

## **Progressive Interview with Rowan Gibson**

### **In your opinion and experience, is crisis a danger or an opportunity?**

It's both. When your sales curve suddenly goes down by, say, 30 to 50 percent, the danger to your business quickly becomes apparent. That's why we now see so many companies, and even whole industries, in unprecedented financial difficulties. Last year, for example, Toyota made their first ever operating loss since the company was founded in 1937. So these are extraordinary economic times, and the threat to any business – large or small – is very real. But we also have to remember that a time of rapid and profound change brings not just dangers but also significant new opportunities. Essentially, it represents a recalibration of the business landscape. And when previously strong companies become suddenly weak and pull back, it creates space for other companies to move forward, grab their customers and steal some of their market share. Discontinuity always creates opportunity.

### **For which companies is it danger and for which opportunity?**

In a time of economic crisis, particularly at this kind of scale, most companies get hit with a similar mix of danger and opportunity. The trick is to try to minimize the danger while maximizing the opportunity. That's a difficult balancing act which not many organizations are very good at. Clearly, there are some companies that have an inherent advantage at a time like this. Think about “cost innovators” – like Wal-Mart, Aldi and Lidl in retailing. They have recently seen quite a leap in their sales as customers hunt for lower prices and trade-down to cheaper products. But this is a fairly obvious phenomenon and it doesn't impress me very much. What impresses me much more is companies that manage to turn their situation around in a time of crisis through ingenuity and inventiveness. They get hit by this huge tsunami but somehow they find a way to turn the debris into a surfboard so they can ride the wave right past their competitors. Hyundai, for example, the Korean car manufacturer, saw their sales drop by nearly 50% in the U.S. during the last quarter of 2008. But then they launched a scheme whereby anyone who bought a new Hyundai and then lost their job could simply bring the car back, free of charge. This helped them not just to push their sales back up in the first quarter of 2009, at a time when the rest of the industry was down by 40%, but also to gain important U.S. market share. That's the kind of company I really admire at a tough time like this.

### **How do you see the solution for getting out of crisis. What should companies pay attention to?**

You have to pay enormous attention to your customer's new needs. You have to realize that your customer's financial priorities have probably never changed so dramatically in short a time frame. It's almost as if somebody pressed a giant “reset” button last September/October and everything is now suddenly different: how your customers think, how your customers act, what your customers care about, and even who your customers are. So, in a world where everything is different, companies have to focus on what to do *differently* to generate results. The absolute worst thing you can do in a recession is to assume that you can continue to sell the same old product or service to the same old customers in the same old way, and at the same old price. Paul Otellini, the CEO of Intel, got it right a few months back when he said that the proper response to a recession is to “give your customers new reasons to buy”. That means taking a good look at your sales and marketing strategies – in fact, at your entire

business model – and trying to adapt them to the new market conditions. Cisco, for example, makes a very high-end videoconferencing product called TelePresence, which costs about \$350,000. They know that not many companies are willing to invest that kind of money right now. So they introduced a way for companies to rent these facilities instead, for just \$300 per hour. The solution, in other words, is to innovate across everything you do: who you sell to, what you provide, how you provide it, how you make money, and how you differentiate from competitors. You have to radically redesign all of these things, where necessary, by starting with your customer's new needs and working backward from there.

### **I suppose that there is no universal solution, but what are the basic rules that companies should accept in order to survive in crisis situation?**

Basically, the mathematics is simple. It's a top line/bottom line equation. If the top line goes into a steep downward curve while resources and costs remains flat, the company's profits get squeezed in the middle and may quite easily turn into a loss. So the knee-jerk reaction for most companies is to cut resources and costs in line with falling revenues, which in many cases is absolutely unavoidable. That's why we see all the frantic cost-cutting and downsizing going on around the world. But we shouldn't forget that there is an alternative scenario: what if can keep the resources and costs on a more or less flat line and find some innovative new way to grow the revenues? What if we can actually reverse the downward trend in the sales curve? What if we can succeed in pushing up the top line even in the midst of a recession? This is the scenario that I spend most of my time on. And I think that too many companies underestimate this possibility. They only see the downside dangers in the crisis. They don't seem to see the upside opportunities. So, yes, they might manage to survive the downturn by mercilessly reducing costs. But is that all they want to do? Survive? I would suggest that what we ultimately want to do as companies is grow the business and get ahead of the competition. We don't want to come out of this crisis looking like we just came out of a hospital's intensive care unit. In fact, I believe that, by using the power of innovation, a company can actually emerge from the recession stronger than it was before.

Let's face it: the basic rules of business don't change when times are tough. It's still about generating sales and profits by providing something customers value, and about doing that in a way that creates an advantage over your rivals. In a recession, we can't just throw the "sales" part out of the window and try to maintain profits by taking an axe to the company's costs. In fact, at a time like this, it becomes more crucial than ever to focus on sales.

### **In a crisis, companies usually cut spending for training and marketing. Is it a right way to do things?**

When cash becomes limited, companies are clearly forced to set priorities. What can we afford? What can't we afford? What is essential? What is non-essential? Where are our costs too high? And how can we do more with less? These are the questions most organizations are asking. But, quite often, the cost-cutting is done very badly. For example, slashing the marketing budget is probably the craziest thing a company can do right now. If customers have stopped buying your products or services, you need to try harder than ever to get that business back, or find new business to replace it. You need to find smart ways to reach out to customers and encourage them to buy again. The consulting firm McKinsey did some research which looked at how companies performed in the recession of 2000/2001. They found that the companies that beat the recession were those that actually *increased* spending in three key areas: sales, innovation and marketing. With regard to training or management education, this is another area that typically gets cut. Companies tend to view it as a luxury for

the good times. Yet how many managers have received any formal training in how to deal with a crisis? How many have been trained in the skills and tools of business model innovation? How many have been trained to radically reinvent marketing and sales processes in a time of recession? How many sales people have been trained to redesign their offer from the customer need backward? This is the kind of training that is needed now more than ever.

### **Where should they cut costs, according to your opinion?**

Sometimes a recession forces you to do things you should have done a long time ago. Like asking yourself how you can use certain resources more efficiently, or where you can source the same basic resource at a lower price – which often means looking beyond the borders of your own country or geographic region. What I think is very stupid, though, is when companies make cuts across the board. So they simply say, “Every department has to cut staff by ten percent”. But some departments may be more crucial at this time than others. There might be one or two departments that could be cut by as much as 50 percent, but other departments where you should actually be adding more people. I worked with one company in the early 1990s that started hiring more sales people in the middle of a recession. This was quite easy because all of their big competitors were reducing the sales department! So they ended up hiring some of the best sales people in their industry and increasing their spending on sales. This company was only number three in their market going into the recession. When they came out they were number one.

### **How do you see current situation of FMCG industry in general, and what are the perspectives for further development?**

What is happening in this recession, as in most others, is that the fast-moving consumer goods (FMCG) industry gets hit pretty hard. There is simply less money in the consumer’s purse. So we tend to see an exodus away from the well-known and more expensive brands – like Nescafé coffee, or Flora margarine, and Pampers nappies – toward the cheaper private labels or store brands, owned by big supermarket companies like Wal-Mart, Tesco, Aldi, Carrefour or Ahold. The danger for the FMCG industry in general is that once the consumers have switched by trading down it’s usually very hard to get them back to the manufacturer brands. Historically, their biggest market share losses have been suffered during economic downturns. When customers try to save money by buying the cheaper store brands, they discover that the quality of these products is actually very good, and they often continue to buy these private labels when the economy picks up again. So the market share loss becomes permanent. Today, the private labels or store brands control about 20 per cent of the US FMCG market, 35 per cent in Germany, and more than 40 per cent in the UK.

So what can brand managers do to counter this trend? Again, I would say that they need to treat the recession as an opportunity and proactively invest in their brands. We all know that consumers are more price-sensitive in a downturn, so clearly it makes sense to offer temporary price reductions via special promotions. This negates the price advantage of the private labels. Second, they should continue to invest in advertising to maintain the consumer’s brand loyalty. And, third, they should boost their innovation activity – perhaps by offering the product in new forms or package sizes. Think about Mars – the chocolate bar. It used to be available in just one basic form. Now we have Mars ice cream, Mars minis, Mars Lite, Mars Planets, Mars Eggs, different flavors, and so on. Nivea is a similar example. It used to be simply a face creme. Now it’s a sun creme, a shampoo, a deodorant, a lip care product, and so forth. These brands have built strong, long-term equity and market share by innovating

around their product original concept and pushing it into new market space. That's the way forward for the FMCG industry.

**What could you tell us about the current situation in Serbia, compared to the region, and then to the world's and European market?**

What can I say about the situation in Serbia? First of all, I admire your courage and tenacity in dealing with what has long been a very volatile economic environment, not just in your own country but across the Balkan region. Things have obviously become a lot worse here as a result of the global downturn. Whether you look at exports, or foreign investment, or the Belex15 stock market, or the value of the dinar, all the arrows are pointing straight downward. All except unemployment, of course, which is way up, and continuing to rise. But if there is one positive in all of this it's that you Serbians certainly know how to manage your way through adversity. This economic crisis is just the latest episode in a long line of troubles that have come your way. And I'm sure that if any country can get through this, it's Serbia. But it is going to call for a lot of innovation – a lot of new thinking – both in the public and private sector. I'm very glad the Serbian government could arrange the three billion euro IMF loan, but now comes the big question. "How do we use that money?" I've worked with governments in other trouble countries, such as South Africa, and I know that much can be achieved if we can connect big ideas with the necessary funding and support to make them happen.

I believe that innovation is the single most important ingredient in any modern economy, and that goes for Serbia and the entire Balkan region. I was in Macedonia just last week, and my advice to the government there was to create the cultural and constitutional conditions that support business innovation. Ultimately, economic growth is going to come from innovation. It's not going to come from anywhere else. This is a message that is gaining traction right across the European Union, which has also been battered by the global economic crisis. In fact, the European Commission has declared 2009 the "European Year of Creativity and Innovation". They recognize that both are essential elements for the future success of Europe and its long-term economic competitiveness. You will find a similar recognition in Asia, and it's especially strong in the U.S, where there is a lot of public debate currently about whether America is losing its capacity for innovation. We all know that the crisis will end, but a lot of voices are asking how well America is likely to perform in the post-crisis world, especially up against players like China and India.

So you can look where you like: at Serbia, at the Balkans, at the Euro zone and at the entire global economy, and you will find almost unanimous agreement that the only solution for short-term and long-term economic growth is innovation.

**Is it possible to predict how long the crisis will last?**

I'm not a macro-economist, but one thing I do know is that recessions don't last forever. On average, they last for about three or four quarters at the most. This, of course, is an exceptionally brutal economic downturn – the sort of thing that comes along only once in a lifetime (hopefully!!). But it's still a temporary cycle. And we already see some encouraging signs around the globe that we may be on the road to recovery. I'm a tremendous optimist, and I'd like to believe that the U.S. economy hit bottom in February. Of course, we still have some big threats that are not yet resolved – like GM's looming bankruptcy. But the G-20 seems to have done a good job of stopping the economic freefall, and my hope is that we will see a gradual return to growth over the next year or so.

That's why there's additional reason to invest now in innovation. We need to remember that twelve months is absolutely nothing in product development terms. When the economy returns to growth, companies will need to be ready with innovative new offerings on the marketplace with which to attract their customers. If they put the brakes on innovation now, they won't be able to come out swinging once growth takes off again. To illustrate the point, during the last recession Apple got busy working on three big innovation projects: iTunes, iPod and its retail stores. When the economic skies cleared up, Apple took off like a rocket.

### **Maybe it's better to ask which companies will succeed first in getting out of the crisis. It depends on what?**

It depends on a company's ability to quickly and creatively adapt its business model to the new economic environment. That's what I'm going to be talking about at my one-day public seminar in Belgrade on June 2<sup>nd</sup>. The companies that succeed first in getting out of the crisis will be those that can find ways to redesign their business model from customers' new needs backward. What I am going to teach companies at the conference is exactly how to do that. I will be sharing a cutting-edge methodology for strategy innovation which is outlined in my latest book "Innovation to the Core". It's called the "Four Lenses of Innovation". The first of these "lenses", or innovation discovery tools, is called "CHALLENGING ORTHODOXIES". It's about questioning deeply-held dogmas and conventions inside companies (and inside whole industries) about what drives success. The second lens is "HARNESSING DISCONTINUITIES". This means spotting unnoticed patterns of trends which could substantially change the rules of the game. The third lens is "LEVERAGING RESOURCES". This is where we start thinking of a company as a portfolio of recombinant competencies and assets, rather than as a provider of products or services for specific markets. And the fourth lens is called "UNDERSTANDING UNARTICULATED NEEDS". It's about learning to live inside the customer's skin, empathizing with unarticulated feelings and identifying unmet needs. Basically, I'm going to show the audience how to use these powerful "lenses" to discover new strategic growth opportunities in today's tough economic times.

### **How to continue after the crisis? Which companies would have best chance to continue successful business?**

On the longer term, the imperative is to build a deep capability for ongoing strategy innovation. Sure, the crisis will eventually pass, but the future is not going to be an easier place to do business in. Global competition is only going to get fiercer. Customers are going to get ever more demanding, and they now recognize that they have many options to choose from so they will buy from the company that best meets their needs. Products, services and capabilities are also going to get increasingly easy to replicate. This Spring, for example, the Chinese auto maker, Geely, launched a replica of the Rolls Royce Phantom at the Shanghai Motor Show that will cost about 35,000 Euros, compared to the original car which costs something like 280,000 Euros. Finally, the world of business will continue to speed up exponentially. It's not going to slow down and wait for us to catch up. Procter & Gamble, for example, estimates that the pace of innovation in consumer products alone has doubled in the last ten years.

That means that the pace at which your own company innovates must accelerate accordingly.

So whether the economy is currently on a downswing or an upswing, the business environment is always going to be filled with both danger and opportunity. And how these forces balance out for any particular company will be mostly dependent on its capacity to innovate – its capacity to continually renew itself through deep, strategic innovation at the

level of the core business model. This will prove to be the ultimate competitive advantage in a turbulent economic era – an era when companies are challenged to change as fast as the environment is changing around them, to find new sources of profit before the old ones disappear, and to reinvent their business models before they become obsolete. If companies are going to stand any chance of success and survival in the 21<sup>st</sup> century, this capability is an absolute must. There is no “Option B”.

**What is your message to retailers, producers and distributors in FMCG sector in Serbia?**

My message is “innovate, innovate, innovate!”. Don’t just stand there and watch your business get washed away by an economic tsunami, or by the intensity of today’s competition. Get busy working out how your customers’ priorities may have changed in this crisis, and quickly realign your business model to address their new needs. Join me at the conference in Belgrade on June 2<sup>nd</sup> (organized by Triple S Learning) and find out how your company can develop strategies for growth and profit in recession. In fact, learn how your company can use the power of innovation to emerge from this downturn stronger than it was before.