

# Interview with Rowan Gibson for ‘Politika’

## **How do you think companies can win in times of economic crisis and take advantage of the crisis in order to increase their sales and profits?**

A lot of companies can win at a time of economic crisis simply by offering a cost advantage compared with the competition. Clearly, when there is less money around, customers reassess their priorities and they tend to trade down to less expensive products and services. So, at a time of recession, the cost champions in any given industry can win a lot of business from those companies that charge a premium. And it's usually not just a short-term win. Customers often discover that the lower-cost alternative is actually just as good as the higher-priced offering, if not better in some ways. So in many cases the switch becomes permanent. Those customers never come back. In other words, at a time like this, the cost champions can not only increase their sales and profits on the short term but also grab very valuable market share for the longer term. This is a big opportunity for Serbian companies that can offer real value for money.

If your company does not offer a cost advantage, it will have to adjust its business model in other ways in response to the customer's changing needs. The temptation is usually to panic and drastically drop your prices in order to compete. But this can be a very bad strategic move. First, because the cost champions will probably react by undercutting your prices even further, which is a battle you ultimately can't win. Second, you educate your customers that they can pay a lot less for your product or service, and it may be very hard to raise the price again when the economy turns around. And, third, you run the risk of altering your brand's basic positioning if you go too far down-market. That means you end up losing your loyal customers because they no longer see you as a "premium" or "added-value" brand.

To win at a time of recession, my advice is to innovate across the *entire* business model: the markets you serve, the products and services you sell, the way you provide these products and services, the way you make money, and the way you differentiate and sustain an advantage. All of these things should be reconsidered from the point of view of the customer and, where necessary, redesigned by starting with the customer need and working backward. You have to understand that customer needs have probably never changed so dramatically in so short a time frame. The last quarter of 2008 and the first quarter of 2009 saw the severest downturns in the global economy since the Great Depression. So everything is different now: how your customers think, how your customers act, what your customers care about, even who your customers are. The winners during this downturn will be those companies that focus on what their business has to do *differently* for the customer in order to generate results.

## **You are saying that the economically unstable environment opens up space for new ideas. Could you mention several successful examples?**

You know, if look back over business history you will find many, many examples of successful companies that were actually started during a time of recession. For example, if you go all the way back to the 19<sup>th</sup> century, this would include GE, Procter & Gamble and IBM – some of the largest corporations in the world today. And over the last half century or so, it would include Burger King, Hyatt hotels, Fedex, HP, Microsoft, CNN, MTV and Wikipedia.

The same goes for innovative products. Some of the biggest winners of all time were born during a recession. They range from *Fortune* magazine, which (unbelievably in view of the title!) was launched in 1930 during the Great Depression, to Nescafé instant coffee (launched just before World War 2), to the IBM Personal Computer, which came to the market in the 1981/1982 recession, all the way through to the Apple iPod, which was launched during the recession of 2001.

Or we could take service innovations, like airline loyalty programs or the value menus we find at McDonald's and other fast-food chains. All of these new ideas came into the world at a time when the economy was in bad shape.

So periods of economic upheaval always open up a lot of space for new ideas and newcomers. They can actually be an excellent time to launch a disruptive new product, introduce a radical new business model, start an innovative new company, or simply strengthen your existing customer relationships in some exciting new way. I'm sure the current economic crisis is going to provide us with lots of fresh business cases we will be able to talk about in the future.

### **How can you turn the crisis into business opportunity?**

The simplest way I can put it is this: use the recession to *close* the gap between your company and your customers, and simultaneously to *widen* the gap between your company and your competitors.

The first part of this equation is about matching your offering more closely to your customer's new needs. Just as an earthquake opens up new ground, an economic shift of this magnitude exposes unmet market needs that were previously hidden, or at least not so obvious. Now, more than ever, you should take an honest look at your products or services and ask yourself if there is a gap between whatever it is you are offering and what your customer currently values or needs. Your goal should be to close that gap as soon and as effectively as possible, by making your offering more relevant to the needs of the market. That means you have to listen more closely to your customers, which shouldn't be difficult because they tend to shout a lot louder when the going gets tough. And you need to show your customers that you empathise with their situation, and that you are there to help. Dell, for example, has launched a new advertising campaign that sends a reassuring message to customers that, "We're going to get through this together." Their ads have headlines like, "Simple solutions in tough times", or "The laptop that works anywhere, in any economy".

The second part of my simple formula is about widening the gap between your company and your competitors. Downturns provide a unique opportunity to do this. Here's why: during times of economic expansion, most companies invest quite a lot of their money in sales, marketing and innovation. Unfortunately, the net result is that none of them significantly improve their market share because they are all basically increasing their spending at the same time, so nobody gets ahead. But when the economy drops off a cliff, most companies tend to drastically cut back on that spending. They slash their sales and marketing budgets and put innovation projects on ice. So if, by contrast, your company continues to invest in these crucial business drivers – and even increases its spending while your rivals reduce their budgets – it can actually succeed in pulling ahead of the competition.

I have seen several recession studies that demonstrate what can happen if you follow this advice. McGraw-Hill Research, for example, found that businesses that maintained or increased their advertising spending during the 1981-1982 recession, averaged higher sales growth during the recession and in the three years following. By 1985, the sales of these advertisers had risen 256% over those that cut-back on advertising. Likewise, in 2001, another study found that aggressive recession advertisers increased market share 2 ½ times the average for all businesses in the post-recession economy. McKinsey Research revealed that those companies that beat the recession in 2001/2, and gained market share, were the ones that actually *increased* rather than decreased their spending on sales, innovation and marketing.

The lesson here is that, when all your competitors are pulling back because of the recession, it pays for your own company to charge ahead. Instead of joining the crowd by reducing your sales staff, marketing budgets, and R&D expenditure, now is the time to invest in these things more heavily than ever. As Alan Lafley, CEO of Procter & Gamble, put it recently, “It’s essential to innovate through a recession by bringing disruptive new brands and products to the market that offer customers more value”. I completely agree with him on that.

### **How to make product attractive for the customers in situations where, because of the crisis people do not want to buy as much as they used to?**

Let me quote the CEO of another major company: Paul Otellini of Intel. He says that “the proper response to recession is to *give your customers new reasons to buy*”. That’s essentially what innovation is all about, whether we consider product innovation, service innovation, cost innovation, customer experience innovation, business model innovation, or other forms of innovation. It’s about finding new ways to create value for customers so that they continue to open their wallets. As an example, Apple consistently manages to do this with its fantastic products, because millions of people are still buying all those iPods, iPhones and MacBooks, in spite of the recession.

But, as I mentioned earlier, innovation doesn’t have to be focused on changing the product itself. It can be about innovating *around* the product. Cisco, for example, recognized that sales of TelePresence, its high-end videoconferencing product, were falling. This is not much of a surprise, when you consider that it costs about \$350,000. So the company partnered with one or two hotel chains, where they installed the product for customers to rent instead of buying. So now they can phone up the hotel and rent Cisco’s videoconferencing facilities for just \$300 per hour.

Sainsbury’s, the UK supermarket chain, also responded very creatively to the recession. They got together with Jamie Oliver, the world-famous TV chef, to design inexpensive meal combinations for their customers. The action is called “Feed your Family for a Fiver” (a “Fiver” is a five-pound note in the UK), so these are healthy meal combinations based on Sainsbury’s products – say, meat with pasta and vegetables – that cost less than five pounds. It’s been a big success for the company. Over the last few months, Sainsbury’s has reported its fastest rate of underlying sales growth in two years. Overall sales from January to March 2009 are up 6.2%, and sales over the same period of Sainsbury’s new “basics” range are up 60%.

My favourite example is Hyundai, the Korean car manufacturer. In the last quarter of 2008, they watched their sales drop by nearly 50% in the United States, just like most other auto

makers. But, unlike the others, Hyundai decided to do something about it. They found out that many of their customers were holding back from buying a new car because they were afraid of losing their jobs. So the company launched a scheme called “Certainty in Uncertain Times”. The promise was that any customer who buys a new Hyundai and then loses their job can simply bring the car back, free of charge. This scheme has literally changed Hyundai’s fortunes in the U.S. during the first quarter of 2009. Sales rose 14% in January, 25% in February, and 33% in March. In addition, they were able to raise their U.S. market share from 2008 to 2009 from 2.7% to 4.3%. Hyundai actually outperformed every car brand in the U.S. in terms of retail market share increase over the first quarter.

That’s how you get sales and profits moving upward at a time when customers are no longer willing to buy.

### **How managers should motivate employees in times where the salaries are being decreased because of savings policies? Which arguments should they present in situations like that?**

Look, some salary cuts may be necessary to keep the company above water at a time like this. I think we all have to understand that. But I think a company’s leaders have to first cut their own salaries. That’s a very symbolic move. It sends a message that “We are all in this mess together and we’re all going to have to make some sacrifices and work together to get the company out of it.” The goal should be to mobilize everyone in the company around the challenge of saving costs, imagining new growth opportunities and innovating around the customer’s new needs. Clearly, that will be almost impossible if the employees are generally de-motivated and cynical about the organization and its leaders.

This is where I believe we can learn something from great politicians. Back in the 1960s, U.S. President John F. Kennedy managed to mobilize a whole nation around his vision of a better future. And he made it something that was not just a collective challenge, but an individual one. He said, “Ask not what your country can do for you, but what you can do for your country”. Similarly today, President Barack Obama projects optimism and hope at what is undoubtedly one of the America’s darkest economic moments. His message: “Yes we can!”. He has succeeded in convincing his nation, and the rest of the world, that if we work together despite the current hardships, we can build a better future for all of us.

Senior executives need to learn from great leaders like these. Right in the middle of World War Two, Sir Winston Churchill declared, “These are not dark days, these are great days!” . He made the British believe that in spite of massive hardships they could win against even the most formidable forces. And eventually they did. Likewise, today’s corporate leaders have to make their people believe that, even though they may have to make financial sacrifices, the company can ultimately win if everyone pulls together for the common cause.

### **How to save the jobs of many employees that are in danger of losing their jobs?**

So far, millions of people around the world have lost their jobs to this recession. And it’s not just car companies, computer manufacturers and airlines, for example, that are cutting staff by large percentages. It’s also Internet companies like Yahoo, and even eBay. Of course, some companies will inevitably use the current crisis as an excuse to trim their workforces – something they perhaps should have done a long time ago. But I think most of the job losses reflect a sincere attempt to remain competitive.

However, I think a company should ask itself how many opportunities it might actually be losing by shedding so many employees. What would happen if, instead of getting rid of all that “redundant” brainpower, companies actually used it to dream up new ideas and possibilities for sales and profits?

As an example, one company in the audio equipment industry decided not to downsize but, instead, to deploy the workforce to reinvent the way the organization does things so that it can be more productive and profitable. One of the suggestions that came from employees had to do with the way the company was making sound speakers. For many years they had been cutting perfect circles out of wooden panels, and then paying a lot of money to have a trucking firm pick up these thousands of perfect wooden circles, ship them off and burn them. The employees suggested that they make clock faces out of them, because the wooden circles would be perfect clock faces.

The company also began to “insource” some things that it formerly outsourced. So what the company used to have produced by another firm, it decided to start making itself again, by utilizing its excess people and space.

Now these are examples of what I think leaders are going to have to do more of, so that the downsizing problem will, in part, be alleviated.

**You’ve been working with world famous companies. How do you advise them to create innovative projects with decreased budgets?**

Innovation often has very little to do with big budgets. It’s more about big ideas. 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. Where Apple scored big was in recombining existing but underutilized technologies – such as the mouse, the full page monitor, and the graphic user interface (which were invented by Xerox but not commercialized) – in a cleverly-designed and consumer-friendly package.

Fast forward to 2001 and we find that the same was essentially true of the iPod. Before we had an iPod we had flash memory, MP3 decoders, digital-to-analog converters, lithium batteries and basically everything else inside the device. None of the essential components of the iPod are unique; they can almost be bought off the shelf. In fact, the guts of the iPod are supplied by a reference design company called PortalPlayer Inc. 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.

Indeed, consider Mac OS X. How is it possible that Apple makes arguably the world’s most advanced personal computer operating system, despite having a tiny 5 percent share of the computer market and just a fraction of Microsoft’s \$6 billion annual R&D budget? Here’s the answer: the core software code behind Apple’s operating system is UNIX—it came out of the public domain. Essentially, Apple layers its own proprietary “skin” over this core—the interface, the Finder, and other components that make the operating system so wonderfully cool and easy to use.

If Apple had chosen to develop the Macintosh, the iPod, or 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 – in things that add unique Apple-type value – and source the rest

from outside the organization. This is a crucial key to leveraging limited resources in the pursuit of big, breakthrough innovations.

The idea that innovation is solely about big science and big R&D budgets is an outdated paradigm. The fact is that many of today's most successful innovations are business model innovations, not technological innovations – they are ways of doing business that break from industry norms by serving unmet or unsatisfied customer groups, providing new or different benefits, or delivering value in an unconventional fashion. These kinds of innovations often have nothing whatsoever to do with R&D, and they can potentially come from any company located in any country on earth, including Serbia.

Take Jim Penman in Adelaide, Australia, who turned a part-time grass-cutting job into a global business with 2,600 franchisees. The company, called Jim's Group, does everything from grass cutting and dog walking to car washing, home repairs and pool care – basically all the drudge work you don't want to do, or simply don't have time to do. It's a great example of business model innovation.

For decades, there has been an implicit assumption that radical, game-changing innovation only happens if a company invests substantial resources. This is not necessarily true. In fact, innovation can actually cost a lot less than companies think. You don't have to have a massive budget to pull off incredible innovation achievements. On the contrary, a company can innovate very successfully “on the cheap”.

### **How can companies with innovation reduce costs and make more money at the same time?**

What companies seldom seem to recognize is that the cheapest way to get more innovation is simply to ask their employees to suggest ideas. This strategy has worked phenomenally well for Toyota, for example, where the employee suggestion scheme generates an incredible number of ideas every year for saving money, improving products and processes, and pushing the boundaries of what is possible in the automobile industry. I've seen these kinds of innovation schemes in lots of other companies, too, from Royal Dutch/Shell to Wal-Mart.

Best Buy, North America's leading consumer electronics retailer, is another organization that understands this principle. They have a systematic and highly disciplined program of bottom-up innovation that is open to every employee. Called the Customer Centric Cycle, this program encourages everyone in the company to dream up new ways of creating a differentiated, end-to-end shopping experience for customers— and to share in the financial rewards that come from pumping up the company's profits. The rollout of this program has unleashed a huge amount of store-level innovation, making employees alert to ways of serving customers better. It is also driving changes in everything from Best Buy's supply chain to the company's service offerings and marketing programs. Most importantly, these changes are being driven by empowered employees all across the organization, not by the board of directors.

The other thing a company needs to remember is that it can also tap into the creativity of many, many people who are not even on the payroll. Procter & Gamble has an open innovation program called “Connect and Develop” that taps into a global network of external scientists, laboratories, suppliers, individual inventors, venture capitalists, and other organizations, in the search for new breakthrough ideas. This has not only produced a slew of

successful new products from outside the firm, but has simultaneously helped P&G slash its own R&D investments by around 20 percent, giving innovation productivity a tremendous boost.

**Do you think that the world economic crisis is dangerous for countries in transition, like Serbia?**

Frankly, I think the world economic crisis is dangerous for all kinds of economies. Let's face it, the world's largest economy – the USA – is not exactly a picture of health right now. Or take China, which has now leapfrogged Germany to become the world's third largest economy. I just came back from Beijing, where people are worried about the sharp reduction in the country's exports. And, the United Kingdom, where I was born, is struggling, too. It seems to me that it doesn't matter where you look – at Russia, or Ireland, or Germany (where I'm currently living), or the former Soviet states like Estonia, Lithuania and Latvia – you are going to find a lot of economic indicators pointed downward. On the other hand, there are several economic stimulus packages in place which seem to be getting results, but the global economy as a whole is certainly not back in clear waters yet, although I'm fairly confident we're now headed in the right direction.

Serbia has its challenges, too, of course, and the world economic crisis is not just going to blow over. These are going to be difficult times with some very real financial constraints and the inevitable cutbacks. But I believe the three billion euro IMF loan will help, as long as the Serbian government uses that money wisely.

**Could your advice be used adequately in developing countries, as well as more economically developed ones?**

In the last two years alone, I have delivered my keynote speeches, public seminars and innovation masterclasses in over 40 countries around the world – from developing economies like Brazil, Russia, India and China to the most developed countries on earth. In principle, my advice is applicable to any company in any economic region, as well as any government or public service organization. I teach them that the big imperative today is innovation. It's their only hope of driving business or economic growth, along with strategic renewal. And, most importantly, I teach them *how* to innovate – how to generate breakthrough ideas by challenging conventional wisdom, harnessing trends, leveraging resources in new ways, and addressing unmet needs. This is what organizations need to be doing now more than ever, and it's exactly what I'm going to be presenting at my one-day public seminar in Belgrade on June 2nd. I'll be showing companies how to use the power of innovation to push up their sales and profits in recession. I believe it represents their only chance of surviving – and winning! – in these tough economic times.