

Wanted: a new approach to inventiveness

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The economic crisis has forced many companies to rethink their innovation strategy. On the one hand, they have maturing products that can only be enhanced incrementally. At the same time, their customers have both more information on which to base buying decisions and less money to spend. Add to that aggressive copycat competitors, particularly in emerging markets such as China, that drastically shorten the lifespan of new products. Taken together, the marketplace is tough, with some companies facing plummeting returns on their research and development spending.

There is, apparently, a dilemma: squeeze the R&D budget or bet the company's future on finding the next market-disrupting "big" product.

Both approaches are wrong. Innovative companies adapt their strategy to allow them to continue innovating in even the most adverse conditions and to do so without betting everything on big innovations alone. They see both a challenge and an opportunity: to become more efficient – to learn to do more with the same levels of R&D spending – but also to improve efficacy, making the process function better so that you come up with more relevant innovations.

A recent study conducted with my colleagues Nitin Nohria and Franz Wohlgezogen, published in the Harvard Business Review, found companies that break away from their competition during recessions typically maintain their R&D spending while most of their peers scale it down. However, it is not just the level of investments these companies make but also how they allocate scarce resources.

For starters, businesses become more efficient and effective with their investments by redefining how they conceive of innovation. But redefining innovation entails breaking out of the engineer-led obsession with the technical details of a product and thinking closely about the customer experience. This means thinking not just about how well the product functions but about ancillary innovations that improve the customer experience. This can include packaging, delivery, post-sale service or how you market the product.

Consider two examples: bagged salad and resealable crisp bags. Packaging vegetables in a single bag requires limited technical innovation but solves an everyday problem for busy people who want their families to eat healthy food. No wonder, then, that bagged salad has become a billion-dollar industry. Similarly, [Target](#), the retailer, broke no new high-tech ground when it offered its own-brand crisps in resealable bags – the idea is decades-old but Target successfully addressed a nagging problem for its customers (keeping crisps fresh) and the company has been rewarded financially.

In order to redefine innovation more broadly than before, companies must involve more voices in the innovation process. This includes functions within the organisation, such as customer service, marketing and sales, that may have played a limited role in the past. Equally important, as companies shift more activities to external partners, is to increasingly engage them in the process, too.

Apple, for example, used to be a straightforward computer company that outsourced very little. But today most of its hardware comes from suppliers, while its hugely successful App Store is populated by applications developed by others. A simple idea? In a way, yes. But the company would have never made it work if it had not had the courage to rethink how and where its innovations came from.

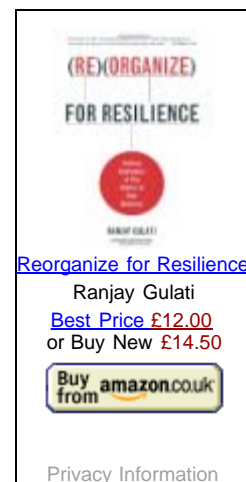
Even in boom times, innovation is too important to be left to a single unit in an organisation. It must be the responsibility of everyone in the business and its scope must be broadened to include not just different parts of the enterprise but suppliers outside the company as well.

Today, that need is even greater, but so is the opportunity. The challenge is not just to work harder but to work smarter – to do more with less and not settle for treading water by doing more of the same. That is innovation at the highest level.

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