

PREFACE: Compaq's Missed Opportunity

I remember it like it was yesterday. I stepped on to the elevator of Compaq HQ in Houston and there stood a guy with a crazy contraption in his hand. I had never seen anything like it before. It looked like someone took a hard drive, strapped a camcorder brick battery to it, and jammed some headphones into an exposed jack on a raw circuit board. I had to ask, "What is that thing?"

"It's an MP3 player," he said. Then he explained to me that he had a bunch of digitized music on the hard drive. My mind struggled to comprehend. This was in June of 1998. At that point in time, there were no MP3 players on the market. Apple wouldn't launch the iPod until 2001 and the Diamond Rio player wouldn't be announced for another few months. And yet there I was on the elevator at Compaq HQ with a guy who had an MP3 player in his hand. It was amazing.

What really strikes me about that encounter was that here was a prototype for something that would ultimately change the world and it was in the hands of a company that had every capability to take it to market. Instead they missed the opportunity to define, or even participate, in the emerging market. That isn't the only example, either. Remember, Compaq started as a portable-computer company. The very first Compaq computer was mobile—not by today's standards, but certainly by the standards of the day. The company had a history in mobile and it had developed all kinds of technology around e-commerce, mobile computing, and digital entertainment. All of these technologies were just sitting around gathering dust at Compaq.

The crazy thing is that when HP eventually bought out Compaq in September 2001, the company was profoundly weak at cultivating markets. Compaq had not found a way to remain relevant, despite all of the ideas and prototypes in the labs. It's such a stunning contrast considering that within the company there were absolutely transformational technologies owned, developed, and managed from within and yet they still could not save their own life. To me, that's a perfect example of how it's not good enough just to think big thoughts and build cool stuff. You've got to understand the unmet needs of the customer and explore beyond the known horizon of the market. Technology itself – or any value proposition for that matter – is useless until customers express a need for it and that need is discovered.

That's the core idea behind Demand Horizon—it's a mental model, or framework, for understanding market-driven demand. And, I argue, that understanding demand is the single most critical thing a company can do to ensure its success. Understanding and meeting emerging customer demand is the central driver of all success in innovative companies. Compaq was such

a colossal failure because it had all of the pieces before the game even started in mobile computing but they lost because they couldn't manage their innovation.

Compaq is hardly unique. There have been plenty of companies and technologies that have met the same fate. That's the kind of situation that I hope to address by providing a model for how to find demand, create new products, and then take those products to market. As Apple ultimately demonstrated, clearly there was huge demand potential for MP3 players. Had Compaq understood what that demand was, it would've been clear how to move those products through to development and ultimately out to the market. Compaq's fate could have been very different had they focused on an innovation model that allowed them to understand user demand.

One of the big problems with Compaq was that there was a lot of technology being created just for the sake of the technology; it wasn't necessarily connected to user demand. Had Compaq done some exploration to understand that there was a huge appetite for digital music, it would've been very clear that it should take that crazy contraption from the elevator and put a lot of horsepower behind it. Who knows, had they done so, maybe people would be lining up outside of Compaq stores waiting for the release of their latest smartphone.