

note 1-429-032
February 12, 2010

Note on Prahalad and Krishnan's The New Age of Innovation

Introduction

In *The New Age of Innovation*, C.K. Prahalad and M.S. Krishnan, professors at the Ross School of Business, describe both how the creation of value by businesses is going to change, and how information technology (IT) is the tool that will allow them to make that change. This note summarizes, at a very high level, some of their main concepts, and focuses on the overview presented in the first chapter.

Digitization, connectivity everywhere, and globalization will change how businesses structure themselves, operate, and create value. There are two dimensions to this change—consumer experience and resource availability.

Value is based on unique, personalized experiences of consumers. Firms have to learn to focus on one consumer and her experiences at a time, even if they serve 100 million consumers. The focus is on the centrality of the individual. We will designate this pillar as N=1 (one consumer experience at a time). No firm is big enough in scope and size to satisfy the experiences of one consumer at a time. All firms will access resources from a wide variety of other big and small firms — a global ecosystem. The focus is on access to resources, not ownership of resources. We will designate this pillar as R=G (resources from multiple vendors and often from around the world).

This model is almost exactly opposite from how Henry Ford did business in the early 20th century — make one product for all consumers and own the whole value chain. The authors argue that the transformation from the Ford model to the N=1;R=G model is not optional.

N=1

Every individual will value different dimensions of an experience. In order to provide the most value to an individual — to all individuals — the goal of a business must change from providing value with a product or service, no matter how customizable, to providing value through an experience. A company faces several demands as a result of changing their level of focus to the individual consumer. These demands are



Published by GloboLens, a division of The William Davidson Institute at the University of Michigan.

© 2010 Scott A. Moore. This note was prepared by Professor Scott A. Moore of the Ross School of Business at the University of Michigan.