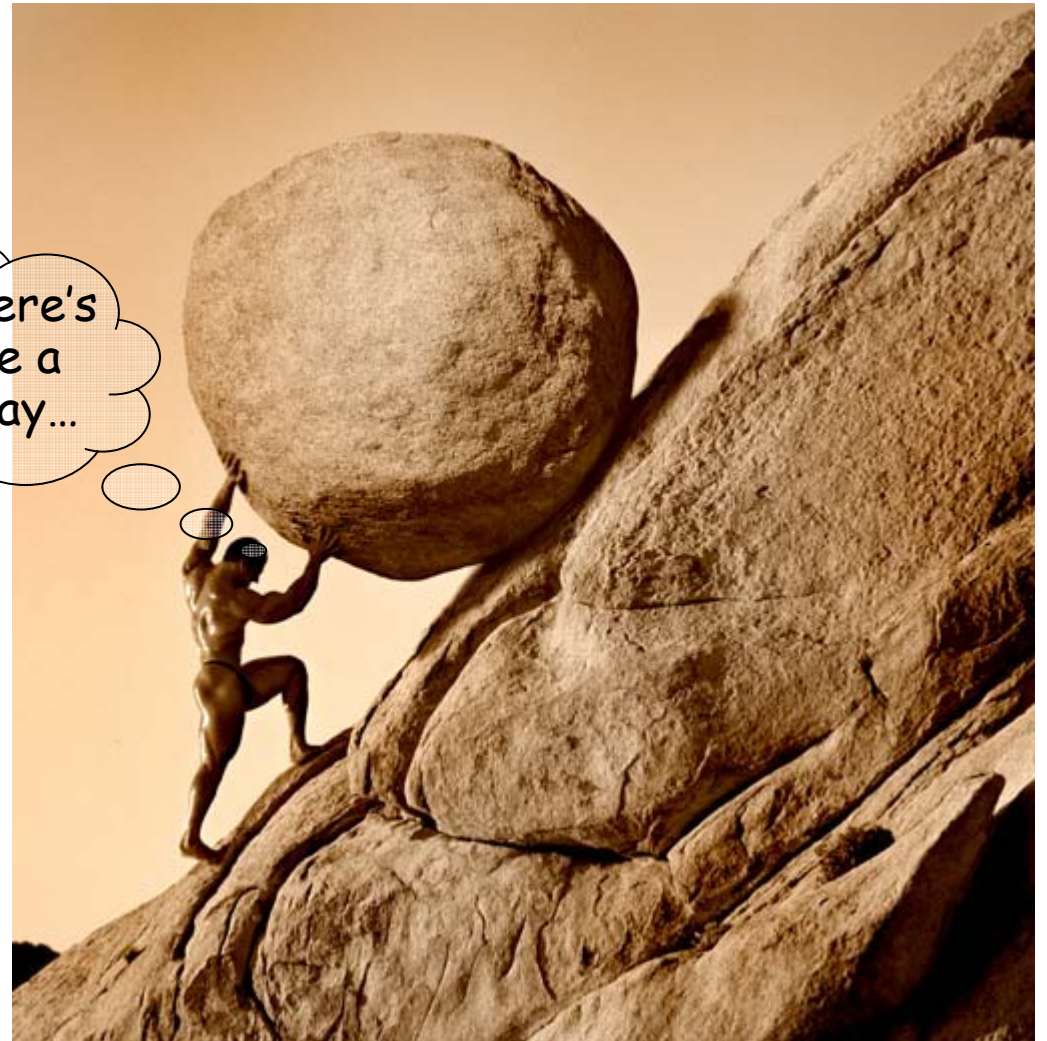


*Staying the course:*

Four principles for innovating  
in recessionary times

October 2008

Hmm... there's  
got to be a  
better way...



MONITOR GROUP

## Background: the case for commitment

- ***Innovation is no longer an option...***

After countless drives for operational efficiency and cost cutting, innovation is one of the strongest remaining drivers of shareholder value

- ***Innovation rewards those who fight their base instincts...***

In a strong economy, a commitment to innovation—including financial investment, executive support, and organizational alignment—can exist as a matter of course. As the market softens, uncertainty and slashed budgets make small, short-term wins feel more gratifying and bigger bets more daunting. Suddenly, an innovation agenda seems much riskier...

- ***Innovation cannot be suspended and rehabilitated at will...***

Proper innovation is a competence to be nurtured in your organization. Stopping any team working on hard future challenges often means it will disband and you will lose top innovators; this will be extremely hard to reverse when growth returns

**Here, we outline four principles to help you stay the course on innovation**

Principle 1:

Recessions are an ideal time to go on OFFENSE

*A universal instinctive reaction to tough times is to circle the wagons, spend as little as possible, and protect the core... If you consciously choose to go the opposite way you can take advantage of your competitors' weaknesses during these periods*

- Savvy companies maintain innovation investments during a downturn, even selectively increase spending, to maximize opportunities to come out of any recession with boldness and drama that build growth momentum
- Recessions are short-term by definition, making cutbacks risky and short-sighted in the face of a broader corporate strategy
- Pulling long-term strategic investments for short-term cash flow will ultimately destroy shareholder value

A British study of 1,000 businesses examined over 30 years found that **companies spending more on innovation during economic downturns saw their returns on capital increase 23.8% during the recovery, vs. 0.6% for those who decreased spending.**

Source: AdAge, "Innovate in a Recession? Yes It Can Be Done." February 25, 2008.

**"A difficult economic environment argues for the need to innovate more, not to pull back."**

– Ken Chenault, CEO  
American Express

Source: Fortune, March 3, 2008



## Principle 2:

Innovation is also one of the best forms of DEFENSE

*Even a few bold innovations can send a powerful signal that the vital signs of your firm are healthy while your competitors appear catatonic*

- A down cycle may be a time to weed out efforts that aren't working, but good innovators always channel a bit of those savings to invest in bold innovation efforts or longer-term bets
- Opportunistic innovation can make a considerable competitive difference in the face of other companies' cuts and amid failing players that were supposed to be small and nimble
- The corollary is true too: blanket cuts will give competitors the room they need to leapfrog ahead of you – forcing *you* to play defense and catch up when the market turns

Recession has been opportune for many companies that *kept the course* through weak times

*A few innovations spawned during down markets:*

**Walmart**  
Save money. Live better.  
DISCOUNT RETAIL MODEL

**COSTCO**  
WHOLESALE  
WAREHOUSE APPROACH



IPOD / ITUNES SUITE  
AND RETAIL STORES

**P&G**'s AG Lafley says P&G is not cutting spending on innovation in 2008, and some businesses will increase their spending. ***"It's part of our long-term strategy."***

Source: *Business Week Online*

Principle 3:

Staying committed to innovation epitomizes leadership...

*One of the principal reasons to innovate at all is because it is inspiring to employees, partners, and suppliers*

- To maintain unambiguous commitment and fight the natural tendency to waver when times get tough is itself a sign of extraordinary leadership
- Failure to keep expectations high – failure to constantly demand innovation no matter what conditions prevail – signals that you’re really not that committed to innovation in the first place, undermining your declared faith in your team and its competence
- Even one or two bold innovation initiatives, launched at the time of a market turnaround, can do a lot to help internal audiences feel like winners. This helps offset the negative effects of any earlier head count losses or reduced compensation
- When you do succeed with innovation, the internal pride that comes with a strong rebound will power your forward momentum, thereby attracting new talent and partners

A Booz Allen Hamilton survey in 2004 found that **Senior Leadership Support was the #1 factor impacting a company’s ability to effect complex change.** Moreover, “competing internal priorities and insufficient time and resources... were chief barriers” to improving innovation performance.

Source: *strategy+business Issue 35, Booz Allen Hamilton 2004.*

Principle 4:

In tough times *de-risking* innovation is a competence

***Tighter budgets and higher customer expectations will both demand and reward bolder innovation...***

- Seek new sources of inspiration and use new research techniques to uncover *the latest* meaningful customer insights
- Think beyond the product – incorporate six or more types of innovation to drive sophisticated concepts that force other players off balance
- Specific types of innovation – centered on themes of “saving” and “value” and “more for less” – will matter most
- Best of all, building and launching an innovation in a recession could earn even higher returns because it will likely cost less
- Budgets are real and need to be respected... it’s OK to go a bit slower or to defer some functionality until later; it is NOT OK to quit innovating

***“The only way out of a recession is basically to bring out new products, new technology, new capability, and make the end user excited about what you have to offer.”***



– Craig Barrett, Chairman  
(quoted as CEO in 2002)

Source: AdAge, “Innovate in a Recession? Yes It Can Be Done.” February 25, 2008

