

Innovation In a Recession: Necessary and All the More Possible

“Innovation does not stop during slowdowns. Nor should you! Innovation attracts customers. ... We are not wavering.” (Arvind Sodhani, Intel)

With the economy in shambles and many companies retreating into survival mode, Arvin Sodhani's words are a breath of fresh air. President of Intel Capital, one of the largest corporate venture organizations in the world, Sodhani has embraced the unconventional wisdom that innovating in a recession is not only necessary, but possible.

While it is tempting to cut resources, slow down product launches, and refocus only on the core, companies that continue their commitment to innovation are more likely to reap great rewards. And not only is innovation more critical in a down economy, it is also more valuable. A British study of 1,000 businesses showed that over the last 30 years, innovation investments in a recession generated a 24% return on capital while cost cutting only garnered 0.6%.

Consider the innovation breakthroughs of previous recessions:

- Though Procter & Gamble's (P&G) sales and earnings were decimated during the Depression, the consumer goods giant still launched the first radio soap opera nationally and its first synthetic detergent brand, Dreft.
- During the 1980–82 double-dip recession, Ted Turner founded CNN in 1980. MTV launched a year later, the same year that American Airlines launched its miles-based loyalty program.
- Just 42 days after the infamous 9/11/01, Apple launched the first iPod, which transformed the music landscape and became the model for successful business innovation.

So what explains this track record? Smarter, more focused innovation. The issue is not whether we should innovate in a recession, but how we can do it most effectively. Three techniques for doing so, while removing the risk follow:

Create an Inspiration Spiral: During times like these, it's critical to capture the hearts and minds of all stakeholders, including employees. Getting them out of the office, connecting with real customers, and learning from analogs will keep inspiration alive. And these don't have to be expensive propositions. One way to engage them is through an Inspiration Spiral, where an inspiration

“spark,” such as an event, content, or initiative, generates new ideas and energy. Boston Beer's Samuel Adams brand does it through the LongShot contest for the best homebrew recipes among customers and employees. Winners are mass-produced and sold in a mixed six-pack the following year. The initiative provides ongoing inspiration to foster new and interesting elements of home brewing into everything Samuel Adams does and creates.

Commit to a test and learn approach: This approach is a cost-effective path to innovation that offsets risk. It means getting a range of closer-in and more breakthrough ideas into prototype and market test stages as quickly as possible, testing key assumptions to scale before committing major resources, and carefully iterating concepts based on initial results. P&G, for example, has learned to spend hundreds—instead of thousands—on these prototypes, keeping the focus on maximizing the learning/investment ratio. Practicing “innovation on the cheap” has enabled P&G to be a more effective and efficient innovator—an approach that works well in challenging times when every budget item is being scrutinized in order to maintain profitability.

Develop Open Source Connections: It can be tough to go it alone. By creatively employing the talents, insights, and ideas of those outside your own firm, you'll forge important connections for good times or bad. The Google-P&G employee swap program, for example, allows P&G employees to learn about Web 2.0 and e-marketing from Google associates, who, in turn learn about marketing the P&G way. This exchange, now including a few dozen participants, has opened new vistas for each company at minimal cost—a smart and fiscally prudent way to infuse fresh perspectives throughout the organization. Another example is Threadless, the hot, community-centered online and brick-and-mortar apparel store. It has created an entire open source model where it never has used any in-house “designers” to create its products.

Innovation is the lifeblood of a business and its brand, a critical way to entice and keep customers, and ensure relevance over the long haul. Businesses that find ways to continue to foster innovation in their systems and cultures despite the hard times will come out ahead in the end.

Prophet is a strategic brand and marketing consultancy.