



Winnovation

BY ROWAN GIBSON

Where did all the growth go?

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 strategic growth initiatives, reasoning that money is getting too tight to invest in innovation. It's the usual knee-jerk reaction. And it's totally counterproductive. In a stalling 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 in Davos, 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 U.S. 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 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.

When the world's dominant economic player (the U.S. accounts for 22.5% of the global economy) starts sneezing, it's obvious that everyone else panics about catching 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 U.S. 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.

Some of the world's leading companies are already a lot less interested in the U.S. market. Take Nokia. Most of the company's revenue growth is currently coming from China, Asia Pacific, Middle-East and Africa. For the Finnish mobile phone giant, North America and even Europe represent yesterday's growth opportunities. Or consider U.S. 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 U.S. 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 U.S.), can continue to 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 start mothballing your company's innovation initiatives. Innovation is not a luxury reserved for the good times. It's the mainstay of revenue growth and company value and 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, your company needs to be ready with innovative new offerings on the marketplace 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 going to stop innovating because the economy is in a downturn? Not on your life. As Bruce Nussbaum pointed out in a recent BusinessWeek article, during the last recession Apple got busy working on iTunes, iPod and its retail stores. When the economic skies cleared up, Apple took off like a rocket. 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 organization 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 organization, and involve suppliers, partners and even customers in the search for new, value-creating opportunities. This kind of "open innovation" is what my colleague Gary Hamel would call "innovating on the cheap".

By all means, take a careful look at your innovation investments and try to manage them just as efficiently as any other in the company. But don't let innovation become the victim of a shortsighted focus on bottom line results. Instead, continue to build and maintain your company's foundation for long term growth, which is centered on its capability to innovate.

© Rowan Gibson 2008
www.rowangibson.com