How to Live Up to Innovation Hype

Companies known for inventive tech were dubbed the Next Big Thing and then disappeared. Now they're back, and they're growing

by Reena Jana

In February, Matthew Desch, chief executive officer of Iridium, the maker of portable phones with service provided by a network of satellites, was visiting the National Air & Space Museum in Washington, D.C. He overheard two men talking unfavorably—and inaccurately—about his company, which can provide telecommunications in remote areas, such as in deserts or the middle of the ocean, where there are no cellular towers.

"Yeah, Iridium isn't around any more. It went bankrupt in 2000," one of the museum-goers said as he looked at a display of an Iridium satellite. Desch wanted to tell the men that Iridium is actually still around after private investors resurrected it in 2001 and that the company saw $212 million in sales and $54 million in profits in 2006.

Desch walked closer to the display and discovered why the men were misinformed about Iridium's current profitable state. The plaque beside the satellite read like an obituary, declaring Iridium's life span from 1999 to 2000. According to the sign, Iridium—initially funded by Motorola (MOT) in 1998 to an avalanche of publicity—was kaput, after going bankrupt when the phones failed to catch on with consumers. To Desch's dismay, the museum sign had no information about the company's subsequent resurrection and current success.

On the Upswing

"Iridium had such a public failure and a private success later. Failure looms as the biggest thing that happened to us," says Desch, who joined the company in 2006. But Iridium, based in Bethesda, Md., is now growing, with increases in revenues, profits, and other metrics such as rising user numbers in new markets, like military, disaster relief, aviation, and utilities. Iridium's service has 180,000 subscribers, and those numbers are growing at a rate of 15% to 20% per year.

Other "Next Big Thing" companies that, like Iridium, launched innovative products and services but didn't live up to the initial hype, include Friendster, the social-networking site that was overtaken by MySpace, and the Segway Personal Transporter, the two-wheeled scooter.

Both are also now seeing upswings in business growth. These companies, in their latest incarnations, have refined their technologies, remade their business models, and reached out to new audiences. And each learned painful yet valuable lessons on the merits of putting sales strategies first and hype second. They are valuable case studies for aspiring innovators.

A Matter of Marketing

Academics point out that many innovative technologies, because they are so fresh and so unprecedented, can be hard to market to a targeted audience.

"It is often difficult to know the best use for a new technology at the outset. Viagra began as a failed drug treatment for cardiovascular disease. Java began as software for a failed market in set-top boxes," observes Henry Chesbrough, executive director of the Center for Open Innovation at UC Berkeley's Haas School of Business. The key to these innovations' success, Chesbrough says, isn't the great technology itself. It's finding a smart way to package it, determine consumer demand for it, and then sell it to the widest possible audience.

"If these [new] technologies weren't taken to market, their owners may never have found that better use," Chesbrough writes in an e-mail. "Innovators need to learn how to play poker in pursuing these technologies, rather than playing chess, where the objectives and possibilities are clearly defined at the outset." In other words, it's necessary to restrategize as the game of marketing and selling a new product changes with the marketplace, rather than try to keep up with rigid, preset expectations and tactics. Not to mention the adage, if at first you don't succeed, try, try, again.

The Friendster Phenomenon

Desch says Iridium coped with its initial failure by becoming more flexible, turning its phone into a wholesale rather than retail device.

The company opened up to, "…a channel of developers who would adapt tech to each market," Desch says. "We saw our real market was enterprise and industry. Our latest innovation was turning business over to those markets."

Friendster, like Iridium, was an early player in its field that was much hyped and then began to disappear from headlines when it failed to retain the popularity that both the press and its founders expected. The San Francisco company launched in 2002 as the first social-networking site to offer users individual Web profiles and the ability to create links to those of others. It grew so popular that the site would often crash due to the high volume of visitors. "We were struggling with 200 million to 300 million page views a month. We had a problem of scaling control," says Kent Lindstrom, Friendster's president.

Frustrated by the technical glitches, Friendster users quickly turned to competitors such as MySpace. And by October, 2005, Friendster was up for sale. Venture capital firm Kleiner Perkins Caufield & Byers helped the company stay afloat with funding when no buyers showed serious interest. But last year, Friendster revamped its technology to cope with large traffic, streamlined Web page design, got pages loading faster, and won a patent for its original software, opening up a potential licensing model for increased revenues (the company plans to file for at least 10 more).

Second Phase Innovation

In August, 2006, investors (VC firms DAG Ventures, Kleiner Perkins Caufield & Byers, and Benchmark Capital) showed faith in the company's possibilities for a comeback and infused Friendster with $10 million (see BusinessWeek.com, 8/22/06, "Friendster: Poised for a Comeback"). Friendster had 20.3 million unique monthly users in February, 2007, according to Comscore Media Metrix. Less than six months ago, in November, that number was only 15.5 million.

"We're now in a second phase of innovation. We've always been innovative but had a technological challenge," Lindstrom says. "After our trouble, we looked at the market. We could have kept going for the teen market like everyone else. But we thought, why not market to the young adult with no time to surf [the Internet] who wants to keep up with a group of friends?"

By the end of April, Friendster will offer 20 different profile types, from political campaign organizations to international alumni associations, to appeal to users between 18 and 50. The company is now leveraging its original social-networking software and applying it to newer products, hoping to catch on with an even wider audience.

Changing Behavior

Similarly, Jim Norrod, president of Bedford (N.H.)-based Segway, believes that a technological innovation can only succeed if it's positioned to reach a variety of consumers. The innovation alone often isn't enough (see BusinessWeek.com, 9/11/06, "Reinventing the Wheel, Slowly").

"Our lesson learned is that it's easier coming up with innovative tech than it is to change people's behavior," Norrod says. In other words, the Segway Personal Transporter worked well enough (despite two product recalls, one in 2003 after riders fell when the batteries ran out, and another in 2006 after it was discovered the wheels could reverse unexpectedly, also causing riders to fall). But convincing consumers to stop walking or biking and switch to something entirely new was the real challenge.

Norrod won't disclose sales figures, but he says that overall sales have been growing at a rate of 50% each year since the Segway first went on sale to consumers in 2002. At first, the company hoped the device would appeal to urban commuters. When it became clear that it didn't, the company began to reconsider sales, marketing, support, and distribution strategies to keep revenues strong.

Flexibility Is Key

Within the last two years, Segway began targeting police and security guards, a market that, according to Norrod, has healthy potential for steady and consistent growth. "Our marketing to police is an innovation from a positioning view," Norrod says. "How do police patrol? With their feet or by car." The Segway offers a fast yet easy-to-maneuver alternative to slow walking or road-bound autos.

Norrod admits that Segway adopted this strategy after not living up to the early hype. The key to its current sales rate, he says, is the company's commitment to remaining flexible and finding new sales opportunities. "A lot of people believe the saying, 'if you build it, they will come.' I never believed in that. Nothing happens until someone sells something," Norrod says.

Jeffrey Sonnenfeld, senior associate dean and professor at Yale School of Management, points out that some of the world's greatest innovations didn't take off as intended at first, but later saw huge revenues once their makers and investors identified new markets for them.

Learn from Your Customers

"Cap Candy's Spin Pop was sold by its inventors to entrepreneur John Osher, who saw that the ingenious 360-degree rotation of the [product's] tiny motor could power toothbrushes and dish brushes and soon sold it for $475 million to Procter & Gamble (PG)," Sonnenfeld writes in an e-mail.

Sonnenfeld offers a framework for turning a disappointing reception for a hyped innovation into a more profitable business. He advises that executives diagnose the source of the problem by considering three issues. First consider ease of use. "Ask: Will new developments in adjacent fields lead to renewed support for the product?" he suggests. Then consider timing. "Is more consumer education needed—or more patience on the part of the company?" Finally, think of "imaginative alternative uses," advises Sonnenfeld: "Look and see how early adopters modify its use or completely reframe the concept."

Iridium's Desch is taking the idea of reframing literally these days. He's been in touch with the National Air & Space Museum about the plaque accompanying the Iridium satellite display. It will soon be updated with news of his company's turnaround success.