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Main Section

OVATE YOURSELF OUT OF THIS RECESSION: ROWAN GIBSON

Continued from April 8, 2009

By Dinesh Weerakkody

Rowan Gibson, a bestselling author and a global guru on innovation, in an expansive interview says that the path to corporate redemption out of this recession lies with how systematically and how early executives drive innovation into the DNA of their companies.

Mr. Gibson will soon be expanding his message to a Sri Lankan audience via satellite at the National HR Conference in June 2009.

Q: Based on your consulting experience, why do some companies do well even during difficult times and others not?

I believe that success in the bad times has a lot to do with the way you position your company in the good times.

Look at retailers like Wal-Mart, Aldi and T.J. Maxx; their sales figures are currently up by around 10%. The reason is obvious: consumers are increasingly flocking to these discount stores because their jobs are uncertain, so they are pinching the pennies. But it's not as if these retailers have changed their business strategies to fit the new market situation. They have always been about value for money. They have spent years building their positions as cost cutters and consumer champions and right now they are simply reaping the benefits.

Another example is McDonalds. It worked extremely hard since 2003 to freshen up its product portfolio, reduce its prices and improve the atmosphere in its restaurants. Instead of pursuing mindless expansion around the world, McDonalds focused on adding value to its existing outlets, for example with the McCafes upmarket look but reasonably-priced coffee drinks, along with leather seats and flat-screen TV sets. In March this year, they posted incredible results, making McDonalds one of the most successful global companies during the recession. But so much of that success has to do with all the groundwork the company was doing over the last 6 years.

Contrast this with Starbucks. The coffee store company has recently slashed nearly 20,000 jobs and is closing almost 1000 outlets just to keep its head above water. And, sure, it's easy to blame this on the recession. But the truth is, Starbucks has been on a downhill path for years. In essence, their strategy was the opposite of McDonalds: on global growth, at the relative expense of service, cleanliness and customer experience. So, if you pardon the pun, trouble was brewing at Starbucks long before the economy took a downturn. In November last year, Starbucks announced that fourth-quarter profits were down 97 percent!

The truth is, whatever industry you are in, your success in the difficult days ahead will, to a large extent, be dependent on how well you have done your job in days past. For example, were you developing very close relationships with your customers? If so, then those relationships should be sustaining your business now. And were you truly innovating? If so, you will probably have breakthrough products in your portfolio right now that will continue to drive revenues even in bad times.

Think about Apples iPod and iPhone, still selling briskly despite the depressed economy. Or the Nintendo Wii, which reinvented the video game and is outselling Microsoft Xbox and Sony PlayStation by a factor of 3 to 1. Even in the automobile industry, Audi, the luxury car maker, racked up record sales in 2008 and net profits rose 32%. How is that possible? Well, a lot of that sales growth was fuelled by introducing innovative new car models that the company was busy with over the last few years: the new A4 and A5, as well as the Q5 SUV (and soon the A1). So they have by far the youngest and freshest model lineup in the luxury automobile business, and that is keeping revenues relatively high even in these tough times.

Again, contrast this with GM. Their cars and their sales were lackluster before the recession; now things have worsened and it is knocking on their door.

So, the stronger you are going into the crisis, the better chance you have of surviving the



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storm.

Q: Right now, it seems as if people are paralyzed about taking decisions. What should companies do to get through the tough times?

The big strategic issue for the last 6 months has been adaptation. The absolute worst thing you can do in a recession is assume that you can continue to sell the same old products or services to the same old customers in the same old way, and at the same old price. Instead, understand that customer priorities have probably never changed more dramatically in so short a timeframe. So the challenge is to quickly realign your strategy and business model to address new customer needs.

Dr. Spencer Johnson made the point brilliantly in his wonderful little book "Who Moved My Cheese?" You can't curse the world and expect someone to return your lost business. You have got to get up and take action to generate new sales by coming up with new offers, products or service combinations, new growth opportunities. You have got to give customers new reasons to buy from you very quickly. And that calls for innovation across the spectrum in products and services, in manufacturing, in marketing strategies, in sales and distribution processes in fact, in every component of the business model.

I love Hyundai's promise to US customers that if you buy a new Hyundai and lose your job within a year, you can give it back. That's the kind of business innovation I'm talking about. It's not necessarily about changing the product itself but about taking the customer's financial insecurity out of the equation.

IBM ran a great ad last year with a headline that captures that whole idea. Stop selling what you have. Start selling what they need. That should be written up on the wall of every CEO's office.

Let's be honest: CEOs are paid huge sums of money to lead their companies. They are supposed to be business professionals, which means they should know what to do when market conditions take a nosedive. We all want an experienced pilot like Sully Sullenberger, who stayed cool and landed his plane on New York's Hudson River after it ran into a flock of birds. Someone who takes decisive and innovative action to put things right!

Q: In times of little credit and slowing demand, how can a company afford to be innovative?

There seems to be an implicit assumption that big breakthroughs need big budgets. Yet innovation can actually cost a lot less than companies think. In fact, you don't have to have a massive budget to pull off incredible innovation achievements.

When Steve Jobs and his team created the original Macintosh computer back in the early eighties, IBM was spending at least 100 times more money on R&D than Apple. It was David against Goliath. The trick with the Mac was that Apple took existing technologies that were underutilized at the time such as the mouse and the graphic user interface and put them together in a cleverly-designed and consumer-friendly package.

The same was basically true of the iPod. What made iPod such a hit was the way Apple infused the device with those classic Apple attributes user-friendliness, cool design and iconic branding and then linked it to the iTunes business model.

On a similar note, where did iTunes come from? Before the iTunes Music Store, there was Napster. The idea of a digital download service for music wasn't new. What was new was the legality and the simplicity of Apple's model.

Here's the point: if Apple had chosen to develop the Macintosh, the iPod, or even MAC OS X completely on their own, entirely from scratch, the costs would have been astronomical. Instead, they chose to be innovative where it matters and source the rest from outside the organization. This is a crucial key to leveraging limited resources in the pursuit of big, breakthrough innovations.

Sourcing ideas, assets and competencies from outside the organization is the basic concept behind what we now call open innovation. Many organizations have discovered the wisdom of this approach. Take P&G's open innovation program -Connect and Develop - aimed at sourcing half the company's innovations from outside. Not only has this program produced a slew of successful new products that had their genesis with external innovators, but it has simultaneously helped P&G slash its own R&D investments by around 20 percent, giving productivity a tremendous boost.

Of course, you don't even need to look beyond your company's borders to find great ideas. Simply ask your own employees! There is just so much brainpower in today's organizations going waste because senior executives fail to consider their own rank-and-file people as a source of innovation. This is madness. It has to change!

A third way to improve innovation efficiency is to make sure that your innovation experiments are initially based on small increments of capital rather than hefty, bet-the-farm investments. There is a whole chapter on this in my book. I call it Managing and Multiplying Resources.

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So there's no excuse for not innovating. We can't just throw our hands in the air and say, We don't have the resources. Innovation is not a luxury reserved for the good times. Its the mainstay of revenue growth and company value and market share and competitive advantage, whatever the state of the economy. Recessions aren't forever. And 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.

Sure, it can be difficult to find money to put behind new ideas, even at the best of times. And, clearly, resources are more limited than ever at the moment. But by following the strategies I have mentioned, you should be able to innovate on the cheap, as my colleague Gary Hamel likes to put it.

Q: When you address our corporate executives this June at the National HR Conference, what will you emphasize ?

I'm going to be talking to senior executives and managers about how they can drive their businesses forward in the current economic climate. In particular I want to address the issue of making innovation a deep capability that involves everyone in the company, every day, because that is going to be a big factor in their business success and survival in the coming months and years.

Building a wall-to-wall, top-to-bottom enterprise capability for innovation will offer Sri Lankan companies both short and long-term benefits. Short-term: it can help them produce vital new ideas for saving money and generating new revenues. And, long-term, it can help them build a portfolio of innovation opportunities for driving future growth.

I will introduce the audience to a cutting-edge tool kit for strategic renewal called the Four Lenses of Innovation, which literally anybody in the company can use to develop breakthrough ideas. And I will explain how HR professionals can take on a pivotal new role as innovation process champions. They need to be hiring for innovation, building new management infrastructures for managing and supporting innovators, creating broad-based training programs to teach people innovation skills, and hardwiring remuneration packages, incentives and balanced scorecard objectives into the company's innovation strategy. These are important steps toward making innovation happen in a sustainable way.

The theme of the conference is "People Drive Business" because I have learnt that ordinary people are capable of extraordinary innovation. We are all innovators, with the potential to influence the destiny of our companies. So the great challenge - particularly for HR is unleashing all of that creativity and channeling it into business innovation. I am going to show Sri Lankan companies exactly how that can be done.

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