Why Tech Innovation Isn't the Answer Everyone Thinks It Is

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Value innovation is the cornerstone of new market creation.

The climb in the United States stock market over the last year has been greeted warmly by many, investors especially. That does not, however, take away the day-to-day challenges most businesses face. Think stiff competition, shrinking demand and squeezed profits. The newspaper and magazine industries can certainly attest to that. Many have been forced to close their doors, consolidate or let people go to survive, never mind thrive, while the stock market has reached previously unimagined new heights.

What to do? Not surprisingly, the rapid growth, rising market valuations and media coverage of companies like Amazon, Apple and Netflix – all of which seem to largely defy the tough day-to-day reality others face – have led many to see technology innovation as the answer. But is it? Is technology innovation the answer everyone thinks it is for firms that want to go beyond competing, create new markets and achieve rapid growth as these giants have? Our research suggests no.

As we lay out in our book ***Blue Ocean Shift***, when we speak to audiences around the world about market creation and innovation, we often begin by asking them to consider Motorola's Iridium satellite phone and Segway's personal transporter. "Were these market-creating moves, technology innovations?" And "Were they commercial successes or failures?" Audiences usually answer "yes" to the first question and "failures" to the second.

We then ask another set of questions: "Who invented the personal computer?" And "Who invented the home videocassette recorder (VCR)?" When it comes to PCs, people most often reply Apple or IBM. As for VCRs, people come up with all sorts of consumer electronics companies, the most common being Sony or JVC. The right answers, we then tell them, are actually MITS and Ampex, respectively. Most people are not only surprised when they find that out, but also appear to be unfamiliar with either company.

Value innovation

Putting these conversations together reveals an important point about creating new markets. While technology innovators may lay extraordinary eggs, often they are not the ones who ultimately hatch them. The focus of a successful market-creating strategy should be not on how to lay a technology egg *per se*, but rather on how to ensure that you hatch the egg for its commercial success. Thus, although MITS invented the first personal computer, it was Apple and IBM, among others, that dominated the new mass market for PCs by adapting the technology to produce a leap in buyer value. Likewise, although Ampex invented video recording technology in the 1950s, companies like Sony and JVC dominated the long-profitable home VCR industry by adopting the technology and making video recorders easy enough to use and affordable for the mass of buyers. In essence, they converted a technology innovation into what we call value innovation – a quantum leap in value for buyers.

There's no inherent reason that an organisation can't capitalise on its own inventions, and certainly some companies have succeeded in doing so. Apple certainly did with its iTunes, iPhone, iPad and App store. But history shows that egg laying and egg hatching are often performed by different players. This, we suggest, may be one reason so many people don't even recognise the names of technology innovators now gone from their markets and instead mistakenly believe the value innovators – the ones that hatch new markets – are the technology pioneers as well. Apple certainly falls in this category for the average person when it comes to PCs. The key lesson to remember here is that to shift from existing crowded markets, what we think of as red oceans full of sharks – to wide-open new markets, or blue oceans devoid of competition and characterised by explosive growth, your focus must be on value innovation, not on technology innovation *per se*.

The limits of technology innovation

Motorola's Iridium and Segway's personal transporter suffered by getting this wrong. The Iridium satellite phone was a technological feat that worked in the Gobi desert but not in buildings or cars, where people needed it most. Likewise, as a prescient **article** in *Time magazine* on Dean Kamen, the inventor of the Segway personal transporter, noted at the time of the Segway's launch: "One of the hardest truths for any technologist to hear is that success or failure in business is rarely determined by the quality of the technology." The Segway was an engineering marvel, one of the most talked-about technology innovations of its day when it was launched in 2001. But that did not convince enough people to pay US$4,000–$5,000 for a product that left them in a quandary over where to park it, how to take it in a car, whether it could be brought on a bus or a train, and where it could be used – on sidewalks or roads? While the Segway was expected to break even six months after its launch, the company continued to lose money until it was sold in 2009.

When organisations mistakenly assume new market creation hinges on breakthrough technologies, they tend to push for products or services that are either too "out there" – ahead of their time, too esoteric, too complicated – or, like the Segway, lacking the complementary ecosystem needed to open up a new market. In fact, many technology innovations fail to create and capture new markets even as they win accolades for their organisations. Think of TiVo, whose original digital video recorder garnered a lot of fanfare and is in the U.S. Patent and Trademark Office's National Inventors Hall of Fame, but left most people wondering what it did and why they would want it.

Getting value innovation right

Value innovation anchors innovation to the value it gives buyers, not to the newness or cleverness of the technology, and is a cornerstone of market-creating strategy for profitable growth. To get it right, here are three questions you want to probe:

- How does our offering make buyers' lives dramatically more simple, productive, convenient, or fun and stylish?
- How does our offering dramatically reduce buyers' risks? These risks may be financial, physical or emotional (including reputational risk).
- And how does our offering deliver a leap in environmental friendliness, including social consciousness, that buyers value?

While you don't have to answer positively to all three questions, you should be able to get a clear compelling answer to at least one. Then you want to make sure that you price your offering so that your target mass of buyers will not only want it, but be able to actually afford it. One thing is clear: In today's world of tough competition, there is no doubt that organisations in many industries are in need of value innovation to make the shift from red to blue oceans and new horizons of explosive growth. In ***Blue Ocean Shift***, you'll learn how to do precisely that and how other organisations the world over have applied the ideas and tools outlined within to make their shift and seize new growth.

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The W. Chan Kim & Renée Mauborgne Blog

W. Chan Kim and Renée Mauborgne are Professors of Strategy at INSEAD and Co-Directors of the **INSEAD Blue Ocean Strategy Institute**. They are the authors of the *New York Times* and #1 *Wall Street Journal* Bestseller ***Blue Ocean Shift - Beyond Competing*** and the international bestseller ***Blue Ocean Strategy***.