A Sad Lesson in Collaborative Innovation

By Ron Adner , Tuck School of Business at Dartmouth College

The innovator’s quest has been to find the win-win proposition: a great new product that can create differentiated value for consumers while supporting differentiated profits for the producer.

But the focus on win-win can blind us to the needs of critical partners. When success depends on others — suppliers, complementors, distributors, retailers — satisfying end consumers is not enough. The innovator’s job is now to create wins across the board. Win-lose-win is a recipe for failure.

Nokia’s transformation from undisputed leader in mobile telephony to struggling me-too player offers a sad but instructive lesson in the new dynamics of collaborative innovation.

Through the first half of the last decade, a foundation of Nokia’s competitive advantage was its unmatched ability to customize a wide variety of phones for operators. Mixing and matching features, components, and sizes enabled the Finnish telecommunications giant to offer a vast array of choices to win over operators and, through them, consumers.

A crucial element of its strategy to win over consumers to its advanced smartphones was to persuade third-party developers to create a vast array of apps for its phones. It helped to establish the Symbian operating system in 1998 and spent a fortune trying to attract developers to the platform.

But its strategy of customizing hardware for telcos had the unintended effect of imposing high customization costs on would-be developers (i.e., they had to develop different versions of the same app for the customized versions of Nokia phones). It was a win-lose-win situation, and Nokia's effort floundered.

Apple learned from Nokia's mistake. In sharp contrast to Nokia's approach, Apple offered developers a uniform development environment and a direct path to market. By shifting the "smart" in smartphone from the handset hardware to the software apps, Apple upended the customization game. Customization was no longer tied to hardware and supply chains; it became the purview of users and developers. Apple crafted a win-win-win.

As the Nokia vs. Apple story illustrates, succeeding in a world of interdependence entails looking beyond your core competences, competitors, and end customers to your whole ecosystem and carefully considering how you will proactively manage it. This involves the following:

Crafting a proposition that appeals to each of your key partners.
Focus on your *adoption chain* as actively as you focus on your end customers. The design of your offer must secure the buy-in of critical partners (like Nokia's developers) if it is to have a chance with end customers. Sometimes this may entail shifting value from consumers to partners (as Amazon did by launching the Kindle e-reader as an extremely closed device, reducing value for end users but safeguarding the participation of publishers, whose fear of the threat of piracy was the deal breaker in every prior e-reader effort).

Ensuring your collaborators are ready before you launch your product.
Beyond overcoming your own innovation challenge, you must manage your *co-innovation risk*: the extent to which the successful commercialization of your innovation depends on the successful commercialization of other innovations. Rushing your innovation to market before your co-innovators are ready can result in a costly delay at the starting line. (Think about early HDTV manufacturers that launched their products before HDTV programming arrived).

Revisiting the way in which your bring partners on board.
Taking the lead in driving collaboration means convincing partners to take a followership role. Absent a convincing answer to why they should give up the rewards of leadership (e.g., Microsoft's subsidies and Apple's tightly controlled customer base), partners will head in separate directions and undermine the coherence of the value proposition. Therefore, in selecting partners you must consider not only their capabilities but also how to sustain their cooperation over time.

When innovation depends on collaboration, pursuing strategies that play to your strengths but undermine your partners is a recipe for failure. Doing a great job on your piece of the puzzle won't matter unless and until the other pieces come together, too.

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