

Balancing Innovation Through a Downturn

"The Chinese use two brush strokes to write the word 'crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger—but recognize the opportunity." —John F. Kennedy

Innovation performance has been a critical business challenge today. Today most senior executives see innovation and organic growth as a top 3 priority for their firm, now often called out in Annual Reports and other media¹. Yet it is challenging to innovate; we've all heard the alarm on failure rates and concerns with a firm's ability to innovate effectively. And during these difficult times, the challenge is heightened with further uncertainty and constraints.



A study on corporate performance through downturns² conducted as the Great Recession of 2008 wore on produced some stark and insightful results. The anecdotal wisdom of slashing fast and deep, or conversely boldly plunging ahead with investments, did not fare well. In fact, there were heightened risks for firms with being too defensive or aggressive. The best performers coming through these difficult times were those that pursued a balanced approach: cost cutting with focus on operational efficiency, and selectively developing new business opportunities with investments in marketing, innovation, and assets. These pragmatic companies were quick to respond to changing conditions, often de-centralized in decision-making, and stayed closely connected with customers, guiding investment decisions.

So, it is helpful to understand why some firms are more successful at innovation than their competitors. The gap between the best performers and the rest is significant. To help organizations address innovation performance, a useful framework was developed through benchmarking studies on product innovation by Stage-Gate international³. A synthesis, the Innovation Performance Framework[®], points to four key themes: innovation strategy, project prioritization, agile process, and culture and leadership. Organizations that are able to master these drivers do, in fact, achieve better results from their innovation efforts. This is especially important in the constrained time of a downturn.

Here are some actions to consider with these rapidly changing times, and to help ensure this downturn drives valuable innovation at your firm.

Make it clear where your Company is headed –

It all starts at the top, guiding direction and ensuring resources are directed to the right areas for innovation and the right investments. Do you have a strategy giving clear direction to organic growth? Is adjusted for the times? Is the purpose clear and well-communicated? Is leadership setting the example? The absence of strategy leads to uncoordinated efforts, maybe each with merit, but no alignment to a greater plan. Innovation is critical to many companies to reach their business goals. It is especially important in these challenging times to know your strategic course.

Vigorously set priorities –

This ensures that resources are being deployed to the right projects for the right reasons. This is how optimize your pipeline. Best performers regularly scan their portfolios to ensure the priority efforts have the necessary resources, and to weed out poor performance, off-strategy initiatives, and pet projects. Key questions here include: what is the project's potential? What is the risk to continue going forward? What can we learn from the next incremental investment in tests, prototypes or Voice of Customer? Challenges here often include: addressing too many projects, selecting projects competing for key resources, and having a few good metrics in place for guidance.

Do not only look for what to weed out, but what can go on hold, and what should be sped up. Are there ideas in the hopper where the opportunity is now to fire up? Consider using a scorecard with agreed-to criteria to guide decision-making. Stringency in prioritizing projects is critical especially when resources are scarce.

Consider innovation in operational processes –

Innovation not only applies to products and services, it can also include operational efficiencies in production, distribution, IT, and supply chain. Improving operation efficiencies has lasting effect when demand returns as your cost basis stays lower².

Observe-build-test-repeat –

This is the mantra IDEO inspired with their pioneering innovation methodologies. Innovation brings risk and failures - fail cheap and often! Look to the rapid prototyping methods for ways to affordably build prototypes, test ideas, gain insights - and quickly iterate and advance. It's critical in these changing times to stay close to the customer as their priorities and preferences are changing, too. "Innovation begins with an eye"⁴.

Look to your business adjacencies for opportunity -

The excellent work by Zook and Allen⁵ pointed out that most sustained, profitable growth comes when a company pushes out the boundaries of its core business and core competencies into an adjacent space. Because of its use of existing customer relationships, technologies or core business skills, these can be expeditious opportunities and present a chance to do more with fewer resources. Map out your opportunities in adjacent market segments and product extensions often considered. Consider as well new value chain steps, channels, and services.

It's been said that necessity is the mother of invention. Creativity is stimulated in constrained conditions. Companies that carefully innovate through these downcycles can re-emerge ahead of their competition. A challenging opportunity to build differentiation and advantage for the new normal.

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