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Innovating through The Downturn

A Memo to the Chief Innovation Officer

In the current recession, companies must quickly tailor their product and technology initiatives to new market realities and refocus their investments on their core R&D and innovation capabilities. Chief innovation officers who execute six tactical actions over the next 12 months can help their companies survive the downturn and prosper during recovery.

INNOVATING THROUGH THE DOWNTURN

The global economy has changed dramatically, and so have customer priorities. The prospects for many of last year's most promising R&D projects have dried up, and it is increasingly likely that the current recession will last through a full product development cycle in many companies. How and when chief innovation officers and their companies respond to these conditions will determine their futures in both the short and long terms.

In previous downturns, many innovation-driven companies responded by slashing R&D indiscriminately, with little regard for the impact in the long term. Alternatively, they simply ignored recession-triggered changes in customer economics and buying habits and continued to develop unwanted, unprofitable products. Many of those companies, including Commodore Computers, Pierce-Arrow, RCA, and The Sharper Image, are no longer around.

Yet, past history also shows that the greatest innovation can come during periods of severe economic stress. Television, xerography, electric razors, FM radio, and scores of other advances were produced during the Great Depression. Companies such as DuPont, which in 1937 was generating 40 percent of its revenues from products introduced after 1930, pursued innovation not only to survive

the Depression but also to set the stage for decades of sustained profitable growth.

In the 1930s, Massachusetts-based papermaker Crane & Co.—one of only 10 North American manufacturers formed in the early 1800s that remain in business today—created an improved carbon paper that lasted as a major product line until the computer era. In the same period, IBM's \$1 million investment to establish a research center in Endicott, N.Y., positioned that company to capitalize on decades of growth in data processing demand. One trait of these successful innovators is clear: In the face of adversity, they deliberately played to their strengths and acted boldly with an eye on new opportunities to create value.

How can you chart a similar course? Our research reveals that companies that take advantage of downturns to position themselves for future growth either refocus their investments on core R&D and innovation strengths or tailor their innovations to new market realities. The most successful companies do both: doubling down on select advantaged technologies and product lines while ruthlessly culling or repositioning projects without viable markets.

There are six tactical actions that support such a strategy. All of them

represent best practices during good times, but now they are imperatives for survival.

1. Move with your customers. The recession has caused major changes in customer preferences and buying habits, but it is far from certain which changes (e.g., increased popularity of private labels and bare-bones B2B offerings) will subside with economic recovery and which will become permanent. Customers themselves may not know, which is why relying on the self-reported data garnered by traditional consumer research may not provide enough insight. Build and test scenarios that seek to understand unstated and as-yet-unrecognized customer needs in the near and long terms. Use the insights they yield to shift investments to projects that help customers cope with the recession, and position your offerings to satisfy their needs and desires in the upturn.

2. Kill weak projects. Laggard projects drain technical talent and funding from winners at a time when companies must focus their resources on the most probable successes. And though the recession may have enhanced the rationale for some projects, it likely has compromised others, especially high-end offerings. Conduct a quick, quantitative portfolio scan to uncover projects that are over budget, support unprofitable product lines, or just

don't fit with current or future customer preferences. Further, to ensure that R&D does not lose its way in a fast-changing environment, require that every project remain clearly within the bounds of overall company strategy, stick to the core innovation model, and leverage core capabilities.

3. Act to retain key talent. Talented people often have as many career options in bad times as in good ones. HR and R&D management must have a clear view of the talent and leadership required to execute the most important R&D projects and sustain a culture of innovation. Further, if talented people are not treated as part of the solution today, they may look for opportunity to exert their influence elsewhere. Regardless of the day-to-day pressure, map out a strategy for how your core talent can be frequently and intimately involved in developing and executing future R&D strategies and capability building efforts.

4. Double down on advantaged innovations. Now is the time to accelerate and optimize new products and technologies that are sure to deliver market advantage. If necessary, front-load resources and adjust your development cycle to get to market in time for the upturn. As always, pay particular attention to the features that customers value most and do not take your eye off quality.

5. Aggressively scout technology. The recession has produced many bargains for savvy acquirers with strong balance sheets, as cash-strapped firms are forced to monetize technology and intellectual assets they have not yet successfully exploited. If you have buying capacity, speed up the scouting process and develop a broader partner and supplier network to identify and vet acquisition opportunities. If you do not have the resources in place, consider using short-term, ad hoc teams to scan opportunities across your business ecosystem.

6. Fix innovation capability gaps. Now is the time to undertake a sober assessment of the strengths and weaknesses of your innovation system. Fix the capability gaps now so that you can launch projects with fewer resources. When the upturn comes, this work will also pay dividends in terms of speed to market, quality of execution, and capacity.

Chief innovation officers who complete the first three actions within the next 90 days and execute the remaining three over the next 12 months will properly position their companies to weather the current recession, seize the opportunities it offers, and become market leaders in the recovery that is sure to follow.

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For additional insight into the challenges of the current recession and practical advice for leading your function and company through it, please visit www.booz.com/recession.

Now is the time to accelerate and optimize new products and technologies that are sure to deliver market advantage.

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