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McKinsey's Three Horizons Model Defined Innovation for Years. Here's Why It No Longer Applies.

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DAN BROWNSWORD/GETTY IMAGES

I'm a big fan of McKinsey's Three Horizons Model of innovation.

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When first articulated by Baghai, Coley, and White in 2000, in *The Alchemy of Growth*, the Three Horizons model was a breakthrough. Over the years, HBR articles have referenced the Three Horizons as a foundation of innovation strategy, here, here and here.

The Three Horizons allowed senior management to visualize what an ambidextrous organization would look like — the idea that companies and government agencies need to *execute* existing business models while *simultaneously creating new capabilities* — and helped to prioritize innovation products and programs.

However, in the 21st century the Three Horizons model has a fatal flaw that risks making companies lag behind competitors — or even putting them out of business.

The Three Horizons provided an incredibly useful taxonomy. The model described innovation occurring on three time horizons:

- Horizon 1 ideas provide continuous innovation to a company's existing business model and core capabilities in the short-term.
- Horizon 2 ideas extend a company's existing business model and core capabilities to new customers, markets, or targets.
- Horizon 3 is the creation of new capabilities and new business to take advantage of or respond to disruptive opportunities or to counter disruption.

Each horizon requires different focus, management, tools, and goals. McKinsey suggested that to remain competitive in the long run, a company allocate its research and development dollars and resources across all three horizons.

Here's what's changed: In the past we assigned relative *delivery time* to each of the Horizons. For example, some organizations defined Horizon 1 as new features that could be delivered in the short term of three to 12 months, Horizon 2 as business model extensions that will be ready 24 to 36 months out, and Horizon 3 as creating new disruptive products or business models 36 to 72 months out. (When I say "business model" I don't just mean private businesses, but also government agencies, nonprofits, and others who have a "mission model" instead.)

This time-based definition made sense in the 20th century when new disruptive ideas took years to research, engineer, and deliver.

That's no longer true in the 21st century — and leadership hasn't gotten the memo.

While traditional analysis suggests that Horizon 3 disruptive innovations take years to develop, in today's world this is no longer the case. The three horizons are no longer bounded by time. Today, disruptive Horizon 3 ideas can be delivered as fast as ideas for Horizon 1 in the existing product line.

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For those who grew up with the notion that creative disruptive Horizon 3 products takes years are in for some unpleasant surprises.

In fact, it's the speed of deployment of Horizon 3 products, strategies, and capabilities that are a devastating upset to the status quo.

To understand how quickly Horizon 3 products can come to market, consider some examples.

In the commercial space Uber took existing technology (smartphone app, drivers) but built a unique business model (gig economy disrupting taxis). AirBnB, Uber, Lyft, Craigslist, SpaceX, and Tesla are examples of Horizon 3 disruptions using existing technologies and deployed in extremely short periods of time.

These rapid Horizon 3 deliverables emphasize disruption, asymmetry and most importantly *speed*, over any other characteristic. Serviceability, maintainability, completeness, scale, etc. are all secondary to speed of deployment and asymmetry.

To existing competitors, or to existing government requirements and acquisition systems, these new products/services look like minimum viable products — barely finished, iterative, and incremental prototypes. But the new products get out of the building, disrupt incumbents and, once established, they scale. Incumbents now face a new competitor that makes their existing product line, infrastructure, or business model obsolete.

Ironically, rapid Horizon 3 disruption is most often used not by the market leaders but by the challengers and new entrants (startups, ISIS, China, Russia, etc.). The new players have no legacy systems to maintain, no cumbersome requirements and acquisition processes, and are single-mindedly focused on disrupting the incumbents.

For incumbents, there are four ways to counter *rapid* disruption:

- Incentivize external resources to focus on your goal or mission. For example, NASA and Commercial Resupply Services with SpaceX and OrbitalATK, Apple and the App Store, DARPA Prize challenges. The large organizations used startups who could build and deliver rapidly to build products for them – by offering something the startups needed – contracts, a distribution platform, or prizes. This can be a contract with a single startup or a broader net to incentivize many.
- Combine the existing strengths of a company or agency and its business model by acquiring external innovators who can operate at the speed of the disruptors. For example, Google buying Android. The risk here is that the mismatch of culture, process, and incentives may strangle the newly acquired innovation culture.

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- Rapidly copy the new disruptive innovators and use the incumbent's business model to dominate. For example, Microsoft copying Netscape's web browser and using its dominance of operating system distribution to win, or Google copying Overture's pay per click model and using its existing dominance in search to sell ads. The risk here is that copying innovation without understanding the customer problem can result in solutions that miss the target.
- Innovate better than the disrupters. This is extremely difficult for large companies or government agencies as it is as much a culture and process problem as a technology problem. Startups are born betting it all. Large organizations are executing and protecting the legacy. There are, however, successful examples: Apple and the iPhone, Amazon and AWS, the U.S. military and its armed drones.

The Three Horizons model is still very useful as a shorthand for prioritizing innovation initiatives. And even today, some Horizon 3 disruptions do take long periods of development.

However, the trap of the Three Horizon model is not recognizing that today many disruptions can be rapidly implemented by repurposing existing Horizon 1 technologies into new business models — and that speed of deployment is disruptive and asymmetric by itself.

In the 21st century the attackers have the advantage, as the incumbents are burdened with legacy.

Steve Blank is an adjunct professor at Stanford University, a senior fellow at Columbia University, and a lecturer at the University of California, Berkeley. He has been either a cofounder or an early employee at eight high-tech start-ups, and he helped start the National Science Foundation Innovation Corps and the Hacking for Defense and Hacking for Diplomacy programs. He blogs at www.steveblank.com.

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