The Importance of Innovation: Lessons from a Reactor, a Chaser, and a Builder
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Of the top 25 companies on the Fortune 500 in 1961, only six remain there today. According to Deloitte, the average life expectancy of a Fortune 500 company is less than 15 years and trending to five years.

While there are many reasons for the tenuous nature of business viability, a common theme is present in many of those who have failed: the lack of ongoing innovation to maintain relevance. Management guru Peter Drucker once said, “the enterprise that does not innovate ages and declines. And in a period of rapid change such as the present, the decline will be fast.”

The need to innovate is even more crucial in today’s ultra-competitive environment and reinforces our core belief that long-term viability, relevance, and prosperity of a business rely on a leadership team that emphasizes and promotes innovation. If history teaches us anything, it’s that you can’t pin your hopes on past success but instead must always be innovating to meet the changing needs of the market, your customers, and your business goals.

For further illustration, you need only examine the recent experiences of Dell, Blackberry, and Apple - three of the most iconic brands of the 21st century. Each rocketed to success propelled by innovation. As time passed, they evolved differently, battling to stay relevant in an ever-changing world. The strategies they chose and the paths they ultimately followed provide valuable lessons for you to consider as you develop and refine long-term plans for your business.

When it comes to innovation, Dell, Blackberry, and Apple represent three distinct types of organizations that we at SurePath refer to as Reactors, Chasers, and Builders. Their performance demonstrates that any of the three categories can be successful for a period of time. Their divergent paths and subsequent results, however, show that to sustain long-term growth and profitability you must ultimately become a Builder, only achievable through continuous focus on innovation. A review of the three companies provides valuable insight into each organizational type.

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The Reactor: Dell Computer

“We don't develop things nobody knows what to do with. We develop things people want to buy and buy in volume.”

– Michael Dell, 2003

Dell's innovative business model rocked the computer world. By perfecting a direct to consumer business offering customizable options, Dell enabled buyers to pay only for the exact features they wanted. The innovative, on demand manufacturing process eliminated the cost of finished goods inventory by optimizing the any-mix, any-model dynamic. They shortened delivery time, dramatically improved customer satisfaction, and provided significant savings to customers.

As a result, Dell took off. After raising $30 million in a 1988 IPO, Dell cracked the Fortune 500 in 1992 making Michael Dell the youngest CEO on the list. By 1996, Dell was generating $1 million per day in sales from their newly launched web site. In 2001, they became the top computer systems provider in the world and in 2005 were ranked number one on the list of Fortune Magazine's “America’s Most Admired Companies.”

After developing their innovative business model, however, they failed to keep pace with rapid industry changes. Instead of innovating to stay relevant, they maintained their narrow approach of driving costs down to provide consumers with lower prices. They didn't recognize that although customers wanted lower pricing, they were also attracted to innovative new products, features, and performance enhancements.

Dell failed miserably in this area, spending little on R&D – as low as 1.5% of its budget according to some estimates. Dell's idea of product innovation was to change the color from white to black. As a result, they never became a serious product innovator in a rapid change industry where consumers eagerly anticipated “the next big thing.” Instead, they became Reactors - choosing to copy industry innovators and relying on their direct to consumer low cost model to win market share. This left them chronically behind the leaders in terms of innovation.

In the fast-paced, technology-driven electronics sector, reacting instead of innovating is a recipe for disaster.
were always one or two steps ahead of them with new features and enhanced performance. As a result, Dell has failed in virtually every new product category they’ve entered – smartphones, MP3 players, printers, and tablets.

Dell is still a relevant player in the PC space but they are under relentless pressure from more innovative competitors. They find themselves in dire straits because they failed to create a sustainable vision for industry leadership that promotes innovation.

Without a proactive, market driven approach Dell failed to recognize innovations taking place all around them. They abandoned the creative spirit that gave birth to their cutting edge, on-demand business model and haven't been able to make the necessary adjustments to stay relevant. If they continue their current strategy, their market cap, financial performance, and market share will continue to fall. That's the ultimate fate of a Reactor.

**The Chaser: Blackberry**

“The iPhone is kind of one more entrant into an already very busy space with lots of choice for the consumer…but in terms of a sort of sea change for Blackberry, I would think that’s overstating it.”

– Jim Balsillie, former RIMM Co-CEO, 2007

Founded as Research in Motion in 1984, Blackberry became the first wireless technology developer in North America. In the early 1990’s they moved from pager technology to developing a “personal communicator” to send wireless messages. They introduced the first Blackberry in 1998 and by 2004 they had over a million subscribers worldwide. That grew to 12 million by 2007, as they became the dominant business enterprise smartphone leader with over 60% market share.

Then in 2007, Apple launched the iPhone. Blackberry didn’t see the groundbreaking device as a true threat. They felt their superior secure technology and micro keyboard design would allow them to keep a firm grasp on their mainstay enterprise market. They failed to recognize that Apple was offering innovative features like touch screen keyboards that provided a larger, more versatile screen. It was only a matter of time before people grew tired of carrying separate devices for personal and business use and demanded the same functionality in one phone.
Ironically, despite being a leader in the communication business, Blackberry never got the message.

As Apple strengthened its enterprise connectivity, software, and security, they began making inroads into Blackberry’s business market. For a while, IT managers resisted the pressure to allow iPhones for business use but through ongoing development, Apple eliminated the barrier between business and consumer markets.

Blackberry never saw the iPhone’s threat to their enterprise business, which turned out to be a disastrous miscalculation. Without an innovative response from Blackberry, business users quickly flocked to the iPhone and the tipping point had been reached. By the end of 2012, iPhone shipments were just over 68 million units while Blackberry was shipping 20 million units. Today, Blackberry makes up less than 1% of the smartphone market.

As Blackberry began to lose share, they stumbled into the classic trap of a Chaser: focusing on the here and now – scrambling to meet the immediate needs of their troubled business. The major flaw of the Chaser is that they often lack a clear vision of the future – one that carves out a meaningful place in the market.

Blackberry failed to keep up with Apple’s steady pace of innovation such as providing a more extensive offering of business apps, upgrading security including fingerprint recognition, linking desktop, laptop, and mobile devices for seamless use, and partnering with IBM to provide custom business applications.

To combat their rapidly declining business, Blackberry has tried a scattershot approach, introducing products featuring touch screens instead of their traditional physical keyboard and launching the Playbook tablet to compete with the iPad. Both failed. They then veered into a possible software solution, pinning their comeback hopes on the Blackberry 10 and its innovative operating system. Although this held some promise, continued launch delays resulted in a tepid response and derailed it before it could make any inroads.

In December of 2014, in another attempt to reclaim market share, the company released a classic version of the iconic, keyboard-based Blackberry, which received generally favorable reviews.
Unfortunately for them, the feeling is that the device is destined to be a niche product and not one that would vault Blackberry back to their former glory.

As is the case with most Chasers, Blackberry appears to have lost a sense of their identity and no longer has a clear vision of their future. In the final analysis, Blackberry's troubles resulted from their inability to duplicate their original innovative wireless technology platform. Now, like many companies in survival mode, they continue to chase near term opportunities. It's not clear whether their desperate, frantic attempt to stay relevant will succeed and at this point, their long-term fate is uncertain.

**The Builder: Apple**

*“Today, Apple is going to reinvent the phone.” - Steve Jobs, 2007*

In 1997, Apple was in trouble. It was on the verge of bankruptcy after suffering 12 years of financial losses. Steve Jobs, one of the original founders, returned at that point to help save the company. The prevailing wisdom in the industry was that Apple was near death.

When Michael Dell was asked what advice he had for Jobs on his return, he famously said, “What would I do? I'd shut it down and give the money back to the shareholders.”

Jobs, upon hearing the comment, reportedly told his employees, “F-- Michael Dell.” For Jobs the Dell quote became his war cry and fed his personal need to win.

The rest, as they say, is history. Jobs focused on a long-term strategy of developing innovative products that would keep Apple viable. First came the iMac, which sold 800,000 units in the first five months and returned Apple to profitability. They began to expand beyond hardware with the release of their Final Cut Pro software product and profits increased by 94% in 1999.

Apple released the G4 Cube in 2000. The Cube was geared toward those looking for an iMac without a monitor and focused on minimizing the size of computers. It was a resounding failure, but didn't deter Jobs and Apple from staying their strategic course.

The early 2000’s saw the unveiling of the iPod, iTunes, and the Apple...
Store. That was quickly followed by the iPod Shuffle, and Mac Mini. By 2006, Apple surpassed Dell’s market cap, providing some measure of revenge for Jobs. In 2007 came the iPhone followed three years later by the iPad and in 2010, Apple’s market cap surpassed that of Microsoft. As 2014 ended, Apple’s market cap stood at $660 billion, 67% higher than Exxon who placed second at $394 billion. Microsoft was third at $388 billion. Jobs’ turnaround propelled Apple’s stock price from $6 per share in 1997 to over $100 today.

In terms of innovation strategy, Apple is the prototypical Builder – a business proactively anticipating and adapting to changing customer needs and competitor strategies with innovative products and services. The Apple story provides a blueprint for companies striving to be long-term innovators.

Dell, Blackberry, and Apple all enjoyed meteoric early success by leveraging innovation. But along the way, Dell became a Reactor and Blackberry became a Chaser, failing to nurture an ongoing culture of innovation and suffering the consequences. Only Apple – the ultimate Builder – when faced with similar challenges, was able to rebound under Jobs’ leadership. By embedding innovation as a core organizational competency, they were able to pull back from the brink of bankruptcy and go on to enjoy robust growth and prosperity.

What Can You Do Now?

So how do you make the leap to Builder? That’s where leadership becomes critical. As an organizational leader, you need to set the direction and take the bold next steps toward building a sustainable culture of innovation.

The key is unlocking the three critical drivers most responsible for promoting innovation enabling you to build a collaborative culture that identifies, creates and launches industry-changing ideas.

- **Business Planning** provides the means for organizations to leverage innovation as a long-term driver of growth.
- **Organizational Alignment** addresses the organization’s inner workings by promoting an environment that nurtures creativity.
- **People Development** provides the most indispensable
ingredient for nurturing creativity in an organization.

When it comes to innovation, the question you must ask is this: which would you rather be - Reactor, Chaser, or Builder? The answer may hold the key to the fate of your company.

That’s where a partner like SurePath can help you. Our fresh perspective, insight, and thought leadership lead to development, implementation, and management best practices designed to help successfully transform organizations into Builders.

The lessons of the stories of Apple, Dell, and Blackberry are clear: only through a consistent focus on innovation can you hope to anticipate and pursue customer and market needs that will provide a lasting competitive advantage and help your organization reach its potential.