



# Winnovation

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## The fuel for strategic renewal

What exactly is the goal of your company's innovation efforts? "Oh, that's easy", senior managers usually reply, "we need to grow the business". The line of logic here is relatively simple: "Innovation leads to wealth creation leads to growth" – which, of course, is fair enough. Based on this logic, companies of every stripe are now racing to pursue the kind of innovation that generates organic growth, new revenues, and wider profit margins.

However, while it's clear that these goals are absolutely critical and that innovation is the only viable option left for attaining them, the case for innovation actually goes a lot deeper than that. Indeed, there's an inherent danger to focusing most of a company's innovation efforts on growing the top line or improving profits (e.g. by cutting more costs out of the system). The danger is that product innovation or operational innovation may take overwhelming priority over innovation at the level of the core business strategy. In most cases, these more superficial kinds of innovation lead only to short-lived success, and in the worst case they may be followed by disastrous failure.

Take Kodak, for example. Back in the 1980's, the company launched the single-use, disposable film camera. It was a radical innovation that made Kodak a ton of money through the 90's and right into the early years of the 21<sup>st</sup> century. At one point, over 200 million of these cheap and cheerful little cameras were being sold each year, representing an incredible 20% of all photographic sales. So, did innovation lead to wealth creation lead to growth? Of course it did. Except that, next morning, photographic film was dead – or at least pushed from the mainstream to the margins – as digital cameras and camera phones became ubiquitous. Kodak has been struggling ever since.

In other words, innovating within the context of a company's existing business model can be a good thing, and for a while it can certainly push revenues and profits into a steep growth curve. But in an age when disruptive

change happens at breakneck speed, business models have a much shorter shelf life than ever before.

Consider the telecom industry. A few years back, most telecom companies were giving plenty of thought to innovation in things like products and pricing (coming up “friends and family” packages and so forth), but how many of them were thinking about telephony switching to a completely different kind of network – like VoIP?

Likewise, most airline companies were focused some years ago on how to innovate in things like their loyalty programs, or their onboard catering, or their First Class seating, but how many were thinking about the possibility of a completely new, low-cost business model for the airline business?

That’s why the true challenge facing companies today is not growth; it’s *perpetual* growth – it’s ensuring that the organization continually prospers, year after year, decade after decade, despite massive and ever-increasing turbulence in the external environment. Companies need to develop the capacity to anticipate and adjust to the fundamental change forces at work in the world, dynamically reinventing their core business models and strategies as circumstances alter, and as new threats and opportunities emerge.

A company that has done this really well is Britain’s Tesco. Over the decades, Tesco has not only continuously innovated within its traditional supermarket business, but has also feverishly innovated around its core business model – adding a string of non-traditional businesses, from petrol sales in the mid-1970s to financial services, travel, legal advice, telecom and internet services, music downloads, gas and electricity, and online grocery today. This ability to perpetually reinvent itself and its industry has helped turn Tesco into one of the largest and most successful retailers in the world.

Here’s the point: the conventional line of logic – “Innovation leads to wealth creation leads to growth” – is in urgent need of an update. Executives need to understand the deeper insight that “Innovation leads to *strategic renewal* leads to *perpetual growth*”. Only by developing this understanding can companies fully appreciate the role that innovation should play in shaping their destinies. Only then will they commit to making radical changes in the core business itself, before the case for change becomes desperately obvious – as it has, for example, in the photography industry, or the telecom industry, or the airline industry, or the supermarket industry.

Perpetual growth requires perpetual renewal. It’s the only way to maintain continuity in a discontinuous world. And the fuel for renewal is innovation. Not merely innovation at the margins but deep, strategic innovation at the level of the core business model.

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