Sales & Marketing eBulletin

A quarterly eBulletin from the people who bring you the Sales & Marketing Executive MindXchange

December 2008 Vol1/Issue 5

"Tell me and I forget. Teach me and I may remember. Involve me and I learn." — **Benjamin Franklin**

We Should Innovate Our Way Out of This

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When the going gets tough, well...the best marathoners attack at the toughest time - usually on a hill. The analogy might be a useful one for those who question whether companies should spend money on innovation during a recession.

Opinions vary. In a recession, of course, some companies do need to cut back. But Janet Rae-Dupree in the *New York Times* takes the marathoner's perspective. She does so in an article on November 2, 2008 headlined "It's No Time to Forget About Innovation", in which she offers the opinions of a handful of knowledgeable people. Their views are summed up in a breakout headline: "When the going gets tough, the tough get creative."

Being halfway into an officially recognized recession, the "wakeup call" that the U.S. National Academy of Sciences said in 2005 was necessary to prevent the U.S. from surrendering its innovation lead seems to finally have arrived. Innovation is back on the agenda. The cover story in *BusinessWeek* on September 22, 2008 was "Keeping American Competitive: How the U.S. Can Invent its Way Back."

In its report "Rising Above the Gathering Storm," the National Academy of Sciences provided a blueprint for a renewed effort to bolster innovation so that the U.S. wouldn't lose its "privileged position" in the world. The report paved the way for the U.S. Congress to enact the **August 2007** Americas COMPETES Act, which authorized many of the actions recommended by the NAS. But as Gathering Storm chair Norman R. Augustine noted in April 2008, the act's programs had not yet been funded.

How did the private sector respond to the Gathering Storm?
Innovation is defined variously. The word innovate —"to make changes, to do something in a new way"—comes from the Latin *innovatus.* Innovation must involve three steps. These are invention, adoption, and implementation. Invention—"something originated by experiment"—has a Latin stem that is different—*inventio*—to innovate. Those ancient Romans knew something to define innovation as the mother to invention, or the ingenious idea, as part of the process that transforms the potential into something tangible, profitable, and a standard for the way we do things. Invention is about experimentation. Innovation is about profit.

Innovation bestows a reputation that companies such as Apple, Google, Toyota, General Electric, and Microsoft are recognized for. Innovation differentiates them from the rest of their competitors and leads them from just being good to great.

As anyone who has lived through the financial turmoil of the past 18 months or so knows the rules of the game are changing, or have changed. Certainly, they are going to be changed by worldwide regulation in the financial services industry. Financial services companies have been forced to think about doing business differently. If they use the old business model they're not going to succeed coming out of the situations because questions are being asked are about the failure of the fundamental business model—how you go to market, the way you do business, the offerings. As the financial services industry reassesses its place, this is a good time to think about the major sources of innovation we've seen in the past decade.

In his recent book, "The Subprime Solution," Yale University economist Robert Shiller suggested that the way ahead for the financial services industry should not be constrained by regulation because it aims to blunt financial innovation. Indeed, his idea is for more innovation in the correct institutional context in the long term.

Shiller argues for "financial democracy," in other words, provide the masses with the entire range advantages of financial innovation that mortgage securitization was designed to do. The problem was that the institutional foundations and the information infrastructure were not sufficiently developed to manage risk.

New financial services regulations are likely to require tighter scrutiny and an increased level of detail than what the case is today, says my colleague Sinan Baskan, director of business development for financial services at Sybase.

The expected new regulations will more deeply affect operations than those of Sarbanes-Oxley, which targeted the CFO and other C-suite executives. The new requirements are likely to apply to all transactions in financial and retail accounts.

On Wall Street today, companies are trying to apply the lessons that are evolving from the as yet unabated turmoil to align their risk management systems—including compliance— more judiciously. As they do, it becomes clearer that there's more complexity involved in risk management than companies first thought. To apprehend the lessons and at the same time meet the compliance requirements that are on the way is bound to lead to a new innovative wave for companies that are serious about the quality of their risk management.

With cost-cutting already under way rather than innovate their technology in-house, more Wall Street firms might consider buying innovative technology from vendors to meet their needs in the short-term, or perhaps for the long-term.

Marketing innovation to Wall Street always gets a good hearing since financial services companies are innovative by definition. Innovative products need customers who understand the value the new product brings to their operations. Not everyone will appreciate this at once, of course, but they can be educated about the problem, for example, of how to spread risk around the globe which in itself is a form of risk management.

A Japanese proverb says: "Adversity is the foundation of virtue".

Innovation isn't just about technology or business strategy; it bisects with other disciplines especially marketing and includes social sciences and design. By many accounts, the U.S. is in a two- to three-quarter recession, and while the current economic slowdown is deepening, innovation including marketing innovation will still be in demand regardless of how far the markets fall.

In the toughest times, mountaineers persist until they succeed in reaching the peak. Once there, they stand out above all. In the times we're facing, marketers also have the opportunity to stand out above all. It's true that customers will have less discretionary funds in the short-term, but that won't make them any less open to a great innovation that offers them value.