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Mastering Imitation

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Mastering Imitation

For every thousand flowers that bloom, a million weeds surface. Best to cultivate from the greats.

by Nicholas G. Carr

Management thinking has for some time been dominated by two big themes: leadership and innovation. It's not hard to see why. Both are important yet amorphous subjects. As resistant to definition as they are essential to business success, they offer unbounded opportunities for exposition and exploration to researcher, philosopher, and charlatan alike.

They have something else in common, too. It's come to be assumed that leadership and innovation are universally good qualities to which all should aspire. Through high-minded training programs, reward systems, and communication efforts, companies today routinely seek to democratize innovativeness and leadership — to drive them into every nook and cranny of their organization. In one way, this phenomenon seems yet another manifestation of the peculiarly American assumption that what's good in small doses must be great in large quantities. In another way, it appears to spring out of the shift from a manufacturing to a service economy, with the attendant weakening of traditional management hierarchies.

But is the phenomenon as salutary as it first appears? Is it really in the best interest of companies to try to turn all their employees into leaders, all their units into hotbeds of creativity? I'm not convinced. The cult of leadership seems especially, even insidiously, dangerous. Too often, it ends up promoting an insipid textbook form of leadership, a "five keys to success" pantomime. At worst, it breeds a particularly insufferable kind of despot — the boss who, like David Brent in the BBC series *The Office*, feels compelled to flourish his entirely imaginary "leadership qualities" in front of his beleaguered staff. The result, inevitably, is organizational cynicism.

The cult of innovation seems healthy on the face of it. In a free market, after all, innovation underpins competitive advantage, which in turn undergirds profitability. Being indistinguishable from everyone else means operating with a microthin profit margin, if not outright losses. So why not try to innovate everywhere — to let, as Chairman Mao famously put it, a thousand flowers bloom?

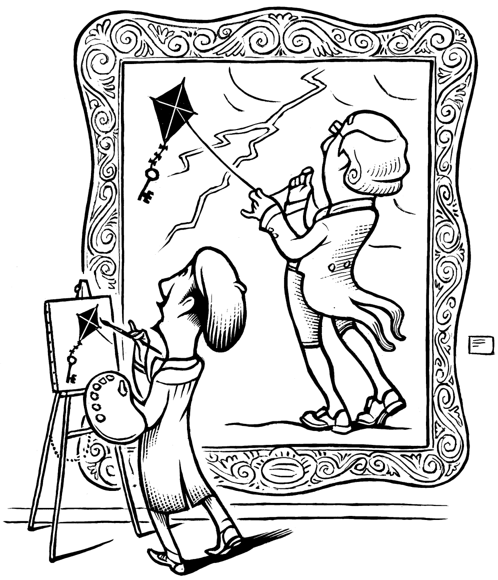

Illustration by Lars Leetaru

Here's why not: For every thousand flowers, you get a million weeds. Innovation is by its very nature wasteful. It demands experimentation, speculative investment, and failure, all of which entail high costs and risks. Indeed, it is innovation's intrinsic uncertainty that gives it its value. High risks and costs form the barriers to competition that give successful innovators their edge. If innovation were a sure thing, everyone would do it equally well, and its strategic value would be neutralized. It would become just another cost of doing business.

But the high costs and risks also make discretion and prudence paramount. The most successful companies know when to take a chance on innovation, but they also know when to take the less glamorous but far safer route of imitation. Although imitation is often viewed as innovation's homely sibling, it's every bit as central to business success. Indeed, it's what makes innovation economically feasible.

Deliberate but Dicey

So the critical first question for any would-be innovator should not be *How?* but *Where?* Deciding where to innovate — and where not to — is fundamentally a strategic exercise, requiring a clear understanding of a company's existing and potential sources of competitive advantage. If corporate innovation involves a deliberate but dicey attempt to create a new product or practice with commercial value, then the target should be one in which a company has an opportunity to establish a *meaningful* and *defensible* point of differentiation from its competitors. A meaningful point of differentiation is one that, to paraphrase Michael Porter, translates into either lower-cost operations or higher-value products, the two linchpins of outstanding profitability. A defensible point of differentiation is one that is resistant to rapid competitive replication. Defensible doesn't mean permanent; competition eventually erases all differences. What's important is to be able to sustain the differentiation long enough at least to offset the up-front costs and risks of innovation.

The proper focus of innovation will vary greatly from company to company, but at a high level successful businesses can be divided into two camps: process innovators and product innovators. Process innovators distinguish themselves by being more efficient in how they work; they produce fairly standardized products at a lower cost than competitors do, enabling them to earn relatively high profits at prevailing market prices (or drive competitors out of business through ruthless discounting). Process innovators tend to be the largest of all companies, dominating big, mature markets. Product innovators, on the other hand, make their mark by offering customers particularly attractive goods or services — those that offer superior functionality, more fashionable designs, or simply more enticing brand names or packaging. Their supranormal profitability, as an economist would put it, derives from the premium prices they can charge. Product innovators tend to pioneer new markets or to hold lucrative niches in older industries.

In the personal computer market, Dell stands as a classic process innovator. Its products are nothing special — they're essentially commodities that meet the prevailing needs of most buyers. But through

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the relentless fine-tuning of its supply, assembly, and distribution operations, Dell has gained a wide cost advantage over its rivals that has made it the fastest-growing, most profitable company in its industry — by far. Apple, on the other hand, is the model of an effective product innovator. It has carved out a profitable niche in a cutthroat business by offering distinctive and stylish products that a sizable set of buyers are willing to pay more for.

What's especially noteworthy about Dell and Apple is the discipline they bring to innovation. They innovate where creativity will buttress their core advantages, and they imitate elsewhere. You could argue, in fact, that to be a successful product innovator you need to be an adept process imitator, and to be a winning process innovator you need to be a good product imitator.

Dell, for instance, is skilled at quickly copying products and product features, which has enabled it to apply its superior process skills to a series of new markets, from servers to storage drives to switches. In some cases, it simply contracts with existing suppliers to provide it with commodity products to push through its distribution system. In challenging Hewlett-Packard in the lucrative market for printers, Dell is buying its products from Lexmark and rebranding them as its own. It thus avoids high research and development expenditures, further reinforcing its cost advantage.

Dell and Apple innovate to buttress core advantages, but they imitate elsewhere.

As for Apple, its resurgence since the late 1990s has been as attributable to emulating processes as to churning out breakthrough products like the iMac and iBook. Soon after Steve Jobs returned as CEO in 1996, for example, he hired an operations ace, IBM and Compaq veteran Timothy Cook, to retool the company's rusty supply chain. By copying the best practices pioneered by companies like Dell, Mr. Cook dramatically reduced Apple's in-channel inventory, and the savings in working capital provided an immediate boost to profitability. On the distribution end, Apple has successfully copied efficient direct-to-customer channels such as online sales and dedicated stores.

Compare Dell's and Apple's highly disciplined innovation efforts to Gateway's shoot-anything-that-moves approach. Gateway started as a process innovator, becoming, with Dell, a pioneer of direct distribution, but it also tried to be a product differentiator, maintaining relatively high-cost manufacturing plants, investing more than Dell in R&D, and launching expensive brand-advertising campaigns. It innovated aggressively on the retailing end as well, pioneering the exclusive stores that Apple would later (and more successfully) copy. It even tried to be a service innovator, pursuing a highly publicized "beyond the box" strategy involving the provision of various consulting services to small businesses. By trying to innovate everywhere, Gateway failed to build a strong competitive advantage anywhere. It was unable to distinguish its products enough to escape the industry price wars, and its operating costs remained much higher than Dell's. Today, it is struggling to survive.

For purposes of illustration, I've drawn clear lines between products and processes and between innovation and imitation. In practice, those lines are usually blurred. A new industrial chemical, for example, will often arise as much through process advances in the manufacturing plant as through product breakthroughs in the research and development lab.

Even the most amazing new products will often incorporate ideas and components filched from others. In creating the iPod, its latest hit, Apple borrowed the major components from outside suppliers — the basic circuitry from PortalPlayer, the tiny hard drive from Toshiba, the battery from Sony, the digital-to-analog converter from Wolfson. It concentrated its innovation in its core strengths of engineering, design, marketing, partnering, and, most important of all, the integration of hardware and software. It's hard to think of another company that has the skill and business model required to tie together a handheld music player (iPod), an elegant PC application for playing and organizing music files (iTunes), and an online store filled with songs from all the major recording studios (iTunes Music Store).

The lesson is clear: Innovate passionately in those places where you can separate yourself from the competition. Where differentiation promises to be elusive or fleeting, be a cold-blooded imitator.

Creativity Kills Competence

Beyond the dubious economics, one of the biggest problems with unconstrained innovation is that it can end up devaluing competence. It says to employees, It's not enough to do your job extremely well: You're only truly valuable if you "think outside the box" or "push the envelope" or — pick your cliché. That can lead to distorted measurement and reward systems, misdirected activity, and ultimately the disenfranchisement of a company's best workers.

A few years ago, a firm I'm familiar with got the innovation religion, and suffered mightily as a result. After nearly a decade of strong growth, the company's sales had gone soft and its margins had narrowed. It realized, correctly, that it required an infusion of new thinking. But rather than concentrate its efforts in the two areas that might have made a real difference to its business — new product development and branding — it took an unfocused, more-is-more approach. It democratized innovation by putting it at the heart of its annual incentive-compensation program. To earn a decent bonus, each employee had to demonstrate some form of creativity in his or her work, and each business unit had to provide examples and measures of its innovativeness.

The company's intentions were noble, but the program backfired. Dozens of piecemeal "innovation initiatives" were launched; even the IT help desk and the reception staff strove to reinvent their functions. The management and measurement of all these efforts required a cumbersome new bureaucracy and a small mountain of paperwork. Little thought was given to the actual business impact of the individual programs — creativity had become a good in its own right. Not surprisingly, employees and managers let their attention drift away from their day jobs, which suddenly seemed like secondary concerns, and the company's core business suffered.

The effect of the effort on individual employees was particularly distressing. The least talented workers actually embraced the program with the greatest fervor; it provided them with a respite from what they saw as the drudgery of their regular work. They became fonts of new and largely useless ideas, meticulously documenting their every passing fancy. The most competent employees, in contrast, treated the whole project as a silly game. They went through the motions, all the while complaining to one another about the emptiness of the exercise. Believing the company was rewarding smart talk over real accomplishment, they were slowly drained of their morale and motivation, and many of them ended up heading for the exit. Creativity had trumped competence, and performance took a hit.

Innovation has its place — a very, very important place — but it's not everyplace. Creativity should not be allowed to shoulder competence to the verges. Acts of innovation may determine what companies do, but it's competence that determines how well they do it. Let a half-dozen flowers bloom, and keep the weeds in check. ✚

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