
## The Sunk Costs Trap: How Past Investments Undermine Future Innovation

Imagine your company has spent years investing millions into one of its core products. To be sure, it's been a successful product, bringing you steady revenue and a healthy market share for years.

But now the market is changing. A few upstart competitors are beginning to offer alternatives to your product. And a small but growing community of customers is raving about how good these are.

Here's my question for you: Would you be willing to dial down future investment in your product and allocate your resources to something completely new—something you perhaps haven't even designed yet?

Most companies aren't. And as I discuss in my upcoming book *The Innovation Puzzle*, that's exactly why they fail in the long run.

You see, businesses unknowingly sabotage their own future by clinging to past investments. It's a phenomenon known as **sunk costs bias**. And the more successful a company has been in the past, the harder it is to break free from this trap.

In essence, companies don't just fear failure; they fear walking away from what once made them successful—even when that success is fading.

*Lessons from Polaroid and Nokia*

Here are two real-world examples of times when the sunk costs bias has played a pivotal role in blocking innovation—and transformed the firm's fortunes for the worse:

*Polaroid:* In recent years, you may have seen Polaroid instant cameras being sold as a kind of cute niche nostalgia product. Don't be fooled: they're not made by the original Polaroid, which went bankrupt in 2002. The sunk costs bias had a huge hand in sending the company under.

The company's innovation teams were actually leaders in developing digital photography technology in the 1980s. But the executives turned and ran when they were told about it. Instead, they decided to keep the company's resources allocated to instant film, the technology the company had thrived on for years.

By the time Polaroid finally embraced digital, it was too late.

*Nokia mobile phones:* A little like Polaroid cameras, Nokia phones now exist primarily on the retro fringes of their market. Nokia is still a big corporate beast in the Nordic ecosystem, but Nokia phones are actually made by another company that licenses the branding.

Nokia itself crashed out of the mobile phone market several years ago, unable to survive in the smartphone era. But things could have been so different.

Nokia actually developed a smartphone before Apple. But it couldn't bring itself to pivot away from its feature phone business. Leadership, overly committed to past successes, failed to recognize the shift in consumer demand, allowing Apple and a few of the Android handset makers to dominate the market.

Neither Polaroid nor Nokia was short on talented people who could turn innovative ideas into viable products. They were trapped by their executives' attachment to their past investments.

*Breaking Free: How to Avoid the Sunk Costs Trap*

How can companies escape this cycle and stay competitive? These are some of the solutions I suggest in my book:

- *Shift the leadership mindset*: Instead of asking, *"How do we protect what we've built?"*, leaders should ask, *"What will keep us relevant tomorrow?"*

- *Adjust financial decision-making*: As I discuss in more depth in *The Innovation Puzzle*, the rigid ROI calculations that firms tend to use are biased toward the short term. By embracing longer-term performance indicators that account for strategic renewal, firms give themselves metrics that empower their decision-makers to turn away from old formulas for success.

- *Don't sideline your innovation talents*: Another point I discuss in my book is the fact that firms tend to be wary of their "mavericks"—that is, the people who are most likely to break from the past. The pushback against such individuals' ideas often originates in the sunk costs bias.

*Final Thought: Are You Trapped?*

The companies that survive in the long-term are the ones that cut ties with the past when necessary and embrace uncertainty.

So, ask yourself: *What investments or strategies is my company holding onto that may be preventing real innovation?* It might be time to let go.