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English translation of interview with Rowan Gibson

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1) What is innovation nowadays? I ask because we think innovation as a revolutionary product as iPhone, but innovation is more than this, right? Innovation means also process, service, methodology, business model?

When you mention the word innovation, most people immediately assume you are talking about new product development, or cutting-edge technologies that emerge from traditional R&D departments. This is a very narrow definition – a very myopic view of innovation – and it can seriously limit a company's efforts to drive growth and strategic renewal. The fact is that there are many, many types of innovation, ranging from technology and product innovation to service innovation, process innovation, cost innovation (which is something that Chinese and Indian companies have mastered), management innovation (things like TQM and Six Sigma), customer experience innovation, business model innovation, and even industry innovation. So a company needs to open itself up to the entire range of innovation opportunities.

What people tend to miss is that revolutionary products like iPod and iPhone are not stand-alone innovations. Behind iPod is a very successful business model innovation called Apple iTunes – the online media store. And behind iPhone is another highly successful business model innovation called the App Store, which now offers 65,000 downloadable applications for the device. So it's a mistake to think Apple's innovation power is all about products. Some of the most successful innovations of our times have actually been business model innovations.

2) Do you have any number or research that shows how much does the world invest in innovation per year? Do the companies and government invest more in innovation nowadays or in the past?

I have not seen any recent figures on what the world has invested in innovation over the last year or so. Usually, these figures are misleading anyway, because they tend to focus on R&D investment which, as I just pointed out, is just a small part of what innovation is all about. If we all looked solely at the level of R&D investment, we would have to conclude that General Motors is the most innovative firm in the world because it has invested more money in R&D over the last 25 years than any other company on earth. And yet where is GM today? So R&D investment is a very unreliable measure of a company's – or even a country's – innovation prowess.

The consulting firm *Booz Allen Hamilton* has been conducting studies of the world's one thousand biggest spenders on R&D for a number of years already. And every year they reach the same conclusion: that there is no discernible statistical relationship between R&D spending levels and nearly all measures of business success, including sales growth, gross profit, operating profit, enterprise profit, market capitalization or total shareholder return. So some companies spend a billion dollars on R&D and come up with nothing, and other companies spend peanuts on innovation, in relative terms, and change the world. Steve Jobs of Apple has famously stated that "Innovation has nothing to do with how many R&D dollars you have." To illustrate the point, when Apple came up with the original Macintosh computer in 1984, IBM was spending at least 100 times more on R&D. And today, Apple is still quite a small company compared with its rivals in the computer industry, the consumer electronics industry and the mobile phone industry. Yet it is wiping the floor with all them.

One thing I do know is that, in general, companies and countries are spending more on innovation today than ever before. It seems that they have all finally recognized the innovation imperative. In a recent innovation survey conducted by *Boston Consulting Group*, 64% of senior executives said that innovation is one of their top 3 strategic priorities, and 58% were planning to raise their investment in innovation in 2009, in spite of the economic pressures caused by the global recession. In fact, I would argue that innovation is the number one strategic priority in both the private and public sector.

3) Sincerely, how can innovation really help a company to gain competitiveness? Because in theory it is very beautiful, but in the day by day? Can you answer it and show me some examples?

Well, I have already mentioned Apple once or twice, and the company is a very striking example of how innovation can dramatically boost your competitive power and business results. Let's face it, where has Apple's meteoric growth come from over the last decade or so? Can we put it down to cost-cutting efforts? Was Apple busy trying to make the world's cheapest laptop by taking inefficiencies out of their manufacturing system? Can we say that Apple's success was all thanks to downsizing, or financial creativity (as was the case with Enron some years ago), or mergers and acquisitions? Did Apple try to merge, for example, with Dell or HP or Compaq? No. All of that growth – and I mean all of it – has come from radical innovation in the company's products, strategies, and business models. When Steve Jobs came back to Apple in 1997, the company was on its deathbed. Yet, today, Apple is a major force to be reckoned with in the computer hardware industry, the software industry, the media industry, the consumer electronics industry, the mobile phone industry, the retail industry, and so on. Over the last decade, Apple raised the value of its stock price by several thousand percent, it has made about 38 billion USD in revenues on just the iPod alone, and it is now tipped to become the largest player in smartphones over the next few years, overtaking Nokia. In fact, Apple's market cap is now three times Nokia's. So can we say that innovation really helps a company improve its competitive position? Absolutely yes.

Nintendo is another example. If we go back just five or six years, industry analysts were saying that Nintendo was over. How could their humble GameCube compete with the Microsoft Xbox and the Sony Playstation? After all, Nintendo was just this tiny little company with only two or three thousand employees. How could they go up against such giants? How could they compete with the giant R&D budgets of these rivals? Yet in 2006 Nintendo launched a radical innovation: the Wii – a videogame platform based on motion sensor control rather than conventional controllers. And, since then, Nintendo has been outselling Xbox and Playstation around the world by a factor of about 3 to 1. That's what the power of innovation can do for a company.

4) In Brazil, we have a few examples of innovative companies. In US, for example, I know that you have a lot, but public in general think about Google, Apple and Amazon or low fare, low cost airline companies to talk about innovation. Is there many innovative companies nowadays in the world and in US?

There are innovative companies in more or less every country and every industry. Most of those companies never make it to the front cover of *Fortune* magazine because the media tend to focus on the large, global players that are listed on the stock market. But they are certainly out there. They are also right here in Brazil.

5) What about Brazil? I've heard that you came to Brazil in the past and that this won't be your first visit. What do you know and think about Brazil in terms of innovation? Unfortunately, we're not an innovative country. What are the challenges that we need to win?

You know, *Boston Consulting Group* produces a global index every year that ranks countries in terms of their level of innovation. In this year's International Innovation Index, Brazil is ranked number 72 on the list, just behind countries like Albania, Azerbaijan, Sri Lanka and Morocco. That's not very impressive. But, again, those indexes only tend to look at factors like patents, technology transfer, R&D investments, and so forth, which is only a limited view of innovation. And we have to remember that Brazil has managed to rack up several years of incredible economic growth, so the picture is much rosier than it might appear.

One of the challenges in Brazil is to cut through some of the bureaucracy that still gets in the way – both in government and inside companies. There continues to be a lot of top-down, command-and-control, “do as you are told” decision-making that hampers creativity, innovation and entrepreneurship. People are simply afraid to think independently, to challenge conventional wisdom and suggest new ways of doing things, which is at the heart of all innovation. So I believe there is a need to rethink the traditional hierarchical organization structures in Brazil. We need to ask ourselves: is this hierarchy, this management infrastructure, supporting innovation? Or is it getting in the way of ordinary people who want to pursue new ideas?

In my experience, many people in Brazil are entrepreneurs at heart. The country has produced some very successful business people who got to the top by doing things their own way. They refused

to follow the crowd. So the issue is: how do we encourage more people to be entrepreneurs? How do we support their efforts to innovate and help them push their ideas forward? How do we create an environment where literally anyone can become an innovator?

6) What will happen to the innovation during this crisis? I know that during a crisis is the time to invest more and more in innovation, but if you take a look in the main companies you'll probably won't find those projects? Do you think this crisis will affect the innovation development? do you think the future will be affected because of the crisis?

First, I would argue that we are no longer in crisis mode. As President Obama put it just last week, "We've stepped away from the brink of disaster, and the challenge now is how to spur long-term growth." In general, I would entirely agree with this view of the economic situation, although Obama was primarily referring to the United States and of course we have to view things on a country-by-country, region-by-region basis. Still, it would seem safe to say that the global economy hit bottom around February/March of this year and since then we have been cautiously talking about – and increasingly witnessing – a slow and steady economic recovery.

What I think is interesting is that innovation used to be like fashion. In the past, it was one of those things that was very popular when the economic sun was shining but that was immediately thrown away when the storm clouds appeared. Yet this recession has been different. For the first time, companies seem to have recognized that innovation is both the key to cutting costs and the key to pushing up the sales curve at a time when customers are no longer buying. For example, in the United States Hyundai innovated around their business model in the midst of the crisis, promising customers that if they bought a new car and then lost their jobs they could return the vehicle without losing a dollar. As result, their car sales rose 14% in January, 25% in February and 33% in March this year.

McKinsey did some research on companies beat the recession in 2001 and 2002, and they found that while the winners cut costs on back-office activities, they actually increased their spending in three key areas: sales, innovation and marketing. Actually, if you go back and look at Apple and Nintendo, you will find that they were increasing rather than decreasing their innovation efforts around that time. Apple was working on iPod, iTunes and the Apple stores. Nintendo was working on the Wii. So, if anything, I think the crisis will have strengthened most companies' resolve to innovate instead of weakening it.

10) What are the companies that you think are the more innovative nowadays in the world? Can you give me two or three examples?

If you look at any list of the world's most innovative companies, you will usually find companies like Apple, Google or Amazon right there at the top. But I wonder how useful it is for a large manufacturing company in Brazil to be looking at firms like these that were "born innovative". Truth is, if a highly centralized Brazilian organization tried to apply Google's loose, market-based approach to innovation within its own company it would most likely fail. So, in many cases, I think there's actually much more we can learn by looking at large industrial companies that have transformed themselves from innovation laggards into innovation leaders.

One example would be Whirlpool, the global leader in domestic appliances. Traditionally, Whirlpool was a lot better at disciplined execution than at wealth-generating innovation. But the company set out in 1999 to embed innovation as a deep enterprise capability across the entire organization. This took a massive, broad-based effort over several years but that goal has been achieved. The outcome has been a stream of breakthrough ideas for products and businesses that have come from all over the Whirlpool organization—ideas that deliver value to consumers in ways never before seen either at the company or in the industry. This has produced a steep upturn in the company's annual revenues from innovative new products.

Another example is CEMEX, the Mexican cement-maker. The firm has built a corporate-wide innovation capability that has helped Cemex achieve sales and profit growth over the last decade of more than 20 percent on average, and raise its operating margins by the same percentage. It has also helped CEMEX become one of the most highly regarded employers in Mexico. By tapping into as many minds and as many different talents as possible, and by getting people to swap ideas, innovate together, and feel jointly responsible for success, CEMEX has been able to invent a variety of novel approaches to its business that nobody in the industry had ever thought of before.

Now, have Whirlpool and CEMEX been hit by the global recession? Of course. Just like most other companies, they have been through some of the worst quarters in memory in terms of business results. But their innovation power helped to make them very healthy going into this crisis, so they have

been able to weather the storm. And what the examples of Whirlpool and CEMEX teach us is that innovation really can become a systemic capability inside any organization. These two companies, among others, are demonstrating that it's perfectly possible to turn "old-line" industrial organizations into catalysts for continuous, break-the-rules innovation.

11) What is this concept of "open innovation" that everyone is talking about?

Open innovation is about bringing a wealth of new and different voices into the innovation process by looking outside the boundaries of your own organization. Of course, companies have long sought to complement their internal development efforts with external sources of innovation. Typical strategies have included licensing technology from more innovative firms, polling lead users for new ideas, outsourcing R&D to universities, or joining research consortia. However, what is new is the ability to use the Internet to tap into the world's ever-expanding reservoir of human creativity—to engage the imagination and know-how of literally millions of brains outside the organization. It represents the power to open up your company's innovation processes for free trade with the rest of the world, as Wikipedia has done, for example. Or Linux.

A very good example of this is P&G. In 2001, the company's chairman Alan G. Lafley threw open P&G's doors to innovators who are not on the payroll, setting a goal for his organization to source at least 50 percent of its innovations from outside the company (up from roughly 10 percent at the time). Thanks to a new organizational model called "Connect and Develop", and a Web portal called "InnovationNet", the company has since been able to bring hundreds of new products to the market that had their genesis, in whole or in part, outside P&G. At the same time, P&G has been able to slash its own R&D investments by around 20 percent, giving productivity a tremendous boost.

Or consider IBM. On certain occasions, the company invites people around the world to take part in a global, open-source ideation exercise called "InnovationJam". It's a seventy-two-hour session of online innovation dialogue, based around using IBM's technologies in radical new ways. As the company's CEO, Sam Palmisano, says, it's almost as if IBM is taking its most valued secrets, opening them up to the world and saying, 'Okay, world, you tell us what to do with them.' In total, tens of thousands of people participate in this "open innovation" process, contributing many valuable ideas for breakthrough innovations.

So open innovation is about recognizing and tapping into the enormous potential for innovation that also exists outside your organization—across your extended network of customers, suppliers, and partners. The point is this: you might have some brilliant minds inside your own company. But just imagine what could happen if you combined those minds with millions of other brilliant minds on the outside. That's the exciting new mechanism for innovation. And it's just one of a whole host of effective tools that companies now have at their disposal for making innovation happen in a profitable and sustainable way.