



Book The New Age of Innovation

Driving Co-created Value Through Global Networks

C. K. Prahalad and M. S. Krishnan
McGraw-Hill, 2008

Recommendation

Unlike many books on new economies or global changes, this work cites examples from around the world. C. K. Prahalad and M. S. Krishnan provide illustrative case studies from firms in India, Canada, the United States, Europe and elsewhere. They examine the various interactions among these firms and locales, grounding their theoretical discussions in reality. To add even more clarity, they also include many drawings and charts; unfortunately, these tend to force a simplistic Cartesian graphing system onto complex changes. Likewise, their abbreviations are more memorable than clear. Overall, though, these are minor glitches in an innovative and useful study. The authors' analyses of how firms are interacting internationally, and redesigning themselves and the nature of business in the process, are both interesting and valuable. Its discussions of broad trends are unusually well-informed. *BooksInShort* recommends this book to executives and others committed to keeping up with change, especially on a large, even global, scale.

Take-Aways

- Globalization and the Internet are changing the very nature of business.
- One trend that is reshaping business is the renewed focus on individual experience.
- Another is the need to access global resources.
- Traditional divisions between products and services are dissolving.
- Old lines between types of customers are blurring, too. Rather than thinking of selling to business or to individuals, customize each sale.
- Balance flexibility and efficiency to succeed in the new economy.
- Redesign your business processes to accommodate the new economy, and allow for the continual evolution of these processes.
- Align your information strategies with your business processes.
- Seek expertise everywhere in your organization – in fact, everywhere in the world.
- Geographically dispersed teams will work together on projects.

Summary

From Mass Production to Customization

A “fundamental transformation of business” is under way, sweeping through the entire economy. What’s more, over the next decade and a half, this change will become institutionalized. It will simply be the norm – how companies operate. Two interwoven principles govern this change:

1. “**N = 1**” – The focus is shifting from the mass production that defined the industrial age to customization. Businesses now create economic value by serving individual needs. In the new economy, you must create a “unique, personalized experience” for each and every customer.
2. “**R = G**” – Resources are going global. Consumer demands are spreading and diversifying so much that no one organization can meet them all. Instead, a network of organizations around the world will participate in delivering resources, giving rise to a “global ecosystem.”

How It Works

For a demonstration of these trends and how they work together, consider education. For many years, public education has been akin to mass production. Students grouped together in classes learned the same subjects at the same pace. Contrast this system to the tutoring service the new company TutorVista offers. TutorVista students select which subjects to study, when to work on them, and how much and what kind of help they need. The tutors are located in many different places.

“There is a fundamental transformation of business under way. Forged by digitization, ubiquitous connectivity and globalization, this transformation will radically alter the very nature of the firm and how it creates value.”

For another example, look at changes in the way Goodyear sells truck tires. The company appears to be a classic, industrial-age product producer, whose relationship with the customer ends when the customer drives away. However, Goodyear has reconceived itself as a service provider. It sells both to other businesses and to consumers. It customizes its products to meet the needs of individual customers, and partners with other firms to provide expertise that it lacks in-house. As a service provider, Goodyear could monitor tire use, instruct drivers on tire-saving driving techniques, and remind customers when their tires need checking or replacing.

“We are moving to a world in which value is determined by one consumer-cocreated experience at a time.”

To make this kind of transformation, operate according to these principles:

- **Flexibility** – Change to keep up with customer demands.
- **Quality** – Meet market demands cheaply, yet without compromising quality.
- **Collaborative networking** – No one firm can provide all the resources and expertise necessary to fulfill customers’ varied demands; instead, businesses must learn to cooperate. For example, health insurance companies, instead of being independent entities, are acting more and more like nodes in complex “ecosystems” of patients, hospitals and doctors.
- **“Innovative arbitrage”** – Small firms generate innovations, while larger ones develop and market them. All must manage growing levels of complexity.
- **User-friendly “customer interfaces”** – As you shift among different scales, from the individual to the corporate, all your customers must be able to find what they need easily.
- **Speed** – This creates tension, which can lead to innovation. If you don’t fill customers’ needs quickly, they’ll go elsewhere.

Dissolving Boundaries

Traditional distinctions, such as those between hardware and software, or selling products and providing services, are dissolving. In devices such as the Apple iPhone, software determines the “entire user interface.” Producers of products find themselves providing services such as customizing, monitoring usage and training customers. The breakdown of these boundaries means that your business processes must change. If you insist on the old assumptions, methods, pricing systems and customer relations, your business processes will impede your transformation.

“The new competitive landscape is not just a weak signal of change, but rather a social movement.”

Unfortunately, many businesses don’t recognize this. Even when leaders identify what they must do, their firms aren’t keeping pace. Develop “an explicit connection between strategy, business models and business processes.”

Companies that have succeeded in doing so include eBay, which asks its most experienced customers for feedback and uses that to upgrade its systems. Another example is ICICI, an Indian bank. When ICICI saw new banking markets emerging in India, it adapted its processes. For example, it developed solar-powered ATMs, which it networked wirelessly. Recognizing that many Indian nationals living abroad sent money home, it digitized the funds-transfer process, cutting the time it took by more than a week. These innovations enabled ICICI to capture a major market share.

“The social architecture – organizational structure, performance measurement, training, skills and the values of the organization – must reflect the new competitive imperatives.”

Your business model must evolve in response to your environment, so monitor it continually. Rather than relying on intuition, gather and analyze both numerical “transactional data,” such as the rate of sales, and richer, more complex information, such as first-person observations and video. Your goal is not to understand why something happened after the fact, but to anticipate market movements, recognize trends as soon as they emerge, evaluate them and position yourself to take advantage of them.

“To win in the competitive landscape defined by creating one consumer experience at a time, decision makers must develop a whole new mindset for understanding their global supply, logistics and communication networks.”

Netflix, which rents movies by sending DVDs to customers through the mail, provides a good example of how to adjust to customers’ needs. The company has developed software that extrapolates from customers’ movie choices to suggest others they might wish to order. It considers this data so important that it offers a prize of \$1 million to anyone who can improve the accuracy of its “analytical engine” by more than 10%.

Efficiency vs. Flexibility

To keep up with the demands of today’s business environment, balance “efficiency and flexibility.” On the one hand, customers expect industrial-age quality and speed of production. On the other, they want services tailored to their needs.

“The global corporation can be visualized as a logical thread of relationships between a multitude of moving parts – ideas, information, knowledge, capital and physical products.”

Yahoo solved this problem with SmartAds. Traditionally, advertisers placed ads in certain magazines or on certain television shows in the hope of reaching specific demographics; everyone who read the issue or viewed the show saw the same ad. SmartAds, in contrast, analyze individual market activity patterns. Two people

visiting the same Web site might see completely different ads.

Transform Your Culture

To navigate the tension between efficiency and flexibility, redesign your organization's "social architecture" for flexibility. Create a transparent corporate culture in which information flows freely. To make this change, organizational leaders must be able to articulate a clear vision of the transformed organization and preach it powerfully. Lack of strong support by company leaders is the most common source of failure. Empower managers, and reward experimentation and learning.

"In most firms, there is a gap between the capacity to think and the capacity to act."

Beware of the "organizational legacies" – the core, often unspoken assumptions about the nature of your business, from pay scales to decision makers. They may complicate transformation. In older organizations, practices grow rigid. The group devotes its energy to replicating itself. Executives hire people who are similar to those already in the workforce and train them to do things the way they've always been done. Start-up organizations with no histories often have an easier time creating flexible cultures.

"As systems get more complex, there is bound to be acceleration of the need for change and the costs associated with change."

The transformed culture should take into account customer perspectives to a far greater degree than traditional organizations do. Customer-service personnel should continually share information about customer interactions with managers, who must take the initiative and act quickly and appropriately on what they learn. To do so, they must understand how their departmental goals align with those of the organization as a whole. At the same time, they must be accountable for their actions.

"All global firms face a dilemma: How much central control should we mandate and what freedom should we give to local operations?"

All too often, traditional firms fail to coordinate information technology and business processes. Involve managers in determining what kinds of data their departments will collect. Build into individual and unit performance evaluations the expectation that managers will be able to take advantage of connectivity and digitization.

"Firms need to recognize that organizational and informational silos naturally evolve in large organizations."

Systematically review the role played by each level of management, to create structures that keep them from barricading themselves into isolated silos. Consider creating a "business process governance council," which includes representatives from all areas, to make sure the organization's business practices are keeping up with the changing demands of the market.

Teams Go Global

The next stage of business evolution will be marked by a "dynamic reconfiguration of talent," which will move beyond the choice of either doing things in-house or outsourcing them. Instead, global teams with shifting members and fluid identities will be responsible for projects. Low-tech jobs will no longer move inexorably to the developing world. Instead, talent in all areas will be located everywhere. Jobs may still move around due to cost, but they will also move because of speed, proximity to a "central hub" or the way talent clusters within a discipline.

"Inability to sustain senior management evangelism and commitment is one of the primary reasons why process transformation efforts do not meet the desired goals."

Similarly, expect expertise to be scattered throughout your firm and allow authority to shift accordingly. Rather than insist that those on the top of the formal hierarchy always stay in charge, break tasks into "microprojects," consisting of "specific, simple tasks" that are easy to outsource, and "macroprojects" consisting of complex processes that require the sophisticated integration of talent. Collaboration will play an increasingly large role in work, especially the kind of distributed collaboration that computerized connectivity makes possible.

IT and Innovation

The information technology (IT) you use also must be able to adapt to shifting market demands. Evaluate it continually at all levels: is infrastructure such as servers and wiring appropriate? How about individual computers? Can you use any publicly available software or must you develop proprietary, specialized applications? How functional are your company's interfaces with its customers? None of these questions can you answer just once.

"We have to change the way we manage – how we continually match opportunities with resources."

Your "technical architecture" must enable you to connect not only to different devices but also to different kinds of devices, computers and phones, for example. You should be able to transfer data to and from partners beyond your office walls. Those inside and outside your organization must be able to access the data they need, yet without endangering the security of proprietary information and elements of your systems.

Most firms have inherited "legacy assets" in IT – everything from hardware to databases they used at some point in the past. How to retain the information and functions of these assets as you transform your firm is an ongoing challenge. Although you could start from scratch, that's expensive; instead, integrate your legacy assets with emerging IT designs. Assume you'll need to keep changing systems as your business processes evolve, and seek flexible designs that embrace complexity and allow for "knowledge management" while still remaining user friendly. The interface through which your employees and customers access your system should make the logic behind your business processes apparent and easy to follow.

Design "event-driven systems" in which customer activity in one area sparks appropriate responses in another. For example, if a customer purchases four airline tickets with one credit card for people with "the same last name," your system should recognize that these passengers are a family and suggest links to family activities. While your system must span the globe, it must also remain responsive to local activity.

About the Authors

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