

Innovating During a Recession: A Key Strategic Move

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Almost all of us are faced with the grim realities of our economic climate and many have had to scale back and take protective measures to insure surviving the recession. It is natural to cut what we believe are the non-essential activities and initiatives to keep the core of our businesses secure. And many believe the situation is going to get worse before it gets better.

However, history has repeatedly proven that those who can use their creativity and courage during tough times often come out ahead as our economy inevitably swings back into more prosperous times. Leaders who can keep their cool and think with a strategic mindset are at an advantage. They can lead their companies to discover and develop opportunities which position themselves more strongly than their nervous and reactionary competitors. And they somehow find the resources to innovate upon those opportunities to create competitive advantage and value to their customers.

As American Express CEO Ken Chenault said in Fortune magazine: “A difficult economic environment argues for the need to innovate more, not to pull back.” The question for most of us is “how do we pull that off when we have diminishing resources, layoffs, and pressure to perform today.”

One approach is to focus tightly on the highest leverage innovations while deferring or discontinuing less strategic aspects of your business. This begs the question: what are the highest leverage innovations we can pursue?

There are some interesting choices for us. For some companies, looking to innovate their business models is the right answer. Your business model is a statement of these five basics (for each line of business): who you serve, what you provide (thinking values and customer outcomes), how you provide it, how you make money at it, and what differentiates you from other customer choices. Each of these five basics can be improved or revolutionized with innovation. For example, you might be able to broaden your base of who you serve with marketing innovations or adding value in adjacent areas. For “how you provide it”, you may be able to offer certain products on the internet where before you used classical distribution methods.

In the category of “how you make money” consider this: most ink jet printers sold are not profitable: the money is made on selling the ink. The printer is a vehicle to sell ink, which is counter-intuitive, but an excellent business model. Can you apply a similar idea to your products?

In considering “what we provide”, most of us tend to be literalists. We sell peaches. But in fact, customers are buying more than peaches. They are buying an experience, qualities, and outcomes. Learning to discover the experiences and outcomes customers require from your products can help you add additional features or products or even services. The fifth item of the business model – how you differentiate yourselves – is perhaps one of the most fruitful areas to apply innovation, particularly in a recession. Customer values and needs change during economic tight times. People still have needs, especially in the area of food! But their needs have likely changed. For many, it will be a reversion from delighters to raw costs. But most companies and people are still working and they need all the help they can get to function more efficiently and with less waste.

We commonly look at the classical ratio: benefit to cost. We can apply innovation to increase benefit and reduce cost.

But especially in a recession, there is more to this ratio than meets the eye. A more complete way to look at it is (Benefits + reduced non-value) to (Cost + increased Non-costs). What does this mean?

First let’s look at the top line. “Reducing non-value” means focusing our innovation to those things that really matter and not burdening either our own development resources or the customers spending ability with non-essentials. In this economic climate, people are looking for basics, not delighters. For most of us, just keeping our job or our company will be delightful enough.

Now let’s look at the bottom line of this ratio. “Increasing non-costs” is not the same as reducing costs. What we mean here is finding ways to get value by employing low-cost but high value resources. The distinction is important. When we cut costs, we cut capabilities. But here we are talking about using innovative ways to keep those capabilities but for free or much reduced costs. A great example is using open-source software instead of expensive purchased software is one example. A Java-based office suite is free while the alternative costs hundreds of dollars.

An example we can all use, even in economic downturns, is making better use of the brainpower that already exists in our organizations. Many managers tend to introvert and disappear into private rooms with other executives to try to plan there way through the recession. Most of these discussions end up with cost-cutting ideas and layoffs for employees.

However, most companies can benefit by simply asking their employees to help. People are smart, especially when it comes to survival. Seeking ideas from the whole intellectual base of the company to help you innovate your way through the recession successfully is a powerful approach, if properly accomplished.

The most important enabling factor for this is asking the right questions – or put another way – creating the right challenges. It takes thought and effort, but creating innovation challenges that are focused enough to elicit new and useful ideas is key.

The first part of the recession challenge is to use innovation to keep your company as healthy as possible during the recession. The second part is to take advantage of the opportunities inherent in a recessionary atmosphere. Opportunities include:

- Ability to pick up key talent lost by other companies
- Market niches made available by retreating and failing competitors
- Rapidly changing customer values open up new opportunities for product and service concepts
- The chance to actually gain critical resources by eliminating marginal businesses and projects.

In order to make these happen and to prevent devastating disempowerment of your creative and innovative capacity, it is important to try to retain the top innovative talent in the company. This can be difficult on two fronts – first you may be stressed to keep them on the payroll and second, seeing innovation slow down in your company, they may leave for greener pastures. Many companies don't realize the devastating long-term impact of losing key innovation talent until it's too late. This can actually provide opportunities to out-last and out-smart your competition.

In closing, consider that while the recession is painful and dangerous, it also contains opportunities for those who can maintain a strategic view and provide positive and optimistic leadership for their company. Figuring out how to maintain innovation while financially surviving the recession can provide you with a powerful advantage when we emerge from the tunnel and once again into economic prosperity. You'll find your competitors scratching their heads and asking "how'd you do it?"