necessary to make high-definition TV work – that fail to arrive on time. Philips was left with a $2.5 billion write-down and little to show for its pioneering efforts by the time HDTV finally took off twenty years later. Sony suffered from a similar blind spot, winning a pyrrhic victory as it raced to bring its e-reader to market before its rivals, only to discover that even a great e-reader cannot succeed in a market where customers have no easy access to e-books. And Johnson Controls, which developed a new generation of electrical switches and sensors that could dramatically reduce energy waste in buildings and deliver substantial savings to occupants, discovered that unless and until architects, electricians, and a host of other actors adjusted their own routines and updated their own capabilities, the value of its innovations would never be realized. In all these cases, smart companies and talented managers invested, implemented, and succeeded in bringing genuinely brilliant innovations to market. But after the innovations launched, they failed. The companies understood how their success depends on meeting the needs of their end customers, delivering great innovation, and beating the competition. But all three fell victim to the innovator's blind spot: failing to see how their success also depended on partners who themselves would need to innovate and agree to adapt in order for their efforts to succeed. Welcome to the world of innovation ecosystems – a world in which the success of a value proposition depends on creating an alignment of partners who must work together in order to transform a winning idea to a market success. A world in which failing to expand your focus to include your entire ecosystem will set you up for failure. *Avoidable* failure. There is a growing trend to not go it alone. In a 2011 survey of senior executives by the Corporate Executive Board, 67 percent expected new partnerships, and 49 percent expected new business models, to be critical drivers of their growth in

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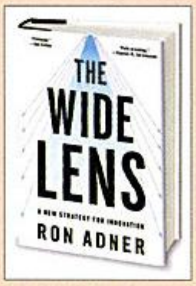

The Wide Lens,
Ron Adner, 2012

the upcoming five to ten years. To be sure, great customer insight and execution remain vital. But they are only necessary – not sufficient – conditions for success. Rather, two distinct risks now take center stage: Co-innovation Risk: The extent to which the success of your innovation depends on the successful commercialization of other innovations. Adoption Chain Risk: The extent to which partners will need to adopt your innovation before end consumers have a chance to assess the full value proposition. Co-innovation risk and adoption chain risk lurk in the blind spot of traditional strategy. They remain dormant as long as your innovations follow established lines. But when you try to break out of the mold of incremental innovation, ecosystem challenges are likely to arise. This is not a problem if you are prepared. It can be devastating if you are not. Just like the blind spot when you are changing driving lanes, not seeing the other car coming doesn't make the accident any less awful. The same is true with strategy: a strategy that does not properly account for the external dependencies on which its success hinges does not make those dependencies disappear. It just means that you will not see them until it is too late. Expanding your focus to include your ecosystem, rather than just your innovation changes everything – from how you prioritize opportunities and threats, to how you think about market timing and positioning, to how you define and measure success. And indeed, today's exemplar firms – from Apple in consumer electronics to Amazon in retail, from Roche in pharmaceuticals to Raytheon in defense, and from Hasbro in toys to Turner in construction – do much more than "just" execute flawlessly on their own initiatives. They follow a distinct set of strategies to orchestrate the activities of an array of partners so that their joint efforts increase the value created by their own initiatives many times over. These leaders have understood the nature of the blind spot and have expanded their perspective. They have deployed a wide lens in setting their strategy and prospered in their embrace of the ecosystem opportunity. Dependence is not becoming more visible, but it is becoming more pervasive. What you don't see can kill you. Don't let your blind spot become your downfall.

A key theme in *The Wide Lens* is how to zoom out and look beyond your own project. What changes when you can see your partners in the bigger picture.

A wide lens perspective will help you to better see how you prioritize opportunities and threats, when you choose to time your commitment, and who you focus your efforts on.

Think about how Amazon won the battle for e-readers. Sony was in the market almost two year before Amazon, and critics agreed that the Kindle was a worse reader – "industrially ugly" is how one reviewer described it. But what Amazon understood was that this competition was not about readers, it was about *reading*. The Kindle was not a great product, but was a great solution. And the things that made it annoying to end users – that you could only get your content from Amazon, that you couldn't copy the books you purchased, that you couldn't share them – all these things were critical to getting publishers to release electronic versions of their books. Amazon understood from the start that an e-book reader without e-books is just a paper weight. And so, they designed the Kindle to appeal as much to publishers as it did to end users. Because they knew that without the publishers on board, the end users would never come. Just ask Sony.

The electric car seems to fit the notion of innovation ecosystems. Why do you think it won't succeed?

Yes, the electric car is a great example of the need to manage the ecosystem around the innovation. And yes, I do think that most current approaches, like G.M.'s Volt and Nissan's all electric Leaf are going to fail. The main problem with electric cars is their batteries. They are expensive and don't go far enough. The battery accounts for almost half the cost of an electric car, which is why the Volt costs twice as much as an equivalent Chevy Cruz. But worse – battery technology is improving very quickly. A 2015 Volt (and Nissan Leaf, for that matter) will have a battery that will cost less and go farther than the battery in a 2012 Volt. This is great, unless you own a 2012 Volt. What this means is that reselling a used electric vehicle is more like reselling a used computer than a used car… Unless you have a way of decoupling the battery from the car purchase, the electric car will be a non-starter in the mainstream.

So is failure inevitable for all electric cars?

No, I don't think the electric car is a hopeless proposition – just that its success will require a very different approach. The good news is that there are ways to do this – to reconfigure the ecosystem to overcome these problems. A great example is the approach being taken by a new company called Better Place. Their model is a completely new approach to electric cars. They create an ecosystem that looks more like Verizon in cell phones than GM in cars, and have found a way to create amazing value for drivers through the use of long-term service contracts rather than one time product sales.

What companies made big ecosystem mistakes and then learned from their failures how to leverage ecosystems to their advantage?

Hollywood's movie studios spent years in an unsuccessful campaign trying to push the world towards the digital projection of movies. The technology providers were excited about new hardware sales. Viewers would be delighted with greater movie variety in local theaters. And the studios were thrilled with the prospect of eliminating the need to print and ship celluloid copies of their films to theaters (with printing costs of over $2000 per print, a nationwide release of a new movie meant over $6 million in printing costs alone!). What they ran into, however, was an adoption chain problem: the movie theater owners didn't want to make the investment in the required hardware. In a world of ecosystems is a world of partners. We have to move beyond win-win solutions to find win-win-win-win solutions. And as Hollywood found out, win-win-lose-win doesn't work. In 2006, they came up with a brilliant solution: the Digital Print Fee. This was a financial innovation that let the studios share their savings by not needing to print movies (savings that come over years) in a way that financed the hardware purchases of the theater owners (an expense that needs to be paid up front). What they discovered is that technology solutions don't solve ecosystem problems. And no one was stopping them from throwing money after misdirected initiatives. It was only when they really understood their adoption chain challenge that the studios could construct a viable solution that unlocked the potential of this great innovation.

Who are the exemplars of this way of thinking?

A shining example is Apple under Steve Jobs. A lot of attention has been paid to how Apple has great products, great design, and great marketing. What's funny is that so do a lot of its competitors. So those factors alone can't explain its success. Even if its products are twice as good, that wouldn't explain why Apple's market share is ten times as high. For me, the hidden secret to Apple's success is how it assembled its ecosystem of partners. Apple did it with a very different sense of timing of sequencing than most people think. Remember that the iPod was three years late to market and that the iPhone didn't have an AppStore for over a year. Jobs's secret was building what I call a Minimum Viable Footprint for his products, and then enticing partners onto his platform on *his own terms.*

What is the Minimum Viable Footprint (MVF) and why is it a keystone for winning in your ecosystem?

The MVF is the idea of identifying the smallest number of partners that you need to align in order to deliver some unique value. Not to deliver your full value proposition – just the minimum required to attract customers. With the MVF in place, you can attract partners on much more attractive terms than you can without the commercial footprint. The contrast to the MVF is the traditional approach of running pilots to demonstrate the full value proposition and then trying to scale up to commercial scale, which is often a recipe for partner conflict and inertia. This is a great example of why tools need to change as we move from a world of products to a world of solutions.

What current firms do you see flopping due to a failure to manage their dependence on ecosystem partners?

The perfect "don't do" poster children are RIM and Nokia. Both offered smartphones years before Apple. Both had shining brands. And both collapsed because they continued to play a product-based game in what became an ecosystem-based world. We see this with the Sony, Toshiba, and Samsung, who spent fortunes on the race to deliver 3D televisions to the market, and are now stuck in a holding pattern, as consumers wait for visor technology to improve and for 3D content to arrive.

What are the first steps to take to identify your ecosystem and its risks?

First, identify your co-innovators: who else needs to innovate for my innovation to matter? Second, identify your adoption chain: who else needs to adopt my innovation before the end customer can assess my value proposition? Once you see all your partners, the next steps are to decide and understand what the actual structure of the collaboration looks like. Who hands off to whom? Who is touching the customer and who is in a support role? Who is in charge of driving the system forward? You can manage any risk as long as you see it in advance.

Why did you write this book?

Innovation is the key to our future prosperity and growth. The challenge is that innovation is becoming more complex. More and more, corporations, governments, NGOs and entrepreneurs are relying on collaboration to power their innovation forward. But when they do, they are signing up for a world of new risks. We all say 'innovation,' but what we mean is *successful* innovation. There is nothing wrong with taking risks. In fact, there are opportunities here for huge returns. But you have to see the risks to know how to make smart bets. I wrote *The Wide Lens* and spent ten years developing and testing these frameworks and tools to help leaders and their teams see the hidden traps, and become more effective and more efficient innovators.

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