PART I

SETTING THE STAGE

CHAPTER 1

Blinded by the Light

VISION BLOCKAGES

The Key Dangers

- Nobody understands why innovation is important.
- Nobody is really sure what innovation really is.
- It is unclear what kind of innovation we are pursuing.
- People don't see why they should participate.
- People don't feel that innovation has anything to do with them.

Overview

A start-up begins life as a single-minded entity focused on innovating for one set of customers with a single product or service. Often as a company grows to create a range of products and/or services, the organization can start to lose track of what it is trying to achieve, which customers it is trying to serve, and the kind of solutions that are most relevant and desired by them.

Jack Welch, former CEO of General Electric, once said, "Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion."

Vision is about focus and vision is about the "where" and the "why," not the "what" or the "how." A vision gives the business a

sense of purpose and acts as a rudder when the way forward appears uncertain. An innovation vision is no less important, and it serves the same basic functions. An innovation vision can help to answer some of the following questions for employees:

- Is innovation important or not?
- Are we focusing on innovation or not?
- What kind of innovation are we pursuing as an organization?
- Is innovation a function of some part of the business?
- Or, is innovation something that we are trying to place at the center of the business?
- Are we pursuing open or closed innovation, or both?
- Why should employees, suppliers, partners, and customers be excited to participate?

When people have questions, they tend not to move forward. For that reason it is crucial that an organization's leadership has a clear innovation vision and clearly and regularly communicates it to key stakeholders. If employees, suppliers, partners, and customers aren't sure what the innovation vision of the organization is, how can they imagine a better way forward?

You have to make sure that stakeholders know not only that innovation is important to the organization, but also what innovation means in their organization and how they can participate. Otherwise, how can stakeholders be expected to make any significant contributions to the innovation success of the organization?

For companies seeking to move innovation to the center and become an innovation-led organization, senior leaders must first clearly communicate this vision, this intention, and then lay out a plan for how they envision making an innovation-led organization a reality. An effort to move innovation to the center is best led by the CEO, but it requires the support and involvement of the senior leadership team to tell the stories to employees and customers about what the organization is trying to achieve, what innovation means to their organization, and how the employees and other stakeholders can participate (see Figure 1.1).

Figure 1.1 Venn Diagram

Innovation Vision Example (Alcatel-Lucent)

Some companies even go so far as to publish their Innovation Visions on their public web sites. For example, here is Alcatel-Lucent's Innovation Vision:

> Innovation is at the heart of Alcatel-Lucent.
>
> Within Alcatel-Lucent, innovation is achieved through the efforts of scientists, researchers and engineers who work together to mesh what is possible from science and technology with what is required by the markets.
>
> Alcatel-Lucent is the most powerful innovation engine in the industry, leveraging its unrivalled depth, breadth and global footprint to deliver the best communications products, services and solutions.

> At the core of this innovation engine is Alcatel-Lucent's Bell Labs, a world-renowned and distinguished research organization whose role is to:
>
> - Conduct fundamental and applied research in domains where the impact on communications will create significant competitive differentiation and often yield game-changing innovations;
> - Anticipate, explore, and de-risk technology evolutions;
> - Generate and deliver innovative product ideas, components and architectures;
> - Support business and marketing by advancing the company's thought-leadership in the global technical and science community;
> - The Alcatel-Lucent research community also incubates "start-up-like" projects targeting the commercialization of truly disruptive technologies and products.
>
> We invite you to explore this Web site to learn more about our innovation engine and how it is transforming the nature of communications and networking. (From International Fund for Agricultural Development [IFAD] web site).

Translated into English, Alcatel-Lucent's Innovation Vision is to create technology innovation in the area of communications products. Their Innovation Strategy for achieving this vision is to use Bell Labs to do fundamental and applied research along with technology commercialization. If I should be an employee in this organization outside of Bell Labs (or a supplier or customer) and I read this web site, I would probably get the message that innovation is not for me—that it's not my job.

Innovation Vision Example (Kuwait Petroleum Corporation)

Here is the Innovation Vision for the Kuwait Petroleum Corporation (KPC):

> Develop . . . comprehensive long-term plans and programs for the investment in research and development. Strengthen the

> coordination with local research institutes and organizations on studies, research, and information related to the oil industry.

Translated into English, KPC's Innovation Vision is to focus on technology innovation through internal and external research. Their Innovation Strategy includes five phases dedicated to:

- Phase 1: Research and Development Infrastructure.
- Phase 2: Technology Process Design.
- Phase 3: Value Optimization in the Oil Sector.
- Phase 4: Learning and Knowledge Sharing.
- Phase 5: Information Technology (IT) Infrastructure.

If I'm an employee in this organization outside of R&D and I see this, I probably get the message that innovation is not for me—that it's not my job. But if I am a local industry expert or researcher outside the organization, then I may reach out to them.

There Is No Single Innovation Vision

There is no one right answer when it comes to defining what innovation means for an organization. Each organization is going to be at a different stage of innovation maturity, both now and in the future, and must select both the appropriate definition for the term *innovation* and the vision for where they hope their innovation efforts will lead.

Even more important to remember is that no single innovation vision is timeless or appropriate for all situations. It is incumbent upon senior leaders to recognize when the current or future state of the market or customer requirements will require a change in the organization's innovation vision. When such a need arises, senior leaders must make the appropriate changes to the innovation vision and communicate the new innovation vision (and the reasons for a change) to all of the key stakeholders.

There are many examples of companies that have either failed to maintain an innovation vision or have pursued a particular innovation vision long past its relevance in the marketplace. One such example was the Ford Motor Company in the 1920s.

Innovation Vision Case Study—Ford Motor Company

Most readers will be very familiar with the legend of Henry Ford and his popularization of innovations such as the modern assembly line and vertical integration. The assembly line was so transformational that companies without it often were choosing the quickest path to bankruptcy. To put the impact of the assembly line into context and the dominance of Ford into numerical terms, of the roughly 200 American carmakers in 1920, only 17 were left in 1940. That means that more than 90 percent of the automakers in the United States went out of business during those 20 years.

If we look at the situation as the United States entered the 1920s in deeper detail, it is amazing to note that by the end of 1919, Ford was producing 50 percent of all cars in the United States and 40 percent of all British automobiles. Amazingly, by the end of 1920, half of all cars in the United States were Model Ts. That is an incredible domination of a market by a single company and an even more amazing feat for a single product.

In 1921 Ford produced more than one million cars, nearly 10 times more than Chevrolet—the next most popular brand. Ford dominated the next five years too (from 1922–1926), selling more than seven million automobiles. Then in 1926 something happened. Chevrolet nearly doubled their sales from the year before, while Ford's own sales dropped nearly 15 percent. The following year (1927) Ford's sales dropped an astounding 75 percent and Chevrolet's sales nearly doubled again, meaning that Chevrolet outsold Ford that year by a nearly 3-to-1 margin (1 million versus 367,000). Chevrolet outsold Ford by a 2-to-1 margin in 1928 too. So what happened in that period between 1926 and 1928 when Chevrolet first began challenging Ford's dominance?

When the 1927 model year Cadillac LaSalle rolled out in 1926, it was the first production automobile designed by a professional designer. Harley Earl was hired first to create the LaSalle and then to create the industry's first full-time in-house design studio, which Earl headed for the next 30 years. Considered the father of

automotive design, Harley Earl had been customizing cars for a Los Angeles dealership selling to Hollywood stars when he met Alfred P. Sloan, Jr. and the rest, as they say, is history.

General Motors established the industry's first in-house design studio, and Harley Earl's design influence spread to many more GM automobiles in 1927. But design wasn't the only thing that drove Chevrolet's phenomenal growth beginning in 1926. Alfred P. Sloan, Jr. became CEO of GM in 1923 and began realizing his vision of "a car for every purse and purpose." Sloan divided the U.S. motor automobile market into segments by price range. Each GM brand became focused on one segment, with Chevrolet at the bottom and Cadillac at the top. Meanwhile, rival Ford stuck to a single model, the low-end Model T.

Besides design and market segmentation, the other innovation that GM unleashed on the automobile market was the General Motors Acceptance Corporation (GMAC). In 1919, the first branch of GMAC was opened in New York City, along with branches in San Francisco, Toronto, Detroit, and Chicago. In 1920 GMAC expanded outside of North America with the opening of a branch in Great Britain. GMAC was formed to provide GM dealers with the financing they needed to maintain their vehicle inventories, as well as to give dealers the ability to finance retail customers' new vehicle purchases easily and conveniently. By 1928 GMAC had already financed four million new vehicle purchases. Meanwhile Henry Ford was opposed to making loans to customers, insisting debt would ultimately hurt the consumer and the broader economy. In December 1927 Ford relented and started offering the same terms on the redesigned Model A. The same year, Ford retired the Model T after selling an astounding 15 million of them.

As a result of Alfred Sloan's different innovation vision (a focus on marketing innovation instead of cost innovation), Chevrolet overtook Ford as the sales leader in the U.S. market in 1927 before Ford could react. Ford sold nearly five million of the more stylish Model As between 1927 and 1931, thanks in part to the newly available credit and to a newly available range of colors and configurations, from pickup trucks to deluxe models. Ford regained sales leadership

of the U.S. automobile market in 1929, but Ford's dominance of the automobile market was broken forever. From 1929 until 1971 Ford and Chevrolet took turns at the top spot off and on, until Chevrolet grabbed the top spot for the 16 years spanning 1972 to 1987.

Innovation Vision Case Study—Hewlett-Packard

You might think that because both Henry Ford and Alfred P. Sloan Jr. became famous that the same scenario of a company leader focusing on cost innovation topping the market and ultimately being overcome by a leader focusing on marketing innovation wouldn't repeat itself, but it did.

In 2005, Mark Hurd took the helm at Hewlett-Packard (HP) and began to place more focus on design and marketing. Until this time computers were a boring box that people stashed under their desk, but with the incredible advances in batteries, screen technologies, and processor speeds, this became a time when even low-end PCs became fast enough for most people and buyers' focus shifted from gigabytes and megabytes to size, weight, and styling. In 2006, Apple shifted its computers to Intel processors, and HP passed Dell to claim the top spot in laptop sales. In 2007, HP took the top spot from Dell in desktop sales too, and Dell dropped to third in laptop sales (behind Acer). By the third quarter of 2008, laptop PC shipments exceeded desktops for the first time (see Figure 1.2).

But there are lots of other examples of companies not having the right innovation vision for the times and of companies not having an innovation vision at all. Let's take a look at some more examples now.

Innovation Vision Case Study—Apple Computer

It might shock you to hear me say it, but Apple has not always been a great example of an innovative company. They may have been a successful disruptive innovator in the personal computer industry with the Apple II. But, after the failures of the Apple III and the Lisa, and the expulsion of Steve Jobs in 1995, there was a time when Apple was more focused on exploiting and protecting their

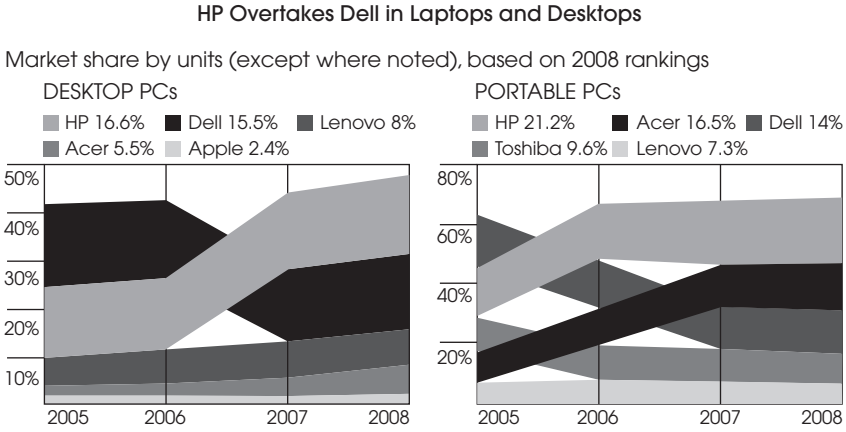

Figure 1.2 H-P Sales Data

Source: IDC and Fortune.

existing Apple II and Macintosh markets than they were on exploring new innovation opportunities.

During the seven years between the introduction of the Macintosh and the launch of the Powerbook and System 7, Apple seemed to have no innovation vision at all. After these two successful launches, Apple struggled again for another seven years until the launch of the iMac. These two lapses in a clear and sustained innovation vision at Apple opened the door for Microsoft and IBM in the personal computer market and gave them 10 years to figure out how to make a decent window-driven operating system. As a result, Microsoft and Intel went on to dominate more than 90 percent of the PC market at the expense of Apple and Motorola.

With the return of Steve Jobs and his NeXt operating system, Apple was able to create Mac OS X, the iMac, the iBook, the Macbook Pro, the iPod, the iPhone, and the iPad. Apple's resurgence has come with the return of a clear innovation vision that cascades from Steve Jobs downward and that focuses on elegant design and platform-driven innovation (iPod/iTunes, iPhone/App Store, iPad/iBooks).

Innovation Vision Case Study—Nintendo

Nintendo is a great example of a company losing its market leadership because of an innovation vision that became too focused on incremental innovation. As a result of its short-term innovation vision, the company dropped from the top spot in the fifth generation of the console wars and fell to third place in the sixth generation. Nintendo failed to switch to a disc format for games in the fifth generation, and failed to develop an online offering and backwards compatibility for the sixth generation.

But, after being defeated in the last two generations, Nintendo has changed their innovation vision from a focus on incremental technology innovation to a focus on family fun. As a result Nintendo has wrong-footed both Sony and Microsoft and is handily winning the seventh generation. But Nintendo can't start celebrating yet—Xbox appears poised to make a stronger challenge this year (2010) on the back of their strong online offering and the launch later this year of their own human interface innovation (Project Natal).

Innovation Vision Case Study—Walmart versus Amazon

Walmart is another company that hasn't always maintained its innovation vision. The company was founded by Sam Walton in 1962, and between 1975 and 1987 it grew from a 125-store chain to a massive 1,198 stores, also completing in 1987 what was the largest private satellite network at the time. It now has more than three times that number of stores in the United States, and from 2002 onwards, Walmart has been the largest of the Fortune 500 (except for 2006 and 2009 when ExxonMobil was #1).

Despite their success with physical stores, Walmart didn't really have an innovation vision at the time that included building the capabilities and solutions that would enable them to be a leader in the online world. As a result, Walmart has had a lot of trouble making Walmart.com successful. Walmart launched a basic consumer-facing site in 1996, but had trouble guaranteeing on-time delivery

during the 1999 holiday season. Things were so bad that in 2000 Walmart created a new entity (Walmart.com USA, LLC) and gave Accel Partners 20 percent ownership to help make the relaunch of their web site more successful.

Amazon, on the other hand, was founded by Jeff Bezos in 1994, launched online in 1995, and was profitable starting in the fourth quarter of 2001. By this time Amazon and its dotcom bubble competitors had up to a five-year head start on Walmart.com. Walmart .com still only ranked fourth among department stores with an online presence in March 2001—behind Sears, Kmart, and J.C. Penney.

Despite spinning out the Web operations, Walmart.com still struggled for several years until more of its Walmart customers got online and the new team was able to refine its operations and focus on becoming more Amazon-like. Going into the 2009 holiday season, Walmart.com was the #1 department store with an online presence and had grown to become the #2 online retailer (Amazon was #1). Walmart.com has become a solid player, and now sometimes sends its competitors scrambling to match them. Walmart.com now has an innovation vision focused on its offerings and fulfillment capabilities.

Innovation Vision Case Study—Intel versus AMD, Qualcomm, and NVIDIA

In the late 1990s, thanks to the success of its Pentium chip, Intel had become the undisputed leader of the microprocessor market, putting competitors like Cyrix out of business and stretching AMD to its limits. But while Intel maintained an innovation vision focused on incremental innovation, product diversification, and pushing the existing architecture further and to higher clock speeds, AMD switched its focus and acquired NexGen to move its product line to a completely new architecture based on the innovations of NexGen's design team. The new architecture allowed AMD's products to use less power, and as this became more important to hardware designers and IT managers, AMD began to make inroads against Intel.

Intel's attempts to diversify outside of semiconductors into technologies like Virtual Private Networks (VPN), IP Telephony, and e-Commerce Management also proved to be a distraction, and in 2005 the CEO reorganized the company to refocus on the core processor and chipset businesses. Intel hired 20,000 new employees as part of this refocusing effort, and the company was able to regain its momentum with the help of Apple switching to Intel processors in 2006 and the launch of their Core processors in 2007 and Atom processors in 2008.

The other major consequence of Intel not seeing that consumers were increasingly preferring smaller, more mobile computing platforms (smaller laptops, netbooks, PDAs, and even mobile phones), has allowed companies like Qualcomm, NVIDIA, and even Apple to become competitors in the mobile processor space (grabbing the majority of the market share in certain segments). As these processors become faster and more capable, Intel may see its processor dominance eaten away from underneath as these power-misers move up into bigger and bigger devices over time.

Bringing It All Together

An innovation vision helps people understand what innovation is, why it is important, where the organization is focusing its innovation efforts, and whether anything is expected of them. Setting the innovation vision is the role of senior leadership, and many would say that the CEO should also be the Chief Innovation Officer.

Are the leaders of your business creating an innovation vision, articulating the innovation vision, passionately owning it, and relentlessly driving it to completion?

In this chapter we have seen the importance of having an innovation vision, updating it as market conditions and consumer preferences change in the environment, accurately communicating it to the masses, and helping people achieve it.

We have seen how failing to do any of these four things can lead to disaster and decreasing relevance.

An innovation vision must never remain static. Senior leaders (or their teams) should be constantly scanning the marketplace to see if changes are needed. But if you make a misstep with your innovation vision, you can still regain your innovation footing. We've seen several examples of that as well.

So, what's your company's innovation vision?