



Winnovation

BY ROWAN GIBSON

Where did all the growth go?

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This is another in a series of articles on innovation as a means to achieve business success.

It had to happen. After several years of solid growth and blue sky thinking, we now have a big, dark cloud hanging over the global economy.

So what do we do next? Many companies are likely to put the brakes on innovation initiatives, reasoning that money is getting too tight to invest in new products and business strategies. It's the usual knee-jerk reaction at a time like this.

And it's totally counterproductive. In a slowing economy, companies need to find new opportunities for pushing up revenues, not just focus on cutting costs.

Judging by all the long faces at this year's World Economic Forum, the party is definitely over (at least for a while). I may be sticking my neck out here, but I'm not entirely sure I want to join the pessimists. In the past, the mighty US economy has proven to be incredibly resilient despite all the prophets of gloom and doom.

In this decade alone, America Inc. took severe beatings from the Dotcom bubble, the 9/11 attacks and the financial scandals like the Enron meltdown, yet it came back stronger than ever. Clearly, we're facing a significant slowdown in 2008, but I'm far from convinced that America is the new Japan, destined to spend the next decade in the economic doldrums.

Innovation is not a luxury reserved for the good times. It's your company's foundation for long term growth.

When the world's dominant economic player (the US accounts for 22.5% of the global economy) starts sneezing, it's obvious that markets everywhere panic about catching the flu. But let's not forget that, taken together, Europe and Japan also account for about 25% of the global economy.

And while recent stock market turbulence indicates that decoupling from the US economy is still mostly wishful thinking, there remains some hope that China, India and other developing markets can somehow continue to drive global growth, even as America stalls.

Many of the world's leading companies are already a lot less US centric than they used to be. Take Nokia. Most of its revenue growth is currently coming from China, Asia Pacific, the Middle-East and Africa. For the Finnish mobile phone giant, North America and even Europe represent yesterday's growth markets.

Or consider US based Yum Foods, owner of the fast food chains KFC, Pizza Hut and Taco Bell. Today, 50% of the company's profits come from overseas markets where business is booming (Yum is particularly focused on China, India and Russia) compared with US sales which grew by a mere 2% last year.

The big question is whether these emerging economies, which are still highly dependent on exports (especially to the US), can still grow their domestic markets if consumer spending in the West – and thus demand for their products – starts to plummet. Only time will tell.

One thing's for sure: now is not the time to mothball your company's innovation initiatives. Innovation is not a luxury reserved for the good times. It's the mainstay of revenue growth, company value, market share and competitive advantage, whatever the state of the economy.

Recessions aren't forever – the current slowdown is likely to last maybe three or four quarters at the most which is nothing in product development terms. When the economy returns to growth, which it certainly will, your company needs to be ready with innovative new offerings on the market place with which to attract current and future customers.

If you put the brakes on innovation now, you won't be able to come out swinging once growth takes off again.

To illustrate the point, do you think for a minute that a company like Apple is go-

ing to stop innovating because the economy is in a downturn?

Not on your life. As Bruce Nussbaum pointed out in a recent article, during the last recession Apple was not firing talent, trimming expenses and cutting back on innovation projects. Instead, the company was busy working on several big strategic opportunities – iTunes, iPod and its new retail stores. When the economic skies cleared up, Apple took off like a rocket.

As Nussbaum puts it, "Winners always emerge out of recessions and they almost always beat their competition on the basis of something new." By the same token, hands up if you think the Chinese are going to relax their innovation efforts while America tries to get its economic act together. I don't think so, do you?

This, then, is not the time to pull the plug on innovation. If the growth rate in your industry is slowing down, what you need now more than ever is new sources of revenue – new products, new markets, new customer segments. Otherwise you'll be faced with ever declining revenues and profits from your existing business.

The thing to do now is engage your whole organisation in the search for new strategic growth opportunities – and ways to make more out of the business you already have. This doesn't call for huge innovation budgets. One of the most inexpensive methods for generating lots of new ideas is simply to ask for them.

Another is to look outside your organisation and involve suppliers, partners, even customers in the search for new, value creating ideas. This kind of 'open innovation' is what my colleague Gary Hamel calls "innovating on the cheap."

By all means, take a careful look at your innovation investment and try to manage it very efficiently in the months ahead – just like any other budget item. But don't let innovation become the victim of a shortsighted focus on bottomline results.

Instead, continue to build and maintain your company's foundation for long term growth which is centred on its capacity to innovate. ■