2020

Why crises call for innovation, not hibernation

Too often, innovation has been treated as an awkward adjunct to business-as-usual.

But today's challenges are anything but normal.

A comprehensive commitment and investment in innovation practice offers companies the surest path through the turbulence of crisis towards a future of resilience and sustainable growth.

RAINMAKING

Foreword

In the last twenty years, organisations have had to navigate a number of challenging market events. From the burst of the dot-com bubble, to the 2008 financial crisis and the rise in extreme weather events linked to the climate crisis. The shock of the current global pandemic has served as a stark reminder of the vulnerability of systems we take for granted. The ways we live, work and travel have been turned upside down and may never be the same again.

Business leaders are now faced with a dizzying set of challenges. We spoke to over 300 enterprise C-suite executives and industry leaders, before and during the pandemic, to understand how priorities are shifting.

The CEOs we spoke to identified 7 key areas where focus was needed:

- New approaches for navigating market uncertainty
- Accelerating digitalisation to meet customer needs in a world of social-distancing and remote-working
- Identifying new growth opportunities
- Reducing costs and preserving cash
- Building more resilience and transparency in supply chains and operations
- Continuing to push the sustainability agenda
- Making innovation an integral driver of growth

Innovation is a key component in addressing most of the above key priorities. Many CEOs know this, but they are concerned they lack the right capabilities and tools to address these challenges and use innovation in a way to create tangible business results.

In uncertain times, like these, there is a temptation to pull the shutters down on innovation and focus all efforts on sustaining business-as-usual. It is easy to become paralyzed by the scale of change and the breadth of risk.

However, the winners that emerged from the last recession were those companies that invested early in developing new growth outside of their core business. Crises call for innovation, not hibernation.

But let’s be clear. This is no time for paying lip-service to innovation. The times of fluffy innovation and inspiration tours of Silicon Valley are over. Success requires strategic choices on where to innovate, a portfolio of activities and clear decisions about when to collaborate, when to compete and when to build. And it requires a strong focus on delivering tangible business results, not just feel-good activities that will not impact the bottom line.

I passionately believe that out of moments of crisis come opportunity. Businesses who embrace innovation will thrive and those that don’t will be left behind.

Customer needs are changing fast. Traditional industry barriers are being broken down, and new technologies are catapulted into mainstream use.

In this paper, we’ll explore how brave and visionary leaders can use innovation to power organisations towards lasting success.

Carsten Kølbek, Founder & CEO

Executive summary

The most successful companies in the world have been started by visionary founders who came up with new innovative products, solutions or business models. In parallel, the majority of big companies who die, do so because they fail to innovate and reinvent themselves. Innovation has hence shown to be the key success factor for both new and existing businesses.

Even though CEOs know this, a crisis puts a lot of pressure on CEOs to make the hard choice between doubling down and preserving the 'core business', verses investing in new innovation and opportunities.

In our survey of 300+ CEOs, we found that the percentage of businesses stating they are not planning to invest in innovation this year rose from just 8% in mid-March to 25% in mid-April. This is a massive increase in companies choosing to stay put, rather than going on the offensive and investing during a crisis.

These are alarming stats that go completely against the learnings from the last recession, which proved that the winners were those companies that invested in building new revenue streams outside of the core business.

While companies need to protect the core business and keep the "machine" running, it's essential they can respond to the opportunities arising in a fast-changing environment.
Even in short-term chaos, leaders need to make the case for innovation as a driver of growth for the business, one that can reap long-term rewards and help them exit the current crisis in a stronger position.

This paper explores the challenges to successful innovation, how these can be compounded at times of disruption, and the best practices to overcome them. It will reveal that while innovation is the key to growth, even during a pandemic, many organisations still don't have clear strategy or visibility into whether innovation projects have succeeded or failed. Funding remains a challenge, especially in the current climate, as does bureaucracy, a lack of collaboration and internal buy-in, and cultural misalignment.

The sections below will explore the following:

The business case for innovation

The 2008 recession taught us that innovation matters

History is littered with casualties of companies that failed to innovate. It's the classic Clayton Christensen 'innovator's dilemma': "Companies rarely die from moving too fast, but they frequently die from moving too slowly." The average age of an S&P 500 company is under 20 years, down from 60 years in the 1950s.

The lack of foresight in the face of major technological advancements only seems to amplify during times of crisis. There are some well-known examples we can't ignore. Sony used this strategy when pursuing its cost-cutting agenda to combat the 2008 recession closing several factories, cutting 16,000 jobs and reducing investment in new assets. As a result, sales declined and margins shrank, with profits falling by 60% from the year prior. Since 2008, Sony has lagged behind its competitors such as Amazon, Nintendo, Microsoft and Samsung, all of whom decided to invest in the advancement of technology.

During the same economic recession, Nokia and Motorola also decided to aggressively cut costs whilst Samsung chose to spend heavily on marketing campaigns and employ specialists from well-known global brands. As a result, they launched the first Samsung Galaxy smart- phone in 2008 and subsequently saw sales increase by 28% in the last quarter of 2008. Whereas Nokia and Motorola saw phone sales plummet, 11% and 45% respectively, during the same period. Samsung's offensive strategy helped them to emerge from the recession as a global leader in the mobile phone space, with a 30% share of the market today.

It takes brave and visionary leaders to get the balance right in times of recession

The C-suite can often be caught in a difficult situation: balancing demands from shareholders whilst devoting the resources and capital needed to drive innovation-fuelled growth. Yet walking this tightrope is vital, according to Stephen Rapoport, Serial Entrepreneur, Ex-Unilever VP Disruptive Innovation:

> "
>
> If you are not investing in disruption you will die. Consumers are served by high quality products at low prices everywhere. Their needs and expectations will move on, technology will evolve, and it will all outpace your business model, unless you are obsessed with investing for the long term to meet future customer needs.
>
> - **Stephen Rapoport**
> Serial Entrepreneur, Ex-Unilever VP Disruptive Innovation

The lost opportunity: too many do too little

A company's ability to achieve success with its innovation activities starts with having a dedicated innovation budget and a clear innovation strategy, i.e. where should we put our effort and budget and where should we not? Where should we collaborate vs compete vs buy? And how do we build the right portfolio of activities across the core business, adjacent areas and completely new ventures?

When we surveyed the CEO's on "How much they planned to invest in innovation in 2020", and "Whether they have a clear innovation strategy", we got some surprising and worrying results.

A quarter of all businesses have no or small innovation budgets

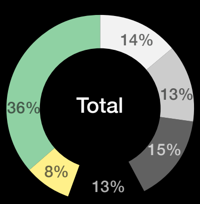
Almost 25% of the companies surveyed do not invest in innovation or only have very modest innovation budgets. A reluctance to invest in innovation is recognised by Ruben Salazar, Senior Vice President of Products and Innovation for Visa Latin America. He says the banking ecosystem's R&D in the region is still very limited, but that this mindset is rapidly changing. *"Banks technology investment is mainly driven by immediate needs and compliance developments, the levels of investments in labs, new products and user experience is limited but growing. The record $2bn that has been invested in the fintech community in our region last year is less than elsewhere, but the number of private and corporate investors interested in Latin American technology is growing. Banks know they are competing with new business models and changing consumer behaviour,"* he says. *"It's very well respected – the innovation centres play a huge part in client engagement; educating and supporting clients in adapting to new consumer behaviours and technology. Even when they first started three years ago there were some questions about the role they play. Now they form a central component of R&D."*

Declining innovation budgets post COVID19

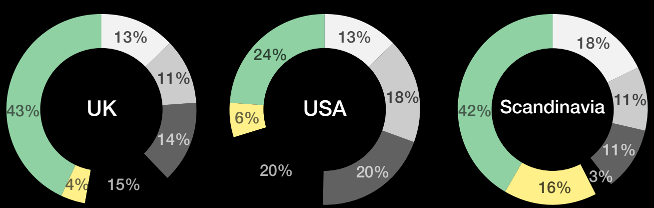
The research reveals that investment in innovation is down April vs March, but still a third of businesses plan to spend at least £1million on innovation in 2020 despite the current crisis, with over one in 10 still planning to invest £25million or more.

Our survey also revealed that 8% of the respondents didn't know whether they were planning to invest in innovation in 2020. When we repeated the question one month later where business had started to see the real impact of the COVID19 pandemic, the number of businesses who did not expect to invest in innovation in 2020 had risen to a staggering 25%.

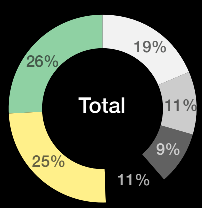
Prior to Covid-19



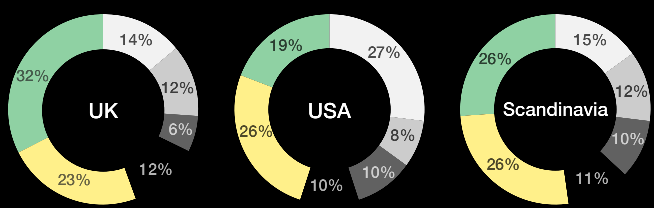
Over a third do not know how much they will invest in innovation in 2020. This falls to a quarter in the US, but rises to two-fifths in the UK and Scandinavia. Twenty-percent of US firms plan to invest more than £25 million.



During Covid-19



A higher proportion than in the original survey are now no longer planning to invest in innovation. On average, a quarter also report they also do not know if they plan to invest. This is particularly true in the UK, where this rises to around a third.



Less than £1million | £1million - 5million | £5million - 25million | More than £25million | Not applicable | Don't know

This trend is further exemplified by the priority's companies had after the COVID-19 lockdown had started in Western countries. As illustrated in the box below, the vast majority of companies had a lot of focus on actions linked to cost reductions and efficiencies, when asked in mid-April.

What financial actions are companies planning to take due to COVID-19?

30%

Improving operational efficiencies

29%

Implementing cost cutting such as laying off staff

28%

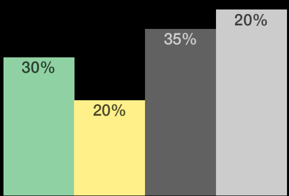
Delaying or cancelling innovation investment

21%

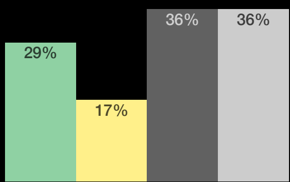
Accessing states COVID bailout funds

Actions as a result of COVID-19

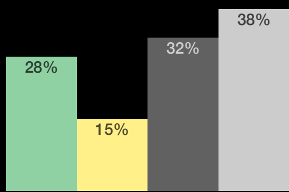
The most taken action overall in light of COVID-19 has been to reduce costs by increasing efficiency, although this is least selected in the UK. In general, the UK is less likely to have taken actions compared to their US and Scandinavian counterparts.



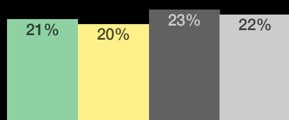
Reducing costs by improving operational efficiency



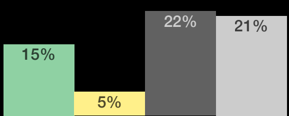
Implementing cost cutting



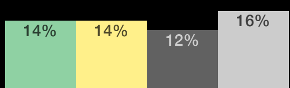
Deferring / cancelling planned investments in growth-related projects



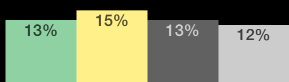
Accessing state Covid-19 bailout funds



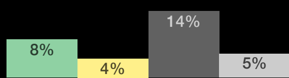
Reduced investment in innovation activities



Investing in new business growth plans / digital transformation



Not considering any financial actions as a result of COVID-19



More investment in innovation to adapt to the changing climate

Total
UK
USA
Scandinavia

Investments do not make it alone

There are other tools to hand besides cash that business leaders could use to drive innovation, according to Michael Stahl, Head of Incubation Studio at LEGO Ventures: *"I have a hard time believing that investment is the only vehicle. And sometimes the focus needs to be how to use that investment more intelligently and effectively, rather than asking for more. Corporates need to figure out how to tap into the whole innovation toolbox. You don't run innovation programmes to make stakeholders happy – it's about experimenting and building businesses."*

Investments without direction

Our research also revealed that less than half of the companies (48%) have a clearly defined innovation strategy. Furthermore, only 28% have defined clear targets and goals for their innovation projects. This indicates that too few prioritise innovation highly and/or are running innovation activities with no clear direction and priorities.

All in all, this shows that too few companies are prioritising innovation and are running the risk of following in the path of the losers from the last recession.

Defining the future of Mining & Cement for FLSmidth

How compass revealed $3.2bn in new opportunities

Brief

To build a balanced portfolio of innovation initiatives that supported the exploration and growth of sustainably-led, digitally-enabled services.

Challenge

Operating in highly cyclical industries with constrained margins and extreme productivity pressure required the FLSmidth team to look at new areas of revenue and growth.

Could we identify new areas of growth that leverage a legacy of industrial expertise through new technology and business models?

Solution

Working alongside FLSmidth we crafted an innovation portfolio of 6 opportunity spaces, each with robust business and investment cases.

The portfolio contained a cumulative **revenue opportunity of $3.25bn over 5 years.** Along with an execution roadmap outlining how this could be achieved through **18x go-to-market roles.** The starting point: **3x proof of concept pilot tracks.**

Innovation is not easy

While innovation done right can yield an impressive return on investment, getting to this point is often challenging. It's important for leaders and their teams to be able to quantify failure and understand and learn from the roadblocks that stand in their way.

It's a problem acknowledged by Rapoport, Ex-Unilever VP Disruptive Innovation: *"the truth is that disruptive innovation programmes are almost always hierarchical and bureaucratic; this is why the success rate is so low. The big difficulty is that the payback horizon is so long – we are talking 3-5 years. It's hard to do that within a core business where every activity has to deliver a financial outcome in 12 months. Most people are disincentivised to disrupt the business they work in."*

The waste and challenges experienced by many companies when it comes to their innovation activities feels reminiscent of the quote from the original American marketeer John Wanamaker: "Half the money I spend on advertising is wasted; the trouble is I don't know which half."

Ensuring that innovation investment delivers ROI is a strategic priority in every economic climate, but in uncertain times the need to deliver results has never been greater.

So, what are the typical reasons that innovation fails to deliver?

Top ten reasons why innovation fails

30% Bureaucracy within my company

20% Innovation not embedded enough within the company culture

19% Lack of collaboration

19% Innovation is under-resourced (i.e. understaffed)

19% Innovation is underfunded

18% Innovation doesn't have enough "buy-in" internally

14% A skills gap

13% Lack of knowledge about innovation within my company

11% Lack of measurement

7% Governance team does not value innovation

Moving from ‘innovation theatre’ to value creation

To secure budgets in times of uncertainty and avoid a slash and burn scenario, innovation teams need to shift the narrative; evolving innovation from being a mere cost-line on the P&L statement, to a department that can lift the bottom line in months, rather than years. In addition, companies need to move away from innovation activities that might be fun and make the participants feel good, demanding that the focus is on delivering tangible business results.

Rapoport has little time for “innovation theatre” of this sort — *“when corporates say they want one thing but then do the other.”* He rails against programmes that are developed because they’re one person’s passion project rather than fill a genuine gap in the market. “*These tactics wouldn’t work for a start-up in the real world and they don’t work for corporates,”* he says. *“Another bugbear of mine is ‘innovation tourism’, which is very popular at the moment. The C-suite go on business flights to a luxury location where they are met by a beauty parade of start-ups. It’s just a waste of everyone’s time.”*

Think more like the CFO

A good starting point is to start measuring the impact of innovation activities. This ‘measurable impact’ element is critical. You wouldn’t expect a CFO to rely on his or her ‘gut’ when balancing the books. A CPO would not invest budget in developing new products, where there wasn’t evidence to support RoI. The same principle must apply to how senior leaders prioritise and evaluate innovation activities.

In our survey, measurement was also highlighted as an area which needed improvement. Only half (45%) of respondents said they have some kind of KPIs/metrics in place to quantify success, whereas a quarter (25%) overall “don’t know” if they measure the impact of innovation projects, and 18% do not measure.

It’s a point made by Benjamin Luckett, Head of Futures & Digital Innovation, Diageo, who claims that measuring only the headline monetary figure is not granular enough. “*What’s crucial is that organisations get better at measuring the money that is being invested. Innovation accounting is still a weak area – we need to get better at working out RoI. Innovation is very diverse with different time horizons. Plus, there’s also issues to factor in like the benefits of learnings that come with future-proofing the business.”*

He also points to governance as a key area to focus on in helping to build-out true innovation. At Diageo, the digital innovation function spans commercial and marketing, with Lickfett’s team given the mandate to go after anything that drives value for the business. *“In other organisations the future innovation unit is managed by finance or operations. In my opinion that would not work in our organisation– anything with a higher risk profile is ignored and they don’t have the liberty to go after things that are test balloons. There is much better synergy with the culture in marketing.”*

Making innovation a driver of predictable growth

Turning threats into opportunities

We have already explored the business case for innovation and how it is critical for survival and sustained competitive advantage.

If we break this down at a more tactical level, the research revealed that the CEOs were most concerned about competitors with new business models (33%), being unable to keep pace with changing customer demands (31%), rising costs (31%), and revenue loss (29%).

According to Rapoport, public companies need to understand the existential threat that underinvestment in innovation presents to their business: *"If I were a long-term shareholder, I would be very worried holding shares in a dominant incumbent in a growth market that was allocating less than 5% of capital to disruption. They are actively taking the decision to optimise for short-term shareholder gain at the cost of their organisation's lifespan."*

The challenge for CEOs is therefore to be bold and make the necessary investments into innovation, which will make them able to turn threats into opportunities.

Innovation means growth

We only need to look at past company mistakes and previous crises to see what a growth driver innovation can be. Gartner looked at 30 F1000 companies that accelerated during the crisis of 2008. All of them invested in new growth options instead of just cutting costs.

In addition, a 2019 McKinsey & Company study that analysed 1,000 publicly traded companies during the Global Financial Crisis, found that only 10% were successful during and after the recession. These companies enjoyed total stock returns in excess of 7% compound annual growth between 2007 and 2011. Meanwhile, their counterparts suffered losses as much as 15%. The companies that were successful during this period used several methods, from streamlining their balance sheets, intelligent cost-cutting, and investing in innovation activities. A recurring theme amongst successful companies during a downturn is their high appetite for innovation.

As the Bain and Company report *"Beyond the Downturn: Recession Strategies to Take the Lead"* explains: *"Coming out of the last recession, the strongest companies went on offense early, while many of their peers focused on survival and waited for the cycle to clear... They invested substantially in R&D instead of dialling back."*

In our study, nearly half (46%) of respondents said investment in innovation helped to spur growth over the past year. When asked in March, UK respondents claimed that 30% of their anticipated revenue growth for 2020 would come from projects started within the past three years.

In terms of specific types of innovation, respondents said that *"incremental"* and *"sustaining"* innovation accounted for 34% of new revenue each, whereas "radical/disruptive" innovation counted for 32% of new revenue.

Using a portfolio of activities to de-risk and maximise outcomes

During times of economic headwinds, many innovation initiatives fail because they are not linked closely enough to solving the biggest challenges faced by a business unit or organisation. This is compounded when the majority of activities has a three to four-year payback horizon.

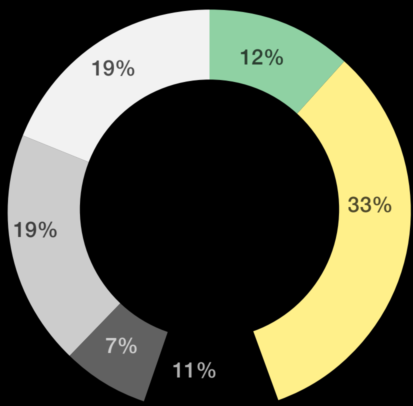
Now, more than ever, is the time for some quick wins in combination with bigger and long-term bets.

To deliver substantial impact inside companies at speed, it is not sufficient to place all the bets on one or two 'big' initiatives and hope they succeed. You need to be running multiple initiatives using different vehicles, and these initiatives need to be more than hyped-up innovation demos such as hackathons or corporate accelerators, which may look good but deliver little if any value.

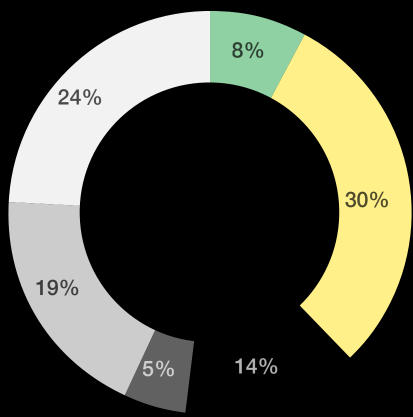
Companies should instead look towards commercial partnerships with proven scaleups, internal growth-labs and venture building; activities with a high degree of hands on doing (and less showing) and with a pure focus on delivering business outcomes.

Another critical factor, when running these project vehicles, is not just the type, but the engagement from the business. Innovation teams need to work closely with the business units to understand where they can provide meaningful support. Every initiative needs to be anchored within a business unit, have the right level sponsor and resources required to make it work and achieve measurable impact.

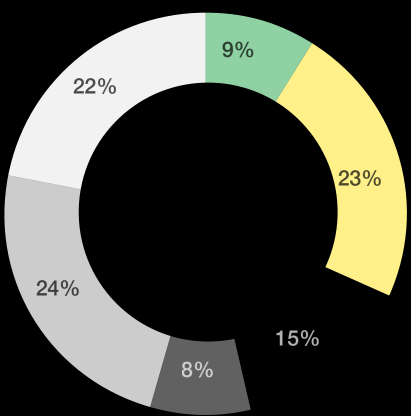
Effectiveness of methods bringing about tangible innovation



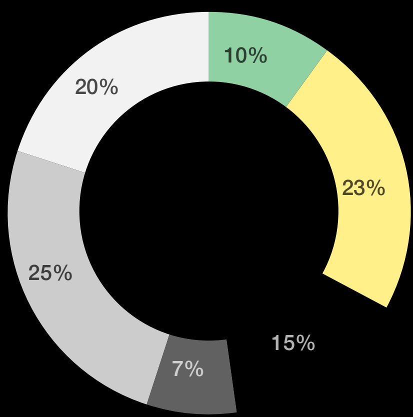
Internal innovation lab where employees create new innovation



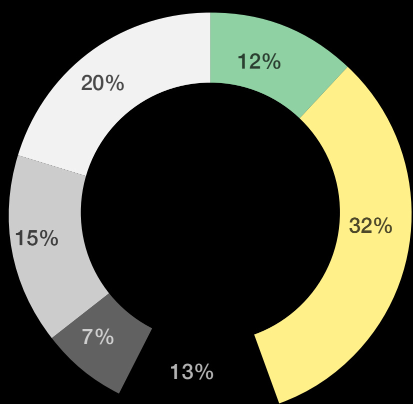
Accelerators (I.e.fixed-term programs)



Commercial Pliots with start-ups



Investing in start-ups



Building new ventures (outside of core competencies)

The future of business and innovation

As the research and this report has highlighted, many companies do not invest enough in innovation and too many companies conduct their innovation with a low success rate, often without a clear innovation strategy in place.

The COVID-19 pandemic has resulted in even more companies focusing on their core business, cost cutting while turning their eyes and budgets away from what will make them survive and grow in the mid and long-term.

This is neither sustainable, nor in-line with the best practice of the most successful companies to emerge from the last recession. It is therefore essential that CEOs find a way to support business-as-usual at a time of unprecedented disruption, while also holding focus on the future. Short-term wins are needed, especially in the current climate, but long-term transformation is also required to drive lasting success.

Peter Schroder, Chief Digital Officer at Maersk Tankers, believes all sectors are going to be transforming at rapid speed following the current crisis, but those with the right structure and processes in place will be best placed to take advantage: "*We have been thrust into a digital future we weren't ready for, but it will mean new innovations come as a result, and we will definitely find it hard to go back. The cultural mindset will have shifted, and we will see a fundamental change in how we work and communicate. Obviously, there will be huge implications for business-as-usual, but when it comes to innovation there will be huge opportunities."*

In unprecedented times, innovation is essential. It's a message the UK government delivered loud and clear in April after pledging £1.25 billion in support of firms driving innovation. According to the Chancellor, these businesses *"will help power our growth out of the coronavirus crisis."* Similarly, the German finance and economic ministries announced details of a €2bn startup support package.

The key for global organisations today is to use innovation more effectively to drive their own growth out of the current upheaval, and beyond. There's never been a better, or a more vital, time to do so.

Rainmaking's 5-step guide for CEOs to innovate successfully during the current crisis

Navigate uncertainty and identify new opportunities

Business transformation and innovation requires a strategic approach, that systematically helps to identify and prioritise new opportunity spaces in a world of uncertainty. A company needs to develop a clear innovation thesis: where to invest and where not to invest, with a clear set of priorities across the short and long term horizon. Such a strategy should be data-driven and based on signals in the market, combined with an evaluation of internal capabilities and assets available. **Find out more about our Compass approach here.**

Fortune favours the bold

Times of change give rise to the most amazing creations. The Second World War saw the invention of the digital computer and rocket technology. When the world as we know it changes, consumers' needs alter, and market opportunities are created. Embracing a 'business as usual' mentality just doesn't make sense. It's crucial to have the bravery to double down on innovation and act confidently. **Read our guidelines on the five levers of corporate entrepreneurship** to help your organisation experiment with new business models, drive mindset & skillset transformation, and spearhead an innovation culture.

Fail fast and thrive

Every organisation has three crucial resources: Time, Money, Energy. These are in demand during days of strong growth, and even more so when growth slows and focus switches from investment to cuts. For innovation initiatives to thrive in this environment, we need to ensure there are relevant time-boxed, stage-gated criteria so that commercially viable ideas can be accelerated quickly, and non-viable ideas killed faster. This helps maximise these three critical resources to help move the needle. **Learn more about how to make innovation a core business capability.**

A flexible future

Culture is about how you incentivize and reward. A culture is a reflection of the values of the leadership. It cannot be manufactured. If leadership does not want to change or transform the organisation, the staff certainly won't. GenZ employees who have grown up in an Internet age are much more flexible – the culture needs to support their intellectual wanderlust. **Read about our culture here.**

Keep calm and… don't carry on as usual

The biggest challenge with enabling business transformation is balancing business-as-usual (BAU). BAU is measured on KPIS and short-term financial targets – an MD of a business unit is not incentivized to spend budget on a team where he/she cannot see the outputs. Squaring this requires a fundamental shift in the way organizations are designed. A potential solution is to start at the top – where the C-suite looks after the core business and the transformation unit is governed separately.

Methodology

Rainmaking commissioned YouGov to poll 312 Director level and C-suite executives in the UK (104), US (106) and Scandinavia (102). The original interviews were conducted between 12-24 March 2020, with a further round of interviews conducted between 7-14 April 2020. This second round featured 247 of the same respondents from the original survey in the UK (77), US (78) and Scandinavia (92).

In addition, the following industry experts have contributed to the report:

- Benjamin Luckett, Head of Futures & Digital Innovation, Diageo
- Michael Stahl, Head of Incubation Studio at LEGO Ventures
- Peter Schroder, Chief Digital Officer at Maersk Tankers
- Ruben Salazar, Senior Vice President of Products and Innovation for Visa Latin America
- Stephen Rapoport, Serial Entrepreneur, Ex-Unilever VP Disruptive Innovation
- Jesper Lok, Innovation Advisor

Acknowledgements

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About Rainmaking

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