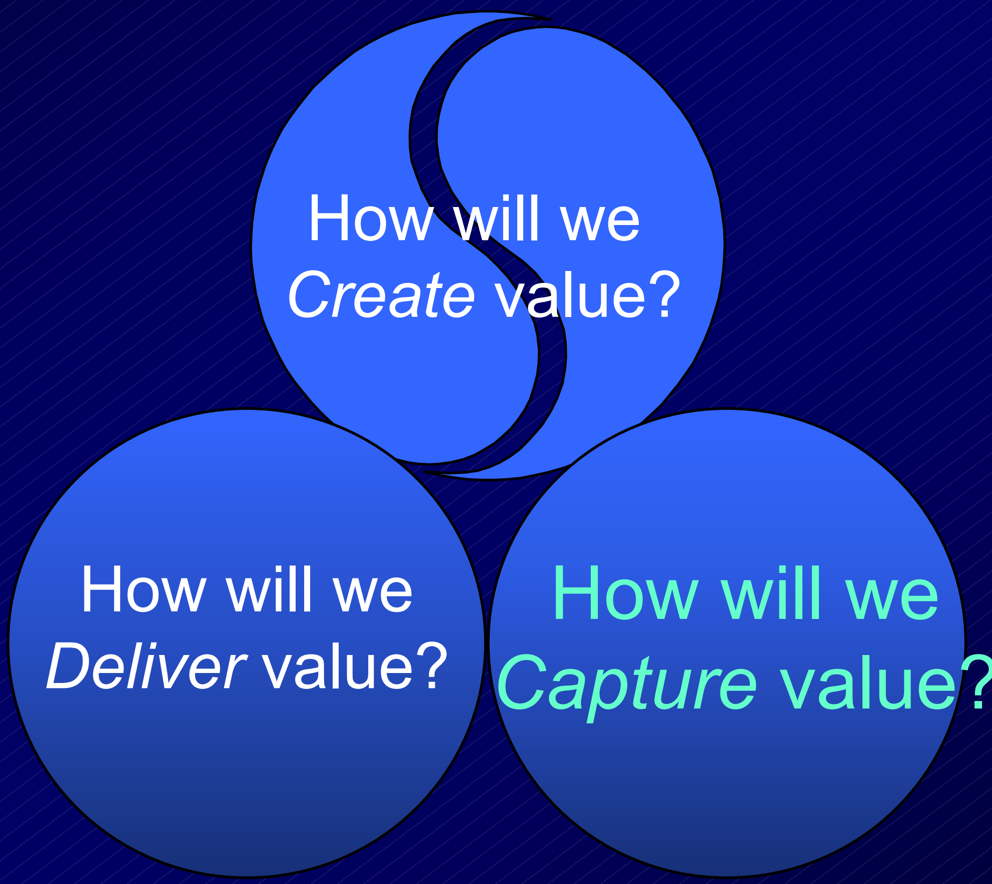
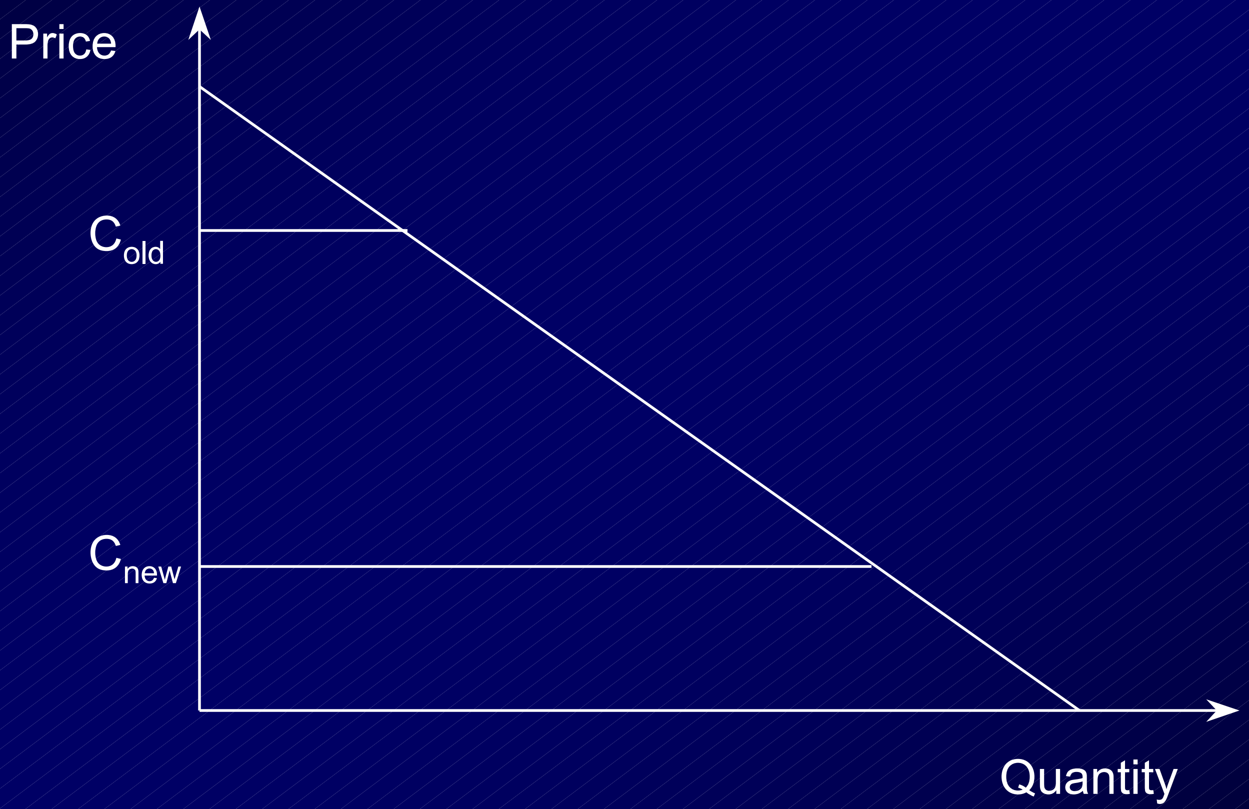
Profiting from Innovation

Uniqueness, Complementary Assets & the Structure of the Value Chain

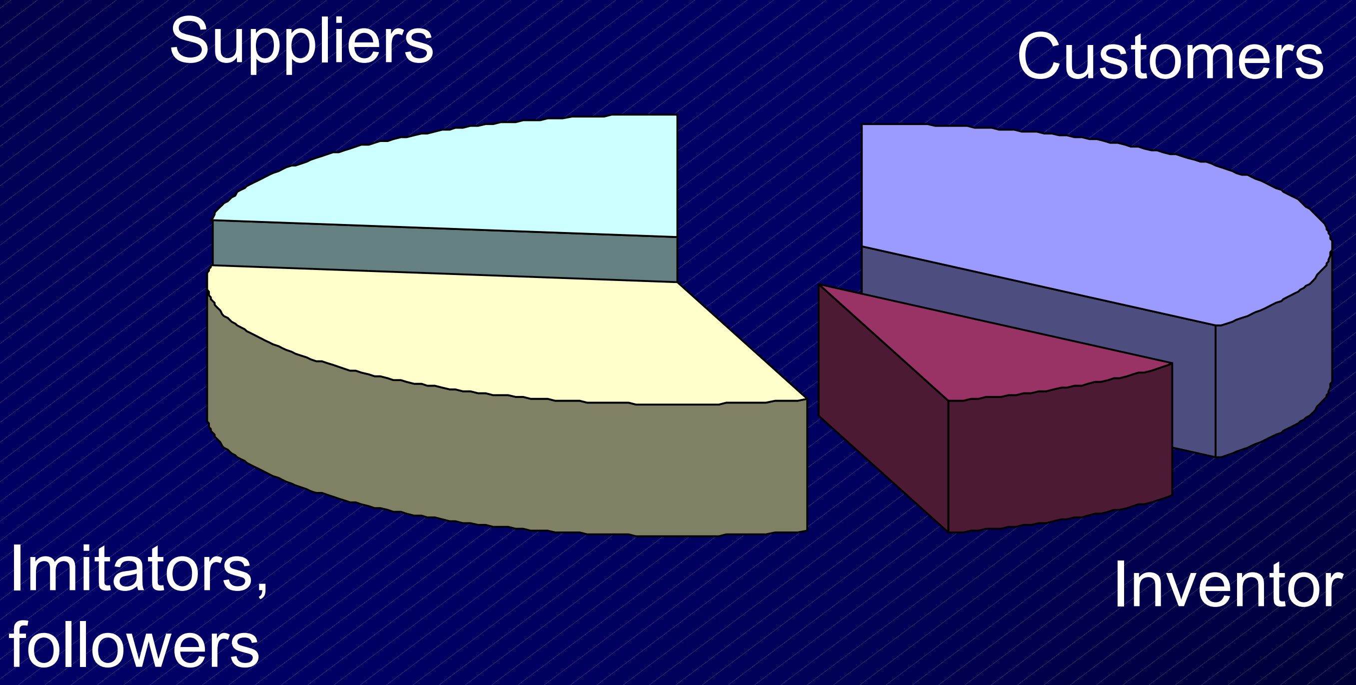
The second of two key questions:



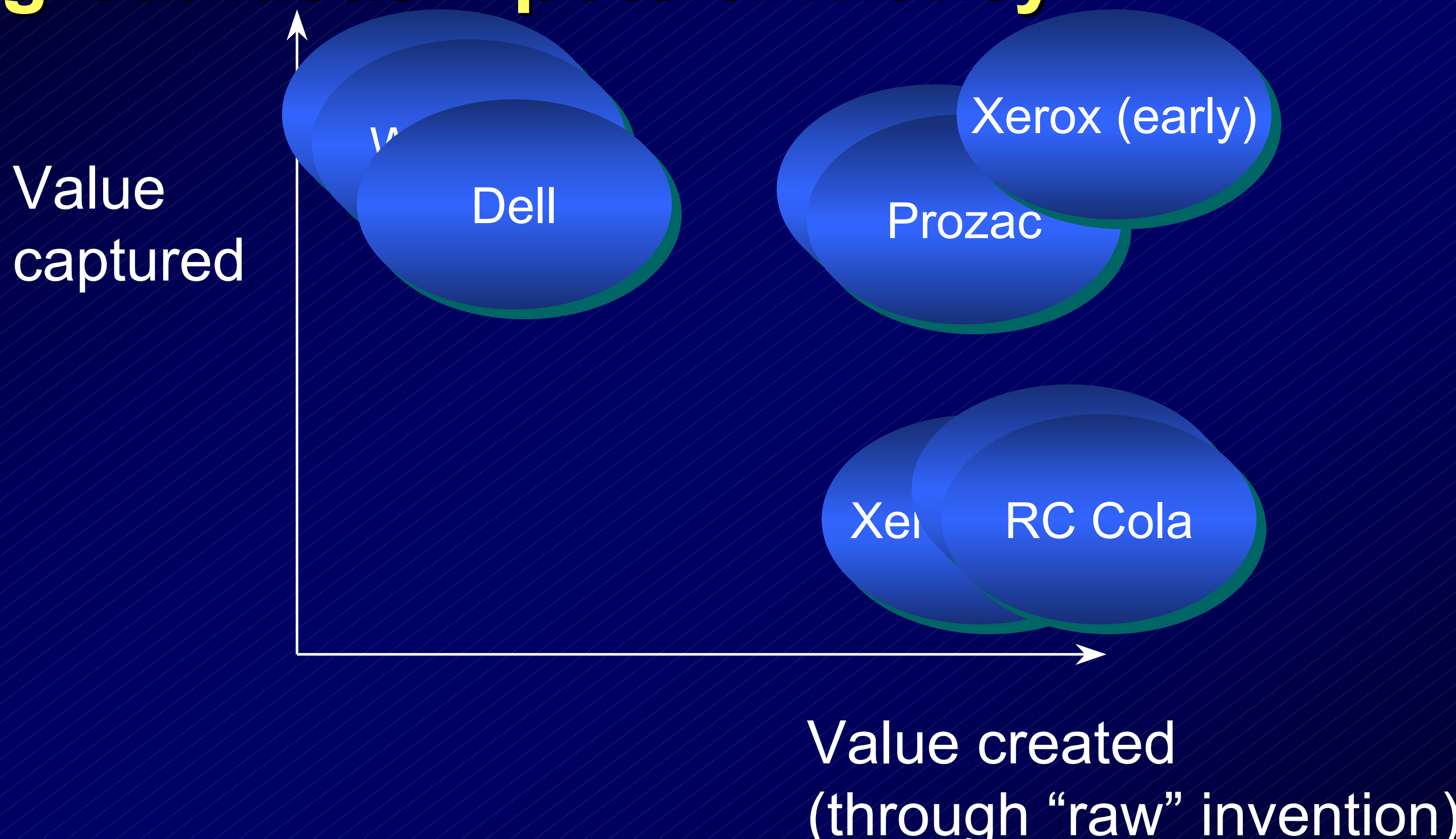
Everyone is after your lunch...



Or:
What determines the Inventor's Share?



Is it the case that great ideas = pots of money?



Two key ideas:

- Uniqueness (Appropriability)
  - Controlling the knowledge generated by an innovation: being the only game in town
- Complementary Assets
  - Controlling the assets necessary to exploit the knowledge generated by innovation

Uniqueness is very important:

- If a particular innovation, or the knowledge on which it rests, can be completely "appropriated" then the innovating firm may be able to maintain a unique position. This is a tremendous source of bargaining power.

Sources of Uniqueness

- Intellectual property protection
  - Patents
    - Finite length
    - The right to prohibit “producing”
  - Copyrights
    - The right to prohibit “copying”
- Secrecy
  - Trade secrets & non compete clauses
  - “Tacit” knowledge
- Speed

Intellectual property protection

- Strengths
- Weaknesses

Secrecy

- Strengths
- Weaknesses

Speed

- Strengths
- Weaknesses

Uniqueness is powerful but often difficult to maintain

- Legal mechanisms can be costly to create, and then even more costly to enforce: and they require public disclosure
- Secrecy is hard to maintain
- Speed is hard work and may be self limiting

Complementary Assets: Definition

- Those assets that allow a firm to make money, even if the innovation is not unique.
- The answer to the question:
  - If our innovations were instantly available to our competitors, would we still make money? Why?

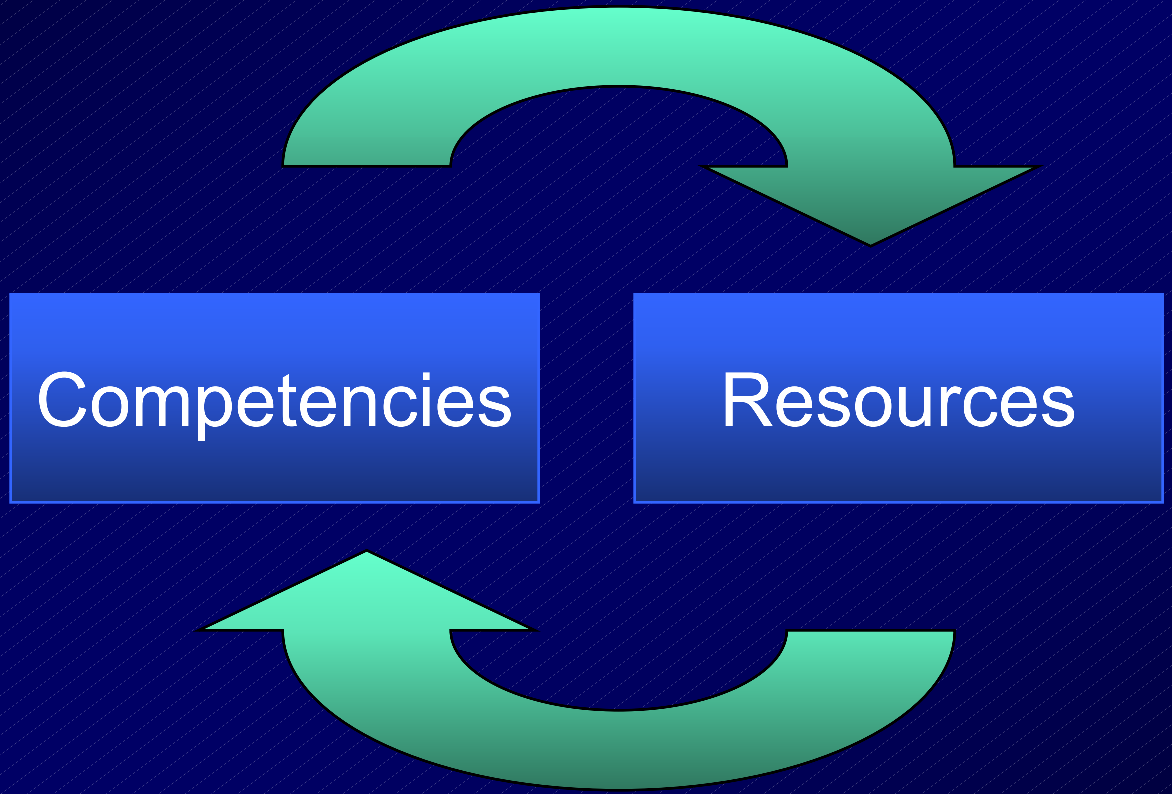
In the best case, complementary assets should be *tightly held*

- Complementary assets that are tightly held are not easily available to entrants or to most competitors

What kinds of Complementary Assets provide Advantage?

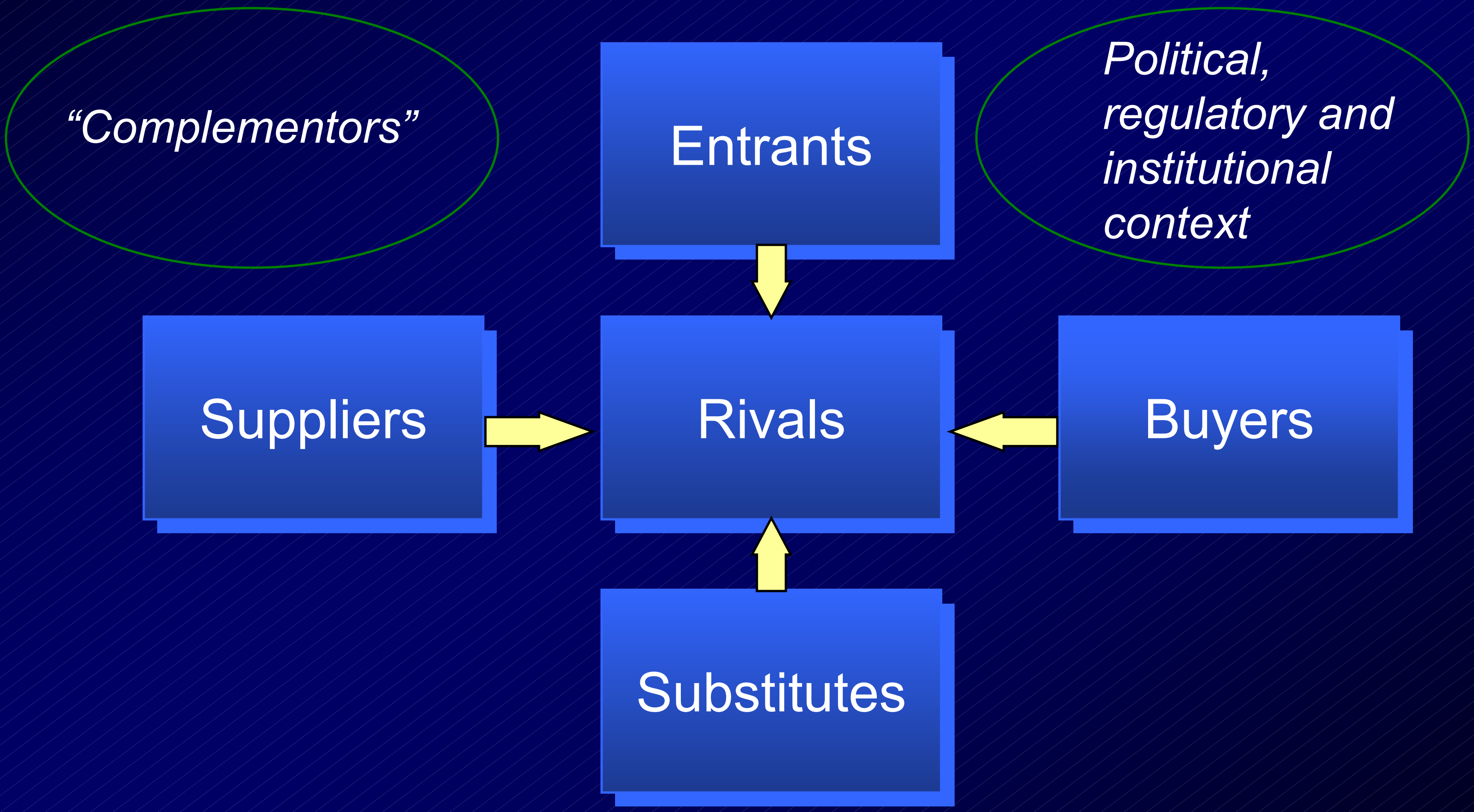
- Things you can do
  - Manufacturing capabilities
  - Sales and service expertise
    - Competencies
- Things you own
  - Brand name
  - Distribution channels
  - Customer relationships
    - Resources

In successful firms, competencies create resources, and vice versa:

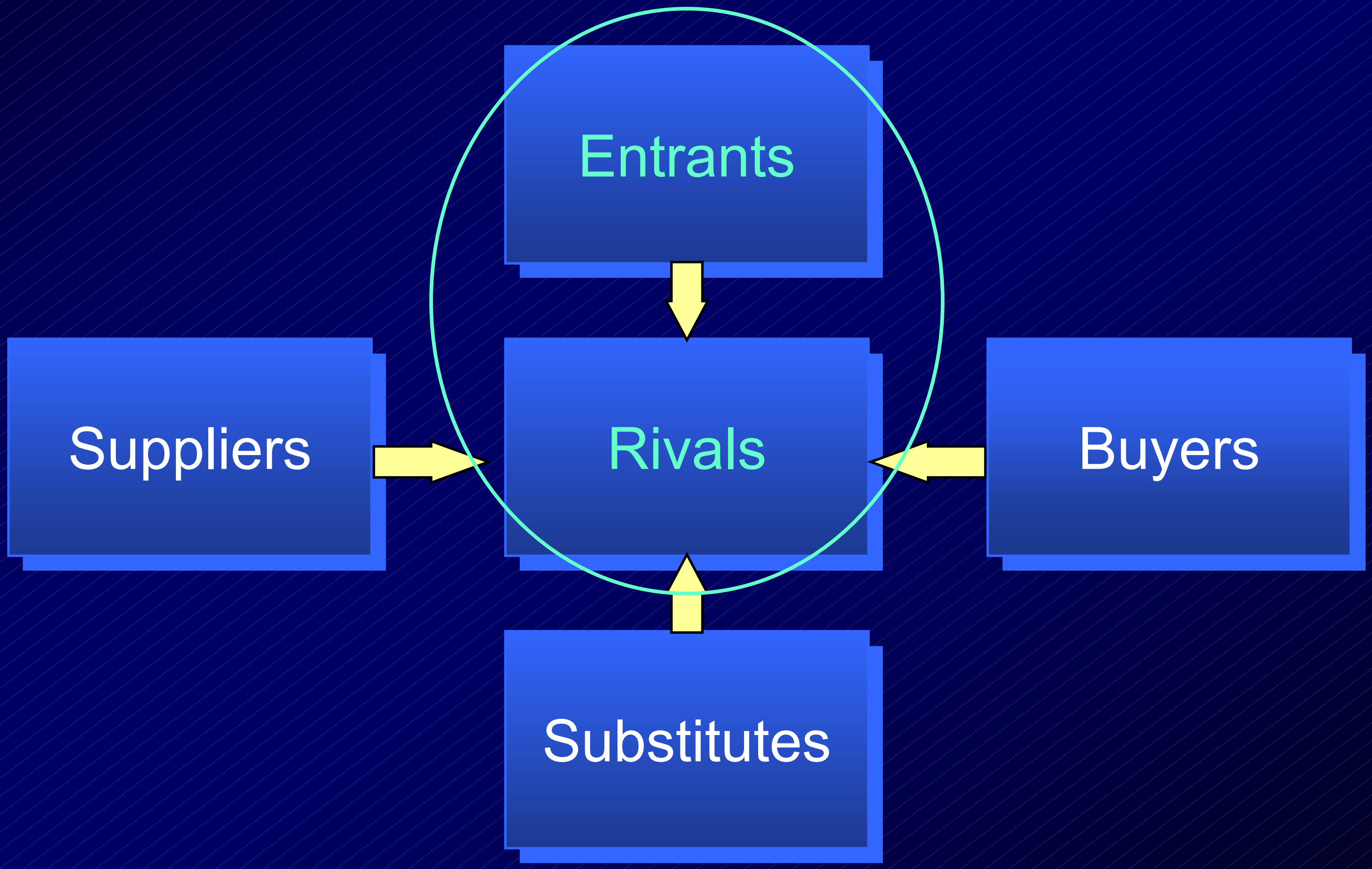


What is the relationship between Teece's ideas and Porter's 5 (really 7) forces?

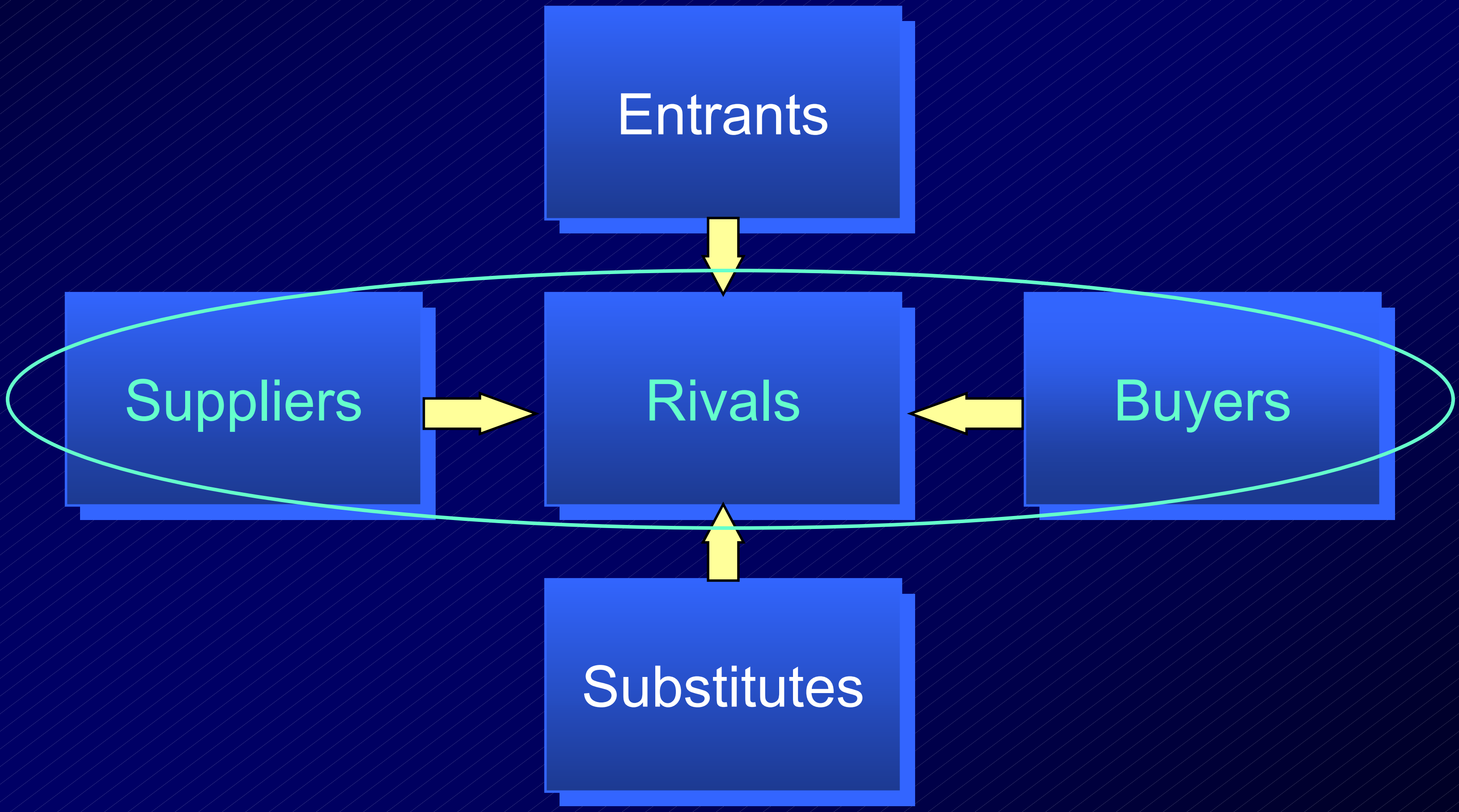
Porter's "5 Forces":
Thinking about the balance of power



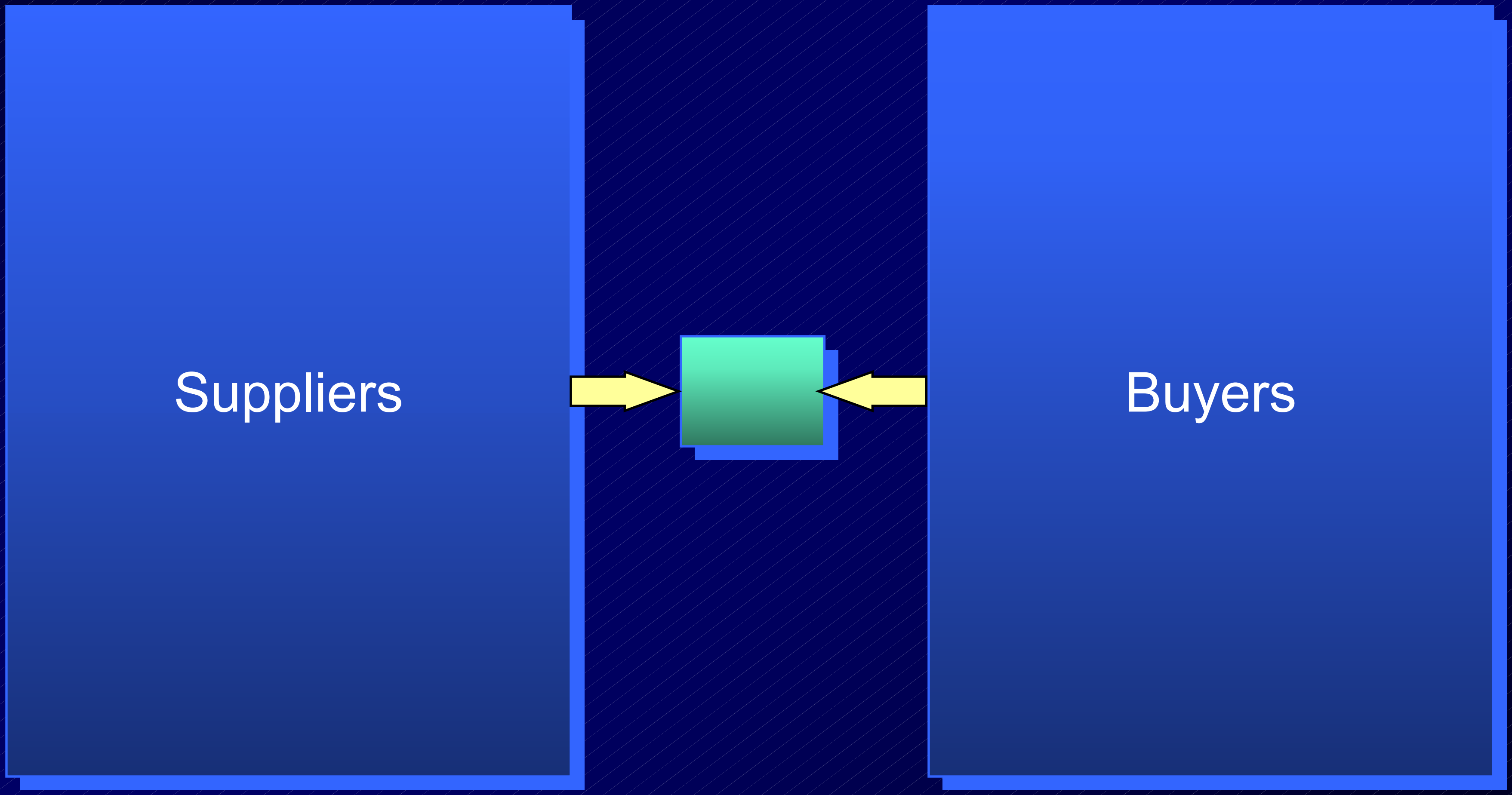
C.Assets/Uniqueness speak to Rivalry and the Threat of Entry.



Porter reminds us to think about the structure of the value chain:



Powerful suppliers and buyers may constrain profitability



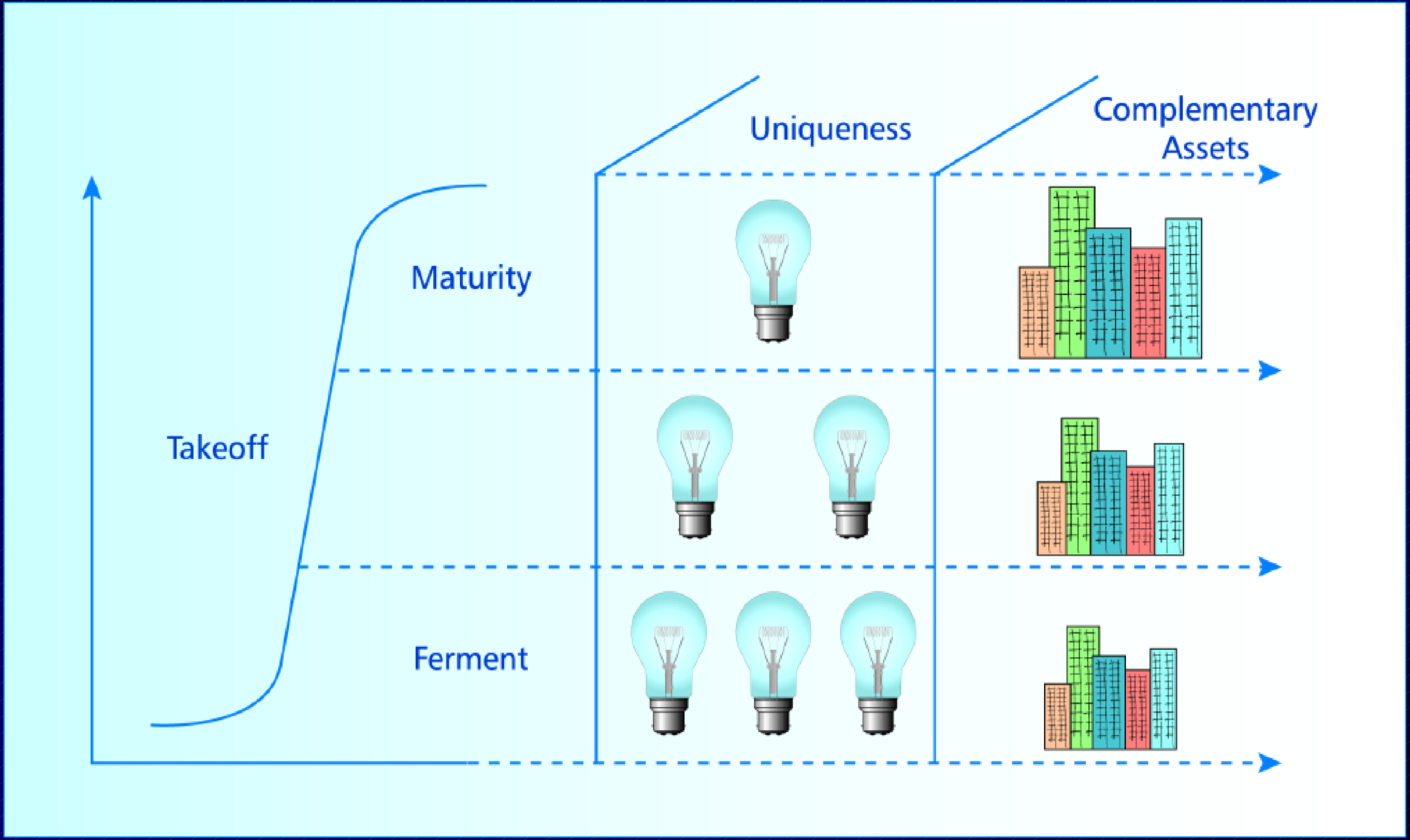
Who makes money when:

Complementary assets are:

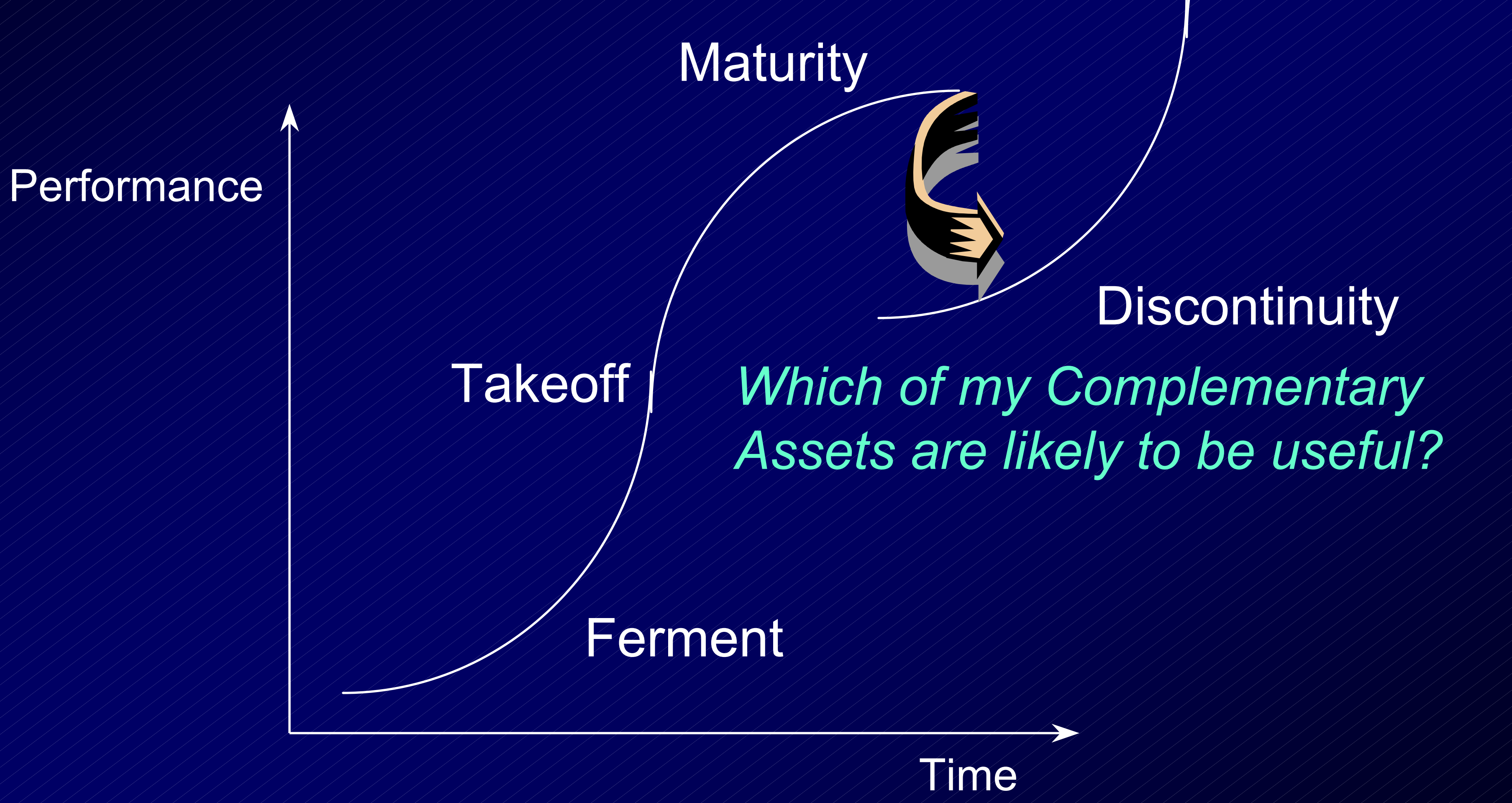
Uniqueness is:

	Freely available	Tightly held
Easy to maintain		
Hard to maintain		

Uniqueness & Complementary Assets over the Life Cycle:



Managing growth means managing complementary assets:



Uniqueness & Complementary Assets: Strategic Imperatives

- Defend uniqueness if possible and appropriate
- Build complementary assets in advance of competition
- At moments of disruption ask:
  - Are my complementary assets useful?
  - If so, which ones?

Making money from Innovation: Summary

- Creating value is not enough:
- It is important to capture value as well
- Value can be captured through a variety of mechanisms, including uniqueness and complementary assets
- Value capture strategies change over the life cycle
- Technology strategy and business strategy should thus be intimately linked