The mortality of Apple's Project Titan

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Much to everyone's surprise, Apple Inc. announced last month that it was ending its project to make a car. Dubbed Project Titan, this project was announced by Apple CEO Tim Cook in 2015.

At that point, Apple was not yet a trillion-dollar company. And everyone wondered if the leading producer of the world's most admired computing devices could now redefine the automobile industry. After all, many observers had taken to calling the Tesla an 'iPad on wheels' - inspired by its design and technology-driven reinterpretation of the automobile, including the promise of autonomous driving.

Opinions varied widely. At one end, former CEO of General Motors Dan Akerson thought it was not a particularly good idea! He described it as an attempt to 'cough up a hairball'. This sentiment was not too dissimilar to the response from many mobile phone competitors when Apple debuted in the industry with the iPhone. At the other end of the spectrum was Gene Munster, a managing director and research analyst at Piper Jaffray, who suggested that the company (Apple) could perhaps grab a 10% share of the auto market (with Project Titan) and boost revenue by as much as 60%.

But as Steve Jobs, the founder of Apple, famously said: "To me, ideas are worth nothing unless executed".

The rise and fall of Project Titan [1] [2]

The shares of Apple greeted the news of the retreat with a small rally. That is perhaps a reflection of the relief that the investment in Project Titan—estimated at several billion dollars—now considered a drain, would finally come to an end.

As per Bloomberg, Apple had close to 2000 employees working on the car project. As per reports, the company had spent $113 billion on R&D over the past five years at a growth rate of 16% pa.

It is not the first time though that the company has scrapped a project. In the same year that Apple announced Project Titan (2015), it halted a nearly decade-long effort to launch a Television.

It's worth mentioning that every company needs to invest in research and development to stay relevant. However, not every effort may be successful, and even fewer will be meaningful or commercially viable. Alongside the willingness to invest in R&D, companies and businesses should have an equally crucial skill: knowing when to walk away from a project.

Note: The years of R&D, involving money and effort, and the final decision to scrap Project Titan have not impacted Apple Inc in terms of growth, profits or stock price outcomes. From 2015 the stock has multiplied nearly 4x and is now worth just a shade under $3 trillion. Apple's car project may have gone nowhere but their portfolio of products and services has had enough successes to overcome this particular project

Balancing innovation and pragmatism

In the book Harsh Realities: The Making of Marico, one of India's finest entrepreneurs Harsh Mariwala, the founder of Marico, talks about the divestment of one of their brands Sweekar. Sweekar was a brand that competed in the refined sunflower oil segment. There was little to differentiate it from the other brands as it was a commoditized market with multiple players. Marico had persisted with the brand for nearly 18 years, but they were unable to do with the Sweekar what they had been able to do with their other products: create a premium brand and deliver healthy margins. The brand had served a purpose in the past due to its large volumes and scale and it could also be used in a tactical role to protect its more premium products. The company finally sold the product and brand in 2011.

Harsh Mariwala has this to say about divestment: 'In business, there is no shame in selling off heirlooms. It is an important means of unlocking value or stopping the bleeding. It helps focus on more strategic and profitable priorities.'

That demonstration of intent and skill, as described by Mariwala, is that of knowing when to walk away. The biggest challenge in walking away from something that is failing is the concept of 'sunk cost'. The financial writer Morgan Housel defines sunk costs as 'anchoring decisions to past efforts that can't be refunded'. The emotional bond and ego stop a person from easily walking away from something that has consumed money and time.

In understanding both Apple's decision to walk away from autonomous cars and Marico's decision to walk away from Sweekar, it is useful to understand another thought espoused by Mariwala i.e., the **RIGHT TO WIN**.

'You should find out what will enable you to win in a highly competitive environment – is it innovation, is it some pioneering initiative, it is service quality if you are in the services sector, is it some technology patent… you need to have a very strong right to win which will make you stand out compared to others, and which will be relevant for your success.' [3]

Successful companies need to blend two diametrically different ideas. At one end they need to invest in innovation and technology to stay relevant and grow. At the same time, they must also be able to look beyond sunk cost, determine its right to win and quit a certain path when appropriate. This balance is driven by the leadership and culture of an organisation.

This has been summed up succinctly by Mariwala:

'It is difficult to create a culture of innovation in businesses and it is (up to) the leadership to ensure that people in the organisation experiment and take risks and remove the fear of failure. Constant innovation and creating a culture that encourages new ideas are key to building a successful business'.[4]

It's 2024 and we are entering a new era in India! Encouraged by government programmes such as the PLI (Production Linked Incentive) Scheme and existing market opportunities, companies are stepping forward into new areas such as EVs, battery technology, renewable energy, hydrogen, fuel and semi-conductor fabrication among others. Not to forget the new buzzword Artificial Intelligence. I wish all such entrepreneurs and managers the very best. In making their decisions they would be well served to remember the sage counsel from Harsh Mariwala.

As for Investors in such companies they need to recognize that not every new initiative will be successful. They should also engage with management to ensure that the company has a review process in place to determine when to halt an initiative.

[1] https://blinks.bloomberg.com/news/stories/S9J8IYT1UM0W
[2] Detroit Warned Apple About Making a Car. It Had to Learn the Hard Way.
[3] 'Entrepreneurs must create a strong right to win'
[4] "Right to Win" by Harsh Mariwala, Chairman – Marico Ltd & Past President, FICCI

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