



Winnovation

BY ROWAN GIBSON

Waiting for the world to catch up

My heart goes out to innovators the world over. Even at the best of times, it can be tough to find financial backing for radical new ideas. But in the midst of a once-in-a-century, out-of-control economic crisis, with corporate profits in a steep nosedive and banks unwilling to lend, the chances of getting some resources to push an idea forward are currently close to zero in many organizations. Yet it's estimated that 70 percent of today's revenue-producing products and services will be obsolete in just five years, not to mention the industry business models behind them. So if companies give innovation the thumbs-down now, exactly how and when do they intend to renew their offerings – and their core business strategies – for driving future growth?

We all know that over the last few months global demand for almost everything has fallen off a cliff. Customers across the board are cutting back, cancelling orders, or trading down to lower-cost solutions. So why, the argument goes, should companies be concerned with financing “the next big” thing when it's hard enough trying to sell the thing they've already got?

I have two answers. The first is this: if the sales curve is dropping off the bottom of the chart ‘the proper response’, according to Intel’s CEO Paul Otellini, ‘is to give customers new reasons to buy’. Despite a 90 percent drop in fourth-quarter net income last year, Intel’s strategy is to keep investing in innovation during the recession. In a speech last month at the *Economic Club* in Washington, D.C., Otellini said he plans to spend \$7 billion to upgrade technology at Intel’s U.S. manufacturing plants over the next two years. By beefing up his factory’s production processes, Otellini aims to beat the competition by fabricating chips with 32-nanometer circuitry, as opposed to the current 45-nanometer standard. These new chips, which combine higher performance with low power consumption and price, will drive future revenues by enabling the next generation of desktop computers and laptops – and helping Intel open up important new markets.

My second answer is that companies often win big by innovating at a time when there is no demand and then waiting for the world to catch up. An example would be Nespresso, Nestlé’s capsule-based coffee system. It might surprise you to find out that Nestlé bought the original patent in the 1970s, but it took three decades before Nespresso achieved mass-market appeal. Why? For one thing, there were initially some technical hurdles to overcome. But, more crucially, it’s because up until a decade or so ago, most people’s coffee drinking tastes were not very sophisticated. For many years, most of us were quite satisfied with a typical, filter-based machine or even granules of instant coffee. Then we fell in love with Italian Cappuccino and Espresso, and we got a Starbucks on every corner, and we discovered Latte and so on. Today, Nespresso’s coffee machines and little capsules are a fixture in homes and offices all over the world. Nestlé recently announced that annual revenue for the product, which grew 30 percent in 2008, now surpasses \$1.7 billion, representing a full 5 percent of the company’s overall sales. It’s currently the fastest growing among Nestlé’s brands, and it’s helping the company successfully ride out the recession. As the *International Herald Tribune* puts it, “the global economic downturn may be the most serious since the 1930s, but these are boom times at Nespresso”.

The lesson here is that, even when the resources for innovation are extremely limited – as they may well be right now – companies should be very careful not to kill off potentially big ideas just because sales are in a slump and there is no perceptible demand at present for the “next big thing”. On the contrary, it often pays to nurture these slow-burn opportunities to their proper fruition by funding them over time in small, staged increments and waiting for market conditions to improve so that the idea can take off. Companies need to ask themselves, ‘How can we commit resources to this

new opportunity, yet simultaneously remain extremely tentative in terms of investment?’

In the case of Nespresso, it took decades for the market penetration curve to go from horizontal to vertical. But for many other business innovations, the timeframe was dramatically shorter, meaning that demand went from zero to through-the-roof in the space of just a few years or even months. Nobody, for example, was crying out for eBay, iTunes, Skype, MySpace, YouTube, PayPal, or Google Earth. Yet their creators believed these ideas had huge potential and they pursued them anyway, in some cases on a ridiculously shoestring budget. The rest, of course, is business history.

Indeed, go back to the early nineties and you’ll find that there was almost no demand for the Internet. Not even Bill Gates saw its potential in the early days, let alone his customers. Back then, it was almost impossible to foresee a mass-market demand for what, at the time, seemed like a grassroots IT network for university students. But a few visionaries, eventually including Gates, began to grasp that – if it was scaled up – the Internet could actually have the potential to change the world. Now, just fifteen years later, over a billion people are on the Web and we can’t imagine life without it.

One last story: in 1994, the fledgling cell phone industry introduced an extra data channel on mobile networks that was designed for sending technical information. They called it “Short Message Service”, and it was generally met with a yawn. Who could have known back then that SMS, which at the time was essentially a by-product, would eventually become like oxygen for teenagers all over the world? Today, it actually generates more revenue for network service providers than mobile phone calls.

That’s precisely my point: sometimes you just have to grind away at innovation – even when resources are very limited and there’s no current demand – and wait for the world to catch up.

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