

‘Blic’ Interview with Rowan Gibson

- In business, what could be an innovation that would lead to profit growth?

Innovation is essentially about coming up with new ways to create value for customers. This might be an exciting new product, a new way of delivering a service, a new supply chain configuration, a new marketing strategy, or a whole new business model. All of these forms of innovation have the potential to positively and dramatically impact profit growth. Apple is a company that illustrates that. As a matter of fact, Apple has successfully innovated in all of the ways I just mentioned, and as a result it has transformed itself from a loser to a leader over the last twelve years. In fact, I would argue that the only real way to drive sales and profit growth over the longer term – literally the ONLY way – is to innovate. Ultimately, where there is no innovation there is no growth.

- Do we need big financial investments for innovations?

No. It's quite possible to innovate “on the cheap”. Apple was started in a Silicon Valley garage. Google was started by Larry Page and Sergey Brin when they were both Ph.D. students at Stanford University in California. They had no money, so they built the casing for their original Google server out of LEGO bricks! And if we look through business history, we find again and again that innovators had very little money when they started out. What they had, instead, was a big idea. In the case of Apple, it was the concept of a personal computer, as opposed to the big mainframe computers IBM was selling at the time. And in Google's case, it was a much better way to quickly and efficiently search the Internet. Both of these innovations eventually changed our lives, but they were not the product of huge financial investments. So the primary issue with innovation is not really big budgets; it's big ideas. That's where I put my focus. The money is usually secondary.

- Should we invest in innovation even if it means heaving to cut the budget in other areas and maybe firing employees?

We have to remember that a company has different kinds of costs. There are what we generally refer to as “good costs” – investments in sales, marketing and innovation – which yield improvements to profitability and market share, and there are “bad costs” – meaning things like manufacturing and administration expenses – which do not. Good costs should be increased during recession. Bad costs should be cut. It's crucial that we don't do things the other way around. Some companies think that in a recession they should cut their innovation budgets and invest in their manufacturing facilities. This is a big mistake. McKinsey did some research on companies that beat the recession in 2001/2. They found that those companies who were able to improve their business results and their market share were the ones that actually *increased* their spending on sales, innovation and marketing.

- Could you give us some example where innovation has helped a company out of crisis?

Here are two surprising examples. First, you would not expect a premium supermarket to be doing well in a recession. Usually, customers trade down by shopping in cheaper stores like, say, Aldi, Lidl or Wal-Mart. But Sainsbury's, which is the UK's second biggest supermarket chain, has managed to actually increase its sales over the first quarter of 2009 by introducing

a lot of innovative food concepts. In one action, for example, called “Feed your Family for a Fiver”, they teamed up with Jamie Oliver, the TV chef, to offer healthy meal combinations that cost less than five pounds. Another surprise comes from the automobile industry, which has been particularly badly hit by the recession. You wouldn’t expect any good news here. But Hyundai, the Korean car manufacturer, has sharply increased its sales and its market share in the U.S. since the beginning of the year with a scheme called “Certainty in Uncertain Times”. They have promised their customers that if they buy a new Hyundai and then lose their job, they can simply bring the car back, free of charge. About a month ago, *Time* magazine called Hyundai “the most successful car company in the U.S.” Their business model innovation has succeeded in getting people into their showrooms – and actually buying cars – during the worst recession in decades.

- What is your point of view on the economical crisis in Serbia?

Frankly, it’s not a very pretty picture. Exports are down. Foreign investment is down. The stock market is down. And unemployment is a long way up, and continuing to rise. So all the arrows are pointing in the wrong direction. And all of this economic trouble has hit the country just when it was getting back on its feet. But, if we look beyond Serbia, we find the same general picture right across Europe – here’s it’s a little better, there it’s a little worse. So what should we do? Throw our hands in the air and complain? Should we just sit around and moan about how bad things have become? Or should we get up and try to find some innovative ways to improve the situation? That’s what I’m trying to help companies to do all around the world. In fact, I’ll be conducting a one-day public seminar in Belgrade on June 2nd, designed to teach Serbian companies how to push up their sales and profits in these tough economic times. I hope a lot of Serbian managers will take advantage of that conference.

- How much time do you think the world economy will need to relieve from the crisis?

I’m not an economist, but I am an optimist. If we look at this globally, I believe we’ve probably seen the worst of the crisis by now, and since about February this year we’ve been taking some careful, cautious steps on the road to recovery. My prognosis is that the U.S. market will return to growth faster than expected, perhaps already in the last quarter of this year, as will Brazil, India and China. Something tells me that Russia might take a little longer. And, beyond that, the recovery will continue at various speeds in different parts of the world. I think the UK will remain sluggish for a while, based on the collapse of its credit boom and housing market. Germany, by contrast, never had either of these problems, which is good, but it is also the world’s largest exporter, which means that Germany is somewhat dependent on global business taking off again. Anyway, recessions don’t last forever. So Serbian companies need to make sure they are working on innovation right now, not just to push up sales and profits in the midst of this crisis but also to have something new and exciting to offer their customers once economic growth returns.