



Winnovation

BY ROWAN GIBSON

Winning in the Innovation Economy

Pick up any financial newspaper or business magazine and look at Wall Street's biggest winners and losers. What do you see? On the one hand we have companies like Toyota, which are growing like gangbusters, and on the other hand we have companies in the very same industry – like Ford and GM – which are bleeding billions of dollars and tens of thousands of employees. What accounts for the big difference? Obviously, there are many factors involved here, both internal and external, but if you squint just enough you can see that the big picture is all about innovation.

Toyota has generated a lot of growth and a strong competitive advantage with a whole string of customer-focused innovations. We can go back to the lean manufacturing process a few decades ago that enabled the company to produce high quality cars at affordable prices. Or we can go right up to date and look at the company's move into green technology, at a time when fuel prices are high and environmental concerns have become not just mainstream but Hollywood chic.

The radical strategy to make hybrids a “core technology” has been an expensive bet for the company but it is paying off big-time; and has helped propel Toyota forward in its race to replace GM as the “world's biggest car-maker” (which has now been achieved).

Contrast this with Detroit, where General Motors and Ford have missed the hybrid bandwagon altogether and, instead of getting their innovation act together, have focused on killing each other in a price war. GM's CEO, Rick Wagoner, apparently still doesn't get it. In an interview with the *Wall Street Journal* a while back, he said his company's disastrous financial results “re-emphasize the need to for us to significantly improve our cost structure in all

major areas.” The need to do WHAT? Did anyone read the word “innovation” in that statement?

Here we have Toyota pumping billions of dollars into strategic innovations that command premium prices, while GM is putting all its effort into cutting material costs, using its production capacity more efficiently and practically giving its cars away (big gas-guzzling SUVs and Hummers, mind you). No wonder credit-rating agencies have downgraded GM’s and Ford’s bonds to junk debt status.

While General Motors is forced to take billions of dollars out of its VEBA trust – a kind of healthcare piggy bank – to cover its losses, Toyota is sitting on piles of cash and poised to make even more money by licensing its environmental technology to the laggards in Detroit.

Granted, Detroit is making belated efforts to turn up the idea volume. The arrival of design fanatic Bob Lutz at GM might have helped them produce a few better-looking cars. But these efforts are mostly too little, too late. They are merely excuses for GM’s failure to innovate successfully for decades.

If dramatic growth is what your company is looking for – or even just *any* real growth – innovation is the only way to get it. Without innovation, business stagnates and declines, or just comes to an abrupt end. Short-term substitutes for innovation, like downsizing, cost-cutting, buying back shares, or taking the consolidation gains out of mergers and acquisitions, will only put off the inevitable.

That’s why it’s high time to start thinking about jaw-dropping new products, new services and new business ideas that can profoundly change customer expectations, competitive rules and industry economics. If your company wants to win – or even survive – in the new Innovation Economy, you don’t have any other choice.

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